



## Asset Management Market Guide: Australia

Standard Unit of Measure	Unit of Measurement	Square metre (sqm)	Leases in Australia vary—gross, semi gross and net. The method of measurement is usually confirmed by a surveyor against the Property Council of Australia's method of measurement.
	Transaction Fees	<p>Agency Fee (expressed as X months rent) Scale fee is a minimum of 11%, with an increase of 0.5% for each part year beyond three years capped at 15%</p> <p>Agency Fee (payable by landlord/tenant) Tenants and landlords pay their own fees. Sometimes, tenant fee is paid as part of the incentive</p> <p>Legal Fees (payable by landlord/tenant) Tenant (becoming increasingly common for each party to bear own legal costs)</p>	Property management is generally outsourced, and lease renewals are included in the scope of the property manager. Owners recognize conflict between a leasing agent undertaking renewals and create a boundary by having property managers undertake the lease renewals. Lease renewal fees are generally 50% of scale.
Rental Payment Fees	Rents	<p>Australian dollars per sqm per annum</p> <p>Can be charged net or gross of costs that the landlord incurs in operating the building</p>	Rents are expressed as face and effective in the market as incentives are common. Fit-out incentives have been common as lease terms are now longer. Many owners seek guarantees to cover not only the rent but also for the money paid in fit-out incentives. Usually, this fit-out incentive guarantee reduces over the term.
	Typical Lease Term	Typically three to five years; six to ten years for larger occupiers	
	Frequency of Rent Payable (in advance)	Monthly	Office leases are covered under Australian Contract Law provisions. A State Government Act has been set up for retail leases to protect the rights of retailers. Security of tenure in Australia is relatively good as the leases are fixed without break or notice provisions. Some break clauses have been agreed for large tenants, but they are not common. Assignment or sub-lease provisions are common but are usually subject to landlord approval and similar quality of covenants.
	Rent Deposit (expressed as X months rent)	Six months' gross rent usually in the form of a bank guarantee	Market reviews during the term are common, and most leases contain market rent review provisions.
	Security of Tenure	Assignment and sub-lease	
	Statutory Right to Renewal	No (unless there is an option to renew that is agreed upon at the outset and is specified in the lease)	Leases also contain detailed determination of rental by third-party provisions. Ratchet clauses are usually applied to office leases, but recent trends have been for caps on the amount of rental increase at market review.
	Basis of Rent Increases or Rent Review	<p>Open market rental value (with or without ratchet) at option or at specified times during the term</p> <p>During the term, there is usually a fixed increase (3.5–4.5%) or an increase linked to the consumer price index</p>	
	Frequency of Rent Increases or Rent Review	Annual fixed increases; with two or three yearly upward only reviews to market	
Taxation	Stamp Duty	Not applicable to new leases	Land tax is applicable in all states. It is recoverable in most jurisdictions as part of the building's outgoing. Land tax is assessed on land value.
	Local Property Taxes	Landlord (charged back via service charges)	
	VAT/GST Payable on Rent and Service Charge	GST – 10%	Australia has double taxation treaties with a number of countries. As such, the creation of tax effective special-purpose vehicles to limit tax is an option.



Disposal Of Leases	Subletting and Assignment	Most leases contain assignment and sub-lease provisions	<p>The global financial crisis has seen the secondary market in Australia increase significantly. As break provisions are not common, the secondary market can command significantly less rent as occupiers are driven more by cost saving than value retention.</p> <p>Reinstatement back to the base building is commonly called "make good" and involves taking the premises back to original condition. Some tenants seek to limit this element when taking on an existing fit-out. It is important to document the condition of the premises prior to a tenant's occupation.</p>
	Early Termination	Break clauses are not common	
	Tenant's Building Reinstatement Responsibilities at Lease End	Original condition (allows for wear and tear)	
Service Charges, Operating Costs, Repairs, and Insurance	Service Charges/ Management Fees	Net basis – tenants will be responsible for their proportion of the total operating costs	<p>Service charges are commonly known in Australia as outgoings. Semi gross leases are also common, and these allow for the recovery of increases in statutory charges (land tax, municipal and water rates, and insurance).</p> <p>There is also a term called "triple net," which refers to the tenant being responsible for all the costs of maintaining and repairing the asset. The costs are paid directly by the tenant and not via recovery after the landlord has paid.</p> <p>Common area electricity is included as part of the outgoings. Water consumption is payable per quarter for actual usage in addition to the statutory charges.</p> <p>Parking levy for CBD areas is common in Sydney and Melbourne and varies depending on the city. This levy can be significant and is levied per car space.</p> <p>As leases are longer, some require the lessee to paint the premises to keep it looking good.</p> <p>The Federal Government has a fund for insurance companies that allows for terrorism insurance to be offered to landlords in the market.</p>
		Gross basis – tenants will only be liable for any increase in outgoings above the base year	
	Utilities	Electricity and telecommunication consumption are separately metered and payable by each tenant	
		Water consumption is included in the management charges	
	Car Parking	Office – there is a separate monthly lease for an additional rent	
		Parking levy imposed by the state government	
		Industrial – commonly included in the lease	
	Internal	Tenant (a "re-decoration clause" is normally included)	
	Common Parts (reception, lifts, stairs, etc)	Landlord (charged back via service charges)	
External/Structural	Landlord		
Building Insurance	Landlord (charged back via service charges)		



Purchasing Property	Land Title	<p>Two primary systems of freehold title:</p> <ol style="list-style-type: none"> <li>1. Old system – no government guarantee and the onus is on the owner to prove ownership of the title</li> <li>2. Torrens title – state-guaranteed title, wherein a certificate of title contains the various dealings</li> </ol>	<p>There is limited leasehold in Australia and the ownership of land is in perpetuity rather than lease.</p> <p>Ownership and tenancy leases are required to be registered with the Department of Lands. Tenancy leases can be searched and copies of leases for all buildings can be sourced from the Department of Lands, a practice that leads to a highly transparent market.</p>
	Foreign Ownership	The Federal Government exercises control over foreign investment	Strata title is common and this is administered by the Department of Fair Trading. There is a Strata Titles Management Act in Australia, which details the requirements for management of strata-titled properties.
	Strata Title (partial ownership of the building)	Strata-title ownership is available by registration	
	Security Deposit	10% of the purchase price	Good due diligence is a must in Australia even though the level of transparency is high.
	Agency Fees	1.5–2% of the purchase price is payable by the owner (fees for large sales are often negotiated on an individual basis)	
	Legal Fees	Each party bears their own legal costs	
	Stamp Duty	Varies between states and with the size of the transactions. Payable by either party, it can be stipulated in the contract as to who bears the cost	
	Other Transaction Costs	Varies by transaction	



## Market Conditions Snapshot: Australia

A key element of asset management is to consider the long-term results of current decision making by looking into the future and potential markets dynamics to limit risk and increase returns. The following table provides an outlook for Australia's major markets over the coming five years. To find out what current market conditions mean for your asset, on a tenant-by-tenant and return basis, please don't hesitate to contact one of our Asset Management Services specialists.

Market	2010	2011	2012	2013	2014	Remarks
Sydney	Dark Red	Light Red	Dark Grey	Dark Grey	Light Red	The supply outlook is relatively benign with 4.6% of total stock under construction (50% pre-committed). However, given the current vacancy in prime grade stock (8.4%), leasing incentives are expected to remain at above-trend levels for at least the next 12 months until leasing activity improves further. Face rents should start to increase in 2011 and a period of above trend rental growth is forecast for the 2012-13 period.
Melbourne	Dark Grey	Dark Grey	Dark Grey	Light Red	Dark Red	The Melbourne CBD prime vacancy rate fell to 4.8% in 2Q10. There are no developments scheduled to complete in 2011 and the next wave of development is not expected to be delivered until late 2012-13. Net effective rents increased by 9.6% in 1H10 and above trend rental growth is forecast from 2010 to 2012.
Brisbane	Dark Red	Dark Red	Light Red	Dark Grey	Dark Grey	Vacancy increased marginally to 10.6% in 2Q10 and is forecast to remain above 10% at least until end-2012. The market is expected to retain a tenant bias over the next 12 months before stabilising after mid 2011. The market should move to the landlords' favour by 2013 as the strong growth forecast for the Queensland economy should precipitate an upturn in demand and tightening vacancy rates.
Adelaide	Dark Grey	Light Red	Light Red	Dark Grey	Dark Grey	The Adelaide vacancy rate of 7.8% in 2Q10 was below the 10 year average of 8.8%. With only one new project currently under construction, the vacancy rate is forecast to fall below 7% in 2012. Net effective rents are forecast to increase at an annual average growth rate similar to CPI inflation from 2010 to 2014.
Canberra	Dark Red	Dark Red	Dark Red	Light Red	Light Red	The vacancy rate increased from 8.2% to 11.5% in 2Q10 and is forecast to remain above 10% until end-2013 due to weaker public sector demand. Net effective rents fell by 6.0% in 1H10 and the overall market is likely to retain a tenant bias through 2012. However, rents are expected to hold firm for good quality A grade assets as vacancy is increasingly concentrated in older grade A or lower grade assets.
Perth	Dark Red	Dark Red	Light Red	Dark Grey	Dark Grey	The Perth CBD vacancy rate rose from 7.7% to 8.6% in 2Q10. The development pipeline equates to 7.4% of total stock and the market is expected to become balanced only by 2012. The market should move into the landlords' favour in 2013 as the strong growth forecast for the West Australia economy should precipitate an upturn in demand and tightening vacancy levels.

	Timing for lease expiries rent review should be avoided
	Market uncertainty – timing for lease expiries improving
	Landlord market forecast – good timing for lease expiry and rent reviews.

Source: Jones Lang LaSalle



## Asset Management Services

Jones Lang LaSalle Asset Management Services delivers tailored solutions for asset managers and owners to remotely manage diverse regional portfolios and to maximize revenue and asset value across the investment life cycle of the assets.

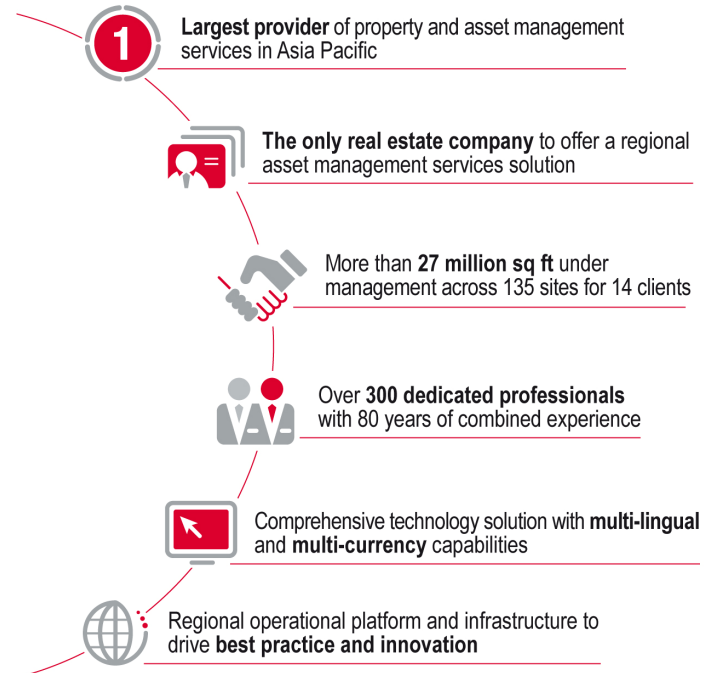
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Our Property and Asset Management division has more than 575 million sq ft under management, with 9,000 staff members across the region. The Asset Management Services group manages more than 27 million sq ft of this space across 135 sites for 14 clients.

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## The Authors



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Richard has over 15 years of experience in property and asset management and is currently responsible for Asset Management Services across the Asia Pacific region. He manages a large group within Jones Lang LaSalle and is tasked with providing consistent service delivery for clients across Asia Pacific. Richard is also the direct regional contact for South Asia and is based in Singapore and Australia.



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Andrew joined Jones Lang LaSalle in July 2007 and he currently heads Research in Victoria and is the National Office Analyst. Andrew works closely with the firm's internal business lines, providing strategic research support into submissions, as well as economic and market advice. Andrew is a well known commentator on the property markets, regularly appearing in the media, hosting internal briefings to clients and speaking at industry seminars.



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Michael heads the Asset Management Services division in Australia. This group is responsible for providing premium asset and property management services for some of the most iconic, prime-grade commercial properties in Australia. He leads a group of 150 property professionals, supporting more than 980,000 sqm of commercial property and 1.2 million sqm of industrial and business park property. Michael has ten years of experience in the property industry, having held property-based engineering and management roles prior to moving into portfolio leadership.

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