

*Warning: Past performance is not a reliable guide to future performance. The value of your investment may go down as well as up.* So reads the small print at the bottom of adverts for investment products. Anyone contemplating investing in commercial property would do well to heed the warning.

Unlike our housing market, the latest readings on commercial property (such as offices, shops, and business parks) point to continued buoyancy. The real estate firm Jones Lang LaSalle reports that capital values rose nearly 8 per cent at an annual rate in the third quarter (July-September) of this year from the previous quarter. This comes after annual gains of more than 20 per cent in both 2005 and 2006.

So what's not to like about commercial property? The problem is that income yields have tumbled to only 3.5 per cent in the third quarter, marking a historical low. The unusually high prices paid for commercial property relative to the income that these properties generate suggest that such property may be overvalued. Worryingly, rental growth remains sluggish, depressed in part by a relatively high vacancy rate in the Dublin office market.

There are others reasons for concern. Economist Maria Woods in the Central Bank's latest Financial Stability Report points out that the commercial property market closely follows the economic cycle. The widely expected slowdown in economic growth next year and the ongoing global credit crunch will put downward pressures on commercial property.

Ms. Woods also notes that the low level of yields in Ireland mirrors an international trend. She estimates that sky-high capital values can only be explained if some mysterious factors have "created a new regime of lower income yields". Experience should make us wary of confusing regime change with a bubble.