

INDUSTRIAL TENANTS STAYING PUT

Prevailing economic uncertainty is generating higher levels of tenant retention in the industrial property market as businesses put expansion plans on hold and extend current leases, according to new Savills research.

The February 2009 Savills state industrial market overviews highlight a significant fall in sales and leasing transactions and a softening of yields that is expected to continue in the short to medium term.

Belinda Nowland, Savills Divisional Director Research NSW, said economic uncertainty is encouraging many industrial tenants to extend their current leases and retain their flexibility, resulting in expansion plans being shelved.

"This is expected to suppress the already weakened industrial pre-commitment market, while increasing tenant retention rates in existing properties with shorter lease terms than historically witnessed," she said.

"Stagnant rental growth, falling land values and increased development finance costs is forecast to adversely affect capital values over the course of 2009 and cause development plans to be shelved. New stock being developed is also forecast to be minimal over the next 18 months," she said.

"When economic conditions and retail turnover improves, the demand for industrial warehouse space should recover. This may reduce any extra vacancy currently in the market and result in pressure on rents. However, this process may not materialise until 2010."

Ms Nowland said a substantial amount of industrial stock is currently being offered for sale both 'on' and 'off' market, but notable differences between buyers' and vendors' expectations, limited funding capability and weakened market sentiment is restricting transaction volumes.

"However, transaction activity is expected to show some increase in 2009 as vendors become more accepting and forced sales occur. This may also present buying opportunities for cashed up vendors.

"The announcement of the Federal Government's *ABIP* (Australian Business Investment Partnership), where a \$4 billion fund will be made available to Australia's commercial property sector over the next two years should support some activity over this period.

"These funds will be allocated to those experiencing difficulty obtaining development or investment finance which has traditionally been sourced from foreign banks."

Sydney

Savills research shows 430,725 sq m of industrial accommodation was leased in Sydney in the 12 months to December 2008. This is down 52% on the five year average.

The number of industrial leases transacted in Sydney in the 12 months to December totalled 99, down from 121 in the previous year.

Savills recorded approximately \$494 million in industrial property transactions in Sydney last year, down from \$2.59 billion in the previous year and the five-year average of \$1.73 billion.

Standout industrial sales include the sale of a 12,060 sq m industrial property at 38 Birnie Avenue Lidcombe for \$14.3 million by Ray Trimboli of Savills Liverpool. The property comprises an industrial building separated into two fully-leased tenancies.

Melbourne

Savills research shows a total of 68 industrial property transactions in Melbourne in the year to December 2008, at a total sales volume of \$491 million.

Softening business investment, manufacturing and imports and exports should see a continuation of subdued industrial tenant demand in Melbourne in 2009.

Please note:

Melbourne's excellent industrial infrastructure continues to evolve with investment in road, rail, port and air facilities. Vast tracts of land are also readily available in the highly competitive pre-commitment market.

Whilst the outlook for demand appears soft, the large supply of industrial land remains a pricing constraint with more unzoned land also in reserve. There are some areas where industrial land availability is tight, especially central and inner Melbourne.

Perth

Savills research shows 197,036 sq m of industrial stock was leased in Perth in the year to December 2008. This is down 41% from leasing activity in the previous 12 months.

The value of industrial property transacted in Perth fell 56% from \$998 million in December 2007 to \$438 million in the year to December 2008. At December 2008 quarter, prime yields in the Core industrial precinct range between 7.75% and 8.75% compared to 6.50% to 7.25% at December 2007.

Wealthy local private investors were active in the Perth industrial market in 2008 and this trend is expected to continue in the short-term as funds and trusts look to off-load assets to raise capital. Land is still being released in stages, through LandCorp in the various industrial estates.

Adelaide

Savills research recorded 207,400 sq m of industrial property leased in Adelaide in the year to December 2008. This is up on three year average of 198,600 sq m.

A total of \$158 million worth of industrial stock was sold in 23 transactions in 2008, compared to \$205 million in 43 transactions in 2007. Yields have softened across all established industrial precincts.

Industrial demand is forecast to remain steady in Adelaide in 2009. Growth in land values and rents in established industrial precincts is expected to continue at a slower pace, with improved infrastructure and dwindling land supply contributing to increase pressure.

Brisbane

Paul Day, Savills Research Director QLD, believes industrial land values are declining in Brisbane as the momentum on Design & Construct purchases swings across to leasing existing premises in the face of restricted credit and waning business confidence. As a result, leasing transactions have increased, as have rents.

"I think leasing is holding up reasonably well as firms move from owning to leasing," Mr Day said. "Land at the Port (approx. 4,000sqm allotments) can now be secured for shy of \$400 per sq m, perhaps around \$385 per sq m. The same land would have achieved \$450 per sq m 12 to 18 months ago. Other industrial locations in Brisbane are around \$250 per sq m, down from \$285 just over a year ago."

Graham Norris, Savills Divisional Director of Industrial QLD, believes the outlook is good in the medium term.

"Land prices and cost of construction were getting away from being viable, now they are coming back to more realistic levels," Mr Norris said. "The reductions in the price of land and the reducing cost of construction - steel prices have peaked and now are falling, concrete is being quoted cheaper than 12 months ago and 'subbies' are pricing their services lower as they compete for shrinking number of projects - will change this. All we need now is easier finance."

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Please note:

Savills is a global publicly-listed property solutions company providing services in sales, leasing, valuations, project management, corporate real estate, marketing and all aspects of commercial and retail property management.