

PRESS RELEASE



Pre-Commitments Returning To Sydney Industrial Market

Positive signs of rising tenant demand and strengthening pre-commitments are emerging in the Sydney industrial property market, according to Savills.

Savills' latest *Spotlight On Sydney Industrial* report highlights the pressure to be placed on Sydney's limited industrial stock pipeline by improving market fundamentals.

"Despite overall industrial activity being subdued in 2009, we have seen a number of pre-commitment deals occurring in recent months, demonstrating the need for quality new supply," said Claire Cupitt, Savills NSW Research Analyst.

"Industrial construction came to a halt over the last 12 months and remaining supply has now dried up. This should tighten vacancies and translate into pressure on rents, particularly for new stock to come on line via pre-commitments."

Savills' research identified 786,988 sq m of industrial accommodation leased in Sydney in the 12 months to December 2009. This is down on the 881,712 sq m leased in 2008 and down on the five year average of 842,620 sq m.

Pre-commitment deals in the Sydney industrial market in the year to December 2009 totaled 186,633 sq m. This compares to 101,733sqm of space pre-committed by tenants in 2008. Two new major pre-commitment deals have recently been struck at Greystanes, and further deals in this area are expected as the market matures.

"We expect the pre-commitment market to continue to strengthen as tenant demand further improves and development becomes more feasible. Some in the listed sector have indicated they are back in the market to develop for a pre-committed tenant, following a lengthy period of recapitalising and improving balance sheets. However, pressure on pre-commitment rents may be felt given the current level of funding costs," Savills' Ms Cupitt said.

In terms of sales, Savills recorded \$822 million worth of reported industrial property transactions in Sydney in the year to December 2009, up from \$785 million in the previous year, but down on the five-year average of \$1.64 billion.

Ray Trimboli, Savills NSW Divisional Director, Industrial, said private investors accounted more than half of 2009 industrial transactions, strengthening their position in the Sydney market in the absence of major transactional activity from many funds and trusts.

"The slowdown in sales activity seen toward the end of 2008 and the first half of 2009 has been replaced by a number of un-forced transactions of quality stock. As confidence further improves we expect transactional activity to continue to strengthen in 2010," Mr Trimboli said.

According to Savills, prime rents remained relatively constant in the Sydney industrial market in 2009. Prime rents as at December 2009 ranged between \$125 per sq m and \$175 per sq net in South Sydney,

between \$95 per sq m and \$115 per sq m net in the West, and between \$120 per sq m and \$150 per sq m net on Sydney's North Shore.

Average prime yields have now remained steady for two quarters, suggesting the bottoming of the industrial market began in mid-2009, according to Savills. In December 2009, prime industrial yields ranged between 8.25% and 8.50% in South Sydney, between 8.25% and 8.75% in the West, and between 8.00% and 8.50% on Sydney's North Shore.

For further information, please contact:

Claire Cupitt
Savills NSW
Research Analyst
Tel: 0402 987 917

Ray Trimboli
Savills NSW
Divisional Director, Industrial
Tel: (02) 9601 3100