

P R E S S R E L E A S E

CB Richard Ellis Pty Ltd
ABN 57 057 373 574

Level 26, 363 George Street
Sydney NSW 2000
DX 10262

T 61 2 9333 3333
F 61 2 9333 3330

www.cbre.com.au

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For further information:
Kathryn House
Communications Manager
61 2 9333 3585
61 402 465 440

Industrial sector back in favour as developers pursue major tenancy pre-commitments

Sydney, NSW (7 June 2010)

Renewed confidence in the industrial sector is driving a wave of development activity, with new supply in Melbourne, Brisbane and Adelaide expected to top the five year average in 2010 according to new research from CB Richard Ellis.

CBRE's Pacific Region Industrial MarketView highlights that prime investment yields are firming and rents have stabilised in most markets, as the economic environment begins to improve and as the threat of a double dip recession in China begins to abate.

CBRE Global Research and Consulting Manager Luke Nixon said the strengthening fundamentals were driving a significant pick up in construction activity following a quiet period for the sector, with speculative development having all but ceased during the Global Financial Crisis. This followed a boom period for the industrial sector between 2005 and 2008 during which a staggering 13.2 million square metres of new floor space was completed in capital cities across the country.

CBRE Regional Director, Industrial Logistics & Investments, Joshua Charles said new construction had dipped, however the tide was now turning, amid evidence of a clear pick up in tenant enquiry.

"Our monitoring suggests there's about 3.9 million square metres of industrial projects approved and on-hold awaiting either financing or pre-leasing commitment," Mr Charles said.

"This pipeline of new development is starting to move again underpinned by major lease commitments such as the Woolworths and Dick Smith commitments to two separate distribution centres in Sydney totaling 140,000 square metres and the Toll commitments to a new purpose built facility in Adelaide totaling 20,000 square metres."

The pick up in development activity is expected to coincide with the return of rental growth for prime properties – however Mr Nixon said concerns remained about the outlook for secondary stock.

"While net face rents for Grade A warehouses fell by a weighted average of 5.7% in the capital cities during 2009, the expectation is that rents will recover at a rate of 2.7% per annum between 2010 and 2012," Mr Nixon said.

"However, secondary properties may struggle with the return of speculative development likely to place stress on this market, as tenants choose to upgrade and relocate to new stock. This will have an adverse effect on the investment market for these assets, which will help to reinstate a more adequate risk premium between prime and secondary stock properties."

Another short term issue for the sector is the lack of prime investment grade stock available for sale.

Mr Charles said an increasing amount of capital was being allocated to industrial property, however sales volumes remained low given the lack of available stock.

"This situation is helping to drive a firming in yields, given the increased interest from prospective purchasers as liquidity returns to global financial markets," Mr Charles said.

CBRE's MarketView report highlights that Grade A warehouse yields have tightened over the past six months to average between 8.5% and 9%

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