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Sydney metro industrial market expected to recover

Sydney, NSW (4 March 2010)

Yields are firming and rents are on the rise in the Sydney metropolitan industrial market, which is forecast to recover from the global economic crisis in 2010.

A new CB Richard Ellis Industrial MarketView report highlights a turnaround in sentiment in the fourth quarter of 2009, with increased economic growth, a forecast recovery in industrial production and limited new industrial supply driving the recovery.

CBRE Research Manager Luke Nixon said average yields for grade A warehouses had firmed by around six basis points during the December quarter to an indicative 8.81%. There had also been a small rise in Grade A warehouse rents, which were likely to grow by 2.0% in 2010 and a further 3.3% in 2011.

“Stronger economic forecasts in the second half of 2009, combined with a deceleration in construction activity, is limiting movement in the market and therefore causing rents to grow,” Mr Nixon said.

“An average of 290,000 square metres of space is expected to be completed per annum over the next two years, which is 63% lower than the 2005-2009 average of 780,000 square metres per annum. This will help drive rental growth through 2010 as there is evidence to suggest that tenants are looking for new buildings and good quality space.”

While land values are continuing to decline (values for 0.25ha and 1.6ha lots fell by 2.3% and 1.2% respectively in the December quarter), Mr Nixon said a gradual increase in liquidity was expected to see sales volumes return to more normal levels in 2010, which in turn would drive the demand for land and increased industrial construction.

“However with few developments currently planned for 2010, a rebound in demand could mean that some projects which are currently on hold and awaiting pre-commitments could potentially be brought forward in 2010,” Mr Nixon said.

CBRE Regional Director, Industrial Logistics & investment Services, Joshua Charles reiterated that NSW had seen an increase in the total number of leasing transactions.

“Since November last year, the western Sydney market in particular has attracted significant tenant enquiry and a number of major pre-commitments,” Mr Charles said.

“The Symbion Health and EQBD Converting commitments to the Dexus industrial estate at Greystanes and Mirvac’s commitment to build a \$A200 million distribution facility for Woolworths clearly demonstrate the demand for 15,000 square metre-plus warehouses in Sydney’s west.”

Mr Charles said the increases in tenant demand would help underpin rental growth on prime properties in 2010; however secondary stock was still experiencing rental pressure.

Historically industrial rents have led real GDP in Sydney by between one and two quarters, indicating an increase in economic growth could be imminent.

Despite low sales volumes, yields in the industrial sector have firmed slightly as liquidity slowly returns to the investment market.

“Industrial is seen as offering comparably good yields compared to other asset classes,” Mr Charles said.

“A month ago there was one group looking for a single industrial asset in the \$100 million price range. Now there are there are at least six separate groups and a range of purchasers seeking industrial portfolios.”

#### About CB Richard Ellis

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