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Short term leases the new trend in Sydney's industrial sector

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Business confidence is on the rise but many industrial tenants are still reluctant to commit to long term leases according to a new market analysis from CB Richard Ellis

The CBRE review highlights a trend for industrial occupiers, in particular, to take short rather than long term leases to accommodate forecast business growth.

CBRE Associate Director, Industrial & Logistics Services, Michael Bovill said more than 13,000 square metres of South Sydney industrial space had recently been committed on short term leases in a series of recent deals.

Heads of agreement have been signed for another 3,750 square metres of space, with active requirements for a further 7,500 square metres of short term space in the South Sydney market.

"There has been a strong increase in the number of tenants coming to the market purely due to growth, however these tenants are currently locked into long term leases and, as a result, they have acknowledged a need to take on additional space surplus to their current facilities," Mr Bovill said.

"As a result we are seeing an increased number of tenants taking 12, 18 or 24 month leases to tie in with their current lease expiries. These deals allow businesses to hand back the surplus short term space should the market soften again, or exit both properties simultaneously and seek larger premises under the one roof. This is clearly a sign that business is picking up and confidence is returning, albeit it with an air of calculated caution."

One of the larger short term deals negotiated this year through Mr Bovill involves a 5,071 square metre lease to Williams Press & Packaging at 830-840 Bourke Street, Waterloo. Williams has committed to an 18 month lease over units 4 & 5 in the Waterloo complex.

In another significant deal, Guild Fabrics has taken a 24 month lease over 2,040 square metres of space at 2 Ralph Street, Alexandria.

Tempe Tyres has meanwhile committed to a 24 month lease over 2,700 square metres of space in 697 Gardeners Road, Mascot, while D&D Auctions has taken an 18 month lease over 1,831 square metres at 830-840 Bourke Street, Waterloo.

A series of smaller deals have also been negotiated, including a 360 square metre, eight month lease to White Umbrella at 100-110 Euston Road, Alexandria.

Eurolink has meanwhile leased 600 square metres at 20-22 Carrington Road, Marrickville while InGroup International has taken up a 12 month lease over 500 square metres at 16-18 John Street, Mascot.

"There is a positive upside for both lessors and lessees alike in doing short term deals in the current market," Mr Bovill said.

"Lessors have their outgoings covered and earn additional rental income to tie them over during the soft leasing market with the benefit of having to offer little to no incentive, thereby giving them instant income. Lessors were also agreeing to short term deals in order to ride out the current soft leasing conditions in the hope that when their property became vacant next, there was a good chance the market will have strengthened and they can then command a higher rental and offer a lesser incentive to secure a long term tenant".

"On the flip side, the lessee benefits from a short term deal by securing premises at a reduced rental rate while giving them flexibility in the future to hand back the warehouse space, extend their lease or combine multiple sites," Mr Bovill said.

Mr Bovill said the trend towards offering short term tenancies was also being boosted by increased confidence in the development market, as owners of potential redevelopment sites elected to retain a level of flexibility by offering a short lease with a view to kick off a redevelopment or potentially on-sell the site within the next 12-24 months.

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