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Major transactions signal recovery phase for Sydney industrial market

Sydney, NSW (September 3, 2010)

The Sydney industrial market is moving into a recovery phase according to a new CB Richard Ellis report which highlights a firming in industrial yields, a fall in tenant incentives and rising investor demand for quality industrial stock in the first half of 2010.

CBRE's new Sydney Industrial MarketView report highlights that industrial yields for Grade A warehouses firmed for the second consecutive quarter to an indicative 8.71%.

CBRE Regional Director, Industrial, Logistics & Investments, Joshua Charles said significant recent deals such as CBRE's \$220 million sale of the Salta portfolio pointed to renewed investor confidence in the industrial sector, particularly in NSW, which would put further downward pressure on yields.

"We have seen a sharp increase in investment properties being assessed for sale in NSW over the past month and this will result in increased transaction activity in the short to medium term," Mr Charles said.

"There have already been several examples of sales negotiated at, or very close to an 8% yield and we expect to see deals negotiated in the 7's in the next six months."

Average capital values have already clawed back 1.7% from their lowest point in September 2009 and are forecast to improve over the rest of the year.

Growth in industrial production has been one of the drivers for the NSW market according to CBRE's MarketView report. After slipping 3% in 2009 due to poor global demand and the weaker AUD, NSW industrial production is expected to grow by 4.7% in 2010.

CBRE Global Research and Consulting Analyst Houssam Yakzan said the future strength of the market would be dependent on number of underlying factors, including the strength of the Australian economy, adequate planning and infrastructure provisions, consumer spending and business sentiment.

“Overall, it is likely 2010/11 will see the industrial property market in Sydney continue to rebound from the devastating effects of the global financial crisis,” Mr Yakzan said.

“The continued improvement in sentiment has already had a positive impact on the income side of industrial property, with small rises in Grade A net face rents as well as fall in incentives.”

On the leasing front, much of the action is expected to centre on pre-commitments, with finance for larger speculative developments still difficult to obtain.

This will keep a lid on new supply over the next two years, with an average of 485,000 square metres of space is expected to be completed per annum during 2010/11 – about 37% less than the annual average over the past five years.

“The next six months will see a limited and very strategic return to the speculative building of warehousing in western Sydney,” Mr Charles said.

The increased focus on development sites has spurred a number of recent land sales – including the recent DEXUS purchase of 7.6 hectares of land at Erskine Park.

CBRE’s MarketView report highlights that grade A warehouse rents remained relatively stable in the first half of 2010 however tenant incentives began to fall underpinned by the recent increase in tenant demand.

“As incentives continue to fall, net face rents will start to increase with our forecast being for a 1.6% increase in 2010 and even stronger growth of 3% in 2011,” Mr Yakzan said.

However, Mr Charles warned that there was still some caution in the market which had impacted on tenant enquiry levels in recent weeks.

“While Sydney Industrial rental activity in Q1 and Q2 was surprisingly high, it is fair to say that enquiry has leveled out over the past four weeks,” Mr Charles said.

“Users are obviously watching the pace of the global recovery, not just Australia.”

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