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Renewed confidence to boost Melbourne industrial construction to pre-GFC levels

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Industrial construction in Melbourne is forecast to rebound next year after a 50% drop in activity as confidence returns to the market and leasing enquiry improves.

Speaking at today's CB Richard Ellis Market Outlook breakfast, the firm's Executive Director, Global Research and Consulting, Kevin Stanley, said Melbourne had previously been the most active industrial market in the country with an average of 1.2 million square metres of new space being completed in the years leading up to the Global Financial Crisis.

"While activity shut down very quickly we think annual construction levels will be back up to 1.2 million again by 2011, with about 300,000 square metres of industrial space already under construction," Mr Stanley said.

Industrial yields and capital values are also forecast to improve this year following a tough two year period during which values plummeted by around 30% and yields softened by as much as 300 basis points around the country.

"Industrial has been harder hit than any other sector over the past two years but values have now stabilised and the next phase in the market is for a rise, with increasing confidence and activity expected to translate to higher values over the next 12 months," Mr Stanley said.

Attendees at today's breakfast were told to expect a circa 7% rise in Melbourne capital values over each of the next three years, with rental growth expected to track at around 1% this year before returning to levels more in line with CPI growth in 2011 and beyond.

CBRE Senior Director, Industrial & Logistics Services, Walter Occhiuto said the market turnaround had been reflected in increased land sales in industrial estates such as Westpark at Derrimut. At the

Australand estate, Mr Occhiuto said 31 lot sales had occurred since mid 2009 compared to just three sales in the first half of the year.

"As business confidence improves, companies are taking advantage of softer land prices, competitive construction costs and the continued low interest rate environment to secure sites in key locations," Mr Occhiuto said.

"In areas with limited supply of land and new warehousing, we are anticipating speculative development to increase as confidence grows with respect to rents. This may also flow into subtle improvements in land values as existing supply dries up."

On the investment front, Mr Occhiuto said Toll Holdings \$22 million sale in August of a warehouse facility in Altona on a yield of circa 8% had re-set the benchmarks for the Melbourne market and allowed the market to transact with increased confidence.

Private investors continue to dominate activity in the Melbourne market, however CBRE is forecasting increased A-REIT activity in 2010 which will help drive yield compression for prime assets.

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