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Industrial rents continue to grow as the market recalibrates

Sydney, NSW (6 June 2009)

The Australian industrial sector has become increasingly split, with land values having fallen to a far greater extent than rents according to a new CB Richard Ellis report.

CBRE's Pacific Region Industrial MarketView highlights a significant weakening in the performance of the Australian industrial market, as a result of the global economic crisis.

However, industrial rents continued to grow in some cities over the 12 months to March 2009. Across Australia, grade A industrial warehouse rents recorded positive growth over the year to March to average \$108 a square metre. Perth was the standout, with grade A rents growing by 7.9% to reach \$125 a square metre as at March.

Across the rest of Australia, Melbourne, Brisbane and Canberra were the three cities to record a softening in rentals, with rents remaining firm in most other locations.

CBRE's MarketView report shows the biggest impact from the current downturn has been on land values.

CBRE Regional Research Director Jaclyn Chavez said a shortage of serviced industrial land and infrastructure upgrades had driven up land values across the country over the past few years. However, the global credit crunch had seen values decline for the first time since CBRE monitoring began.

Brisbane had recorded the biggest fall for small lots of 0.25 hectare, with values having dropped by 25.8% in the 12 months to March 2009. In the case of 1.6 hectare lots, the biggest decline of 21.4% had been recorded in Melbourne.

CBRE Regional Director, Industrial & Logistics Services, Joshua Charles, said land values had been impacted by both the state of the global economy and the difficulties developers were experiencing in obtaining finance to complete proposed projects.

However, certain markets were performing better than others and there was continued demand for land close to major infrastructure projects, such as the proposed Roe Highway extension and the soon-to-be-completed Perth-Bunbury Highway in Australia. Other major projects in the spotlight include the freight rail and intermodal terminal network across NSW; the planned Gateway upgrade and Fisherman's Landing port expansion in Queensland; and the Melbourne Port channel deepening project, Dynon Port Rail Link and the Deer Park and Pakenham Bypasses, all in Victoria.

"While industrial property and land prices have fallen, new and improved infrastructure will provide a future stimulus for the market," Mr Charles said.

Mr Charles added; "Transport links remain a key consideration for industrial occupiers, particularly those in the freight sector."

The MarketView report estimates that land values have fallen by an average 16.1% in Sydney over the six months to March 2009 to an indicative \$547 a square metre for fully serviced, 0.25 hectare lots. The Central West is estimated to have suffered the greatest fall, of 30.2% to \$463 a square metre), while South Sydney remains home to Sydney's most expensive industrial land (\$1,063 a square metre) due to the scarceness of available land and the market's proximity to the Port of Botany.

In Melbourne, average land values for 0.25 hectare lots are estimated to have decreased by 17.5% over the year to \$278 a square metre. The CBRE report highlights that land values have reversed across all sub regions as a result of both Melbourne reaching the end of a record construction cycle and the fact that supply is not outweighing demand. The decline ranged from 13.2% in the North to 27.4% in the West.

"Additionally, Melbourne is the only capital city that has tracts of industrial land large enough to sustain the state for another 40 years," Ms Chavez said.

"Coupled with these factors, the state of the global economy and the difficulty in obtaining finance for developers to complete proposed projects has meant that purchasing industrial land is now a less desirable option."

In Brisbane, land values began to correct during the second half of 2008, however the scale has varied from sector to sector. Across metropolitan Brisbane, land values for fully serviced, 0.25 hectare lots fell by 26% in the year to March. The Outer South sub region was hardest hit, with values falling by 37%.

"After a period of ultimately unsustainable growth, favouring particular locations and driven by limited supply, land values are now undergoing a substantial correction," Ms Chavez said.

"The Western Corridor, North and M1 Corridor precincts will remain the key supply options over the short to medium term. Longer term, Swanbank, Ebenezer and Bromelton are identified as key growth localities."

The CBRE report identifies Perth and Adelaide as the two markets to record the least reduction in land values.

Perth continues to have the most expensive industrial land in the country on a square metre basis, with the resources boom having pushed up values by between 50% and 70% in the period from 2006 to early 2008. However values are estimated to have decreased by 11.3% over the 12 months to March 2009 to average \$568 per square metre.

Over the same period, Adelaide land values decreased by 5.7% for a 0.25 hectare lot.

“Importantly, however, there are some very positive signs that the Industrial market may have bottomed out - particularly on the Eastern Seaboard,” Mr Charles concluded.

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