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Global Financial Crisis reshapes the Perth industrial market

Perth, WA (5 June 2009)

Transport and logistics groups have usurped mining companies as the most active tenants in the Perth industrial market, according to a new CB Richard Ellis report which highlights the impact of the global financial crisis.

CBRE Senior Research Analyst Kelly Dyball said the effects of the global financial crisis had become evident in WA late last year, as a slowdown in the economies of Australia's major trading partners led to a reduction in demand for resources and a delay in export shipments.

There had been a resultant shift in the types of industrial tenants seeking new space, away from mining and related services back towards the traditional users such as transport and logistics companies.

"The Perth industrial market has grown substantially over the past few years, in response to strong tenant demand stemming from the resources boom," Ms Dyball said.

"However, since the effects of the global financial crisis began to be felt in late 2008 the landscape of the industrial market has changed, commodity prices have fallen and demand for resources has softened. In stark contrast to one year ago, the ability of corporations to make quick decisions has been diminished due to the stringent approval processes that prospective lessees and purchasers must undergo."

Nevertheless, the CBRE MarketView highlights a number of mining related projects, including several large oil and gas projects, which are likely to contribute to the health of the West Australian economy going forward with the State's industrial production expected to see a gain of 2.4% in 2009 and further increases of 3.1% in 2010 and 3.9% in 2011.

Ms Dyball said the MarketView research pointed to continued strong tenant demand, which had resulted in rental levels holding steady in most industrial locations.

"Companies that had planned relocations well before the effects of the economic crisis still appear to be pushing through with their decisions to relocate," Ms Dyball said.

"This can be attributed to pre-approved funding and the likely efficiencies that a new facility will bring to their business in such challenging economic times."

However, rental growth was forecast to decline later this year, following a correction in land values.

The MarketView report shows that industrial land values began to ease in the second half of 2008 after three and half years of unsustainable growth during which land values soared by between 50% and 70%.

From the June 2008 peak, when the average value of a 0.25 hectare lot of industrially zoned land was \$676 a square metre, rates had fallen to average \$557 a square metre as at March 2009 - a decline of 17.6%. That trend is expected to continue this year according to CBRE.

"Traditionally, movements in rental growth have lagged behind fluctuations in land values and therefore negative rental growth is forecast later in 2009, although the rate of decline is expected to be at a much more modest level than the decline in land values," Ms Dyball said.

As at March 2009, overall prime warehouse net face rents were at \$125 a square metre whilst secondary rents were at \$107 a square metre.

On the transactions front, Ms Dyball said an increase in activity was expected this year after a subdued 2008 during which it was estimated that only \$116.5 million in industrial investment property over \$5 million had been traded - down 66% on the previous year.

"The yield compression cycle is now over, with yielding having increased by 185 basis points since the low point in December 2007," Ms Dyball said.

"While few large transactions have been completed in the past 12 months we expect activity to increase this year, driven by equity based private investors, as favourable yields and converging market expectations begin to fuel transactions."

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