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Industrial sector to make a comeback

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MOMENTUM in Melbourne's industrial market is expected to pick up over the next six months, after a year when few warehouses were built and land sales were minimal, according to agents.

"We expect very limited availability of A-grade stock for both lease and sale," said the director of research at Colliers International, Nerida Conisbee. With firming yields and limited prime stock available, "we expect [yields] to stabilise or continue to firm during 2010", she said.

The director of global research at CB Richard Ellis, Kevin Stanley, said Melbourne had averaged 1.2 million square metres of new space a year in the period 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," he said.

Colliers said about 112,000 sq m of space was completed in the last half of 2009, with Melbourne's western suburbs accounting for 47 per cent of construction activity.

Ms Conisbee said land values across Melbourne averaged \$245 a sq m, a decline of more than 45 per cent since 2008, when they peaked at \$472 a sq m.

Melbourne's fringe (Port Melbourne, Richmond, Fitzroy) recorded the highest land values last year at \$400-\$500 a sq m, followed by the east (\$250-\$300), the south-east (\$170-\$200), the north (\$160-\$180) and the west (\$125-\$160).

Private investors drove sales, with 38 sales totalling more than \$300 million, compared with \$128 million the year before, she said.

Major deals included a \$22 million sale in Horsburgh Drive, Altona North, on an 8.1 per cent yield; 324 Frankston-Dandenong Road, Dandenong - \$20.2 million at a 9.9 per cent yield; and 1-23 Wirraway Drive, Port Melbourne - \$18.9 million at an 8.38 per cent yield.

Colliers said initial yields for prime-grade assets softened over the year and now averaged 8.5 per cent. Secondary-grade yields remained stable over the past six months, averaging 10-11 per cent.

CBRE expects a rise of about 7 per cent in Melbourne capital values over each of the next three years. Rental growth is expected at about 1 per cent this year.

CBRE senior director, industrial and 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, there had been 31 lot sales since the middle of last year, compared with just three sales in the first half.

This story was found at: <http://www.theage.com.au/business/industrial-sector-to-make-a-comeback-20100302-pgi8.html>