



Industrial zones hold up in downturn

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THE west has won, at least as far as Melbourne's industrial property market is concerned.

The western precinct, including hubs such as Laverton North, Derrimut and Altona, is one of the few markets in Australia where annual rents are steady, at about \$69 a square metre for prime space, according to the March-quarter industry report by Jones Lang LaSalle.

Demand for warehouses has also remained relatively strong, with the gross amount of space taken up in the west in the past year hovering around the five-year average of about 190,000 square metres.

Land values are falling, but JLLS is predicting an industrial market recovery by 2010. "The west is holding up very well — it's one of the few industrial precincts in Australia where rents are not declining," said researcher Andrew Ballantyne. "Land values are under pressure, but the market is starting to find the floor ... Yields are back where they were in 2004."

Private investors were particularly active, buying properties worth less than about \$5 million, with prime yields between about 8.25 and 9.25 per cent, and yields on secondary properties averaging between 9 and 10 per cent.

"Wealthy individuals and private groups are starting to see a lot of value in the industrial sector compared with interest rates on term deposits," Mr Ballantyne said.

Industrial agent Rob Mirabello said confidence had also been boosted by major companies expressing a need for large distribution spaces in the west.

Target is reportedly after 11,000 sq m and CSR Bradford Insulation wants about 10,000 sq m. Kmart is believed to be looking for between 35,000 and 75,000 sq m, although it is unclear whether the department store will try to replace existing distribution centres.

"It's pretty exciting stuff to see these big guys driving the market ... leading by example and showing that there's still scope to do deals out there," Mr Mirabello said.

A deal this week by Del-Re National Food Group, headed by former Western Bulldogs player Danny Del-Re, has supported the hypothesis that the west's "pre-lease" market is improving. The food services business agreed to lease a new warehouse and office complex at 513 Mount Derrimut Road, to be developed by BMF Construction.

CB Richard Ellis' Tom Hayes, who helped negotiate the deal, declined to comment on the agreed rent. Industry sources, however, speculate that the tenant is paying about \$75 a square metre — well above the average prime rent of \$69.

But Mr Hayes said that while developers had been hesitant to speculatively build stock, there were plenty of tenants available, especially for a first-class property on a main road.

"As a result, developers have become increasingly competitive on rents to build to tenants' requirements," he said. Indeed, the JLLS report found there were only about 90,000 sq m of space left to be built this year — and 90 per cent of that already had a committed tenant by March 30.

Mr Ballantyne said that meant new space could be hard to come by, especially if consumer confidence continues to grow and demand for retail goods improves.

Container-ship volumes could be one of the best indicators of where the market is headed, he said.

"Consumerables are generally manufactured overseas. When demand comes back, probably stimulated by a residential recovery, there aren't actually going to be any inventories to draw down, so you're going to have to quickly put the phone call back in to the factory floor in Asia," he said.

"A lead indicator to watch is the index of container freight ships and freight rates ... We've noted a relationship between take-up of industrial space and container movements."

Meanwhile, a LandMark Byte report yesterday said industrial sales volumes in Melbourne worth more than \$5 million totalled just \$148 million in the year to June 15, compared to more than \$1 billion last financial year.

Sales of industrial property in Melbourne worth more than \$5 million fell more than in Sydney and Brisbane, but Melbourne's west had the greatest turnover rate at 30 per cent.

This story was found at: <http://www.theage.com.au/business/industrial-zones-hold-up-in-downturn-20090616-cgmw.html>