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Signs industrial property sales may be picking up

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INDUSTRIAL sales in Melbourne for the calendar year to September were almost \$250 million - near the level of last year, but still well below the boom of the previous two years.

According to the latest report by CB Richard Ellis, sales totalled \$249.1 million, with most in the late second and third quarters.

CBRE research analyst Craig Olde said the late sales indicated momentum was building in the market. Owner-occupiers and private investors were the main buyers.

Defying predictions earlier in the year, few grade A yields had been above 9 per cent. "More recently, industry opinion was that yields might once again be sharpening back towards 8 per cent, however our survey results are yet to reflect this," he said. Three consecutive quarterly surveys had shown an average grade A warehouse yield of about 8.88 per cent, in line with industry opinion.

Industrial sales reached a peak of more than \$1.6 billion in 2006 and almost \$1.4 billion in 2007 before plummeting to less than \$300 million last year.

The CBRE report confirmed the findings of similar reports by Jones Lang LaSalle and Colliers International: the pipeline of industrial construction is emptying. Mr Olde said construction in the six months to June had fallen dramatically to 2004 levels, with even less predicted for next year.

About 375,000 square metres were completed in the first half, with a similar amount estimated to be built in the second half.

Mr Olde said financial conditions made it hard to obtain pre-commitments for projects. This had created competition for existing space.

Land values had stabilised after growing for six consecutive quarters. The CBRE analysis found that on average, values for 1.6 hectare parcels had declined by 23.5 per cent since the March peak.

The largest decline occurred in the south-east, which fell by 31 per cent to \$152 a sq m. The inner sub-region performed the best, dropping 17.9 per cent to \$465 a sq m, although this was the largest absolute decline at \$102 a sq m.

"Melbourne is in the low phase of the construction cycle, and there is little demand for development parcels," Mr Olde said. "Further, a large amount of future supply of industrial land exists."

Rents declined mildly in the September quarter, generally by less than 1 per cent, the result skewed by a big drop in the north of 5.6 per cent. Overall, net face rents for grade A warehouses declined by 1.9 per cent to \$786 a sq m, dropping 6.8 per cent from the peak in June last year.

Mr Olde said the construction slowdown had avoided the problem of oversupply, which would have caused much greater rent declines.

The exception was the north, which had a glut of speculative space.

This story was found at: <http://www.theage.com.au/business/signs-industrial-property-sales-may-be-picking-up-20091103-hvbo.html>