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Melbourne investment cools

THE outlook for Melbourne's industrial market is a mixed bag - the city continues to lead the nation, speculative development is on the rise and there is high demand for quality assets, but investment opportunities remain limited.

The nation's valuers are forecasting a further easing of values in the Melbourne industrial sector next year due to the uncertainty of the international financial situation.

Knight Frank managing director of industrial, James Templeton, said that after a quiet period, six speculative buildings were built this year equal to about 80,000 square metres. Four had been leased and there was a further inquiry for 150,000 sq m, he said.

The absorption of speculative space had been strongest for tenants seeking 10,000 sq m to 20,000 sq m.

Mr Templeton said take-up of industrial space for the year to date was 552,146 sq m and tenant demand would continue to outstrip supply, putting further downward pressure on vacancy levels.

Jones Lang LaSalle industrial director Kosta Filinis confirmed that some institutions and private developers had entered the spec realm for the first time since 2008, particularly in Melbourne's south-east.

Mr Filinis said the trend had been driven by tenant demand and the need for land holders, particularly larger developers, to counterbalance land costs.

In the past, speculative industrial building had been confined to less than 3000 sq m, with anything larger needing pre-commitment.

Mr Filinis said much of the eight big projects - equal to 115,000 sq m - under construction in Melbourne's south-east had begun speculatively and had subsequently been leased.

Agents' research put industrial sales in the past year at around \$500 million, with most activity in the west and south-east.

Colliers International found there were 11 transactions valued at \$272 million between April and September 2011, and 16 transactions equal to \$169 million between October 2010 and March 2011.

Knight Frank research manager Justin Mahnig said industrial sales in the year to October were about \$545 million. "Despite high demand for quality assets, investment opportunities remain limited," he said.

Tony Iuliano, Colliers' national director, industrial, said increased demand from national companies and big logistics businesses was likely to initiate more speculative development next year.

Mr Mahnig said prime core market yields had remained static, with current stock averaging between 8 and 8.75 per cent. Abundant industrial holdings meant there was adequate zoned land to meet developers' demand. "Hence, land values are yet to experience significant uplift, except in the city fringe," he said.

The Australian Property Institute, which represents valuers, said values in Victoria's industrial sector would ease next year.

API industrial spokesman and executive director of Charter Keck Cramer Phil Cramer said some big floorspace users were highly exposed to the global economy and the deteriorating global economic outlook continued to affect the market.

"Financial market volatility, the credit downgrade of US sovereign debt, the ongoing euro zone sovereign debt crisis and weak economic growth in many advanced economies are contributing factors to the uncertainty associated with current market conditions," he said.

"The industrial market outlook will be negatively affected by strong external headwinds."

Mr Cramer said that over the past year, values had remained steady, but there were signals of weakness.

"Investors have adopted a conservative and patient approach. They have no urgency to buy but are looking for opportunities to buy distressed property at bargain levels," he said.