SPACE INDUSTRIAL

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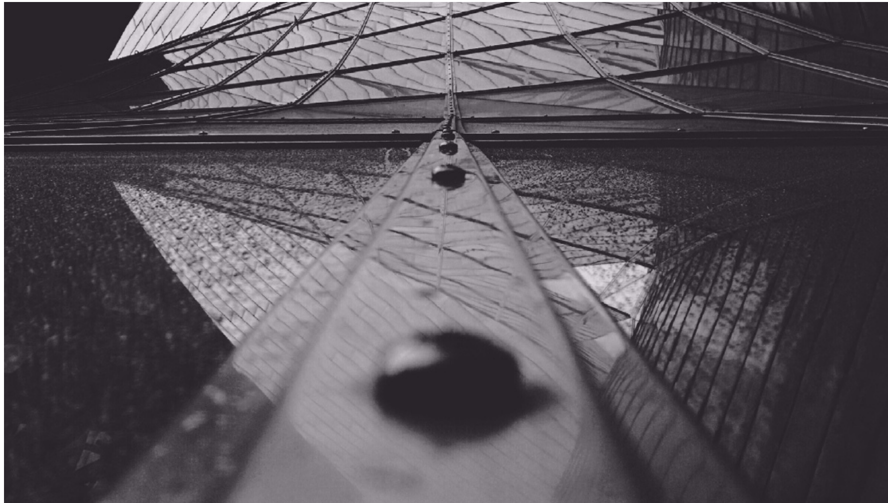

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Is the freeze on industrial rental rates about to thaw?

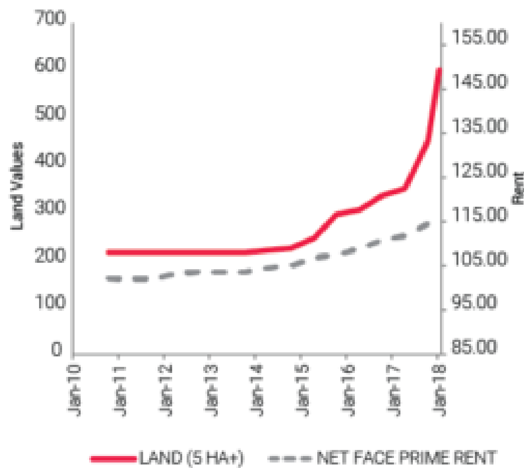
Significant rise in the price per sqm for land would suggest that change is imminent.

Across the Eastern Seaboard the hunt to acquire quality industrial land is increasing exponentially. This insatiable appetite shows no signs of abating as local REIT's look to grow their portfolios through development and owner occupiers, buoyed by improved business conditions and a historically low interest rate environment, seek to secure long term operational sites with greater efficiencies. The question being asked by many is – "how high can land values go before there is marked rental growth and or incentives start to plateau?" Or are we already seeing this occurring?

To put this in perspective it is interesting to look at the upward trajectory in land values across the major markets. Sydney continues to be the standout with two recent transactions (5.0ha plus) in Eastern Creek achieving land rates circa $600/sqm with considerable purchaser depth for alternative opportunities. This compares with a value of $400/sqm only two years ago – a 50% uplift. Melbourne, often thought of as having an abundance of industrial land, is achieving prices in excess of $200/sqm which is a 30–40% uplift over the same period. Whilst in Brisbane's industrial northern and southern precincts we are consistently witnessing transactions in excess of $350/sqm which suggests a similar (%) increase to its southern neighbours.

> **The burning question, "are we on the cusp of bucking the long term trend of nominal industrial rental growth (1–2% per annum) and rising incentives?**

FIGURE 1
Sydney Outer West Land Values vs Rents
Land values (5 ha plus) vs net face prime rents



Source: Knight Frank Research

From the outside it is reasonable to assume that if land values have increased on average by 30–50%, and the majority of the sites have been purchased by A-REIT's for pre-lease or speculative developments, then something has to give. Certainly cap rates cannot go much lower to assist feasibility models. The burning question – "are we on the cusp of bucking the long term trend of nominal industrial rental growth (1–2% per annum) and rising incentives?" Knight Frank certainly believes so.

Whilst each precinct and leasing deal comes with its own dynamics, rents for prime facilities in Sydney's Central West (Greystanes) are now achieving $130/sqm plus with single digit incentives. In the Inner West, developments at Enfield and Chullora have achieved net face rents of $140/sqm plus. The supply/demand pendulum will be the barometer for rental growth and incentive levels with the outer suburbs facing the greatest challenges due to current and future land supplies.

> **Knight Frank's Industrial team is at the coal face when it comes to industrial land sales.**

Knight Frank's Industrial team is at the coal face when it comes to industrial land sales with three current on-market campaigns at 44 Clunies Ross Street, Greystanes, NSW (12.89 hectares), 141 Anton Road, Hemmant, QLD (13.33 hectares) and 2–8 James Street, Laverton North, VIC (5.4 hectares). The feedback from the frontline is that purchaser interest is extremely positive and is emerging from both developers and owner occupiers. A-REIT's are experiencing significant challenges growing their funds under management by placing capital via vanilla investment acquisitions, so purchasing land and pre-committing occupiers is now a core focus.

Whilst there are the known risks and it is a competitive landscape, the strategy is often rewarded with long term lease commitments and modern improvements that will withstand future leasing cycles.