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# Industrial land prices plummet, supply falls

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Land values across most industrial precincts have plummeted about 30 per cent in the past 12 months, with the knock-on effect of drying up supply.

Colliers International said a 3222sqm property in Kewdale recently sold for \$1.44 million or \$447/sqm – down from the \$650/sqm the seller paid at the peak of the market.

Colliers industrial sales executive Craig Rowe said the sale of the vacant site at 5 Burchell Way represented a 31 per cent contraction in land value.

Two other properties, of 1.6ha and 2.3ha, are under contract for an average of \$300/sqm for the land. They are showing yields of 9 per cent to 9.5 per cent.

It was about three years since such yields had been achieved, Mr Rowe said.

The unwillingness of financiers to lend on land now was showing in the lack of movement in the market, compounded by the exit of owner-occupier buyers.

“The prices we saw at the peak of the market in late 2007 were being driven primarily by the owner-occupier buyer,” he said. “Transactions from this type of buyer have dropped dramatically in the past 12 months as softer economic conditions impact on business turnover and growth.”

Investors were being selective, demanding a minimum 9 per cent yield, security of tenure, minimum five-year leases and welllocated properties, close to key infrastructure and transport linkages, such as Roe Highway, airports and Leach Highway. Another priority was the likelihood of being able to release the properties down the track.

“Investors want to know their return is safe,” Mr Rowe said. “The landlord wants to feel comfortable that the property will be leasable should it become vacated in the future.”

“The speculative investment that contributed to fuelling the last upswing has exited from the market and the focus is back on the fundamental principles that underpin sound long-term investment.”

With the fall in prices, supply had also dried up.

Colliers research manager Erwin Edlinger said the stock that did become available was generally owned by institutional funds trying to raise capital or owner-occupiers wanting to sell and lease-back to reduce their debt or to help offset softer economic conditions.

“The majority of prime industrial assets in Perth are owned by a small number of high net worth private investors, unlike the Eastern States, which has a much higher presence of institutional owners,” he said.

“The institutions are generally under much more pressure to raise capital and dispose of assets in the current market as opposed to the private investors. This is evident from the fact that there is much more investment stock coming on to the market throughout NSW, Queensland and Victorian than there is in WA.”

Mr Rowe said the trend for owner occupiers to sell their properties and then leaseback was likely to become more entrenched.


“They release the equity out of the property and try to inject it back into the business, reducing debt and raising capital,” he said.

Mr Rowe said that despite concerns in financing some borrowings, those investors able to borrow were in an excellent position, particularly in the category of \$5 million to \$10 million properties.

“With the Reserve Bank slashing interest rates in recent times and yields softening to an investor target range of approximately 9 per cent to 10 per cent, the numbers are stacking up very well for investors for the first time in probably three years,” he said.

CATHY SAUNDERS

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