

# m3 Dimensions

Englobo Industrial Land Values Booming

December 2006

2006 has seen an unprecedented number of industrial englobo sales in the outer western suburbs of Melbourne. The sales have shown a significant upward trend on prices achieved over previous years. A number of factors have contributed to this increase in value which has seen prices nearly double over the last 18 months, including the rezoning (or proposed rezoning) of 'rural' land to 'industrial' and intense competition from property trusts and major developers to 'land bank'.

The area is easily accessed by virtue of the Western Ring Road which opened in 1997. Proximity to the Western Ring Road is arguably the major attraction to the outer west particularly from a warehousing and transport sector perspective. Pre-construction of the Deer Park Bypass also commenced in 2006 and the completion of this project will further enhance access to the area and is likely to underpin industrial land values going forward. The Bypass is a 9.3 kilometre freeway linking the Western Ring Road at Sunshine West to the Western Highway at Deer Park. Completion of this \$331 million project is anticipated in 2009.



The Bypass will reduce the current congestion on the Western Highway at Deer Park, as well as significantly improving road access to and through the general area. As the general area is predominantly used for industrial purposes the Bypass could only enhance industrial land values in the general area.

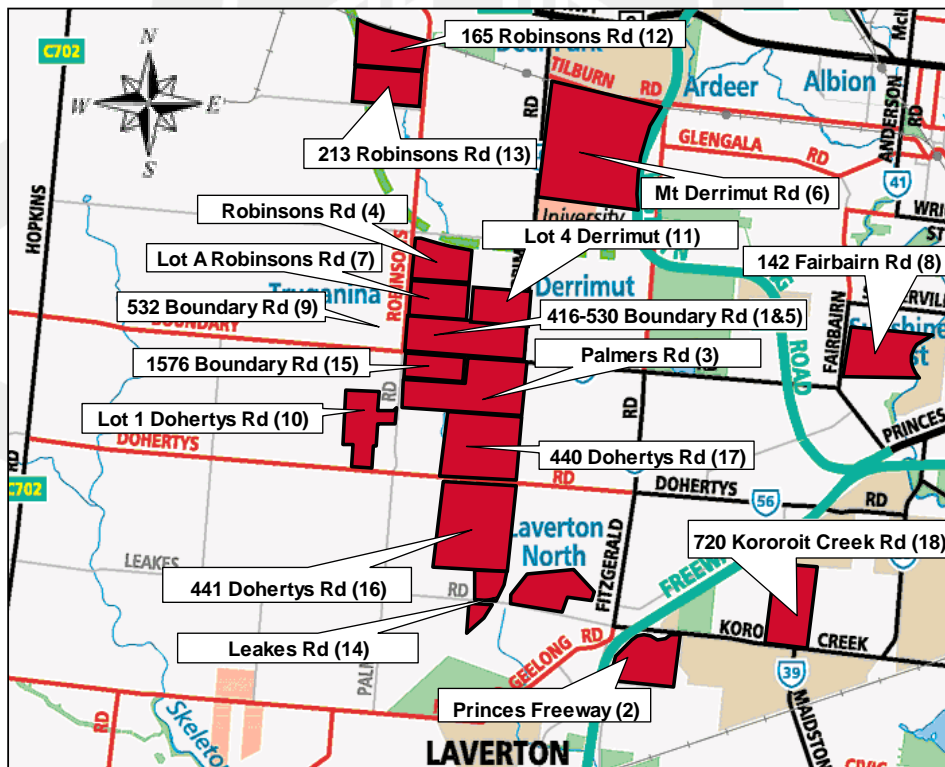
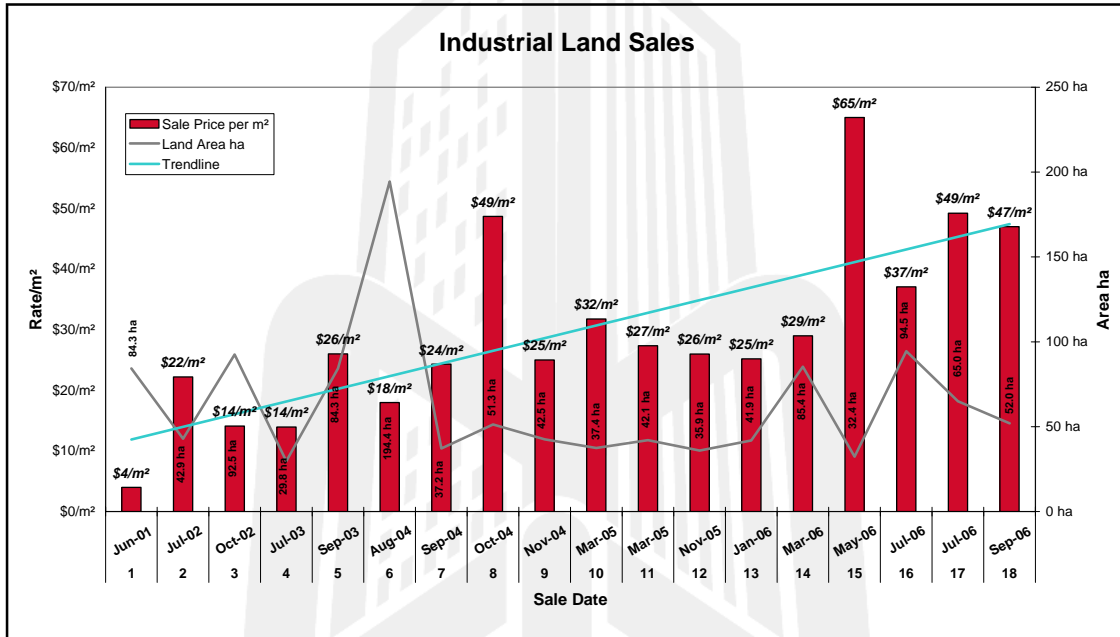
Over 400 hectares of industrial englobo land has transacted in the outer western suburbs in the last 12 months alone with the purchasers generally being property trusts and major developers. The following graph provides an illustration of the general upward trend in prices over the last few years:

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The most recent sales in 2006 show direct comparison rates between \$37 and \$49 per square metre of land area. If the 441 Dohertys Road and Leakes Road sales are ignored given their substantial size (94 hectares and 85 hectares respectively) the sales in 2006 reflect a range between \$47 and \$65 per square metre.

The sales which occurred in 2004 and 2005, excluding Fairbairn Road (infill site) and Mt Derrimut Road, Deer Park (194 hectares), show a direct comparison range between \$24 and \$32 per square metre. Accordingly the direct comparison range for the 2004 and 2005 sales is approximately half that of similar sized properties which sold in 2006.

Our analysis of sales of similar sized parcels also indicates significant price increases. The recent sale of 440 Dohertys Road (65 hectares) at \$49 per square metre represents an 80% increase in value in comparison to Lot 4 Mt Derrimut Road (40 hectares) at \$27 per square metre in March 2005. The sale of 441 Dohertys Road (64 hectares) at \$37 per square metre in July 2006 shows a 163% increase in price in comparison to Palmers Road (93 hectares) at \$14 per square metre in October 2002. This sale equates to an average increase of approximately 43% per annum over the period.

An interesting observation is the comparison of the adjoining properties known as Lot 4 Mt Derrimut Road and Robinsons Road (property # 7 on map). Lot 4 Mt Derrimut Road (42 hectares) sold in March 2005 at a price equating to \$27 per square metre. The Robinsons Road property (37 hectares) adjoins to the west. This property sold at a direct comparison rate of \$24 per square metre in September 2004 indicating an increase of 13% in six months.

The sale and re-sale of 416-530 Boundary Road possibly indicates the start of the significant upward surge in prices. This property (84 hectares) was sold in June 2001 at a rate of approximately \$4 per square metre. It re-sold in September 2003 at approximately \$26 per square metre. This represents an increase in price of 550% in just over two years. We are cognisant the property was rezoned from 'rural' to 'industrial' in the period between sales and the uplift in value is of course partly attributable to the rezoning. The re-sale of this property also confirms the general increase in prices over the last few years when it is compared to 441 Dohertys Road (95 hectares) which sold in July 2006 at \$37 per square metre. This sale represents a 43% increase in price over a period of approximately three years or an average increase of approximately 15% per annum.

Industrial englobo land will often be impacted by issues which reduce the developable or net land area. These may include protected flora and fauna, archaeological, contamination, creeks/drains, rock, fill, easements and inundation. Issues such as these will not only reduce the land available for development but will generally also increase development costs by impacting on the layout of the estate which may result in something less than the optimal development of the land. Internal roads may need to be re-aligned and irregular shaped lots will adversely impact on subdivided lot prices.

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As englobo prices and development costs have risen, retail prices have also grown. Whilst prices will always vary for reasons such as location, access, exposure, shape, frontage, size etc, serviced lots in the west are generally in excess of \$100 per square metre with compact lots in some new estates currently achieving around \$150 to \$175 per square metre.

With englobo prices and development costs increasing and investment yields at historically low levels, there is upward pressure on rents. Industrial rents have shown minimal market growth for a decade however some recent leasing transactions in the west have shown signs of uplift. However, intense competition between the trusts and developers for large pre-lease deals seem to be placing a cap on rental values for this sector of the industrial market.

## CONTACT DETAILS

Michael Kealy  
Manager - Industrial Services  
03 9605 1000  
michael.kealy@m3property.com.au

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