OPPORTUNITY FOR OCCUPIERS TO RESET LEASE TERMS

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Industrial Incentives

Over the past few months there has been considerable turmoil created in the Industrial sector due to uncertainty in supplier and demand supply chains. COVID-19 has led to heightened warehouse demand from e-commerce related occupiers coupled with expansion requirements from supermarkets and pharmaceutical companies. There has been a strong rebound in enquiries from logistics providers and the e-commerce sector across the Eastern Seaboard over the past six weeks. Notwithstanding this, Industrial occupiers have become more sensitive to costs in the current climate. We have had considerable success renegotiating leases which have a relatively short term to run achieving substantial savings for the occupier. In recent weeks landlords have been more receptive providing greater incentives than previously to extend lease terms early.

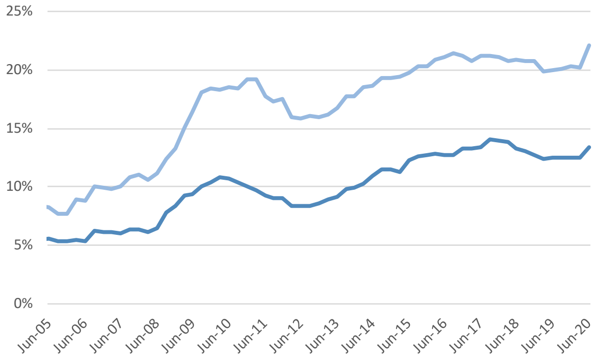
As a result of the pandemic the effects on the Australian Industrial and Logistics sector have been modest to date, particularly when compared to other real estate sectors. The largest impacts have stemmed from supply chain disruptions and the inability of some occupiers to pay rent; however, this has been concentrated at the smaller end of the market and from an overall portfolio perspective, they have accounted for only a minor share of tenants.

Prior to the recent economic uncertainty, incentives within the industrial sector were at their lowest level in five years as robust leasing activity meant there were limited leasing options available to prospective occupiers in most submarkets. Heading into COVID-19, it was not uncommon to see sub 5% incentives in NSW being offered for selected assets while more broadly they averaged 12.5% in the prime market and 20% in the secondary market at a national level.

Over the past six months, there has been an upward shift in incentive levels as landlords become more aggressive in their approach to secure tenants and to preserve value via holding headline rents steady.

The rise in incentives have been modest to date, ranging between 1-3% in some submarkets. Colliers has been successful on a number of major leases being able to renegotiate terms well above this range. The drive for consolidation and operational efficiencies continues to underpin a clear tenant preference for prime stock and as a result the upward movement in incentives has been most pronounced within the secondary market of all major markets.

National Prime and Secondary Incentives



Source: Colliers Research

Looking ahead, it is anticipated vacancy rates will increase over the next 12 months, underpinned by a rise in sublease vacancy as several occupiers are unable to trade through the current period. However, with vacancy rates being close to historical lows, particularly in Sydney and Melbourne, the impacts on the rents is unlikely to be substantial and the focus is likely to be around incentives.

Given this, it presents occupiers with the opportunity to secure long term leases at favourable terms prior to an expected increase in demand once the medium to long term impacts of the virus on occupiers are better understood.

If you have any questions regarding this article or would like to learn more about how an Industrial Advisor could benefit your business, feel free to get in touch:

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