



COMMERCIAL

National Property Clock: Industrial

Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

The industrial property sector has plenty to offer those looking to graduate to commercial investment. As a jump off point, sheds offer some of the lowest risk options in most locations.

This month, our teams from around the nation let you know where to look and what to buy if you're keen to start purchasing industrial holdings.

Sydney

Despite the rising market and strong demand for industrial properties, there are still opportunities in Sydney for entry level investors.

In the western Sydney region, the suburbs surrounding the CBDs of Liverpool (Chipping Norton, Prestons, Moorebank), Campbelltown (Minto, Ingleburn, Leumeah, Smeaton Grange, Narellan), Blacktown (including Kings Park) and Penrith (Kingswood, Jamisontown, South Penrith) offer affordable entry level industrial properties.

These areas are experiencing buoyant conditions as the increase in population through large, low density residential land subdivisions and the lack of supply have in turn increased demand and overall capital values. In particular we note that redevelopment of inner city and some inner western industrial precincts has reduced the amount of industrial properties available and made them less affordable. This has resulted in businesses requiring industrial space to look further from the city. For this reason, transport becomes a vital consideration. Fortunately, infrastructure projects are underway in most parts of Sydney.



An entry point industrial property in any of these locales is still currently achievable despite the increase in values.

Looking specifically at some areas where industrial properties are available below \$1 million, we note the following sales.

In King Road, Hornsby, a strata unit sold for \$580,000 late last year. The unit is 157 square metres and older in style. Hornsby offers a small industrial precinct with a mix of older style and more modern complexes. Hornsby is slightly more removed from transport and road access which tends to keep prices more affordable.

Chipping Norton comprises a mix of large warehouse and factories and small predominantly older style strata complexes. Earlier this year, a strata unit sold for \$460,000. The unit is 201 square metres and older in style. It sold with a tenant in place and reflected a net yield of 5.5%. Chipping Norton provides easy access to Liverpool and the M5 Motorway.





Also representing good value is St Marys which being slightly more removed from infrastructure has property priced below \$500,000. Recently we noted a sale of an older style strata unit of 274 square metres with five car spaces and additional hardstand on title for \$500,000. This property is large enough to provide an excellent base for a small business.





Another popular entry level investment of late is storage lots. These are generally viewed favourably as they are low maintenance and also quite handy for owners of small businesses needing storage space. A new development, iSpace, in Kirrawee in Sydney's south has small storage lots below \$200,000 with asking rental rates from \$150 per week. Internal clearances range from five to six metres and offer secure access.

Overall, we consider that, given the historically low interest rate environment, the rental and capital value growth outlook for the entry level industrial market in Sydney will remain positive.

Geographical factors related to access and connectivity to the wider Sydney metro area and beyond and infrastructure (both existing, proposed and under construction) will be a primary consideration for businesses and as such some of the noted entry level locations are considered likely to benefit from this.

Newcastle

As we discuss entry level industrial property this month, we simply can't go past the rise and rise of the micro shed. These are (as the name might suggest) small industrial strata units that range in size from about 15 square meters (about a single garage) to say 75 square metres. Above 75 square metres would be too large for this little category.

Often times these units will have and internal clearance to allow a small mezzanine level to be built. Toilets and kitchenettes are sometimes included, although usually your micro shed complexes will have common amenities (including showers). Sometimes plumbing will be capped off within the unit which means the plumbing is ready for quick toilet or kitchenette installation at an additional cost. Of course not



all users of these sheds need their own amenities as they are favourites as storage solutions for empty nesters and used by grey nomads for caravan storage.

Micro shed complexes are often branded; we've seen Myspace and My Shed in Mayfield West and Warabrook respectively and the first of its kind in our area, Cubbyhole in Boolaroo. Cubbyhole Warnervale is currently under construction and that complex will even include an on site café. Closer to town, the Carrington Enterprise Centre is also currently under construction. This complex comprises micro and more standard sized strata industrial units with high levels of onsite car parking.

Locally, the selling market for these units peaked around mid-2018, pretty much in line with the local residential unit market. While values haven't moved much, the rate of sale for this little product has slowed down considerably. It's a fairly discretionary property purchase, made primarily by retirees in superannuation funds or by tradies looking for extra storage. If times are tight or as we've seen recently, equity levels held in dwellings falls with downward market movement, this product type suffers in the marketplace. We



do anticipate that this market will pick up again now as there is some more positive chatter in the residential market, with the lowering of interest rates and lifting of the APRA led credit tightening by banks. As the masses of residential units in and around Newcastle, Newcastle West and Wickham come on line, we anticipate these micro units will see a lift in popularity again as downsizers try to find a place for the second lounge suite, the buffet and the carayan.

Wollongong

Leased industrial assets under \$1 million throughout the region are very hard to come. This segment is typically dominated by owner-occupiers. However, when affordable tenanted industrial assets are listed, they typically attract a high level of interest given their appeal to a broad pool of purchasers, although the major banks recently getting out of SMSF lending will reduce the number of buyers moving forward.

Investment yields at the lower end of the value range will typically sit between five and six per cent and rates per square metre of lettable area can get as high as \$3,000 plus per square metre for small bay warehouses.





We see the main risk for investors in this space as strata projects, particularly around Port Kembla and Unanderra where several large complexes are currently being developed, some being purchased by investors with the intent to lease on completion. The amount of supply will likely put a cap on the rent owners can achieve and letting up periods may be prolonged.

Lismore

The Lismore industrial market is dominated by older style industrial development, comprising a mix of small to medium sized owner-occupied sheds and a scattering of larger complexes generally of a modest style and appeal. As such, we find industrial properties tend to be sub-\$500,000 for stand alone, single or twin tenanted properties. When purchased by investors, we would expect yields of seven to nine per cent return with the lower yields more likely to be owner-occupiers where yield and return are not the driving factors. Larger complexes would tend to be eight per cent to 10.5%, however they are rarely transacted.

Investors are less active in this market as yields tend to be relatively low compared to risk. This is a result of the owner-occupier market driving yields down and is compounded by the fact that the rental market is static. Despite this, Lismore's industrial market is mature and tenants are relatively stable with well established businesses, not adversely impacted by the upward pressure on rents being experienced in coastal localities. As such the industrial economy has tended to avoid the boom and bust cycle.

Alstonville

Alstonville is a more dynamic market than Lismore with an uplift in values, tightening yields and increase in rents. This is a result of limited supply (it's a relatively small industrial precinct) and being a more affordable option compared to coastal localities coupled with good highway access and growing residential communities nearby.

Recent sales include:

Address	Purchase Price	Yield	Price/m²	
Russellton Dr, Alstonville	\$900,000	7.07%	\$938	
Kays La, Alstonville	\$1,400,000	6.77%	\$993	
Russellton Dr, Alstonville	\$365,000	6.24%	\$1,134	
Russellton Dr, Alstonville	\$335,000	6.78%	\$1,040	
Owens Cr, Alstonville	\$680,000	6.40%	\$988	

Ballina

The Ballina industrial market is considered a midpoint between Byron Bay and Lismore. Yields tend to be two per cent higher than Byron Bay and one to two per cent lower than Lismore. It is benefiting from growing surrounding residential areas, a strengthening tourist market and improvement in arterial roads. Ballina tends to have superior supply compared to Byron Bay and Lismore.

We find industrial properties tend to be sub-\$500,000 for standalone single/twin tenanted properties.

The recent release of land by Ballina Shire Council will allow for further expansion and create a broader market. In 2015 and 2016, the Ballina market saw an influx of newly developed smaller entry level industrial strata units. These were taken up quickly, predominantly off the plan and subsequently have been well held.

The expansion of the industrial area is likely to result in the opportunity for developers to provide similar product to meet likely pent up demand.

Byron Bay

Byron Bay has targeted entry level product for an extended period with a steady flow of small strata titled industrial units. Originally commencing at around \$200,000, the market has progressed to such an extent that there is now little to no product available for under \$500,000.

The strength of the demand revolves largely around the utility of the space for retail, light industrial, art studio and illegal residential uses. It has provided an affordable space for existing or relocating business and private start-up companies. The small compact size continues to limit supply and drive up prices. This is reflected in a recent record-breaking sale of a 1,184 square metre block of industrial land reportedly under contract for \$1.750 million, indicating \$1,478 per square metre. It is one of the very few vacant parcels within the industrial estate.

As a result of Byron Bay's limited supply, the Mullumbimby industrial estate has seen significant growth in value levels and construction with several high-end strata complexes. These previously experienced limited demand and very limited supply. Its location within the Byron Shire provides business with underlying Byron Bay branding while avoiding the congestion and





parking issues associated with the Byron Bay industrial estate.

Coffs Harbour

Affordable industrial investment starts at circa \$200,000 to \$250,000 for small industrial bays in Coffs Harbour.

The market in this classification includes a significant component of self-managed superannuation fund investment. There is reasonable demand from owner-occupiers at comparatively firm analysed yields in the vicinity of five to 6.5 per cent net return. Rentals vary depending on size, age, quality, exposure and location. Small to medium industrial bays generally rent for between \$90 and \$125 per square metre.

For those considering small industrial development, the land component will generally be in the order of \$250 to \$300 per square metre and construction costs for improvements at circa \$1,000 per square metre plus Council fees and charges.

Investors should be seeking modern, well located industrial bays with strong tenants on secure leases with sound covenants. A fundamental rule of this type of investment is to ensure the property is not over leased.

Dubbo

The lowest cost entry level industrial property in Dubbo is characterised by industrial strata units of approximately 120 to 160 square metres. Price is circa \$1,300 per square metre. The buildings are typically of 1990s to 2000s build and tilt-up panel concrete construction. Stand alone property starts at circa \$230,000 for a 1960 constructed C.I shed with limited amenity in a

secondary location. Owner-occupiers dominate this entry level property market. Any analysis of implied yield would be circa 5.6 to 7.2 per cent.

Entry level for property investors is typically \$370,000 plus for a standalone older style shed, however there is limited supply at this price level. More typical lower end industrial property is circa \$550,000, where analysis on a vacant possession is circa 7.2 to 7.8 per cent. Property subject to a favourable lease profile would sell to strong investor interest on an analysed yield of 5.8 to 6.2 per cent.

Of note is that older style (circa 1980s) sheds of 750 to 1,100 square metres in secondary locations offered with vacant possession meet with limited demand, selling at an analysed yield of 8.1 to 9.2 per cent, or \$620 to \$760 square metre of GLA. Gross rents would typically be \$60 to \$75 per square metre.

Orange

Low cost entry level industrial property in Orange is characterised by industrial strata units of approximately 150 to 500 square metres. Prices range from \$750 to \$1,200 per square metre. These buildings are typically built between circa 1980s and 2000s and are of metal deck and tilt-up panel concrete construction. Stand alone property typically starts at circa \$300,000 to \$500,000 for a basic entry level metal deck shed with limited amenity in a secondary location. Owner-occupiers typically dominate this price point. Any analysis of implied yield would be circa 5.5 to 7.5 per cent.

Entry level for property investors would be typically \$500,000 plus for a stand alone older style shed, however there is limited supply at this price level. More typical lower end industrial property is circa \$500,000 to \$750,000 where analysis on a vacant possession is circa seven to eight per cent.

Properties subject to a favourable lease profile continue to be well received by investors with analysed yields of six to eight per cent expected subject to the lease expiry profile.





Victoria

Melbourne

Buying into the industrial investment market can be relatively affordable with a price tag of less than \$600,000 (excluding GST). There is a vast array of industrial pockets within metropolitan Melbourne where industrial strata unit investment properties can be sourced including areas such as Dandenong South in the south-east, Laverton North in the west and Campbellfield and Epping in the north.

Returns are generally low although this is dependent on rental terms. We have seen some attractive investment options in recent times at surprising yields.

An example of this is Lot 14 at 10 Cawley Road, Yarraville VIC 3013, also known as The Base,

which sold in April 2019 for \$395,000 (on a going concern basis). The modern, 162 square metre warehouse unit was constructed in 2018 and includes unisex amenities, kitchenette and a small mezzanine area within its warehouse accommodation. At the time of sale, the property was subject to a two year lease commencing 7 September 2018 with one further option of two years. The rental commenced at \$22,000 per annum net plus GST (\$136 per square metre per annum net plus GST) with three per cent annual reviews and market review at option. The sale equates to a yield of 5.57 per cent with a weighted average lease expiry (WALE) of 1.41 years.

Further guides of investment sales across metropolitan Melbourne within the last nine months include the following properties:

Address	Sale Date	Sale Price	Lettable Area (m2)	Passing Yield (%)	WALE
Lot 22/632-642 Clayton Road, Clayton South, VIC, 3169	April 2019	\$575,000	320	5.39	2.33
Unit 6/113-123 Elgar Road, Derrimut, VIC, 3026	February 2019	\$650,000	470	6.92	2.69
Lot 4/45 Network Drive, Truganina, VIC, 3029	November 2018	\$386,300	212	6.42	2.00
Lot 2/12 Freight Road, Ravenhall, VIC, 3023	November 2018	\$749,000	449	5.34	2.61
Lot 35/6-14 Wells Road, Oakleigh, VIC, 3166	October 2018	\$578,000	236	5.88	3.00



The above investment properties show attractive yields, mostly a result of favourable rental rates. Lease terms for these smaller scale industrial units generally range from two to three years, possibly without the option for further term renewal.

Aside from the above, tenanted units within larger, modern, infill developments are often difficult to come by as the market is generally dominated by owner-occupiers who operate their independent businesses out of similar storage solutions. A first time investor looking for an industrial strata unit should be aware of the associated body corporate costs related to the parent development, with a focus on the lease being structured on a net basis. To that point, it is critical to understand that the tenant is responsible for all outgoings including Land Tax. Should the Retail Leases Act 2003 apply and the property has a Land Tax responsibility, this amount may not be recoverable from the tenant and would affect the owner's bottom line return.







Queensland

Brisbane

Underpinned by population growth along with government spending, the Brisbane industrial market continues to attract interest from the wider market. The market has seen strong tenant demand at the top end with an increase in supply for prime buildings. Vacancy has reduced in both the prime and secondary markets by approximately 15 per cent, however this was dominated by the take up of larger assets. Industrial land values continue to appreciate due to an undersupply of serviced industrial lots through the reclassification of industrial zoning. Land values are predicted to continue to increase over the medium to short term. Investment yields continue to tighten with prime yields ranging from 5.5 to seven per cent and tightening across the sector by approximately 50 basis points, however we note that the sub six per cent yields are dominated by institutional investors for larger assets with longer lease terms.

Entry Level Market

The previous three years has seen the emergence of workstore developments, otherwise known as the man cave segment. Located strategically near residential precincts, workstores generally range from 60 to 110 square metres in developments of ten to 40 units. There has been a significant increase in workstore industrial developments across Brisbane with developments taking place in Enoggera, Tennyson, Geebung, Tingalpa, Wynnum, Northgate, Banyo, Geebung and Eagle Farm. Presented as a bare shell, the units are built to a modern standard of concrete tilt panel



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construction with provisions for a mezzanine level. Driving this development is the fact that there are normally strong sales off-the-plan, making projects feasible and offering good profit margins to developers. The buyer profile is predominantly owner-occupiers, for example tradespeople and individuals requiring small business operations or general storage accommodation. We have seen a good level of take up for these properties so far, however caution that this is dependent on the quality of location.

Prices range from approximately \$250,000 for smaller units up to approximately \$500,000 for larger units, dependant on the quality of the location. This equates to a rate per square metre of \$2,500 up to in some instances \$4,000 per square metre. Workstore units are heavily weighted to the owner-occupier market with sales showing that typically few are retained by the developer and even fewer leased to third parties. Rentals are calculated less on a rate per square metre basis and more on a price per month basis due to the small size and attraction to small businesses.

Yields at the entry level market remain dependant on the quality of building and length of term remaining. There is strong demand for properties with a term certain of three plus years in the sub \$3 million market, with yields ranging from six to seven per cent for prime properties. As this market is dominated by owner-occupiers however, transactions remain subdued.

We expect the industrial market to continue to be buoyant in the near future due to a competitive rental market with tight yields expected to remain. It continues to be an attractive market for tenants to lease, vendors to sell and investors to invest.

Gold Coast

Over the past year, industrial values within the central and southern Gold Coast and northern New South Wales have generally continued to move upwards, particularly for owner-occupied stock (which in turn results in higher value levels for investor stock as leases head towards expiry and are available for near term owner occupation). Rental levels have also improved as a consequence of limited supply of industrial properties, however, increasing outgoings have hampered any significant improvement in the investment market (albeit that the investment market had improved notably in prior years).

There are potential speculative opportunities with respect to leased industrial units, where yields range in the order of six to 6.5 per cent with moderate lease expiries, say in the order of one to two years, that could be off-loaded closer to the lease expiry at a profit, if suitable for owner-occupation. Currently, buyers are paying







prices which reflect yields in the order of five per cent and in some cases, below. Returns for industrial units with longer lease expiries tend to exhibit yields of up to 6.75 per cent, so industrial investment could be a good waiting game, with decent returns in the short term (especially comparative to interest rates at present) and the opportunity for capital gain in future.

With current record prices being paid for new concrete tilt panel owner-occupier product, it is becoming increasingly difficult to obtain units under the \$500,000 mark. New units in the range of 100 to 150 square metres in prime areas are now reaching upwards of \$3,500 per square metre. These are value rates never before seen on the Gold Coast.

This makes way for opportunities in lower demand areas where capital growth potential could catch up, in part based on price differential and affordability levels. One such area is Chinderah in northern New South Wales. There is currently a small industrial land subdivision in Naru Street which has fully sold with several developers planning medium size industrial unit developments. Off the plan units are currently being marketed from \$289,000 (\$2,900 per square metre for 100 square metre units). This reflects an attractive price point at circa 20 per cent below that of more established industrial precincts such as Burleigh Heads. The proposed development is circa 70 per cent sold at present with approximately 20 units planned in total.

Burleigh Heads has also had several new industrial unit complexes constructed recently, however having almost fully sold or leased at peak price levels, there are limited opportunities currently available and it may be time to look outside the square at areas such as South Murwillumbah or

even Yatala, where land remains available and price points are much lower.



Another positive factor for industrial investment on the southern Gold Coast and Northern New South Wales is the new Tweed Valley Hospital which is currently under construction in Cudgen (immediately to the rear of Kingscliff), in northern New South Wales. The development is in the initial stages with site works currently being undertaken. The project has a state budget of \$582 million and is planned for completion in 2022 and opening in 2023. The new hospital is anticipated to grow the local economy significantly which will likely result in a strengthening of the local industrial and commercial markets.

Toowoomba

Entry level industrial investment properties in Toowoomba generally consist of strata units and smaller properties in secondary industrial precincts.

Strata Units

Industrial strata units range in value between \$180,000 and \$650,000, with most sitting between \$225,000 and \$400,000. These strata units are in a similar price bracket to many residential dwellings (the median price of Toowoomba homes is circa \$375,000) and residential units (the median price of Toowoomba units is circa \$285,000). Industrial strata units are often considered more attractive due to their higher net yields of seven to nine per cent being well above the circa four to five per cent gross yields from housing.

The higher returns are a reflection of the increased risk of long term vacancy compared with residential properties that will often be re-let within a couple of weeks of becoming vacant.

Leasing demand for industrial strata units can fluctuate, with many occupants often preferring to buy rather than lease (due to the affordable price point). It is therefore recommended that investors seek units with long term leases in place.

The industrial unit market in Toowoomba is considered small with only a dozen or so strata complexes in the city. This is due to reduced demand for units with a historical preference for stand alone properties that include a yard. The small size of the market can easily result in an oversupply when a new complex is developed.

Secondary Precincts

Secondary industrial precincts in Toowoomba are positioned in suburbs such as Drayton, Rockville, Harlaxton and North Toowoomba.



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Some properties in these precincts can be purchased for under \$500,000. These properties are generally smaller in nature and often contain older industrial sheds.

Due to the secondary location and older buildings it is often difficult to secure quality long term tenants. As such yields for these properties tend to be higher than average for Toowoomba industrial properties.

Townsville

The entry level industrial investor market is typically priced from around \$500,000, with this market generally being thinly traded and underpinned by owner-occupiers.

Older style industrial warehouses in the established light industrial areas of Garbutt along with more modern strata industrial units are the typical entry level products. The older style properties are typically an office with warehouse or workshop configuration on 1,000 to 2,000 square metre lot sizes.

Industrial units are in limited supply in the market, corresponding with the historically lower levels of demand for this type of property, however we have seen some activity in this area over the past six to twelve months, with owner-occupiers of smaller service industry businesses moving from a home office operation to a dedicated workplace.

An entry level investment in the Townsville industrial market is considered reasonable given the current level of owner-occupier activity at this price point along with current lending affordability helping to provide a low risk environment.

This type of asset is traded on both a yield and anticipated capital growth basis with the current soft market conditions providing some opportunity for upswing. Yields are typically in the eight to nine per cent range with the compression of rental rates keeping yield progress low.

Sunshine Coast

The lower end of the industrial market on the Sunshine Coast is typically centred around the strata titled market. Generally, holdings below half a million dollars are strata titled or smaller stand alone holdings in hinterland locations.

The strata market varies depending on the age and location of the complex. Across the established markets in Kawana, Kunda Park and Noosaville, smaller sub 300 square metre holdings are generally above \$1,800 per square metre with new complexes generally above \$2,200 per square metre.

The Caloundra precinct and Bells Creek area have also seen increased development of strata titled holdings over the past three years and are also typically above \$2,000 per square metre for space of up to 250 square metres.

While the Coolum industrial market has been slower in take up during that time, more recent sales indicate value levels are now over \$1,800 per square metre for similar style product.

This market has traditionally been owneroccupied and as a result, investor returns are limited to circa six per cent yields. Hinterland markets still have some smaller circa 1,000 square metre established lots that are developed with older sheds and are available under the \$500,000 mark, though these are typically owner-occupied with limited supply available at any time.

Rockhampton

When talking entry level industrial properties in Rockhampton, we generally look at the sub-\$500,000 bracket and what that can get you. It's not a lot, but it's a start for small businesses and mum and dad investors. Most of these properties are located in areas of Park Avenue, Kawana and Rockhampton City.

A few recent sales of vacant entry level properties include:

- A small, strata-titled unit in Park Avenue recently sold for \$310,000. This property includes a basic shed and small office, with a reported total area of 234 square metres.
- A strata title unit in Kawana sold in late 2018 for \$350,000. This is a modern industrial unit with a reported lettable area of 366 square metres.





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An older style basic shed in Kawana also sold in late 2018 for \$500,000. This shed has a lettable area of approximately 390 square metres and is set on a 1,619 square metre parcel.



Investment opportunities at this price bracket are limited. Yields generally fall within the eight to ten per cent range depending on a variety of factors. There has been strong demand from southern investors in the sub \$1-million price bracket, however only for leased properties with a sound unexpired lease term. A recent entry level investment is a multi-tenanted property in Kawana that has reportedly settled for \$562,000, reflecting an analysed yield of about eight per cent. The property comprises a 2006 square metre parcel, improved with an L-shaped building with a lettable area of 579 square metres. The WALE was 2.07 years and there was one vacancy out of four.

Gladstone

There has been very limited activity, with many owners hesitant to sell in the current market unless absolutely necessary. As such, it is difficult to demonstrate entry level, however we can look broadly at the sub \$1-million market for industrial properties to see what this has been able to get



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you. Over the past 12 to 24 months there has been only a handful of sales in this price bracket and they generally include older style sheds between \$500,000 and \$900,000.

One of the more recent sales is an older style shed in Hilliard Street that sold for \$790,000. The shed has a reported area of 591 square metres and is set on a 2,668 square metre parcel. The shed was sold with vacant possession.

Another small strata industrial unit of approximately 251 square metres in Barney Point also sold with vacant possession for \$100,000 in August 2018.

An online search of realcommercial.com.au indicates that there are a handful of offerings, mostly in secondary locations, in the sub \$500,000 range.

Owner-occupiers have also been taking advantage of the affordable price of industrial land in the current market and looking at this option as opposed to buying an existing building. Industrial land has varied in price over the years, however more recently has been ranging from about \$70 to \$100 per square metre in more sought after locations. There have been few sales of land in secondary and less sought after locations, however asking prices indicate the market to be \$50 per square metre and under.

Investment sales of industrial property have been few and far between and yield rates can be difficult to rationalise due to passing rents being considered above market. The most recent known investment sale considered at entry level is in Anson Close in Toolooa, selling for \$890,000. The property has

an unexpired lease term of about two years. The property is improved with a circa 1970s workshop with a floor area of approximately 600 square metres. The sales reflected a passing yield of about twelve per cent, however the passing rent was considered above market and the sale analysed to a much lower market yield.





South Australia

Adelaide

The industrial property market across South Australia is expected to continue its recovery throughout 2019 as the market continues to be sustained by government investment in both the healthcare and renewable energy industries. Investor sentiment has recently shifted from the retail to the industrial sector, mainly due to slowing trade growth within specific retail markets as retailers continue the fight against online shopping. In contrast, warehousing and manufacturing benefits from the increase in online shopping, as companies require more warehousing space to facilitate the transport, manufacture and storage of goods. Investors and major real estate investment trusts are looking to industrial property, as retail sectors such as department stores and clothing outlets recorded negative retail trade growth through the latter part of 2018 and early 2019.

Within the South Australian market, property remains tightly held in the sought-after northwest and inner-west industrial precincts. Limited sales of industrial properties occurred in these areas over the first half of 2019, making it hard for investors and owner-occupiers to enter the market. The majority of current industrial investment opportunities are available in outer suburbs such as Lonsdale and Edinburgh, which are 26 kilometres south and 35 kilometres north of the CBD respectively. Property remains tightly held in the north and western industrial sectors, with 14 sales of industrial use land in the first half of 2019 according to current sales data.

Investor sentiment has recently shifted from the retail to the industrial sector.

The current low interest rate environment and recent cut in rates has resulted in further compression in property rents and yields. Premium industrial space across the nation is currently fetching yields of 6.5 per cent, while secondary space is generating yields of roughly 7.5 per cent. The Adelaide market is faring slightly better, with premium space measuring yields of eight per cent and secondary space nine per cent. Unsurprisingly, there has been no significant change in these figures since the previous update in April.

Looking to affordable investments within the Adelaide industrial market, current offerings remain scarce amidst the shortage of recently completed industrial developments. Entry level stand-alone sheds within the north and innernorth industrial precinct are roughly \$320,000 to



\$350,000, which would net the owner 305 square metres of industrial floor space in the northern suburb of Edinburgh and 180 square metres in the inner-northern suburb of Wingfield. Similarly, industrial investors can acquire a warehouse in the southern suburb of Lonsdale for \$335,000.

For the investor looking to enter the more popular west or inner-west industrial precincts, a warehouse and office in Marleston is currently on the market for \$575,000. This offering would secure the owner 236 square metres of warehouse and office space on 422 square metres of land in the sought-after inner-west. An industrial investor however can acquire a unit or a shed in these areas for almost half the price; sheds in Lonsdale are on the market for \$175,000 for around 140 square metres of space, while a higher quality and larger unit (175 square metres) in the northern suburb of Mawson Lakes would set the purchaser back \$275,000.

There have been no major shifts in industrial rents throughout the first half of 2019. Net rental levels for premium industrial space in the north are currently between \$60 and \$90 per square metre, \$70 to \$110 in the inner-north, \$90 to \$140 in the inner-west precinct and \$60 to \$80 in the south. As mentioned, yields are measuring eight and nine per cent for premium and secondary space respectively. Slight upward pressure on rental growth is expected throughout the latter half of





2019, as infrastructure investment and a decline in unemployment are expected to buoy the rental market for industrial property.

The property market as a whole is predicted to stabilise throughout the remainder of 2019 as a Liberal government settles in for a new term. Investment in healthcare and renewable energy should fuel the demand for industrial space in South Australia as the market looks to recover from recent lows. Both the Darlington upgrade and the Northern Connector are expected to finish late this year, providing an upgrade to major freight and transport routes in the north and south of South Australia.





Western Australia

Perth

The more affordable industrial assets across the Perth metropolitan area tend to be located within secondary industrial precincts. Development in these estates typically comprises a not insignificant volume of small scale, often strata titled industrial (warehouse or factory) units. However, entry level assets in the sub-\$500,000 bracket can be found in all industrial precincts throughout metropolitan Perth.

These types of assets are popular with small business owners, hobbyists and those requiring more space simply for storage purposes.

The prevailing low interest rate environment has provided small businesses with a conducive, cost effective opportunity to acquire such property at occupancy cost levels (i.e. mortgage repayments) that often prove more competitive than renting similar accommodation. Owner-occupied premises also avert the ongoing problem of regular rent reviews where rental liabilities can escalate throughout the duration of the lease term as opposed to mortgaged property where payments can be fixed.

Owner-occupier business proprietors often incorporate such property holdings in self-managed superannuation funds whereby the related business pays a rental to the superannuation fund. Such an arrangement enables the asset and the rental payments to remain with the owner essentially, as opposed to being lost to a third-party investor landlord.

Recent sales of similar leased properties around Perth indicate market yields tend to range between five and seven per cent.

Accordingly, the market for such assets is primarily driven by owner-occupiers with the level of rental return derived from these properties often insufficient to satisfy the appetite of a private investor. Accordingly, properties subject to a lease tend to achieve lower sale prices in comparison, as the purchase price tends to be dictated by the target yield.

The different motivations for the two market participants for acquiring a comparable property can lead to two notably different values.

The quality of tenants that tend to occupy these low end industrial properties should be carefully scrutinised as part of any potential acquisition by an investor. Such tenants are often susceptible to fluctuations in cash flow and the security of tenure can be feeble. Re-letting such premises can prove a costly exercise in the event of vacancy particularly in the prevailing soft industrial leasing climate.



Pricing is a function of a variety of factors but typically rates per square metre of floor space for these strata titled industrial units start at circa \$1,100 per square metre for an older style, basic quality unit in an outer lying suburb to as high as say \$2,750 square metres in prime industrial estates closer to the CBD. Aside from location, other key drivers of value for these types of property include age of construction, floor area and quality of specification.

Recent sales of similar leased properties around Perth indicate market yields tend to range between five and seven per cent with variation in yield largely a function of age and quality of improvements, location, quantum of value and nature of lease covenant.

A plethora of options exists in Perth's southern suburbs including Cockburn Central, Bibra Lake, Canning Vale and O'Connor. Suburbs such as Wangara and Malaga in the north are not in short supply either plus there remain recent additions to the marketplace in the newly developed Tonkin Highway Industrial Estate located east of the Perth CBD.

For owner-occupiers and investors, newly constructed units also carry the added benefit of depreciation benefits, making more modern units more sought after in the marketplace relative to older stock.





Northern Territory

Darwin

Smaller scale industrial in the Greater Darwin market has shown a period of oversupply which has had some impact on values. This is consistent with the rest of the Darwin property market.

From 2010 to 2014 the supply of small scale industrial accommodation was augmented by the construction of a number of strata industrial developments especially in the Winnellie and Berrimah areas. From about 2015 it was becoming evident that there was an adequate supply and new construction fell off. However, some of the developers still have a number of these units available for sale which they are gradually releasing to the market.

The majority of purchasers for this type of property are owner-occupiers (or their related superannuation funds) being mainly local tradies or even those living remote who need a small base in Darwin. Investors are more cautious with outgoings quickly eating into any rental income that these properties can generate.

Features generally sought in these types of properties are good clearance access, adequate common parking areas and a securely fenced yard. Office requirements are generally modest and may consist of a mezzanine level.

Increasing competition in this space is coming

from Berrimah Business Park Stage 2 which has a number of smaller blocks (sub 2000 square metres) which can be built on to also appeal to the owneroccupier market. Whilst the total cost of such a project will exceed the half-million mark, it is still an attractive option for this market segment. There would be few, if any, sales of developed freehold (as opposed to strata) industrial properties in Darwin under the \$500,000-mark.

Investors are more cautious with outgoings quickly eating into any rental income that these properties can generate.







Australian Capital Territory

Canberra

Overall the market had been stable in this sector prior to the election in May 2019, however there are glimpses of increased activity which suggest the start of a recovery cycle. Commercial agents are reporting increased activity on the back of a stabilising residential market and improved consumer confidence.

The ACT government's Four Year Indicative Industrial Land Release Program is based on the current level of demand for industrial land. The program is intended to achieve a number of objectives, but in essence it is to increase the ACT government's responsiveness to market changes by developing an inventory of land stock, where serviced industrial sites are available for immediate release. Land will be available across new estates in Symonston (2020-21), Fyshwick and Majura Valley (Pialigo, 2021-22) as well as Hume. The program aims to release 110,000 square metres over the next four years.

Queanbeyan continues to provide a desirable option for owner-occupiers in the market, as increasing municipal rates in the ACT continue to discourage activity. A Legislative Assembly committee is currently conducting a formal inquiry into the commercial rating system and has made numerous recommendations; the long-term effects from this are yet to be determined.

A recently completed industrial development in Hume comprising of 14 high-clearance modern warehouses (of various configurations) with mezzanine store and office options as well as rear hardstand has been received well, achieving \$2,000 to \$2,500 per square metre and reflecting yields of circa seven per cent. Investors and owner-occupiers are currently attracted to the small scale industrial market, particularly for superannuation purposes and also to have an asset that has potentially appreciating value and the ability to provide collateral for borrowing power.

The outlook for the remainder of 2019 is for much of the same, namely growth and increasing activity on the back of a stable residential market and political climate. Industrial leasing demand is improving, however rents remain stable generally with a continued need for incentives. Further proposed rate cuts will have an impact on the market in the long term and some rental growth may be observed when tenant demand levels increase and sales activity begins to soften. The outlook for the Canberra and Queanbeyan industrial market is for increasing take-up levels over the next 12 months.

There are glimpses of increased activity which suggest the start of a recovery cycle.



