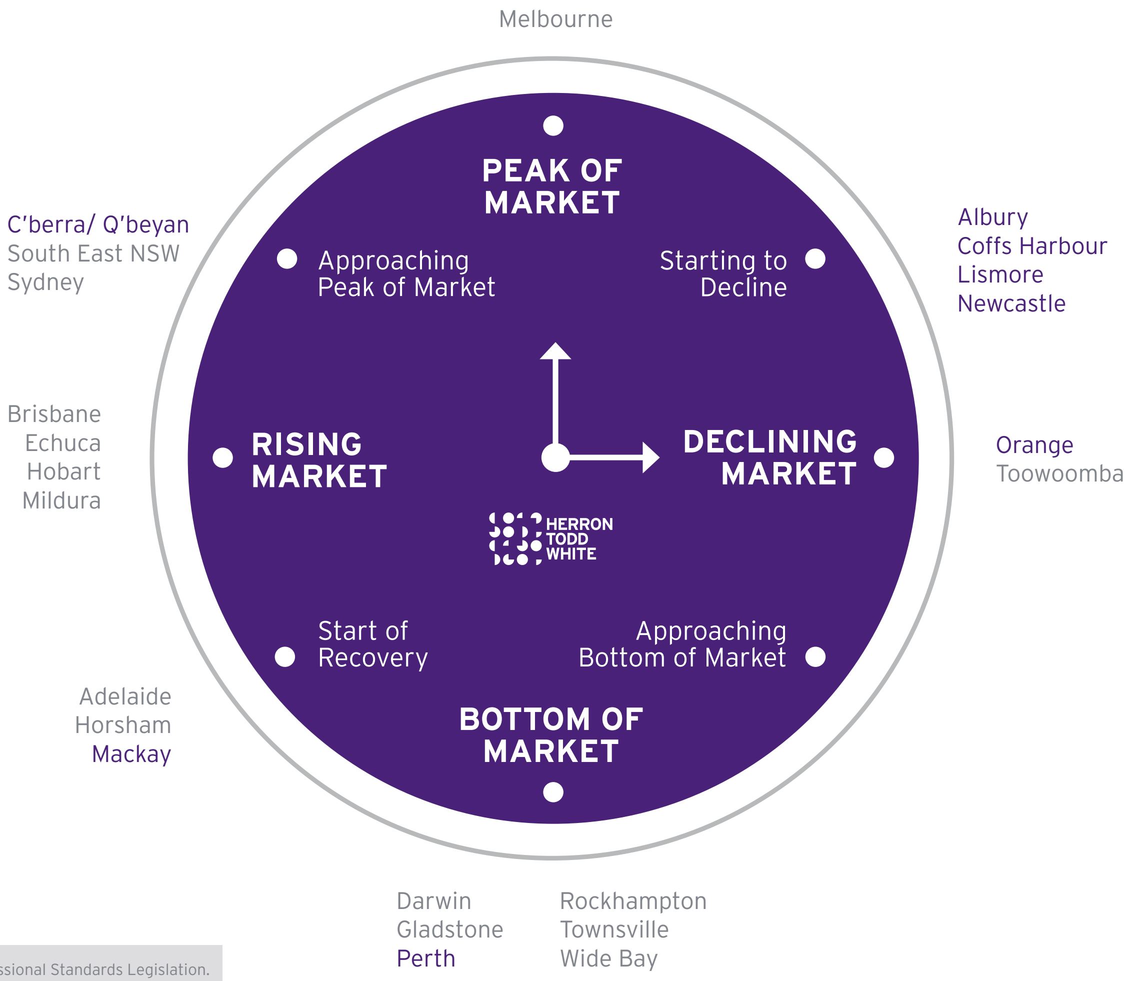
Commercial

April 2019

National Property Clock: Industrial

Entries coloured purple indicate positional change from last month.



COMMERCIAL

HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

Industrial markets across the country proved to be a mixed-bag of performers heading into the end of 2018. With changes afoot in 2019 in both the financial and political spheres, it can be difficult to determine which direction your market of interest might be heading without some expert guidance.

This month, our teams provide their expectations for industrial market sectors throughout the nation.

Sydney

In general terms, the Sydney industrial property market performed strongly in 2018 and we predict it to be an even more exciting market to watch in 2019.

There was a notable increase in demand in Sydney's industrial market during 2018, driven by a number of factors including a strengthening economy coupled with low interest rates. Demand was influenced by residential infill re-zonings in traditional industrial precincts close to the Sydney CBD, airport and ports, prompting a flight from inner city areas to more outlying precincts and a chase for yields and capital growth. Examples of this include the Alexandria and Mascot areas and the Lower North Shore where land is being rezoned and traditional industrial users need to look further afield for good quality premises. Despite the declining residential market and the slowing of the residential development sector, we anticipate that some of these factors will continue to drive demand for industrial space, particularly in the first half of 2019. Many tenants and owner-occupiers alike are experiencing difficulty finding well located, good quality industrial space, a trend we expect to continue this year.

The sale represented an increase in value from around $16 million in 2014 to $24 million in 2018.

In particular, we expect that demand levels will remain reasonably strong in well-located industrial precincts with good connectivity to major transport routes and ease of access to regional business centres including Liverpool, Campbelltown, Parramatta, Blacktown and Penrith. Such precincts include Wetherill Park, Silverwater and Seven Hills.

In 2019, we expect yield compression to stabilise and display a more subdued rate than was evident in 2018. Industrial properties are currently sold subject to relatively low yield rates, currently generally sitting between four and seven per cent. We consider that these low yields will continue for much of 2019.

Average prime grade industrial rents in Sydney remained somewhat subdued in 2017 and to an extent in 2018, when increases only seemed to appear in the later part of the year. However, with the increased demand for industrial facilities and a lack of stock, we anticipate rents to grow in 2019, particularly in well located precincts that offer ease of access, transport or proximity to the CBD and ports.

A continued lack of land supply will see premiums paid for vacant land and under-improved sites.

We continue to follow with anticipation the progress of the Western Sydney Airport. To date, staging works, some roads and clearing has been done. Further work is currently underway. We watch this area keenly as we consider it will have a real impact on the local industrial market, especially as we get closer to the completion of the site and even now, as more and more businesses look to firm up their strategic positions for the future.

We consider that 2019 will still see some opportunities in the market. The lower end of the market, particularly well located strata units, still present some good opportunities for both rental return and capital growth in the long term. At the other end, investors with a bigger budget will benefit from the increasing rental returns.

The industrial market in Sydney started off on a strong note in the first quarter of 2019, particularly in the sub $10 million price bracket. The most notable larger sale (missing 2019 by one day) occurred on 31 December 2018 in South Granville. The sale represented an increase in value from around $16 million in 2014 to $24 million in 2018.

Newcastle

Early signs in the Newcastle, Hunter and Central Coast industrial markets indicate that a general market softening is underway. There has been a real value push in local industrial markets over

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the past couple of years. Vacant land values have increased significantly and yields have compressed. We've also seen industrial rents increase for the first time over that period since the early 2000s. We should clarify that we are not anticipating short term value drops of any significance in the industrial market. Local economic factors are strong and while lending criteria has tightened, record low interest rates remain.

We are expecting to see a levelling out of market value growth in Newcastle in 2019 as more land and strata units come on line to cater for the increased enquiry levels from both owner-occupiers and investors, levelling out the supply and demand mismatch. We have already witnessed a fall off of superannuation purchasers by small business operators with all the major lenders effectively putting a stop to property lending within super trusts.

Land sales have been strong in areas such as Morisset, as buyers are pricing in ease of access to the M1 Freeway and local amenity. A recent subdivision fronting Wyee Road is achieving rates of between $190 and $230 per square metre of land for sites between 1,800 and 4,400 square metres, with the majority of allotments sold off the plan.

Land for sale in the popular Mayfield West Steel River Industrial Park are asking rates of between $220 and $250 per square metre for larger sites of circa 4,220 to 6,400 square metres. We're advised that buyer enquiry is active but certainly not as strong as twelve months ago.

Evidence indicates that 2019 will see a return to more normal market conditions in the Hunter Region and Central Coast. While values have increased significantly over the past few years, this year will see some moderation returning to the marketplace.

Lismore and surrounds

The industrial markets within regional locations have traditionally been dominated by larger owner-occupiers and a small number of experienced local developers and builders who constructed based on need. They tended to construct basic complexes out of metal products with basic facilities and of a modest appearance.

Tenants tended to be harder to find, yet good tenants tended to be long term in nature. They also tended to be susceptible to over supply relatively quickly with demand and the resultant vacancy rates mirroring the economy closely and the market being more susceptible to rental falls and longer lease-up periods. As such, from an investment point of view, they appeared to be higher risk and prior to the mid-2000s boom, yields were around two to three per cent above their local commercial and retail cousins.

With more modern buildings and the demands from the market, the industrial sector transitioned to a mix of retail and light industrial uses including small importers looking for cleaner, more modern spaces to meet the mixed needs of retail, warehouse and small businesses who found that their clients appreciated a cleaner and more professional appearance.

The new wave of tenants required more regular traffic movements with superior vehicle access.

As such, modern industrial areas comprise a very wide mix of uses unfamiliar to those of 20 or 30 years ago.

The strata revolution also created smaller product well suited to small owner-occupiers and investors. Consequently, yield rates and returns within the industrial market fell significantly and in many localities, showed similar rates and returns as the retail and commercial markets.

So much for the past. What does 2019 hold?

As with the greater real estate market, the coastal areas have experienced the greatest rises as the localities are either experiencing the greatest growth in population or the strongest demand without an equivalent increase in supply which drives up values.

The coastal localities are at the greatest risk if demand weakens. Yield rates of four to 4.5 per cent in the Byron Bay industrial market are not sustainable over the long term and the ability of tenants to pay the significant increases in rent experienced over the past three years must be suspect. This would be particularly so if economic conditions were to weaken. Ultimately, tenants who do not require a Byron Bay address will seek out more affordable alternatives which are likely to include nearby centres such as Ballina. Mullumbimby has already experienced this.

We do not expect a bust situation in 2019 as supply remains low and as such, while demand may weaken, the supply levels and lack of new product are likely to see a slight softening in yields but not to an extent which would create significant concern.

Mullumbimby has had a significant strengthening over the past two years with strata complexes indicating yields slightly above Byron Bay at 4.5 to five per cent. Annual rents are also at peak levels

Yield rates of four to 4.5% in the Byron Bay industrial market are not sustainable.

quickly approaching Byron Bay levels, albeit $50 to $75 per square metre lower at this time.

While values are lower than Byron Bay, they remain well above historical levels and with more product currently being developed, the risk of a fall is greater than in Byron Bay.

Ballina and Alstonville have been more stable markets which, while experiencing lower demand levels and modest supply, have seen yields more commonly in the six to seven per cent range. If demand remains subdued, we expect a slight softening in yields as purchasers become more discerning.

Lismore tends to be a sporadic market, so while all indications are that the market is stable, the number of property transfers is often limited and as such it is often difficult to ascertain any movement.

Yields for investment product range from seven to nine per cent, which is strongly impacted by the strength of the tenant. National tenants with longer-term leases would tend to be at the lower end. Lower priced product is dominated by owner-occupiers where cost of replacement and the need to secure a location to operate a business are the driving factors rather than return. The recent relocation of Lismore Toyota, Rescue Helicopter and the redevelopment of the Masters site at South Lismore with Spotlight, BCF and Better Electrical provide a good improvement in the industry base, diversity and appeal of the location, which assists in creating a superior, more stable base. Further, the proposed expansion of Bunnings will further enhance the locality.

Goonellabah will remain a good alternative due to its flood-free nature and proximity to growing residential areas, although it has not experienced significant growth as would otherwise be expected.

The drift east will remain an important factor in maintaining a stable market.

The Casino and Kyogle markets tend to have very limited supply and limited demand, which is predominantly restricted to owner-occupiers and as such, we expect a stable market over the next 12 months albeit recent evidence indicates a number of land sales in Casino showing a slight increase. This is not an uncommon event with small bursts in demand resulting in an improvement in values given available product can be limited. This is followed by extended periods of limited activity and stable to slightly softer values as demand tends to be limited.

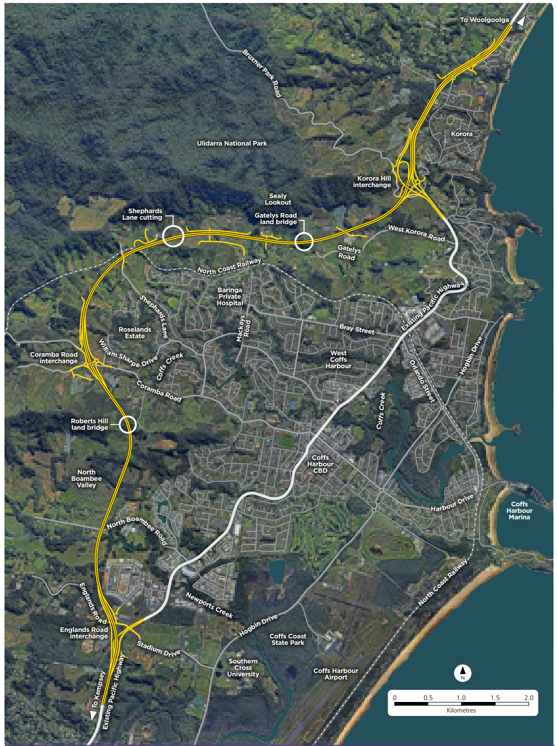
Coffs Harbour

The local industrial market remains stable and this should continue throughout 2019. There is some demand from cashed up superannuation funds although bank lending policy has tightened the availability of funding to this market sector. There is slow market demand from owner-occupiers for industrial units in the $1,500 to $2,400 per square metre price range.

The acquisition of property associated with the Pacific Highway bypass is in full swing preceding construction of the route. The progression to construction stage should stimulate the local industrial market.

There is a looming shortage of industrial zoned land to allow expansion of development in Coffs Harbour as supply within Isles Industrial Estate draws to a close. This has effected an increase in land value rates across the area.

The Mill Industrial Estate at Woolgoolga has opened with 11 industrial allotments of 2,500 to 5,000 square metres available for sale.



Coffs Harbour bypass Source: pacifichighway.nsw.gov.au

Industrial property rents display a broad range which demonstrates a slight oversupply of accommodation and some market uncertainty.

Albury Wodonga

We believe we'll see an increase in the number of properties on the market in 2019.

There are approximately 25 industrial properties for sale in Albury Wodonga ranging from small strata sheds to larger multi-million dollar properties. Presently, there should be a property that suits your buyer profile, but the issue may well be location.

Lavington and West Wodonga offer similar use types but are in different states. The issue may be age and obsolescence. Many of the properties for sale appear somewhat dated and in need of general maintenance.

We agree that the market is set for consolidation. If you don't need to sell, then now may not be a good time to place your property on the market.

The banking royal commission, the debacle that is Brexit and the irregularities in the interpretation of previously signed trade agreements (eg. USA), all appear to have had a somewhat dampening effect on global trade. This has resulted in caution in the investor market and the number of buyers appears to have dropped off since the height of the market in the past one to three years.

Annual asking prices for rents seem to have dropped. There are landlords out there asking $100 per square metre, but most rents appear to be at around the $75 per square metre with larger buildings at between $35 and $50 per square metre. There are a large number of small to medium sized industrial sheds for lease too.

There are choices for both prospective buyers and prospective tenants. The options are larger and the asking prices are more competitive. The market has swayed more towards the buyer's and tenant's side, however it will depend on the urgency of the owner or landlord to sell or lease their property. They have less room to negotiate with today.

Avoid panicking either way. If you need to move and like something, take it. If you don't need to sell or lease and don't want to drop your asking price, then don't. Markets recover. The current stagnation of the market will not be forever. Should we have a change in government, it may even improve.

We expect the Dubbo, Bathurst and Orange industrial property markets to remain relatively stable in 2019, despite the ongoing drought and wider economic and political uncertainties.

Dubbo/Orange

We expect the Dubbo, Bathurst and Orange industrial property markets to remain relatively stable in 2019, despite the ongoing drought and wider economic and political uncertainties. Diverse and expanding local economies, relative to other New South Wales regional centres, are seen as underpinning the market in regard to both leasing and sales activity and where to date there is no obvious imbalance in the market to warrant a prediction of either a significant rise or fall in transaction values.

A notable divergence in industrial property rents and sale values is seen from the degree of utility of an industrial property, where modern design and construction methods are demanded by enterprises with a national or state-wide presence, as well as larger private local businesses. There appears to be a balance of owner-occupied and leased space occupied by these entities.

As with the majority of commercial property, given locality, there appears to be stepped levels of rental and sale values as properties age and offer less amenity to the occupier. The older, more obsolete properties are difficult to either lease or sell, with some experiencing protracted vacancy periods.

There is ongoing industrial park development in Dubbo, noticeably in the heavy industrial zones. The significant development at the Dubbo Regional Airport where the new 15,000 square metre Royal Flying Doctor Service Medical Training and Visitor Centre and the new $24 million Rural Fire Service Administration and Training Centre have increased enquiry from industry for relocation to the adjacent heavy industry zone. A number of business have asked for valuations in this locality as part of their enquiry for its exposure and excellent transport links.

South East NSW

The industrial market has been the strongest performer of the three main asset classes over recent times, coming to life over the past three years after a prolonged period of stagnation post the GFC. We expect the strong market conditions in this sector to continue throughout 2019 although perhaps not at the same pace as years prior as the market approaches the peak of its current cycle.

Late 2018 saw several large industrial sales within the $8 million to $8.5 million price range, stretching the price point barrier and signifying the confidence in this market segment at present. Yields have also compressed, typically sitting in the 6.5 to 7.5 per cent range, while rates per square metre of lettable area broadly range from $1,250 to $2,000 with site coverage largely impacting the resulting rate.

The sustained improvement in this asset class has seen numerous light industrial complexes being developed with the potential for oversupply moving forward as these projects are completed. 2019 may see a cooling in this part of the industrial market.

The main drivers of this growth have been major infrastructure projects taking place throughout the state, particularly Sydney and the Illawarra and South Coast regions. Other drivers of this market are low interest rates, strong conditions in the

Sydney industrial market, renewed confidence in the local economy and activity surrounding the port of Port Kembla.

The relative affordability and simple availability of industrial land and existing product compared to Sydney combined with the region's proximity and improving connectivity to Australia's largest city is making the Illawarra an attractive option for owner occupiers, while investors continue to chase yield that is absent from the major capital cities.

Victoria

Melbourne

The Melbourne industrial market is expected to remain steady throughout 2019, with sustainable growth of newly available greenfield land and construction of new facilities, both large scale distribution centres and smaller strata title unit developments. This will be coupled with a stable commercial environment and persisting low interest rates.

Frasers Property Australia recently settled (November 2018) on a large Industrial 1 zoned parcel of land in Melbourne's northern industrial sector in Epping at 410 Cooper Street and 315 O'Herns Road. The two allotments total approximately 61.31 hectares and were purchased together in October 2017 for $40 million (plus GST). The allotment is located diagonally opposite Melbourne's wholesale fruit and vegetable market, which has brought significant growth to Epping's industrial sector over recent years. Demand in Epping has consistently grown, over neighbouring suburbs such as Campbellfield and Thomastown, due to its close location to the market and its links to major transport routes. The first stage of the Frasers development is expected to come to the market during 2019.

Within the past 12 months, prime and secondary rental rates both achieved a sustainable growth of four per cent. Rents are expected to continue to increase in line with recent growth, until the demand and supply of industrial space begins to meet equilibrium. Prime face rental rates in Melbourne's industrial outer areas generally ranged between $70 and $90 per square metre of building area per annum net plus GST for medium scale properties, whilst rental rates for smaller, newer units within the inner suburbs ranged between $100 and $170 per square metre of building area per annum net plus GST.

$70 - $90 sqm

prime face rental rates in Melbourne's industrial outer areas for medium scale properties.

$100 - $170 sqm

prime face rental rates for Melbourne's smaller, newer units within the inner suburbs.

Yields have been under increasing downward pressure for prime grade industrial development with yields for secondary development generally steady. This has been underpinned by the current low interest rate environment and investors hunting quality investments with limited properties available. Yields for prime stock range from 5.5 to 6.5 per cent. Secondary grade properties are achieving yields of 6.5 to eight per cent within the outer fringe, east, south-east and west regions.

Areas which should be avoided are markets with over supply, properties with high rental incomes but short WALEs, as well as vacant, older style properties without any development prospects in the short to medium term.

Mildura

The industrial market has enjoyed strong demand over the past two to three years, driven primarily by growth in the rural sector. The volume of citrus, table grapes and almonds produced in the Mildura region increased significantly during this period and this produce needs to be packed, transported and usually stored in cool rooms prior to sale.

Industries associated with these activities have been the main beneficiaries of this growth and as an example, we note the recent construction of two large warehouses leased for carton storage to Abbe Corrugated and Visy respectively. The Visy warehouse (5,388 square metres including awning) recently sold to a local investor on a 7.2 per cent yield, reflecting the presence of a ten-year lease term to a national tenant.

There are numerous local transport companies which all have extensive warehouse and cool room space on site. These businesses have been expanding both the size of their fleets and their warehouse space.

We expect this growth to continue, however possibly at a slower rate, as the latest surge in horticultural development appears to be slowing. While the growth has created a spike in work for shed suppliers, concreters and electricians etc, we expect the presence of these new facilities to create ongoing work for refrigeration and electrical contractors, as well as suppliers to the transport industry.

The other growth sector in recent times has been in large scale solar projects (200 to 500 hectares). This has created a short-term spike in work for electrical contractors, earthmoving companies, *The other growth sector in recent times has been in large scale solar projects (200 to 500 hectares).*

concrete batching plants etc, however once up and running, we would not expect there to be significant ongoing work for local contractors. Predicting whether there will be further development in the solar projects is difficult. Our sense is that there will be reduced activity over the next two to three years, however this could easily change if the economic case is strong enough.

Rents and yields for small industrial premises suited to owner-occupation or smaller local businesses were relatively stable during the past year and we expect this to continue throughout 2019. Rents are typically between $45 and $85 per square metre for good standard warehouse space, depending on clearance height, location and the standard of facilities, and yields most commonly are in the range of eight to nine per cent.

Echuca

Broader metrics suggest a flatter industrial market in the 2019 year with potential headwinds for the agricultural sector given the dry conditions and low water storages with irrigated agriculture a major driver of local industry. There may be some upside potential as construction of the new bridge and associated roads hits full swing, though it remains to be seen how much of a lift in demand for industrial property will arise from this project. Nevertheless, the market is likely to continue to be dominated by owner-occupiers, with the sub-$1 million segment being the most actively traded.

Queensland

Brisbane

Over 2019 we expect to see increased market activity on the back of low interest rates and strong investment demand. Prime investment properties with strong WALEs in the market are few and far between given the tightly held nature of these assets, particularly within the Trade Coast. Yields did tighten throughout 2018 and are expected to remain stable throughout 2019.

Sales activity was down in 2018 year on year which we attribute to a lack of quality stock available in the market and not a lack of demand. Activity seems to be gaining momentum in 2019 with approximately $26 million worth of sales already settled as at 1 March 2019.

Rents are stagnant and we don't expect to see any major rental growth in 2019. Face rents remain stable and there are some signs of incentives dropping which has resulted in some rental growth, however this is evident only in some precincts. There are also signs of some improvements in vacancies as well however this is not evident in all precincts and again, it is too early to establish any trends.

Infrastructure projects such as the Gateway Upgrade North and the Logan Enhancement Project are due to be completed in 2019 which will improve congestion and connectivity and will further drive demand. Other major infrastructure projects such as the Brisbane airport's new runway and the Kingsford Smith Drive upgrade are well underway however are likely to be completed in 2020.

Overall, the outlook for the industrial market in 2019 is positive.

Gold Coast

Over the course of 2019 we anticipate a flattening or low growth trend for the industrial market due to a balancing between the low interest rate driven bullish demand versus supply metrics on the Gold Coast and the wider property market slowdown and declining consumer and business confidence. The latter is being driven largely by the impacts of the Royal Commission into the banking industry having far reaching consequences and the tightening of credit availability as a result. The residential market nationally, which is the primary casualty of the commission to date, could balance industrial market dynamics on the Gold Coast or tip the market further, as we have historically seen this sector trail the residential sector.

Other factors which could dampen the outlook for the industrial market this year are the upcoming federal election, the consequences of the looming Brexit finalisation and the uncertainty that can abound at a macro-economic level.

However, it's not all bad news as the official cash rate is expected by some economists to drop further (albeit with the bottom not far off) with a positive impact possible on borrowing interest rates and further affordability gains, although, again there is uncertainty as to whether the gains would be passed along to borrowers. In addition, industrial rental rates are definitely improving at a moderate rate, which is improving returns for industrial investors and could lead to a slight narrowing of the value gap between investor and owner-occupied assets. Added to these sentiments is the overarching factor of the lack of industrial stock on the Gold Coast proper, in particular.

Some commentators have predicted that investors could switch from residential to industrial property to improve returns, which could be plausible given the low returns in the residential market coupled with flat or declining value levels (depending on where and what the asset is).

In addition, as household consumption is declining, we would tend to agree that the prediction by some of a move by investors from retail to industrial assets is also likely to some degree, given the trend away from traditional shop front retailing to online retail business operations which benefits industrial retail business operations which benefits industrial warehousing properties (used for storage for online retail distribution businesses).

However, we do not anticipate this to be a significant driving factor in the central and south Gold Coast and Tweed industrial markets which are mainly driven by small owner-occupiers. It would be more a factor in the Yatala Enterprise Area where larger industrial properties are located.

Activity seems to be gaining momentum in 2019 with approximately $26 million worth of sales already settled as at 1 March 2019.

There remains some good opportunities in the industrial market at present.

The negative signs for the industrial property market outlook include business and consumer confidence declining, business investment declining, credit and money growth declining, the ailing residential market broadly, low wage growth and a decline in the GDP growth rate. Conversely there are positive indicators which could off-set the aforementioned to some extent, such as the significant rise of online shopping and the increasing requirements for warehouse space, low supply of stock and more broadly, the improving employment and participation rates which could lead to higher wage growth.

In terms of yield anticipation, we predict a flattening of yields which are currently at all time low levels, due to the low interest rate environment and the perception that interest rates will likely not increase in 2019.

There remains some good opportunities in the industrial market at present, namely medium or larger size multi-unit industrial properties which have limited affordability, however have good profiteering prospects if they have the ability to be strata titled and sold as individual units given the high demand from owner-occupiers for industrial units at present.

Properties to avoid in the industrial market include small industrial units on the Gold Coast proper which are hitting unprecedented price levels, as well as industrial land where prices are above $500 per square metre in the central and southern Gold Coast (for small or medium sites up to 5,000 square metres). In addition, the planned release of new industrial estates within the Yatala Enterprise Area over the medium term could tip the balance of the market into oversupply depending on the quantity of land or new product available and given the large amount of englobo and undeveloped industrial land remaining in this area. However, if tightly controlled by developers, the impacts may not be significant.

Toowoomba

The industrial markets in the Darling Downs and south-west Queensland have been subdued over the past couple of years. Towns that were heavily reliant on the energy sector have seen significant regressions in the market.

The Toowoomba industrial market has managed to maintain property values despite a decline in leasing and owner-occupier demand. As construction of the Toowoomba Bypass Road nears completion and the proposed Melbourne to Brisbane Inland Railroad project progresses ($8.4 billion in federal funding announced last year), demand may increase for industrial land in the Toowoomba Enterprise Hub (located to the west of Toowoomba and positioned close to both projects and the Wellcamp Airport).

The industrial sectors in a number of western townships including Roma, Dalby and Chinchilla have experienced major declining markets over the past three years due to the downturn in activity in the Surat Basin coal seam gas industry.

In late February, it was announced that Arrow Energy had received Queensland Government approval for a new $10 billion gas project. The venture is projected to generate 800 jobs during the construction phase and 200 operational jobs post construction. The leases are located on land near Dalby, Cecil Plains, Chinchilla, Miles and Wandoan. The announcement has raised hope of increased demand for industrial facilities in the region.

The industrial market in Roma has reportedly seen a slight upsurge in leasing demand over the past six months but vacancy rates remain high and rental levels reduced. There is currently a major oversupply of vacant industrial land in Roma that will likely result in continued downward pressure on values.

The industrial markets in other towns such as Warwick and Goondiwindi have historically not been influenced by the energy sector and are more reliant on the agriculture sector. These markets have been relatively static with low levels of market activity. Drought conditions have contributed to the stagnant local economies.

Townsville

The industrial market during 2019 is likely to continue along a similar path to 2018 with stable levels of activity. We are seeing an improving resource sector, which typically drives our manufacturing industry, however as yet this positivity is not translating to any uplift in the industrial property market.

We are likely to continue to see an appetite for high quantum assets with strong lease covenants from southern investors given the attractive yield spread relative to their home locations, provided they have access to finance. Activity by owner-occupiers should continue to tick over in the sub-$1 million market.

Leasing activity is likely to remain flat with a current over supply of available property relative to current demand creating no real stimulus for rental growth. Local agents are reporting an increase in enquiry levels, however to date we have not seen any uplift in leasing activity.

Rockhampton

We consider that 2019 will be a more positive year for the industrial sector in Rockhampton on the back of some less positive years. We consider employment growth is a good determiner and driver of growth in our industrial sector and employment growth in the Fitzroy statistical area (which generally includes the Rockhampton, Emerald and Gladstone regions) has been about six per cent per annum and well over twice the state average for some months. With improved coal prices and significant infrastructure spending set to occur over the next five years, we expect this employment growth will have a positive impact on the industrial property sector in Rockhampton. The rate of growth will be dependent on the timing of infrastructure projects coming to fruition.

At this stage, rental rates have remained stable and there have been no notable increases, however local agents do report some increased enquiry for industrial tenancies to lease. We anticipate that as demand increases and supply reduces, we may start to see some growth in the rental market.

Prior to 2018, it had been a number of years since any substantial passive investment purchases of industrial properties had been made. Late last year, the transaction of the Siemens workshop showed a return of investor confidence to the market. The property sold for $3.3 million at auction in October and reflected an analysed yield of about eight per cent. A new five-year lease had been recently executed to Siemens (the existing tenant) after an extension to the workshop had been undertaken. Additionally, the Strammit shed in Parkhurst has reportedly just been sold for $5 million. It has a reported yield of 8.8 per cent and was sold by Burgess Rawson. This new sale at a higher price bracket further demonstrates that investors are returning to the market with increased confidence. We anticipate that for the remainder of the year, investors will remain active and seek good opportunities.

Agents report strong interest from southern investors, particularly in the sub $1 million price bracket where yields of between eight and nine per cent are generally achievable. Owner-occupiers are likely to also remain active while interest rates remain at record lows.

Wide Bay

The Wide Bay's industrial markets have been relatively slow for an extended period. 2019 will see both the Bundaberg Regional Council and Fraser Coast Regional Council construct industrial aviation lots at the Bundaberg Regional and Hervey Bay airports respectively.

Stage 2 of the Bundaberg Regional Aviation Industrial Precinct is currently under construction. The stage is to create eight lots comprising three airside or apron frontage lots. The non-airside lots have a list price of $120 per square metre, placing the lots well within an acceptable market range. The airside lots are to be leasehold sites. The Bundaberg Regional Airport is well positioned within close proximity to the Isis Highway, which links Bundaberg to Childers and the Kensington commercial precinct which comprises a number of national retailers including Bunnings, Rebel Sport, Amart Furniture and the Good Guys.

The Fraser Coast Regional Council has commenced construction of Stage 1 of the Avion Industrial Estate. The estate is to comprise a number of airside and non-airside lots. Leasing agents in Hervey Bay have recently cited an elevated level of industrial leasing enquiry.

Generally, the industrial market within the Wide Bay has been relatively stable. Gross rental levels have remained firm and are expected to remain stable for the short term.

Mackay

Industrial market conditions are best demonstrated by the following recent sales at Paget:

- **21 Gateway Drive** sold November 2018 at $4.84 million at a passing yield of 8.15 per cent. This heavy engineering workshop complex was leased to Maintec for a ten-year term.
- **12 - 16 Progress Drive** sold December 2018 at $3.012 million at a passing yield of eight per cent. This workshop complex with low site coverage was sold on a leaseback basis to Aust Bore Pty Ltd also for a ten-year term.

21 Gateway Drive Source: realcommercial.com.au

We have not seen yields this low since 2015. The exceptionally long lease terms and high tenant quality were key investment considerations with these acquisitions to drive the lower yields. Importantly, we believe that the local coal mining based economy and market sentiment has improved to the extent that tenants are now willing to commit to long term leases at historically low rental levels which are beginning to recover from a cyclical trough. We expect that long-term leases and lower investment yields will continue throughout 2019 as investors rediscover Paget, the premier industrial precinct in regional Queensland.

Smaller vacant industrial warehouses and workshops below $2 million continue to attract attention from potential owner-occupiers. The industrial unit market which had suffered the most through the coal mining downturn also appears to be attracting renewed interest with a couple of larger vacant units presently under contract at prices between $550,000 and $700,000. Prices in these two sectors are well below the 2012 market peak. We expect increased sale volumes in these sectors through the year with modest price improvement.

Gladstone

With no major infrastructure announcements for the Gladstone region, there are no substantial drivers to the industrial sector for the next 12 months. However, improving conditions in Rockhampton and Emerald and job opportunities created by the resources sector and major infrastructure projects are likely to have some positive flow on effects to the Gladstone market. There are some positive indicators that the industrial market has now reached the bottom in Gladstone. This is mostly through the increased sales activity throughout 2018 for industrial properties by investors and owner-occupiers. We are now starting to see development of the vacant land sites within the Chapple Street business precinct which is a positive sign that locals are confident that conditions have now stabilised.

Rentals appear to have stabilised for new leasing and agents report increased enquiry. We anticipate owner-occupiers will remain active (mostly in the sub-$1 million price bracket) while interest rates remain at record lows.

Cairns

Cairns is the major urban centre in the Far North Queensland region whose leading base industries include tourism, accounting for 42 per cent of estimated total value, followed by agricultural and pastoral activities (23 per cent), mining (23 per cent) and processing and manufacturing (nine per cent). Cairns is the tourism gateway to the Great Barrier Reef and to the Daintree World Heritage Rainforest.

Improved industrial property sales remain at levels well below 2007.

The industrial sector in Cairns is relatively small and its manufacturing base is largely geared towards servicing the engineering requirements of local and regional industries. For this reason, most demand for industrial space is derived from businesses supporting the marine tourism, sugar milling, residential construction, transport and mining services industries. Areas closer to the CBD show the stronger demand.

Though we now perceive the industrial market to be entering a recovery phase, industrial property development remains slow.

Improved industrial property sales remain at levels well below that of 2007. Despite an apparent increase in the median price of industrial properties transacted over the past several years, our opinion is that prices per square metre for the majority of industrial showrooms and warehouses of a reasonably good to very good quality have remained steady at around the $1,200 to $1,600 mark for some time. Prices have been as low as $800 per square metre for larger and less affordable older stock. Commercial agents advise limited availability of good quality standalone warehouse stock with reasonable demand for this type of premises, although there is a small oversupply of secondary warehouse stock. Smaller (less than 200 square metre) strata titled industrial warehouses are limited in numbers for either sale or lease, but there is good demand from the owner-occupier market for industrial properties in the sub-$600,000 price range. Yields vary from high six percent (small affordable stratas) to mid eight per cent for large properties.

Industrial property rents have begun to claw back some lost ground, with most rents now ranging from $90 to $160 per square metre per annum gross depending on size, location and quality. There is limited quality investment stock available for purchase in the Cairns market and strong demand for well leased properties. This will tend to support values for well leased properties over the short to medium term. The immediate outlook is for stable conditions.

The vacant industrial land sale market is also quiet, with limited sales activity. Vacant industrial land demand has reduced from an average of 44 sales per annum during the years from 2004 to 2008, to an average of seven sales per annum for 2011 to 2017. The median vacant industrial land price in Cairns peaked at $295 per square metre in 2009, but has been consistently around the $240 mark per square metre for sales over the past seven years. The Woree Business and Industrial Park (4.5 kilometres south west of the central business district) has been slowly absorbed and now has only one lot not sold, contracted or on hold. This is the last industrial estate in the near city, with the next closest estate with available land being located at Edmonton, a further six kilometres south of the Woree estate. With the lack of any new product developed over the past ten years and the progressive run-down of supply, our overall assessment is that further industrial land will be required in the near future.

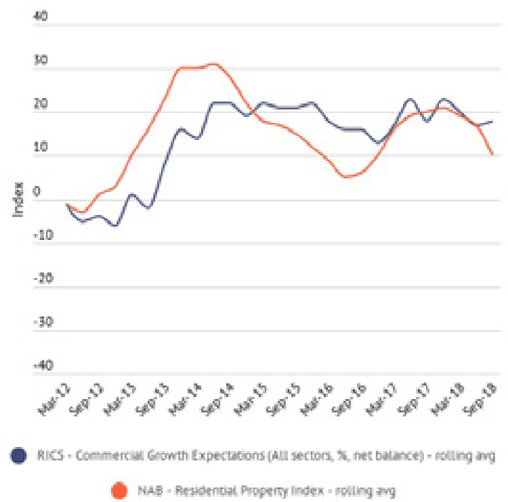
South Australia

Adelaide

The industrial property market in Adelaide is expected to maintain steady growth throughout 2019. The tailwinds of the abolishment of stamp duty on non-residential property transactions should preserve the momentum of the market in the first half of 2019. The industrial market itself will continue to be buoyed by these tax changes, as well as the news in December that South Australia beat out strong competition from other states, in particular Western Australia, New South Wales and the Australian Capital Territory, to become the home of Australia's new space agency. This brings potential for national and international investment into South Australian industry, providing a boost to this sector of the property market.

The industrial sector enjoyed a solid second half of 2018, with agents citing that sales volumes increased drastically after 1 July, coinciding with the abolishment of stamp duty. This was further supported by agents' reports that 70 per cent of industrial transactions of $5 million and above were executed after 1 July 2018 (JLL). In addition, capital growth expectations for commercial property began to trend upwards in the second half of 2018, as opposed to the residential sector continuing a downward trend that began in the final quarter of 2017 and first quarter of 2018. The recovery and imminent growth of the commercial sector, industrial property in particular, is expected to continue throughout 2019 (NAB/RICS – commercial real estate).

Capital growth expectations - commercial versus residential



Source: NAB, RICS

Sentiment and focus of property investors has recently shifted from the retail to the industrial sector. This was highlighted by Goodman Group, one of Australia's largest commercial property companies, surpassing Scentre Group in January to become the most valuable Real Estate Investment Trust (REIT) listed on the Australian stock exchange. Goodman Group (GMG) now has a market cap of $21.2 billion (AFR). Goodman Group's major Adelaide industrial properties include a 48,000 square metre distribution sight at Cavan and a 171,980 square metre sight at Edinburgh. Overall, investors will look to take advantage of the expected rental growth in 2019 on the back of infrastructure investment, population and economy growth and the decreasing short-term land supply due to urban rezoning.

Industrial sector rents and yields saw further compression at the beginning of 2019 and this is expected to continue throughout the year. Given the current low interest rate environment, investors are looking to commercial property and are happy accepting the lower yields on offer. Reserve Bank interest rates have shifted the expectations of investors, with the majority now accepting the yields available for primary and secondary industrial property. National average yields for prime industrial space were recorded at 6.5 per cent, while the average yields for secondary space registered 7.5 per cent. Focusing on the Adelaide market, yields are also expected to consolidate in the industrial sector at slightly higher rates than the national average; prime yield rates are expected to measure eight per cent, whilst secondary yields hover around nine per cent.

70 per cent of industrial transactions of $5 million and above were executed after the first of July 2018.

HERRON TODD WHITE COMMERCIAL

Western Australia

Perth

The Perth industrial property market remained subdued during 2018. These market conditions coincided with the downturn in the resources sector which had previously driven strong rental and capital value growth.

However recent announcements of new mining projects in the state's north-west coupled with expansion of existing projects in the region is likely to cause flow on demand for industrial premises, especially those suitable for heavy engineering, manufacturing and transport or logistics. Discussions with agents active in the leasing of industrial accommodation indicate there remains moderate enquiry for vacant space generally although sheds that readily support such uses are experiencing higher levels of interest.

6.25% - 7.25%

Yield range for prime industrial assets in Perth.

Accordingly, there is a growing consensus that the industrial property market in Western Australia has reached the bottom of the cycle with early indications that 2019 may witness the start of a recovery in this sector.

Face net rental rates for prime industrial premises tend to range between $80 and $105 per square metre per annum, while rates for secondary quality space are commanding between $50 and $70 per square metre per annum. While there has been a tendency in the market to limit incentives (usually between zero and 15 per cent), this has placed considerable downward pressure on face rental rates. The uptick in enquiry levels for particular industrial facilities however may see rental rates stabilise in the short term.

There was a low volume of transactions last calendar year. Whilst we surmise this to be a function of market uncertainty, there have been very few opportunities to acquire good quality, securely leased assets with major industrial property holdings having been tightly held. In this respect, there has been just one settled transaction of an industrial property in Western Australia over $10 million so far in 2019. The property known as 16-18 Baile Road, Canning Vale transacted off-market in February for $18.1 million and discloses a passing yield of 7.05 per cent. The premises is leased to DHL Supply Chain (Australia) Pty Ltd.

Somewhat counter-intuitively, the lack of opportunities has led to yield compression for those few industrial properties offered to the market despite the general malaise that has engulfed the broader Western Australian economy. Yields for prime industrial assets tend to fall between 6.25 and 7.25 per cent with yields for secondary industrial properties however much softer.

Artist impressions of the Forrestfield Station
Source: forrestfieldairportlink.wa.gov.au

Demand for vacant industrial land has also been stagnant in recent times. Active estate agents cite the very limited number of prospective buyers as opposed to pricing, particularly for sites greater than two hectares.

In the current tight lending environment, it may prove a more viable option for the astute investor to acquire an established industrial facility (with sound fundamentals) and embark on a refurbishment program rather than acquire land and develop new premises.

Nevertheless, a new industrial land estate known as Roe Highway Logistics Park in Kenwick was launched in February and we eagerly await the outcome of the initial marketing campaign to gauge the market's appetite for industrial land.

There is a growing consensus that the industrial property market in Western Australia has reached the bottom of the cycle.

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Two notable infrastructure projects currently underway in Perth include the Forrestfield Airport Link and NorthLink WA. The Forrestfield Airport Link is the construction of a new passenger rail line linking Perth City to Perth Airport and continuing further east to the suburb of Forrestfield. Once completed this project is likely to enhance the profile of the Forrestfield industrial precinct and drive new development, particularly around the train station. Construction is well advanced and scheduled to be operational in 2020.

NorthLink WA is a $1.02 billion transport project in Perth's east and north-eastern corridor to be constructed in three stages. Once all sections are completed (estimated for the middle of 2019), NorthLink WA will provide a non-stop transport route from Morley to Muchea and is likely to directly benefit industrial estates in that corridor.

We envisage that the above and other major infrastructure projects in Perth together with renewed activity in the state's resource rich north-west may mark the start of a recovery in the industrial property sector in 2019.

Northern Territory

Darwin

The industrial property market sector in Darwin is very weak at present, consistent with general economic conditions in the Territory.

The highlight of the year to date has been the official opening of Truck Central. This is a new 22-lot industrial subdivision at the intersection of Tiger Brennan Drive and Wishart Road. It has been designed to cater for the logistics industry, featuring a heavy vehicle inspection station which can inspect road trains up to 53.5 metres in length without the need for decoupling trailers. There is also a three-hectare road train assembly and marshalling area as well as a truck stop for refuelling and driver rest facilities. It is expected that the subdivision will be filled with businesses associated with the transport industry such as repairers and parts suppliers.

However, the outlook is not as rosy in other industrial areas. Older stock, especially in the traditional areas of Winnellie, are increasingly difficult to let and we have seen a significant increase in vacancies in this market segment. Newer subdivisions such as Berrimah Business Park have fared better by providing a modern product which is attractive to tenants and owner-occupiers.

There's very little on the horizon which would indicate that the industrial property market is going to improve from its current state. In weak economic periods, the Northern Territory government is often looked to for stimulation but the current state of its fiscal affairs leaves very little room to manoeuvre.

This does provide some opportunities for owner-occupiers to purchase accommodation at a much-reduced price from say three years ago. However, many businesses in Darwin are doing it tough at present and large items of capital expenditure are just not on their agendas. Similarly, investors should exercise a high degree of caution unless a property is very securely leased for the long term, because they would not wish to be stuck with a vacant property in a period of very weak leasing enquiry.

The new Truck Central has been designed to cater for the logistics industry, featuring a heavy vehicle inspection station that can inspect road trains up to 53.5 metres in length without the need for decoupling trailers.

Australian Capital Territory

Canberra

The Canberra industrial market began to move in the last year from a consolidation phase towards stabilisation and level growth.

The upcoming federal election will play a major role in stabilising the market and consumer sentiment.

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.

This land availability has allowed supply to flexibly adjust to levels of demand in the marketplace. As a result, capital growth on the land has somewhat levelled out, especially in non-central localities. Industrial sales have been steadily improving and are continuing to outweigh the market compared to rents. Tenant incentives consist of rent free terms and contributions to fit out in order to facilitate moves to newer premises with longer term leases in place. Commercial rates are also expected to continue an upward trend from historic levels, placing increased pressure on investors and tenants within the ACT.

A Legislative Assembly committee is currently conducting a formal inquiry into the commercial rating system.

Tenant demand continues to be relatively low with tenants opting to purchase sites rather than rent due to continued low interest rates and solid economic growth, coupled with the ability of owner-occupiers to fit out and develop their own facilities. This in turn is limiting rental growth in the marketplace. It is predicted that interest rates will remain stable in 2019. The impact on the market in the long term indicates some rental growth may be observed when tenant demand levels increase and sales activity begins to soften.

The upcoming federal election will play a major role in stabilising the market and consumer sentiment.