Commercial

HERRON
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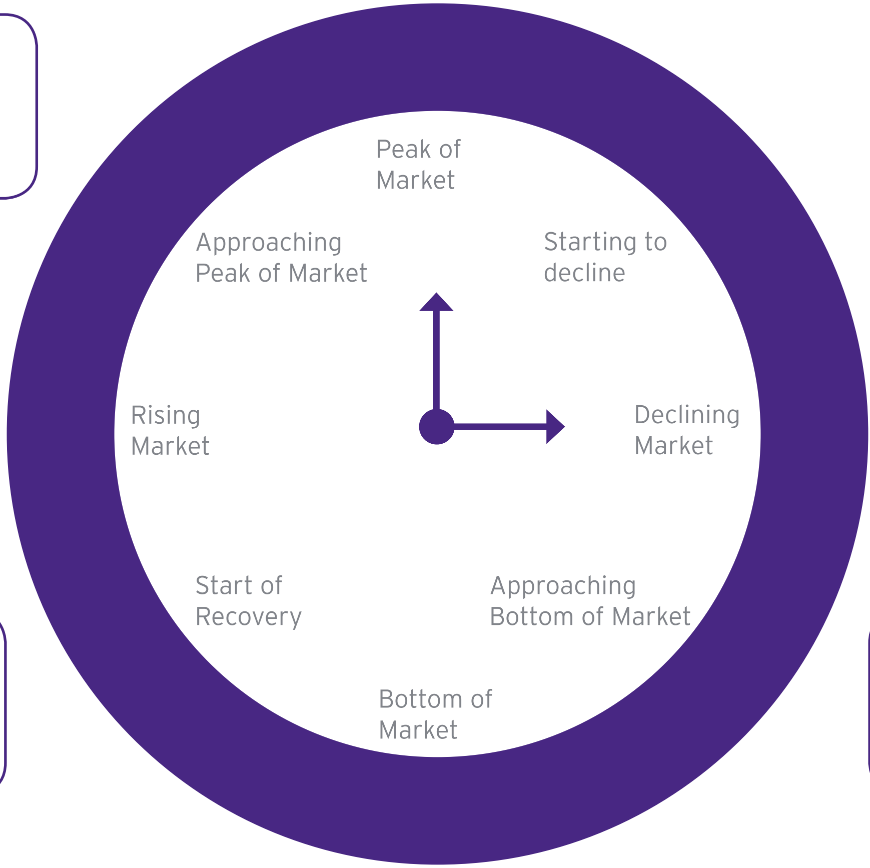
COMMERCIAL

National Property Clock
June 2018
Industrial Space

Dubbo
Gold Coast
Griffith

Albury
Coffs Harbour
Melbourne
Mid North Coast



Ballarat
Bendigo
Brisbane
Burnie-Devonport
Echuca
Hobart
Launceston
Lismore
Newcastle
South East NSW
Sunshine Coast
Sydney

Alice Springs
Canberra
Gippsland
Toowoomba

Adelaide
Cairns
Central Coast
Horsham
Mildura

South West WA
Gladston

Adelaide Hills
Barossa Valley
Darwin
Iron Triangle
Mackay
Perth
Rockhampton
Townsville
Wide Bay

New South Wales

Commercial Overview

Industrial remarkets remain a 'must watch' for most investors because they're a great litmus test on the health of the overall commercial sector in any given location.

This month, our teams provide not only an overview of how their industrial markets are performing, but also highlight locations where new development is underway.

It's a stellar summary of growth projects and new infrastructure bringing in buyers and bolstering the industrial sector.

Sydney

There has been substantial growth in industrial values, especially over the past three years, due to increasing demand, decreasing market yields as well as increasing land values and rising rents over the past 12 months.

Market yields for larger prime investments are in the order of 5.5% to 6.5% while yields for smaller strata units in good locations are ranging between 4% and 5%. In the case of the latter, investors are seeking higher returns than obtainable from residential investments or are looking for a haven for their super funds.

Owner-occupiers continue to be strong in the Sydney market, creating strong competition for assets which has driven capital values higher and seen yields firm with effective rents across Sydney increasing by an average of 5%. This has seen investors enter the secondary market in search of higher yields. With prime yields compressing, we anticipate that the spread between prime and secondary industrial assets will tighten over the coming twelve months as investors look for higher performing returns, with development upside.

Rental growth remains strong and this is unlikely to change in 2018.

Infrastructure projects have been driving demand for industrial properties including land. There is much speculative buying happening, especially in the western Sydney region. Sydney's western industrial areas will benefit from the proposed completion of the North-South rail link, with the first stage from St Marys to Badgerys Creek via Western Sydney Airport due to be completed by 2026.

The airport itself is due to be partially operational by 2026 and fully finished five years later. Installation of power has started at the airport site and clearing of the site is due to start later this year.

There is also some speculation about planned road and freight rail lines, including one that will connect to Erskine Park which is being considered but is not yet confirmed. Freight rail lines connecting from other intermodal transport services are also being investigated.

The confirmation of the airport along with the planned freight lines, passenger rail lines and major road projects have seen buyers looking to secure sites in the area.

Construction on the intermodal terminal at Moorebank is underway and is currently at Stage 1. Stage 2 is due to commence in 2019 with the first operations commencing in 2019/2020. The Moorebank intermodal terminal will be able to handle interstate freight trains, up to 1.05 million TEU per year of import-export freight and another 500,000 TEU per year of interstate freight. It will also provide a direct link to Port Botany. The intermodal terminal is well located next to the M5 Motorway and near the M7 Motorway and Hume Highway.

As an example, future industrial development land in Bringelly is currently achieving a rate of around $1 million per acre for land that is currently zoned rural.

In nearby Leppington, light industrial land along Bringelly Road with no services is achieving over $200 per square metre.

Elsewhere in Sydney, DA approved land of over 10,000 square metres is attracting rates of over $600 per square metre.

There is a lack of suitable land for industrial development, which has seen new strata buildings constructed in older industrial areas such as Marrickville and expansion of existing areas on the outskirts of the Sydney metropolitan area such as Penrith, Mount Druitt, Kemps Creek and Erskine Park to the west and Smeaton Grange to the south-west. In fact, the lack of land supply has seen an increase in multi-level industrial units.

Examples of new offerings include First Estate at Erskine Park which is approximately 48 hectares and will provide large format logistics and warehousing. Examples of strata industrial estates include The Horsley Business Centre at Smithfield which comprises brand new strata industrial units. Agents advise that sizes start from 156 square metres and are priced from $695,000 plus GST.

The Kookaburra Business Park at Belrose also provides 30 new units. Sales in this development are reflecting between $4,000 and $4,800 per square metre and range in size from 100 to 250 square metres.

South East NSW

The industrial market is arguably the strongest of the three main asset classes at present, coming to life over the past two years after a prolonged period of stagnation post the GFC. We expect this strong market sentiment to continue throughout 2018 as major infrastructure projects, albeit Sydney-centric, impact on the Illawarra region. These projects include the Western Sydney airport, the numerous projects (road and rail) that form part of the NSW Government's Western Sydney Infrastructure Plan and the Albion Park Rail Bypass (a local project that forms part of the overall Princes Highway upgrade).

The drivers of this market are low interest rates, extremely strong conditions in the Sydney industrial market, high 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 this major regional city can offer.

Newcastle

Our focus this month is on growth zones within the industrial sector. Today we will take a look at industrial estates up and down the M1 Freeway between Beresfield/Thornton and Somersby.

Industrial estates that are situated on, or have ready access to, the M1 Freeway include Beresfield, Thornton, Cameron Park, Morisset, Warnervale, Tuggerah, and Somersby. We've seen significant market growth in all of these estates in the last 2 years – especially in those estates to the south being Morisset, Warnervale, Tuggerah, and Somersby.

As the Sydney industrial market continues to heat up, only one hour drive down the highway these sites are sitting at around half the value rate per square metre of those in Western Sydney's industrial growth corridor. The market has identified this and these cheap sites are being snapped up. Values in Somersby and Morisset have especially risen and have been identified in the market as having been previously under-valued.

Interestingly, the historically strong and popular industrial estate of Beresfield has not seen as much as a land value increase within the same 2 year period. The reason for this is twofold. Staged land releases within the Freeway Business Park have meant that stock has been plentiful, putting downward pressure on value growth. Also, being the northernmost area of those being discussed today, Beresfield will have less of a Sydney transport influence than say Somersby, which is about an hours highway drive to the South. We note the M1 Business Park in Beresfield is now being listed for sale with asking prices ranging from roughly $200 to $250 per square metre. This is a big jump from the circa $140 to $180 per square metre price range at the adjacent

Freeway Business Park North estate, however, not unreasonable given the superior frontage and exposure to Weakleys Drive.

Lismore

Byron Bay again is setting the standard on the Far North Coast of NSW. Traditionally, the industrial estate has included an illegal component of residential accommodation and semi-retail/ commercial uses which has been strongly sought after.

Byron Shire Council and developers have recognised this strong demand and have met the market with a newly mixed-use precinct known as Habitat.

The developing Habitat Community Development comprises a commercial precinct that will have a reported 35 first floor spaces and 29 ground floor spaces including a 270 square metre food and retail hub.

It also includes meeting and conference rooms, breakout spaces and boardrooms available for use by all occupants as well as shared indoor and outdoor meeting spaces, licensed café and food outlets, lap pool with shower and change room facilities, open grassed area, children's play and passive recreational use area, barbeque facilities, covered ping pong tables, car parking and bicycle parking.

The recently developed first stage of live/work properties includes ten commercial townhouses (with private courtyards, 2-bedrooms above and office, lounge, kitchen and dining below) and 12 live/ work loft-style apartments (with 1-bedroom above and large open plan commercial studio/office space below). Stage 2 of the development is yet to be confirmed with the yield to be determined by market demand. We have been advised that the developer indicated there will be several blocks of apartments similar to those in Stage 1. The site plan is reported to have changed several times, but the rough estimate at this stage is reported to be about 80 to 100 apartments in total.

The majority of the live/work complex sold off the plan, initially selling for $650,000 to $750,000. As yet, there have been no resales, although there are reports of owners being offered $150,000 to $200,000 more than the original purchase price. One of the units that originally sold for $650,000 is currently listed for sale at $1.15 million fully furnished.

The Habitat development is very Byron Bay and while very successful in Byron Bay, would not be readily transferable to other North Coast localities, however we believe there is significant space in the industrial estate for mixed-use developments (retail and residential).

Pictured: The Habitat development

Coffs Harbour

The industrial market in Coffs Harbour and the Mid North Coast could be described overall as steady. There is sound market interest for reasonably priced property with some purpose built leasebacks. The year ahead indicates that there is a looming supply shortage of industrial land stock. This is particularly relevant for those requiring larger land holdings. Accordingly, land prices are expected to edge upwards over the next 12 months.

The Coffs Harbour City Council recently issued development consent for an enterprise park at the airport. The consent will allow approximately

80 new allotments ranging in size from 1,000 to 6,000 square metres. The uses are expected to be clean high technology and use associated with the airport including hangers, rental offices and perhaps accommodation.

Nambucca Shire Council is also moving towards development of an industrial park at Valla close to the Nambucca Pacific Highway interchange. Lot sizes will vary but range from 2,000 square metres to four hectares. Stage One is being formulated with circa $8 million in infrastructure required as part of the initial development. Some of this land will have Pacific Highway exposure.

The proposed expansion of industrial land supply will be well received as existing stock, particularly larger holdings, are rare to the market.

The Grafton industrial market is gradually improving with new modern developments close to the Pacific Highway being completed. Land supply in the Clarence Valley is not an issue at present and therefore value levels remain steady.

Victoria

Melbourne

With interest rates remaining low and a relatively stable economy, new industrial developments are continuing to come onto the market. This can be seen in growth corridors across Melbourne and the outer fringes, including suburbs such as Clyde and Pakenham in the south-east, Truganina and Derrimut in the west and Epping in the north.

The movement of the Melbourne fruit and vegetable market into Epping has created an influx of demand from food grade users to move into the locality in preference to competing areas such as Campbellfield, Somerton and Coolaroo. The surplus zoned industrial englobo land creates ample opportunity for subdivisions in Epping and the close proximity of major transport routes such as the Hume Freeway, Hume Highway and Western Ring Road pushes demand up, thereby increasing the underlying land values.

Within the western region of Melbourne, the West Park Industrial Estate located in Derrimut encompasses approximately 310 hectares of industrial land, parts of which are established with tenants and others with vacant land available for development. Similar to the northern industrial precinct, the West Park Industrial Estate is well located, being close to major transport routes such as the Western Freeway and Western Ring Road.

Greenfield land is readily available throughout south-eastern suburbs such as Keysborough, Dandenong South, Lynbrook and Pakenham. The development of the South East Business Park in Pakenham consists of a staged multi-lot development, with over 50 percent of the available land already sold.

The current planned infrastructure upgrades and road projects will benefit the industrial corridors across Victoria, including projects such as the Western Ring Road Upgrade, CityLink Tulla Widening, West Gate Tunnel Project and the anticipated North East Link Project. The completion of these upgrades will positively impact the aforementioned growth corridors across Melbourne and allow for further efficiencies in transportation and logistics, particularly with regard to the growth in e-commerce and the importance of distribution centres. These infrastructure upgrades are creating stable links between destinations, reducing the risk of contingency when transporting goods.

Across the industrial market, rents have continued to stabilise with little movement noted. Yields, on the other hand, are a different story and are continuing to firm, particularly for well-located investment properties with strong lease covenants and WALEs.

We expect that with the supply of englobo industrial land throughout Melbourne, industrial developments will continue to meet the demand for both owner-occupiers and investors.

Gippsland

Due to market conditions surrounding the unpredictable nature of the coal power plant industry, industrial development in the Latrobe area is stagnant.

Echuca

The industrial market has broadly been flat for many years on account of ample land supply and a general willingness for many market participants to build their own premises which have effectively capped market demand which is predominantly from smaller owner-occupiers.

It will be interesting to see whether the strength in the agricultural industries or demand associated with the second bridge crossing results in any additional demand but at this stage, this seems set to continue to bubble along.

South Australia

Adelaide

Renewal SA has a number of industrial projects predominantly situated to the north and south of the Adelaide CBD.

These include:

- The Grand Trunkway Estate and Port Direct developments to the north-west of the CBD and close to Port Adelaide, Edinburgh North to the outer north, Tonsley to the south and Seaford to the outer south.
- The Grand Trunkway Estate is a General Industry zoned development of 15 hectares and has strong transport links to the Outer Harbour, Interstate Main Rail Line and the Port River Expressway. Renewal SA also retains land for further stages and to accommodate occupiers with larger land requirements.
- Further north-west is the Port Direct development of 27 hectares which has good access to the Outer Harbor import/export facilities and to the facilities within the Naval Shipbuilding Precinct which is within 1.2 kilometres.
- The Northern Adelaide Food Park at Edinburgh North is proposed to be the state's premier food manufacturing precinct. The site was previously earmarked for the Parafield Airport, however concerns from tenants and purchasers relating to the ownership of the land have caused the government to reconsider.
- The Seaford Industry Park project commenced in 2004 with the aim to support food and wine businesses with links to McLaren Vale. The development is zoned General Industry and aims to support the fast-growing suburbs south of the Adelaide CBD.
- Tonsley, the former Mitsubishi Motors assembly plant, is in the process of being completely re-developed into a mixed-use district with residential, high-value manufacturing and commercial allotments. The Main Assembly Hub, an 80,000 square metre warehouse, has been adapted for re-use as the centre of Tonsley's social activity and features shops, cafes, services and facilities.
- The General Motors Holden site of approximately 122 hectares at Elizabeth (north of the Adelaide CBD) is reportedly under contract to an interstate developer with a large portion of the site to be transformed into an innovative business park.

Reports indicate that Holden will retain a significant portion of the site as a spare parts operation and the history of the site will also be recognised with a proposed heritage and hospitality centre.

The above developments are not considered to be situated within prime industrial locations. The premier industrial precinct within Adelaide is Regency Park which is partly due to its proximity and ease of access to major transport routes.

The North-South Corridor is integral to the delivery of the 30-Year Plan for Greater Adelaide. At present, there are a number of stages and ongoing works underway for the project, spanning some 78 kilometres between Old Noarlunga and Gawler which include a series of strategic non-stop links to connect the expanding industrial and residential growth areas in the north and south, as identified above.

Herron Todd White Research and M3 Property Research have seen yields within well located, prime industrial locations tighten. Knight Frank Research indicates Prime industrial yields across all precincts are typically between 7.75% and 8.75% whilst secondary yields are between 9% and 9.75%.

Market reports indicate that owner-occupiers have become a prominent purchaser group since the progressive phase-out of Stamp Duty in South Australia from 1 July 2016. This, as well as the relatively low and competitive interest rates, has benefited purchasers and we believe will continue to do so in the near future after the full abolishment at the end of the 2017/18 financial year.

Queensland

Brisbane

Brisbane's industrial space has seen a few new estates come online recently and they all have two things in common: good access to major transportation infrastructure and surrounding amenities. This is the case in particular for North Lakes Business Park (further stage released in 2017 and now almost sold out), Metroplex at Westgate South in Richlands (one lot remaining) and Colmslie Business Park on Lytton Road in Morningside (recently released).

North Lakes Business Park is a mixed-use development precinct that accommodates a variety of uses including retail, office, warehousing and service industry. This prime location has attracted a wide variety of occupiers due to its exposure and road connectivity to the Bruce Highway, Gateway Motorway and Gympie Road. Stage 1 was completely sold out after being released in 2017 and Stage 2 is expected to come online around the third quarter of 2018.

Metroplex at Westgate offers an alternative to Brisbane's existing high profile commercial centres within the CBD, Airport precinct and Port of Brisbane. The Metroplex South estate is located in Wacol within Brisbane's western growth corridor and sits at the nexus of the Ipswich Motorway, Logan Motorway and Centenary Highway. Metroplex Westgate is serviced by both rail and bus transport options. Transportation infrastructure around Metroplex Westgate has been significantly upgraded, making it a prime industrial location.

Colmslie Business Park's prime location within the TradeCoast is a major asset to the development, having direct access to the Brisbane Airport, Port of Brisbane and major transport routes with the added benefit of being close to the CBD, major infrastructure and public transport. The TradeCoast precinct is the most tightly held industrial precinct in Brisbane.

We expect to see high levels of pre-commitments throughout 2018, as was seen in 2017 with a 19% increase in space from 2016 supply levels. This is due to the desire of tenants to occupy new, modern space with attractive rents and good incentives. On the other hand, we have seen limited levels of speculative development.

Development activity for owner-occupiers has been subdued with Sigma Pharmaceuticals being the only major build in 2017 of approximately 14,990 square metres. We expect to see the Hilton Foods meat processing facility at Logos Heathwood Logistics Estate which will comprise circa 45,000 square metres as well as a Coca-Cola Amatil expansion completed in the first half of 2018.

Several transport-related infrastructure projects are well underway in Brisbane that will help to stimulate industrial development through better connectivity and transport options. Notably, the Kingsford Smith Drive update commenced mid-2016 at a cost of $650 million and involves widening Kingsford Smith Drive from four to six lanes in certain areas, road improvement works, public transport improvements and cycling and pedestrian infrastructure. The project should be completed in 2019.

Brisbane Airport Corporation (BAC) has invested $1.7 billion in infrastructure projects since 2012 with a further $1.7 billion investment in redeveloping the domestic terminal, building a new runway, building a new multi-storey car park, investing in the latest passenger friendly technology and developing a new Industrial Park and Auto Mall project.

The Gateway Upgrade North Project (Nudgee to Bracken Ridge) is a $1.143 billion project aimed to reduce congestion (particularly from population growth and continued expansion of the TradeCoast), improve safety and increase the efficiency of the motorway network.

The Logan Enhancement Project is a $512 million project to improve congestion along the Logan Motorway/Mt Lindesay Highway/Beaudesert Road interchange and the Wembley Road/Logan Motorway interchanges. It also includes construction of south-facing on and off-ramps on the Gateway Extension Motorway at Compton Road.

The Inland Rail is another major project that will see the construction of a 1,700-kilometre freight rail that will run from Tottenham in Victoria to Acacia Ridge in Queensland. This will be up to ten hours faster than the existing rail network via Sydney and will help reduce congestion on highways.

Overall, industrial yields stabilised over the first quarter of 2018. Prime yields are currently sitting between 6.25% and 7.25% with the TradeCoast precinct having the tightest investment yields, whilst secondary stock typically ranges between 8% and 12%.

Rent levels have been subdued for some time now but have remained stable over the past year. Developers offering competitive rents and decent incentives in the pre-commitment market are a couple factors holding back rental growth. Leasing demand increased over the first quarter of 2018 and was mostly concentrated in the south side. Net face rents for prime industrial assets generally range between $95 and $140 per square metre per annum whilst secondary rents range between $50 and $100 per square metre per annum. Incentives being offered to secure tenants typically range between 5% and 20% for prime assets depending on size and between 8% and 25% for secondary assets.

The majority of leasing transactions during 2017 were design and construct and pre-commitments, with a high volume of this also expected for 2018.

Sunshine Coast

The industrial market on the Sunshine Coast continues to show strength at the midpoint of 2018.

A number of new developments are being constructed across the coast, though primarily in the Bells Creek area to the west of Caloundra. These new developments are mainly in the northern part of the estate and are being aimed at the owner-occupier market. These developments are typically sub 300 square metre strata and value levels are generally ranging from $1,900 to $2,300 per square metre over the past six months. Demand for these new developments has been very strong to date.

This estate has also seen some development of larger stand-alone sheds in that time with two new sheds developed by owner-occupiers.

The industrial area of Aura has reportedly had very high levels of demand noted with a range of local and national style businesses reportedly having contracts on land in this area, which is likely to be ready for construction in the latter months of 2018.

The established areas of Kawana and Kunda Park have seen limited development due to the lack of land available in these estates.

The Coolum and Noosaville markets have also seen an increase of development, again aimed mainly at the owner-occupier strata market. Coolum has seen some increase in value levels, although this is tempered by the amount of land available for further development in this area.

The Noosaville industrial estate had land developed over the past three years, which has now sold out from the original developer and a range of stand-alone and strata titled units have been completed since. Some of the high-level industrial strata titled units have achieved market leading rates of up to $3,000 per square metre in this area, though are generally sub 100 square metres in size and have higher quality design finishes, typically more noted in retail showroom developments.

Gold Coast

The industrial market on the Gold Coast as a whole continues to show uplift in value levels due to strong buyer demand and limited industrial land supply as well as the persisting low interest rate environment, setting record price levels recently. In response, developers have sought to market small or boutique strata unit developments in the central and southern Gold Coast industrial precincts, which represent some of the last development sites available at present. Below is a synopsis of some of these properties.

- 8 Production Av, Molendinar - This property sold in October 2017 for $3.1 million, representing $406 per square metre of land, as a redevelopment site. The property has since been marketed with 16 industrial strata units available for sale off the plan with sizes ranging from 110 to 660 square metres. The development has been marketed for circa two weeks to date with three units under contract so far. Asking prices range from $2,100 to $2,700 per square metre of floor area;

- 10 Technology Dr, Arundel - Construction has commenced on this property which will comprise 14 strata titled industrial units ranging from 160 to 300 square metres in size. Marketing of the units has only recently commenced with four units under contract and two remaining for sale. The balance are to be retained by the owner for lease. Asking prices for the units for sale range from circa $2,500 to $2,700 per square metre of floor area.
- 45 Hutchinson St, Burleigh Heads - The property has yet to receive DA approval, however is planned for the construction of 16 industrial units with pre-commitments for 11 of the units already (in an approximately two month marketing campaign). The units range from 127 to 395 square metres with asking prices currently in the order of $2,800 to $3,000 per square metre of floor area.

It is apparent from the above that there is greater value for money for buyers within the central Gold Coast industrial regions, the Burleigh Heads/southern region having a more limited supply of industrial units and development sites.

In addition, the old Colgate Palmolive site at Captain Cook Drive, Arundel has recently sold, which has the capacity to deliver up to 60 new industrial lots in the next two to three years. Should this transpire, a more tempered supply/demand metric could be witnessed over the medium term.

The recent announcement that the State and Federal Government have come to an agreement on funding for the major upgrade of the M1 Pacific Motorway is significant for the Gold Coast. This will improve travel times in the region which have become hampered by increasingly greater levels of traffic congestion, escalating with the growing population of the region. The upgrade will likely have a substantial impact on industrial properties in the area with value levels anticipated to continue to firm (should interest rates remain at record low levels) and potentially leading to more small sites being developed or redeveloped to cater for demand.

Overall, the outlook for industrial properties on the central and southern Gold Coast remains highly positive with some fundamental drivers for price growth at play.

Cairns

The industrial sector in Cairns is relatively small with areas close to the CBD showing the stronger demand. Although we now perceive the industrial market to be entering a recovery phase, industrial property sales remain slow. Industrial property development is likewise slow, with no new projects of significance on the horizon.

Prices per square metre for established strata titled industrial units have been steady at around the $1,250 to $1,500 mark for some time. Commercial agents advise limited availability of good quality stand-alone warehouse stock with slow to reasonable demand for these types of premises. Strata titled industrial warehouses are also limited in numbers to either sell or lease with similarly limited demand.

Industrial property rents range from $90 to $150 per square metre per annum gross depending on size, location and quality. A lack of new stock should see availability tighten as we move through the next 12 months.

There is good investor demand for leased industrial properties across all price ranges of the market, from small strata through to large showrooms, however there is very limited quality investment stock available for purchase. This will tend to support values for well-leased properties over the short to medium term. The market has been gradually consolidating over the past 12 to 18 months and the outlook is for stable conditions over the immediate future. There is likely to be a lack of vacant industrial land in the short term if there is a more widespread recovery in the local economy.

Toowoomba

Leasing demand for industrial properties in Toowoomba continues to be moderate with an increase in the number of industrial vacancies. Although face rentals have been relatively static, some lease incentives may be required to secure tenants.

Demand from owner-occupiers for vacant industrial properties is also considered moderate although investor demand remains strong. This has resulted in a larger than normal premium for properties with good quality tenants on long-term leases.

A new industrial subdivision has been approved for a 5.9 hectare site in the suburb of Torrington. The proposed development is located on Robson-Hursley Road, positioned to the southern side of Carrington Road. This project will appeal to small-scale industrial operators. The approved subdivision will contain 21 lots with land areas of between 1,000 and 4,532 square metres. New large-scale operators will likely be attracted to sites available in the Charlton-Wellcamp Enterprise Area (located to the west of Toowoomba). Lots of two hectares and larger are available in this precinct and suit both manufacturing and transport and warehousing operators. The key feature of the precinct is its position close to the Toowoomba Bypass Road (construction commenced in 2016), the proposed Melbourne to Brisbane Inland Railroad ($8.4 billion in federal funding announced earlier this year) and the Brisbane West Wellcamp Airport (opened in November 2014).

Wide Bay

The Wide Bay's industrial markets have been very stable for an extended period now. There is an abundance of vacant industrial land within the well-established industrial estates of the three major localities (Maryborough, Hervey Bay and Bundaberg). The rate of sale of vacant land within these estates is generally low, which is reflective of a low level of demand.

There have been no recent infrastructure projects commenced or announced which are predicted to have a positive impact on the market and increase the level of demand for vacant industrial land. Moving forward, the elevated supply levels of vacant industrial land is predicted to keep value levels stable over the foreseeable future.

The market for built form industrial properties has seen a relatively low volume of transactions across Maryborough, Hervey Bay and Bundaberg. Most transactions have been occurring within the sub $750,000 price range and have generally been purchased vacant for owner occupation or by a sitting tenant for owner occupation. The rates reflected generally sit in the order of $700 to $1,000 per square metre depending on location, size and building quality.

Rental levels have followed the same trend with limited growth in recent years. Industrial rents generally sit in the order of $60 to $80 per metre gross depending on location, size and building quality.

Mackay

The industrial property market in Mackay is passing through a cyclical trough with agents now reporting increased enquiry for properties available for lease and sale, chiefly from mining service users. Rental levels are reported to be showing some modest improvement and heavy engineering premises with overhead cranes are in very short supply. So far as the sale market is concerned, it remains three-tiered comprising high-value investments, stand-alone owner-occupier properties and low-value industrial units.

At the upper end of the market, the Trilogy Industrial Property Trust has recently acquired two large investment properties in Paget from the same vendor in one transaction. The properties at 33-41 Diesel Drive and 11-21 Crichtons Road were respectively leased to Independent Mining Services Qld Pty Ltd and Alfagomma Australia Pty Ltd. The transaction amounted to $11.25 million with a reported yield of approximately 9.5%. This is the largest industrial transaction since mid-2016 and demonstrates that properties with sound lease covenants in regional areas continue to attract interest from yield chasers in the national investment market.

The mid-level owner-occupier market has been reasonably well supported through the market downturn as buyers exploit counter cyclical buying opportunities within a market range of around $750,000 to $2 million. A vacant high clearance warehouse/workshop at 37 Enterprise Street which falls into this classification was reported to have sold in April at an undisclosed price. The property had a total lettable area of 1,080 square metres and occupied a 1,644 square metre site. While the price was unknown at the date of preparing this Month in Review, it demonstrates that trade in this sector is still ticking over.

At the bottom end of the market, a group of 11 mostly vacant industrial units in the Railway Central complex at 70 Connors Road was recently marketed through an expression of interest campaign under instructions from receivers and managers. The properties were offered for sale either in one line' or individually. The selling agents report good enquiry levels and several expressions of interest were submitted. We understand that contracts of sale have been achieved over a few of the individual units. Prices remain confidential but are expected to show fairly low rates per square metre in the context of the broader market. This market remains oversupplied.

The market for vacant industrial land has been thinly traded in the first half of 2018.

Gladstone

As a result of market conditions in recent years and current stock still available in the market, there are no major projects or new estates currently underway to provide additional growth areas for the industrial sector. We do acknowledge a proposed longer-term growth project by Economic Development Queensland within the Clinton Industrial estate.

The application is reported to include the reconfiguration of eight large industrial lots located on Red Rover Road into 78 smaller lots. If the project goes ahead, it is planned to commence in 2021/2022 and continue over the next 20 years. The lots are proposed to range from 3,500 to 10,000 square metres.

Land within the Chapple Street Business Park has now been mostly absorbed, with most lots being taken to auction earlier this year. Settled sales show a rate range generally between $80 and $100 per square metre of land. Sales within this estate have been to a mix of owner-occupiers and investors and we have seen construction now commencing or completed on some lots. The industrial market is still considered to remain volatile, with sales and leasing activity limited. Owner-occupiers still seem to dominate the industrial property market, however we have seen some investors beginning to return to the market. Investors are however very cautious.

Rockhampton

Most projects in growth precincts within the industrial market in Rockhampton were undertaken during the last market boom and development of industrial land has been fairly stagnant in recent years. We make note of the industrial precincts in Gracemere which are slowly being absorbed by the market. There is still further development to be undertaken within the Gracemere Industry Park (near Toll), with land to the rear approved to be developed into medium and light impact industrial allotments. It is unknown when this land will be developed. The Livingstone Shire Council has also been releasing industrial lots to the market within its Gateway Business and Industrial Park.

The estate comprises six stages in total with a proposed 71 lots. The lots range in size from 2,000 square metres to 1.3 hectares. Stage 2 has been developed and is currently available for sale. We anticipate that this supply of industrial land will provide for Yeppoon's industrial market for some time. Major infrastructure projects that will assist in stimulating growth of the industrial sector will be the proposed Ring Road project as well as the Rookwood Weir.

In general, the industrial market for the first half of 2018 has continued at a steady pace. It is anticipated that recovery of the coal price and green shoots within surrounding mining towns as well as local infrastructure projects will help the recovery of the industrial market in Rockhampton for the remainder of the year.

Townsville

There is currently limited new industrial development occurring in Townsville as the sector remains at the bottom of the market cycle.

A high number of transactions occurring are either price point or affordability driven with little regard to yield, or higher end investment transactions, which are strongly yield driven.

Sentiment is improving on the back of the improving resource sector which drives our manufacturing industry, however the current market remains somewhat at a stage of equilibrium with demand currently being met within the existing market supply.

Sales of low impact/light industrial properties in the sub $1.5M range with the majority in the sub $1M range continue to tick over catering largely to intending owner occupiers.

Some recent transactions have exhibited tendencies of a fractured market with prices achieved in both the sale and leasing spaces appearing highly dependent on the owner/landlord's level of pressure. This is resulting in a widening spread of prices/rents for properties that are otherwise similar in quality, utility and/or location.

Northern Territory

Darwin

The major growth zones for industrial land supply are centred around Berrimah. Berrimah is 12 kilometres east of Darwin, about midway to Palmerston. It has been one of Darwin's main industrial areas since the 1960s although the northern area along Boulter Road is now undergoing residential development. Berrimah is close to the demographic centre of Darwin and we are also witnessing its development as a retail and bulky goods precinct especially along the highway with developments such as the Amart complex (under construction).

The latest development is Stage 2 of Berrimah Business Park, with titles expected to issue shortly on this new commercial and industrial land. Stage 1 was quite successful, with developments along the highway frontage of retail type facilities as well as Darwin Corporate Park which has managed to attract a number of businesses out of the CBD due to its close proximity to many clients and availability of parking. Stage 2 has already negotiated a commitment from Fisheries for a new headquarters.

There are a number of other industrial estates in and close to Berrimah including Hidden Valley Business Park, Wishart Business Park, City View Estate and Truck Central. These generally are more industrial in nature. Truck Central is currently under construction and will be the new location of Darwin's Motor Vehicle Registry and is expected to attract businesses associated with logistics.

Due to the oversupply of industrial-type land and weak economic conditions, the market for industrial property around Darwin is enduring a moribund phase. The recent decision by the Northern Territory Government to allow hydraulic fracturing should stimulate exploration and development of on-shore gas reserves, especially in the Beetaloo Basin. Despite this being about 800 kilometres from Darwin, it is hoped that in the long term it will stimulate some demand in the Darwin industrial sector for logistics associated with exploiting this resource.

Western Australia

Perth

The broader Perth industrial property market has remained subdued in the past 12 months, with these market conditions being coordinated with the downturn in the resources sector which had previously driven strong rental and capital value growth.

Discussions with agents active in the leasing of industrial accommodation indicate there is minimal inquiry for vacant space and a number of in-situ tenants are continuing to reconsider their space requirements in the context of the current weak market conditions.

There is clear evidence of a "lessee's market" at present with the limited number of prospective tenants taking advantage of the oversupply of stock and often able to negotiate very attractive deals. To an extent, industrial leasing activity is "mirroring" trends in the Perth office market with a "flight to quality" evident.

Face net rental rates for prime industrial warehouse premises tend to range between $75/m2 pa and $90/m2 pa; whilst rates for secondary quality space are commanding between $55/m2 pa and $65/m2 pa.

From a purchase perspective, demand for industrial property has generally also been subdued with a low volume of transactions during the last 12 months.

These soft market conditions are more pronounced within secondary industrial precincts.

There have been few opportunities to acquire good quality, securely leased assets. Somewhat counterintuitively this has led to yield compression for such properties despite the general malaise that has engulfed the broader WA economy.

Yields for prime industrial assets tend to fall between 6.25% and 7.50% with yields for secondary industrial properties much softer.

Discussions with the real estate agents active in the sector also confirm the softening in demand for vacant industrial land. Feedback suggests the lack of demand tends to be a function of the very limited number of prospective buyers as opposed to pricing, particularly for those sites > 2 hectares.

Recent land releases within established industrial precincts, namely "Tonkin Industrial Estate" in Bayswater and "Swan Brewery Industrial Estate" in Canning Vale, have been met with reasonable demand although sales rates in the latter estate have tapered off during the last 6 months.

The supply of new industrial space (including speculative development) during last year has been minimal and a function of the prevailing soft levels of demand. This trend is unlikely to change in the short-term. We may begin to see an increase in the refurbishment or repositioning of older-style facilities to cater for the tenants demanding more efficient and modern facilities, mainly in the traditional industrial areas.

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/northeastern corridor to be constructed in three (3) stages. Stage 1 has already been completed and Stage 2 is well underway. Once all sections are complete (estimated for the middle of 2019) NorthLink WA will provide a non-stop transport route from Morley to Muchea and likely to directly benefit industrial estates in that corridor.

Australian Capital Territory

Canberra

The strength of the ACT industrial market steadily improved over the first half of 2018, with varied performance depending on the suburb. Listed below are our perceived strengths for each industrial suburb:

- Queanbeyan – Strong market with medium to high activity;
- Hume – Steady to strong market with medium activity;
- Fyshwick – Steady market with low to medium activity;
- Mitchell – Steady market with low to medium activity.

Some notable sales for the industrial market include:

- 15 Albany Street, Fyshwick sold over late 2017/ early 2018 for $3.8 million. The 2,693 square metre property is leased to a long-term furniture retailer and is utilised as a warehouse/showroom for bulky-goods and furniture.
- 27-29 Raws Crescent, Hume sold in May 2018 for $2.657 million. The warehouse property featured a new five plus five year lease to the property's long-standing tenant. The gross floor area of the warehouse totals 2,600 square metres and the property is situated on a 6,493 square metre parcel of land.

Yields are 7% to 8% and rents are $100 to $160 per square metre.

Industrial development around the ACT appears to be materialising after a term of relatively minor activity. The developing industrial suburb of Beard has witnessed various new industrial projects, although the suburb still features a large quantity of undeveloped vacant land which is expected to be developed over the short to medium period. Throughout 2017 and 2018, most of the industrial land in Beard sold for between $250,000 and $350,000, with most land parcel sizes ranging between 750 and 1,300 square metres.

One notable redevelopment within the established industrial areas is the revamp of the Fyshwick Markets, which is set to extend the markets and make way for an extra 40 new traders. The revamp will aim to have a contemporary warehouse-like feel to remain consistent with the industrial nature of Fyshwick.