

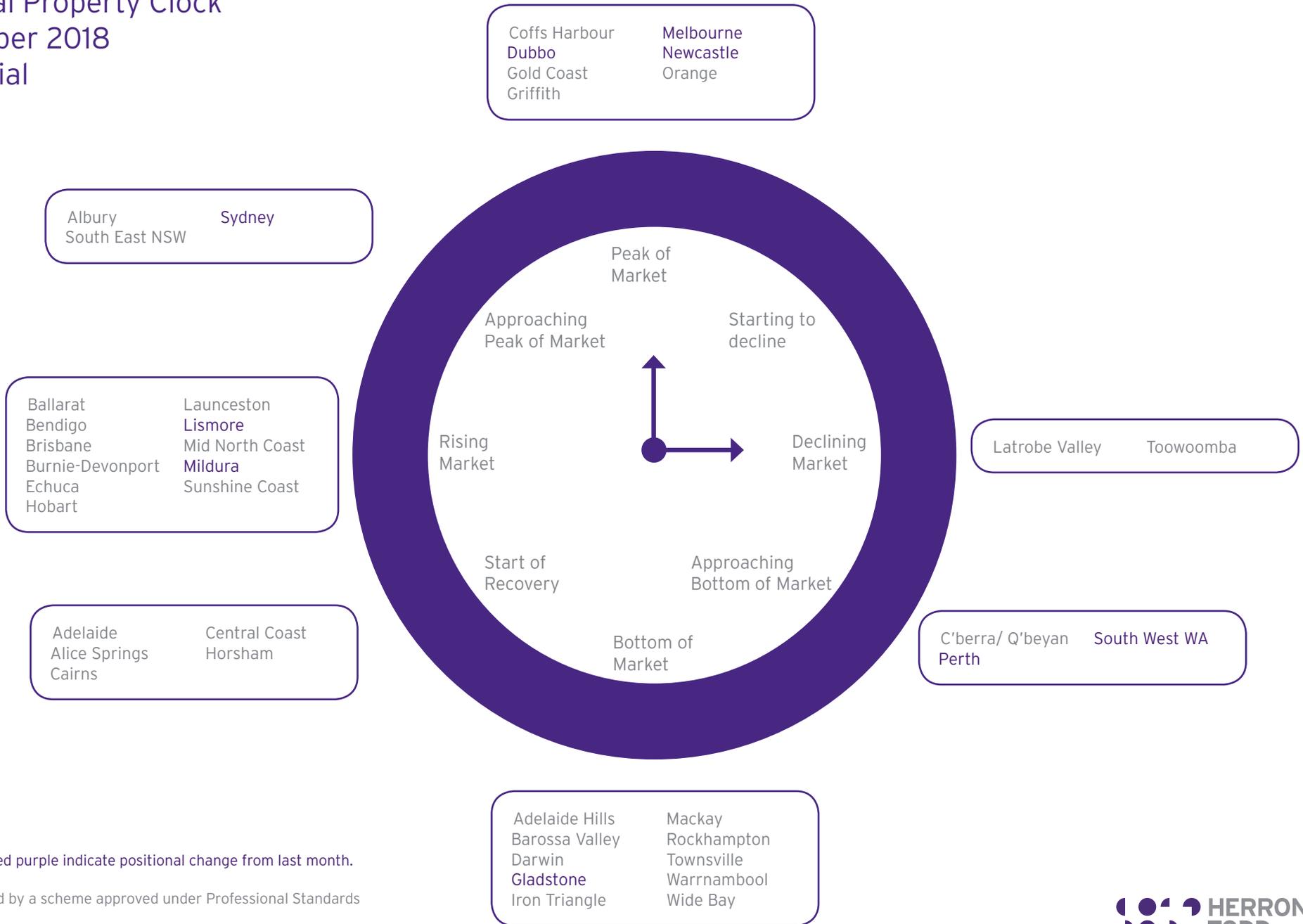
Commercial



National Property Clock

December 2018

Industrial



Entries coloured purple indicate positional change from last month.

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New South Wales

Overview

Reading through the submissions in this, our final issue of Month In Review for 2018, you can't help but notice that the industrial sector was on a golden run across many centres. Whether it was a resurgence of local economies or a flight to yield after the residential price boom ended, the industrial sector held the answer for many as to the next investment option.

Of course, it wasn't all good news - property markets are diverse and interesting across our nation - but on the whole, it was more up than down.

Please enjoy our wrap up of this year in the industrial sector.

Sydney

In general terms, industrial property markets performed strongly in 2018.

There was a notable increase in new supply in Sydney's industrial market over 2018, driven by a number of factors including: a strengthening economy coupled with high employment participation rates; a rise in leasing activity driven by strong population growth which is predicted to continue to grow for the foreseeable future; residential infill re-zonings in traditional industrial precincts close to the Sydney CBD, airport and ports such as Alexandria and Waterloo, prompting a flight from inner city areas to more outlying precincts; and

a chase for yields and capital growth in a historically low interest rate environment with a declining residential market.

Recent significant development of Sydney's metropolitan transport infrastructure has seen improvements made to the city's Orbital Network, connecting the M1, M2, M5 and M7. This has improved access from Sydney's ports to most major warehousing and distribution hubs in the western Sydney industrial precincts. Furthermore, the proposed development of the WestConnex and an intermodal freight terminal at Moorebank will significantly improve both access and distribution channels to the western Sydney precincts. Indeed, the latest available data notes that over 50 per cent of new industrial supply has been concentrated in western Sydney. New A-grade supply was largely pre-committed in 2017, including significant pre-commitments by Toll Holdings for a 60,000 square metre facility in South Western precinct and Australia Post committing to 21,500 square metres in Sydney's Central West.

Yield compression has occurred across most sectors of the property market, emanating from historically low Reserve Bank interest rates which have contributed to a shift in expectations regarding return on investment. Industrial properties are currently sold subject to relatively low yield rates, currently generally sitting between four and seven per cent.

Demand levels generally remain strong, particularly in respect to 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.

Average prime grade industrial rents in Sydney remained largely subdued over the past year, however growing demand for new industrial facilities prompted rents to grow more significantly over the same period for new stock.

Some of the larger industrial holdings to transact this year include 60 Huntingwood Drive, Huntingwood.



60 Huntingwood Drive, Huntingwood (Source: www.domain.com.au)



This corporate head office and warehouse facility was previously occupied by Sony who were in the process of relocating. The 27,300 square metre site with three street frontages sold for \$25.1 million (excluding GST) with vacant possession through Link Property Services. The property comprises a modern, hi-tech industrial facility of concrete construction with a lettable area of 16,686 square metres which included high clearance, sprinklered warehouse with production and technical areas equipped with electric generators, vacuum compressors, water treatment facilities, multiple roller doors and oil filled transformers. The sale reflected a rate per square metre of \$1,504.

In Sydney's south-west, private property developer Leda Group has paid \$52 million for an industrial site



286 Horsley Road, Milperra (Source: www.commercialrealestate.com.au)

at 286 Horsley Road, Milperra. The 7.71 hectare site with multiple entry points had an existing lettable area of 38,613 square metres with a holding income of \$2.1 million per annum net. The property was sold through Colliers International who advised that extensive interest was received from owner-occupiers, developers and institutional investors. Leda is reportedly planning a subdivision and strata unit development in order to meet the demands of the strong owner-occupier market being driven by a lack of available stock and the displacement from the south Sydney and inner west industrial areas.

As far as the bottom end of the market is concerned, it is those areas furthest from the CBD and those that are not well located in terms of major infrastructure that tend to offer more affordable options. In terms of established industrial precincts, there are still options in the sub-\$300,000 market. An example of this is in Penrith where earlier this year a strata industrial unit at 4 Dean Place sold for \$255,000. The small single level warehouse unit is located in an older style circa 1980s complex and has a total lettable area of 112 square metres with two car spaces on title. This sale reflected a rate per square metre of \$2,277.

Western Sydney

What has been surprising over the course of 2018 is the rate at which the industrial market continued to strengthen. Evidence of this is shown throughout all

areas of Sydney, however the trend appeared to be clear in developments such as that located at 727 The Horsley Drive in Smithfield. The modern strata industrial complex began to sell off the plan in mid-2017 with construction completed earlier this year. The agents at Wetherill Park Industrial Real Estate were in charge of marketing and selling the units with the early release showing rates below \$3,400 per square metre. This quickly began to trend upwards with units earlier this year showing rates above \$4,200 per square metre. This shows an approximate 24 per cent increase in this complex alone in less than a year.

The industrial vacant land market in western Sydney continued to strengthen throughout the mid to later stages of 2018. This demand was largely underpinned by the continuation of a lack of vacant land sites in established industrial locations all over the region. This shortage of appropriate land saw values increase dramatically to a rate nearing, then exceeding, \$700 per square metre in some recent cases. Regions in demand have been Seven Hills and Glendenning (Blacktown LGA), Smeaton Grange (Camden LGA) and Ingleburn and Minto (Campbelltown LGA). The lack of land supply has also seen under improved sites or aged sites selling at premium prices in these locations.

In August, the New South Wales Government implemented the Western Sydney Aerotropolis Land



Use and Infrastructure Implementation Plan. This plan sets the framework for re-zoning procedures and priority areas. This has seen a spike in enquiry within priority areas. It is hoped that the re-zoning process will be completed within a two to three year period. At this point it is likely that the larger institutional groups will purchase appropriate land on the basis of a concrete zoning and plan for services to be provided for connection. This will eventually lead to an increase in industrial specific zoned land sites to the market and in all likelihood lead to a generally softening of the premiums being paid throughout the western Sydney region.

In terms of exciting projects, there is no more exciting new project than the Western Sydney Airport. 2018 saw works commence with staging works, replacement of power lines and surveyors on site currently. The Sydney Science Park in nearby Luddenham has begun with land clearing well underway. The New South Wales Government has recently been in London selling the region in an attempt to find appropriate anchor tenants, an airport operator and general investment in the numerous infrastructure projects currently being planned and rolled out.

Notwithstanding the above comments, potential headwinds for the sector include any uplift in interest rates, a general downturn in the economy, further tightening of lender credit controls and a continued

softening of residential values that will likely reduce buyer demand (and potentially debt serviceability), which has historically corresponded to an eventual reduction in value levels across all commercial and industrial sectors.

Newcastle

The industrial property market in Newcastle and the Hunter Valley was strong in 2018. In fact, until very recently this market segment had been charging upward as the retail and office markets started to slow down somewhat. Our research indicates that while values remain historically high in the industrial market, buyer enquiry has now subsided in an investment market that has become increasingly sensitive to tenancy profile and time remaining under leases.

Recent auctions by leading local commercial agents in Newcastle show that we are increasingly entering into a two tier market. In this case, the two tiers can be described as the lower tier being property that perhaps has a small local business as a tenant without a long term lease in place, property in a secondary location or buildings that may be showing wear and tear and require capital expenditure to bring them up to a better standard. The upper tier properties are the opposite of the above, with long term tenancies in place to government or strong corporate tenants, in good established locations and in good condition.



17 & 19 Aluminium Close, Edgeworth (Source: www.commercialrealestate.com.au)

In recent years when the market has been strong, investors had picked the lower tier types of properties in the hope of short term capital gain in a rising market and perhaps the risk associated with such properties hasn't been properly reflected in the analysed yields. We're seeing a return to more normal market conditions, whereby these properties now need to be more appropriately priced in order to secure a sale. In fact, judging by the low clearance rates at recent commercial auctions, we are in that re-pricing period right now.

There are still strong sales happening in the current market. For example, 17-19 Aluminium Close, Edgeworth sold well above the reserve for \$1.4



million to an established local developer. This sale at \$225 per square metre of land area reflects a strong increase in land values even over the past year. This sale is on par with sales in the more established industrial areas in Mayfield West and Beresfield and is reflective of the position close to local shopping and the residential growth corridor in nearby Cameron Park.

As we wrap up 2018 and look ahead to next year, the industrial market should retain much of its recent market value growth and while sales numbers may come down from peak conditions, any value adjustments should be relatively minor.

Southeast NSW

The industrial market was the strongest performer out of the three main asset classes throughout 2018, coming to life over the past two years after a prolonged period of stagnation post the GFC.

The main drivers of this growth have been major infrastructure projects taking place throughout the state. Other drivers of this market are low interest rates, 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 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.

Lismore/Byron Bay/ Ballina

Byron Bay remained a relatively strong market over the past 12 months with record low yields generally approximately 4.5 to six per cent. The rental market also saw strong demand and stable to slightly stronger rents. With limited supply, value levels have held despite softer demand from investors and owner-occupiers as a level of cautiousness entered the market particularly in the second half of the year as reports of softer markets in Melbourne and Sydney dominated the press. This was on the back of very strong increases during 2017.

The strength in Byron Bay and limited supply for investors and tenants created opportunity in nearby Mullumbimby. Developers took the opportunity to construct a number of industrial complexes for sale and lease. The provision of food related speciality complexes and hubs was very well received, with premium rents being achieved.

Ballina also generally held with stable yields, stable value levels and stable to slightly stronger rents. Yields remain one to two percent higher than Byron Bay. Ballina tends to fit between Lismore and Byron Bay, with a more cyclical nature than

Lismore. There remains some uncertainty in relation to supply with Ballina Council planning the new access road to the airport, which is likely to result in a significant increase in developable land along the new road. The new road may also offer new opportunity for companies looking for superior profile. The proposed expansion of the airport terminal was announced in July with a budget of \$6.9 million and an expected 12-month development period.

The Ballina Shire Council-owned airport, which is the third largest in New South Wales, hit 529,000 annual passenger numbers at the end of June, and the revamped terminal would cater to those numbers and expected future growth, with discussions underway with airlines about more flights.

The Alstonville industrial market is relatively small and generally fits neatly between Lismore and Ballina both physically and in relation to rent and value levels. It is generally well held and over the past twelve months experienced a slight increase in demand with stable rents and stable yields.

Lismore has been a relatively quiet market dominated by owner-occupiers rather than investors with limited growth in rents and very limited activity to point to any significant change. Yields were generally stable to slightly lower over the past 12 months at seven to nine per cent.



Casino is a relatively stable market of a reasonable size and is similar to Lismore, being dominated by owner-occupiers. It has been relatively stable over the past twelve months.

Coffs Harbour

The local industrial market remains stable. There is slow market demand from owner-occupiers for industrial units in the \$1,500 to \$2,400 per square metre price range depending on size, position, construction and fit out. Typically, there is minimal fitout supplied by developers except for pre-sales with tenant specific requirements.

There is a continuing trend for retailers exiting traditional commercial premises and gravitating to industrial locations with office showrooms with production areas within attached warehouses. This has impacted on the rental market for CBD located retail showroom space. The industrial market is exhibiting an oversupply of smaller industrial bays for lease which has led to a broader range of rental evidence and lease up incentives. Industrial sales remain firm with firm yields linked to the prevailing low interest rate climate and strength of the tenant and lease terms and conditions.

There is a shortage of industrial land stock, however the proposed development of land adjacent to the airport and at Valla may alleviate some of the concerns over supply.

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

Orange

The Orange industrial market in general continues to be underpinned and impacted by the local Newcrest owned Cadia Gold Mine.

The proposed McPhillamy's Gold Mine to the north of Blayney (about 34 kilometres south of Orange) by Western Australian gold miner, Regis Resources, is expected to have a positive influence on the local industrial market in Orange. The mining industry and gold prices continue to have a direct influence on the Orange industrial market and, not dissimilar to other regional industrial markets, property that is subject to favourable lease terms continues to be met with keen investor enquiry, however, tightened lending restrictions may have an effect in this space. Owner-occupiers and self-managed superannuation fund investors continue to dominate and underpin the sub-\$500,000 to \$1 million industrial market with properties required to be priced right in order to sell. Leasing rates for industrial properties remain stable.

Dubbo

Local industrial property sales have reflected the broader trends for commercial property sales in Dubbo for the year to date.

This is characterised by intending owner-operators, or self-managed superannuation fund investors in the sub-circa \$600,000 price bracket paying the equivalent of 5.7 to 6.2 per cent for well-located property, or a property subject to a three-year-plus lease.

Leased industrial property above this price threshold indicates an analysed yield of between 6.15 and 7.25 per cent, while vacant industrial properties in secondary or unloved locations are selling at prices that analyse out at yields of nine to ten per cent.

Leasing rates on a rate per square metre basis have remained relatively stable, with gross rents of between \$65 per square metre for secondary properties and \$115 per square metre for modern, well located properties.





Victoria

Melbourne

The Melbourne industrial market remained strong in 2018. With low interest rates sustained and a relatively stable economy, industrial developments are continuing to come onto the market. This is evident in growth corridors where there is an abundance of vacant land prime for development, including suburbs such as Dandenong South and Pakenham in the south-east, Truganina and Derrimut in the west and Epping in the north.

In the southern corridor, suburbs such as Oakleigh South and Clayton South are providing development opportunities in the form of dilapidated warehouse properties with high underlying land values, being transformed into infill developments with smaller and modern strata title units. The need for small scale industrial units continues to be supported by both investors assuming strong WALEs and owner-occupiers looking to operate their small businesses or meet their ever growing storage needs. One development of note that reached completion in 2018 was The Base at 10 Cawley Road, Yarraville, a 50 strata unit development in Melbourne's inner west. Unit sizes range from 107 to 203 square metres of building area and the highest sale settled at \$669,000 (plus GST), indicating a rate of \$2,381 per square metre of building area.

We have also seen increased demand for large scale warehousing and distribution facilities, particularly in



'The Base', 10 Cawley Road, Yarraville. (Source: RP Data)

the western suburbs. The proximity and access of the western suburbs to the West Gate Freeway, Princes Freeway and Western Ring Road is a major draw card for transport, logistics and distribution companies. A noteworthy sale is the Kmart Distribution Centre at 2-12 Banfield Court, Truganina, which sold for \$119 million in late September 2018 at a passing yield of 5.45 per cent on the back of a 7.4 year WALE.

Rental levels also remained relatively stable throughout 2018. 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 \$130 and \$170 per square metre of building area per annum net plus GST.

Melbourne's population growth has seen gentrification mostly in the inner and some middle-ring suburbs, pushing industrial development to middle and fringe locations that are well served by road linkages. That said, ongoing rezoning of industrial property and supply of newly zoned industrial land remains constrained. The result of this is the lifting both of land and capital values across Melbourne's industrial precincts, with a moderate level of rental growth going forward that will be underpinned by rising land values.

Echuca

There were limited genuinely large scale industrial transactions to play out in the local area for 2018, although a baseline level of activity continued to trickle along with several local businesses relocating to upsized premises and their former smaller sheds generally being absorbed into the market place.

Construction of the second Echuca-Moama Bridge has not resulted in significant increases in industrial real estate at a local level at this stage.



South Australia

Adelaide

The industrial sector within South Australia has had a protracted period of stability, or a steady lack of significant market movement. The past 12 months have not been substantially different, however increased defence spending and local infrastructure projects are continuing to underpin the market.

Road infrastructure improvement has been particularly prevalent, with the South Road Torrens to Torrens project and the Darlington upgrade both nearing completion. The government has committed to have the remaining projects, Darlington to Anzac Highway and River Torrens to Anzac Highway, both completed within a decade. 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, including a series of strategic non-stop links to connect the expanding industrial and residential growth areas in the north and south, as identified above.

Further providing incentive to the market this year was the abolishment of Stamp Duty for non-residential properties in South Australia which was finalised on 1 July 2018. Agents are reporting an increase in transactions and an improvement in buyer sentiment.

Renewal SA has a number of 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 which 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 or 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**, 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 has caused the Government to re-consider.
- **The Seaford Industry Park** project commenced in 2004 with the aim to support the 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 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.

Herron Todd White Research has seen yields within well located, prime industrial locations tighten. Prime industrial yields across all precincts are typically between 7.75 and 8.75 per cent whilst secondary yields are between nine and 9.75 per cent.



Queensland

Brisbane

Throughout 2018, we saw strong investment demand driven by the low interest rate environment and improving economic conditions. Investors generally seek well leased, quality assets in prime locations, however less of this stock is becoming available, mostly because these properties are being tightly held due to the lower risk profile they offer.

Sales volumes in Brisbane and the outer local authorities are sitting below that of 2017. To compare, there were approximately 372 sales totalling \$1,370 million as at 1 November 2017 whereas as at 1 November 2018, we have seen approximately 265 sales with a total value of \$974 million. Herron Todd White believes this is due to the lack of quality stock

available on the market. Yields tightened over 2018 on the back of strong demand and are currently sitting generally between six and 6.75 per cent for prime and between seven and 9.5 per cent for secondary stock.

Demand for industrial development sites throughout Brisbane also increased substantially in the past nine to 12 months with appreciation in land values evident across a number of industrial precincts. There is research showing that Eagle Farm alone experienced increases of circa 30 per cent in this time. Whilst there are still difficulties in obtaining development finance from financial institutions, this does not seem to have restricted demand in recent times. Development of the

brand-new Colmslie Business Park in Morningside is attracting strong demand with Stage 2 reportedly completely sold out to mostly owner-occupiers.

Rental growth throughout 2018 was stable with growth being held back by attractive rents and incentives. There are some significant incentives being offered for larger stock in particular; we are seeing some between 15 and 25 per cent. Prime net face rents generally range between \$100 and \$140 per square metre and for secondary assets, rates generally range between \$60 and \$110 per square metre depending on the precinct.

Significant new deals include CTI Logistics who took circa 10,500 square metres at Wayne Goss Drive,



Noteworthy transaction this year: 71 Charles Ulm Place, Eagle Farm in July with a sub-six per cent yield. It sold for \$35.5 million with a passing yield of 5.89 per cent with a five-year term certain leased to Oz Trail. (Source: TradeCoast Central)



Another TradeCoast sale to mention was Cargo Business Park at 56 Lavarack Avenue, Eagle Farm. It sold in August for \$33.5 million with a passing yield of 7.04% and a WALE of 2.4 years. (Source: RealCommercial)



147 Archerfield Rd, Richlands sold for \$14 million with a passing yield of 6.77%. It was leased to Vermeer on a 10 year term and had recently undergone a significant refurbishment. (Source: CoreLogic)



Berrinba. Australia Post took circa 48,000 square metres at Robert Smith Street, Redbank which was a purpose-built facility by Goodman in one of the largest leasing deals in Brisbane this year. The Port of Brisbane has recently seen three ten-year deals or lease extensions to Autocare (100,000 square metres), IPS Logistics (60,288 square metres gross lettable area and 10,000 square metres hardstand) and Bunnings expansion (added an extra 10,000 square metres to its existing 30,450 square metre facility in the Port of Brisbane's Port West Estate).

Overall, the industrial market throughout 2018 was a strong performer due to the sustained low interest rates and overall improved economic conditions. Yields tightened and prices increased on the back of strong investment demand. Similarly, land values appreciated on the premise of high demand for development sites throughout Brisbane. On the other hand, rental growth remained stable due to the amount of supply and attractive incentives and rents being offered at present.

Gold Coast

Over the past year in the central and southern Gold Coast industrial areas, the market for industrial leasing tightened with a noticeable lift in rental levels. This is perceived to be in response to the burgeoning owner-occupier buyer market having significantly reduced the availability of industrial properties for lease.

As an example, 35 Alex Fisher Drive, Burleigh Heads recently leased and exhibited a marked increase in rents compared to that expected prior to the rental improvement, say in the last year even. The building is approximately 910 square metres and is of brick and masonry block construction on a land area of 1,500 square metres. It was built circa 1970s to early 1980s with below average clearance and overall is ageing in presentation. The rent achieved reflects \$146 per square metre of lettable area per annum gross (excluding GST). A similar property at 21 Activity Court, Molendinar was leased in January 2017 for circa \$138 per square metre per annum gross, indicating growth of up to six per cent in a relatively short period of time.

Concrete tilt panel buildings of a similar size are now achieving in excess of \$160 per square metre per annum gross for comparable sized properties, whereas 12 months ago the expected range was in the order of \$140 to \$155 per square metre.

Interestingly, price levels for investment product have not jumped as significantly as owner-occupier sales, meaning that investment returns have improved. Analysed yields for leased industrial properties were previously sitting around 6.5 per cent for properties in the \$1 million to \$2 million price bracket, whereas more recent analysed yields have been up around seven per cent and higher due to the improved rental market. This is perhaps

the catch-up investors have been banking on when properties were purchased at lower yields, or is an indication of a higher risk at present that the much discussed interest rate rises could be impending. Whatever the case, returns at present have improved for investors.

The recent sale of 83 Dover Drive, Burleigh Heads illustrates this recent shift with the sale price analysing to a yield of 7.22 per cent after having sold with a leaseback to the vendor on a three year term plus options at a passing rent equating to \$153 per square metre per annum gross. This sale result is considered somewhat surprising as the yield is relatively high, although the passing rent is considered to be at the lower end of market parameters, indicating that investors have been bearish in comparison to the unprecedented owner-occupier market.

Owner-occupiers remain highly active in the industrial market in the central and southern Gold Coast industrial precincts, with demand continuing to outstrip supply resulting in continued upward pressure on price levels. This is evident in the statistics for Burleigh Heads (as an example) compiled by CoreLogic which suggests a median value of \$428,150 for industrial sales in 2017, whereas for 2018, the median value is \$485,000. The volume of sales appears to have dropped since 2017, when there were 84 sales compared with 61 sales to date in 2018.



A lack of available properties has improved value levels significantly. This is particularly the case for vacant industrial land, demonstrated by the recent sale at 1 Calabro Way, Burleigh Heads in August 2018 with a sale price of \$1.111 million, reflecting an improvement in value of around 17 per cent compared to the sale of the property in November 2016.

Further, 50 Township Drive, Burleigh Heads was recently purchased for owner-occupation, being a four-unit complex, partly leased with two of the four units available with vacant possession. The sale reflects an analysed yield of 5.67 per cent which is a strong result exemplifying the owner-occupier market at present.

For this reason, man cave style units have proven hugely popular of late. These comprise smaller size industrial units being relatively affordable for owner-occupiers, as well as profitable projects for developers (even at seemingly high development site purchase prices). Currently, these developed strata units are achieving well in excess of \$3,000 per square metre for units in the order of 100 square metres. 3 Flagstone Drive, Burleigh Heads recently sold as a development site for this purpose, reflecting a premium price of \$555 per square metre of site area for a 3,000 square metre site.

In conclusion, the industrial market on the Gold Coast over the past year has gone from strength



3 Flagstone Dr, Burleigh Heads (Source: www.realcommercial.com.au)

to strength, however, the future is uncertain, particularly given concerns over the prediction of an upward interest rate movement.

Toowoomba

Leasing demand for industrial properties in Toowoomba was moderate over the past twelve months and resulted in an increase in vacancies. Face rentals have been relatively static, but lease incentives are often required to secure tenants.

Demand from owner-occupiers for vacant industrial properties was also moderate with an increase in supply resulting. Recent sale transactions however have shown that sale prices remained firm.

Demand from investors has remained strong with net yields of between eight and nine per cent



373 Anzac Avenue, Harristown (Source: www.commercialview.com.au)

often achieved for fully leased properties in good locations. There have also been a few instances where properties with a strong tenant on a long term lease achieved a sub-eight per cent yield.

Demand and supply for smaller industrial strata units in Toowoomba is limited. This market is predominantly owner-occupied with capital values remaining static over the past year. These industrial units are often attractive to owner-occupiers and entry level investors.

Major sales of note in 2018:

- **373 Anzac Avenue, Harristown** - Sale price of circa \$8.5 million. A large site adjoining Bunnings which is partially improved with a modern truck dealership which was leased on a seven year term.



Analysed net yield of 7.8 per cent and included large balance land component.

- **351 Taylor Street, Wilsonton** – Sale price of \$7.5 million. Part of a sale of a truck dealership business.
- **179 Stephen Street, Harristown** – Sale price of \$4.1 million. Modern industrial facility leased on a new five year term. Passing yield of 8.79 per cent.
- **318 Taylor Street, Glenvale** – Sale price of \$3.85 million. Prime two hectare site improved with a tractor and agricultural equipment dealership and included an older showroom/office/warehouse building of approximately 2,500 square metres.



318 Taylor Street, Glenvale (Source: www.commercialrealestate.com.au)

Cairns

The industrial sector in Cairns is relatively small with areas close to the CBD showing the stronger demand. Though 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 in train or on the horizon.

Prices per square metre for established strata titled industrial units have been steady at around the \$1,400 to \$1,600 mark for some time. Commercial agents advise that there is limited availability of good quality strata title or stand-alone warehouse stock with slow to reasonable demand for these types of premises, particularly from owner-occupiers.

Industrial property rents range from \$100 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 into 2019.

There is good investor demand for leased industrial properties across all price ranges of the market, from small stratas 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 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 with only a handful of sites available on the market.

Townsville

Throughout 2018, the industrial market remained stable at the bottom of the market cycle. Sentiment is improving on the back of the improving resource sector which drives the manufacturing industry, however this positivity has not yet translated to any up lift in the industrial property market.

We continue to see an appetite from southern capital-city investors for property in regional areas of high quantum assets with strong lease covenants. Some of the larger industrial sales to have occurred to date this year include a packaging factory located at Bohle, which is leased to Orara Ltd and sold for \$12.6 million. This property was purchased by Sentinel Property Group at a reported initial yield of 9.59 per cent.

There has also been a reported sale of a modern high clearance warehouse/office complex in Mount Louisa that transacted for just over \$4 million. The property is leased to a multi-national tenant with a reported initial yield of 8.45 per cent. This property was reportedly purchased by a southern investor.

Activity is continuing from owner-occupiers, however this sector is very much price point driven in the sub \$1 million market. With the market at its current



position in the property cycle, industrial properties located in secondary locations with adverse features are providing a riskier investment option than they were when market conditions were more favourable.

In the leasing sector there continues to be an oversupply of general property available relative to demand, however agents are reporting an increase in enquiry levels. To date however we have not seen any up lift in leasing activity.

Rockhampton

Have we potentially seen a stabilisation of the industrial market for Rockhampton? Prior to 2018, it had been a number of years since any substantial passive investment purchases of industrial properties had been made. This year, the recent transaction of the Siemens workshop shows 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. Agents report that the good interest in the property was a result of the security of the tenant and the unexpired lease term and some renewed positive market sentiment.

Another notable sale in 2018 was of a workshop in Wade Street, Parkhurst. This was a \$2.8 million transaction to an owner-occupier for a large

industrial workshop and shows the return of the owner-occupier market at this price bracket. Most other sales that occurred throughout the year were in the sub \$1 million price bracket.

These sales throughout the year could indicate that we have seen the bottom of the market and that a recovery may be on its way. With news of some committed and some potential major projects in the pipeline for the region (Rookwood Weir, Clarke Creek wind farm, Shoalwater Bay facilities upgrades and the Rockhampton Ring Road), there may be more positive news for the sector heading into 2019. Rental rates appear to have remained relatively stable.

The sector of the market that has seen very limited activity for 2018 is vacant industrial land. There appears to be relatively weak demand for this at present, with most buyers opting for established premises.

Gladstone

We saw an increase in activity in the industrial market in 2018 in comparison to previous years. Rentals appear to have stabilised and sales activity has picked up.

2018 also saw the continued activity of investors to the market, which appeared to kick off in late 2017. The passing yields show a range of about 12 to 13 per cent on some of the more notable



1 Anson Close, Toolooa (Source: www.realcommercial.com.au)

investments sales (1 Anson Close and 14 French Street), however we note that in most instances the rentals are considered above market and we have seen variances of around three to five per cent between the passing yields and analysed market yields. Re-sales of properties previously purchased during superior market conditions are still occurring, showing substantial decreases in this time. The most recent re-sale is of industrial land in Callemondah. The 4,152 square metre parcel was purchased in 2012 for \$975,000, and recently re-sold for \$300,000, showing a reduction of 69 per cent.

Rentals appear to have stabilised for new leasing and agents report increased enquiry.



Wide Bay

In broad terms, the Wide Bay's industrial property markets have experienced stable and steady market activity and have been far less volatile compared to the regions to the north. Growth in rents, land values and improved property values has been very low to non-existent.

Select properties and sub markets have seen a flutter of activity such as Bundaberg's industrial market along improved transport routes in Kensington and Thabeban. The leasing of two large transport terminals in Thabeban (at circa \$100 per square metre and approximately \$400,000 each tenancy) and the new construction of commercial industry and retail development in Kensington demonstrates an improvement in the marketability in these localities.

Mackay

The continued improvement in the regional coal mining industry is now having a positive impact on the industrial property market in Mackay.

A sale contract over a two hectare site at Diesel Drive, Paget has recently settled at a price of well over \$2 million. This is the most substantial land transaction that we have seen in many years. This site is located at the southern end of Paget and will eventually benefit from connectivity to an improved road network, including the Walkerston Bypass, the

corridor of which was gazetted by the Department of Transport and Main Roads in August this year.

Additionally, we are aware of a 3,207 square metre industrial complex on a 1.97 hectare site at 2 Commercial Avenue, Paget which is under contract at the date of writing this report on a vacant possession basis. It includes an adjoining 1.42 hectare vacant industrial site. The contract price remains confidential and settlement is due at the end of the month. The scale of this property indicates renewed confidence and follows on from an earlier sale at 7 Commercial Drive, Paget for \$4.85 million for a similar size building with a substantially smaller land component which was purchased for owner occupation.

Sunshine Coast

The industrial market on the Sunshine Coast went through a period of strong activity during 2018. The majority of this activity was seen in the owner occupier market for sub-\$1 million properties.

We noted significant update in vacant land throughout the Sunshine Coast, though primarily in the established estates at Bells Creek and Coolum. We also noted that Stockland released their first industrial area at Aura, which has seen significant sales activity with a mix of developers, owner occupiers and investors in place.

Generally the most active part of the market was the development of smaller strata style holdings of less

than 300 square metres in size that were aimed at the owner occupier market. This market generally notes values from \$1800/sqm to \$2400/sqm for new stock, with the majority of the recent sales over \$2000/sqm.

We have seen a drop in overall vacancy levels also during 2018. This has led to an increase in rental levels. Modern stock is now typically over \$100/sqm gross pa across the board with new purpose built holdings generally over \$120/sqm gross pa.

While there have been no significant sales of larger investment holdings during 2018, ancillary evidence of smaller holdings have indicated a continued firming of yields with good quality assets with strong lease covenants now generally below 7.5%.





Northern Territory

Darwin

Before we address the industrial market specifically, let's look at one of the year's biggest events and how it is set to shape Darwin's economy.

The historic visit to Darwin in November by both the Australian and Japanese Prime Ministers to officially open the Inpex project was also an opportunity for the Commonwealth Government to announce the long-awaited City Deal for Darwin CBD.

This involves the contribution of \$100 million each from the NT Government and the Commonwealth Government to enhance the CBD, with significant expected multiplier effects from private investment. The centrepiece is the relocation of a large part of Charles Darwin University's suburban campus into the CBD adjacent to the GPO.

Charles Darwin University boasts over 23,000 students and in fact already has a small campus at Darwin City Waterfront adjacent to the CBD, however it should be noted that many of these students are at other campuses such as Alice Springs and Katherine. More importantly, Charles Darwin has a high proportion of students who study externally and there will be no direct benefit to them from this relocation.

The challenge will be to continue to attract more international students to Darwin, marketing not only the University's high calibre of education but also

its closer proximity to South-East Asia, from where many of these international students come. This is a very competitive market with larger, better-known cities of Melbourne and Sydney still dominating the interest of many of these prospective students.

The trend toward relocating education centres into CBD areas has revitalised some other flagging CBDs, with Newcastle (New South Wales) and Launceston (Tasmania) being two of the latest cities to embrace the concept. Newcastle in particular has seen a strong increase in property development proposals to support their CBD campus however this may not be immediately replicated in Darwin due to the availability of existing accommodation and the nature of Charles Darwin University's student cohort.

As we draw towards the end of the year, general property markets in Darwin remain lack lustre. The industrial sector remains weak with a relatively high level of vacancy evident, especially for older stock. Some deals are being done for pre-committed tenants, however generally speaking, conditions did not improve throughout the course of 2018 and at this time it is difficult to see any reason for improvement in 2019.



Western Australia

Perth

The broader Perth industrial property market remained subdued during 2018, with these market conditions coordinating 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 that there is minimal enquiry 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 being evident.

Face net rental rates for prime industrial warehouse premises tend to range between \$75 and \$90 per square metre per annum, whilst rates for secondary quality space are commanding between \$50 and \$65 per square metre per annum. Whilst 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.

From a purchase perspective, demand for industrial property was generally also subdued with a low volume of transactions during the past 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 counter intuitively this has led to yield compression for such properties despite the general malaise that has engulfed the broader Western Australian economy.

Yields for prime industrial assets tend to fall between 6.25 and 7.5 per cent with yields for secondary industrial properties much softer. Some of the more notable transactions during the year include:

- 4-6 Temperley Close, Welshpool - \$12.65 million; March 2018.
- 7 Ashby Close, Forrestfield - \$20.5 million; April 2018.
- 100 Chisholm Crescent, Kewdale - \$14.5 million; June 2018.
- 7 Sobek Pass, Bibra Lake - \$10 million; July 2018.

Discussions with 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



100 Chisholm Crescent, Kewdale (Source: www.commercialrealestate.com.au)

number of prospective buyers as opposed to pricing, particularly for those sites less than two 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 have been sluggish. Further south and the first industrial lots have been released in the Peel Business Park (developed by LandCorp) located some ten kilometres north-east of Mandurah.

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 the link is 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 complete (estimated for the middle of 2019), NorthLink WA will provide a non-stop transport route from Morley to Muchea that is likely to directly benefit industrial estates in that corridor.



Australian Capital Territory

Canberra

The industrial market was relatively static for the past 12 months due to a number of factors.

Firstly, the ACT government has been increasing local rates for commercial properties across Canberra which has received attention and criticism from the media, property owners and property professionals. These increases have put pressure on many local businesses operating in industrial areas. Coupled with a tightened lending environment, a pending federal election and possible interest rate hikes, consumer confidence across the ACT remains subdued.

Industrial leasing demand is improving, however rents remain stable generally with a continued need for incentives. The outlook for the Canberra and Queanbeyan industrial markets is for increasing take-up levels over the next 12 months. There is currently a lack of sites in Fyshwick and a limited amount in Hume that allow for large, rigid vehicles.

The ACT government industrial land release strategy includes the release of 110,000 square metres of land across four industrial estates over the next three years. In the short term, releases of general industry land in Hume will continue pending a new supply of mixed use industrial land coming online in three new estates in Symonston (2020-21), Fyshwick and Majura Valley (Pialligo, 2021-22). As a consequence, land

availability has outpaced demand in the marketplace (Source: ACT Land Release Program 2018-19 to 2021-22, p11).

Notable market activity:

- **27-29 Raws Crescent, Hume** - \$2.657 million - 15 March 2018 - 2,600 square metres of high clearance warehouse tenanted to local metal fabrication company on a five year lease beginning September 2017 with a five year option.
- **36 Kendall Avenue, Crestwood** - \$2 million - 05 November 2018 - 7,672 square metre vacant land situated on prominent corner block in Queanbeyan industrial area. Block zoned IN1 General Industrial zoning to suit a range of uses.
- **2 Goolwa Place, Fyshwick** - A 2018 built, 1,200 square metre warehouse in high exposure location. Fully leased to two national retail companies.