HERRON TODD WHITE COMMERCIAL

Industrial

October 2019

National Property Clock: Industrial

Entries coloured purple indicate positional change from last month.

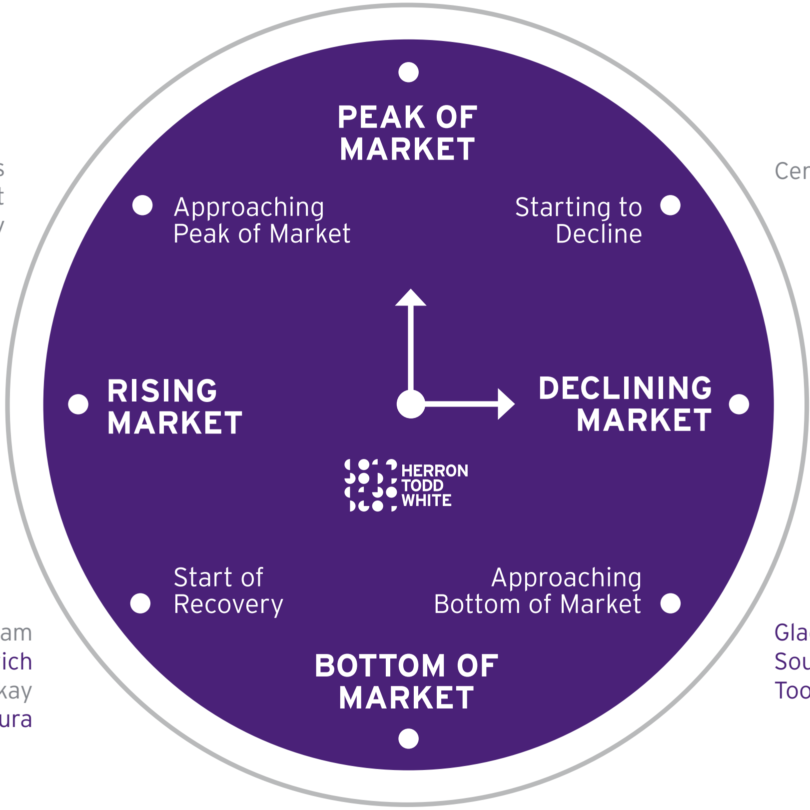
Alice Springs
Ballina/Byron Bay
Coffs Harbour

Gold Coast
Lismore
Melbourne

Brisbane
Geelong
Illawrra
Southern Highlands

Southern Tableands
Sunshine Coast
Sydney

Central Coast



Echuca
Hobart

Newcastle
Orange

Adelaide
Bundaberg
C'berra/ Q'beyan
Hervey Bay

Horsham
Ipswich
Mackay
Mildura

Gladstone
South West WA
Toowoomba

Cairns
Darwin
Perth

Rockhampton
Townsville

HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

While industrial property is often seen as the gateway to commercial investing, it's still a sector filled with major sales and leasing transactions that help drive and direct the market.

This month, our teams take a look at the big deals in their industrial sectors and what they mean for commercial holdings overall.

Sydney

The Sydney metropolitan industrial market remains an attractive home for capital with investors chasing yields and potential for capital growth. The effects of this current demand are partly driven by a lack of available supply. Demand remains strong across most sectors of the market, from entry level to large scale assets.

In the second quarter of 2019, approximately 70,000 square metres of industrial supply was added which is 46 per cent below the approximate 130,000 square metres added in the same quarter of 2018.

Industrial land values have grown at a reported 14 per cent annually over the past five years. Indeed, the New South Wales Valuer General has recently undertaken land valuations across the state that resulted in significant growth in industrial land values, with industrial land showing the strongest overall increase amongst all uses. The average industrial statutory land value increased by 17.5 per cent. Notable local government areas that have seen increasing land values include Cumberland and Blacktown.

The lack of land supply and increased demand for smaller assets has led to the development of a number of multi-unit strata developments, including Primewest's estate project, Interlink Strathfield at Enfield and a three level, multi-storey, 44 industrial unit plus 90 storage unit development at Revesby, known as The Mavis Quad in Sydney's South.

The upshot of the lack of supply and rising values is a further tightening of yields which we expect to be at or close to the firm end of the current cycle, with entry level stock often sitting at sub five per cent, particularly with respect to owner-occupier markets where owners place less reliance on yields and cash flow as properties are purchased for their own usage. Consequently, the achieved market yields for properties sold with vacant possession tend to be lower than typically associated with investment sales. Transactions are conducted predominantly on a per square metre basis improved.

Large format industrial yields are currently sitting in the general range of six to seven per cent.

Some recent examples of large industrial transactions, with A-REITS being the main purchasers in the market, include:

- An AMP Portfolio sale of assets in April 2019 at Kingsgrove, Blacktown and Villawood with a total GLA of 36,404 square metres which sold for $90.5 million. Villawood reflected $2,486 per square metre and a yield of 4.98 per cent.
- 13 Ferndell Street, South Granville sold in January 2019 for $24.225 million. This is a 2.67 hectare industrial parcel improved with a 15,302 square metre building leased to Bluescope Steel, a national tenant, for a passing rental of $1.543 million per annum net plus GST (reflecting $101 per square metre net). The sale had a short WALE of 1.71 years and reflected a rate of $1,583 per square metre of GLA and a yield of 6.37 per cent.

13 Ferndell Street, South Granville   Source: commercialrealestate.com.au

- 8 Williamson Road, Ingleburn, occupied by Viridian Glass, was purchased by Fife Capital in March 2019 for $66.3 million, reflecting $1,947 per square metre of GLA and a yield of 6.21 per cent. The site comprises an area of 11.33 hectares. The property includes a balance land component of 22,000 square metres.

The upshot of the lack of supply and rising values is a further tightening of yields.

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

Close to the Moorebank Intermodal Terminal, it also benefits from its proximity to the Hume Motorway and South Western Freeway.

8 Williamson Road, Ingleburn Source: realcommercial.com.au

Notable large format completions over the next 12 months will include a 27,500 square metre warehouse at the Crossroad Logistics Centre being developed by AMP Capital at Casula in Sydney's south-west and a 37,860 square metre warehouse for Target Australia within the Moorebank Logistics Park.

Another factor that has contributed to growth in the Sydney industrial market is the ongoing upgrades to transport networks that will serve to better connect industrial precincts across Sydney, particularly with respect to western Sydney. Current projects include WestConnex, Western Sydney Airport at Badgerys Creek, Pacific Highway upgrade, NorthConnex and the Northern Road upgrade. A further $50 billion has been committed to various future projects.

With respect to leasing, average prime industrial net rents sit in the range of $120 to $150 per square metre, with secondary stock generally sitting in the range of $95 to $135 per square metre net. Incentives decreased slightly for prime and remained stable for secondary space over the year to June 2019. Outgoings are expected to rise as lessors pass on increased land tax bills to tenants.

RENT

$120 to $150

average prime industrial net rents per square metre in Sydney.

A notable recent leasing transaction is that of 2 Tyrone Place, Erskine Park with a GLA of 21,142 square metres that commenced in July 2019 for an initial lease term certain of five years and for a commencement rent of $2.589 million per annum net face plus GST ($123 per square metre net).

2 Tyrone Place, Erskine Park Source: realcommercial.com.au

Newcastle

There have been no sales of larger industrial sites of any note in the area in recent months. Given this, we will look at the sale of a large parcel of industrial land located close to the port and CBD. The property, known as 110 Elizabeth Street, Tighes Hill is a 3.45 hectare parcel of remediated industrial land. The property is located at the corner of a major industrial intersection and has a frontage of almost 500 metres to the Industrial Highway. The property was sold in April 2019 for an undisclosed sum.

We note that there is currently a DA with council for a service station which will take up approximately 6,000 square metres at the Elizabeth Street elevation. For the remaining parcel, the initial plan is for a multi-unit retail warehouse development. The proposed development will comprise three lots with up to 17 units ranging from 110 to 800 square metres approximately. The development also includes significant common area parking and a car wash facility. This project will be an industrial retail park and will be the only development of its type this close to the CBD.

The demand will no doubt be fuelled by the convenience of the location.

It's likely that these units will attract strong demand from a variety of industrial retailers as well as general warehouse users. The demand will no doubt be fuelled by the convenience of the location. Proximity to the CBD and Newcastle Port as well as having direct access to the Industrial Highway, which essentially links the CBD to the Pacific Highway, will be attractive features to tenants. With the continuing development of the Honeysuckle precinct as well as new residential developments in Wickham and limited bulky goods retailers nearby, this creates a good opportunity for a range of tenants.

The effect on rents that this development will have is difficult to ascertain until the mix of tenants is more obvious, however the proximity to the CBD and services would indicate a medium to high level of demand, and we would expect lease terms of three years and above as tenants look to secure longer term tenancies.

Wollongong

The industrial sector continues to be the most buoyant of the three main commercial property classes, driven primarily by activity surrounding the port of Port Kembla, a profitable BlueScope steelworks, mining activity which has rebounded over more recent times and a strong Sydney industrial market.

Owner-occupiers and private investors are active while there is also an increased appetite for higher valued assets as illustrated by the June 2019 sale of 1 Darcey Road, Port Kembla to an owner-occupier for $8.6 million plus GST, reflecting rates of $965 per square metre of lettable area and $345 per square metre of improved land area. Investment sales have been scarce due to the lack of properties available.

Analysed market yields are hovering between six and seven per cent and even lower for sub-$1.5 million properties in industrial precincts near the Wollongong CBD.

Agents are reporting some upward pressure on rents due to limited stock with gross face rents typically ranging from $100 to $150 per square metre and even higher for smaller modern style warehouses.

Lismore

2019 has seen a number of large transactions take place in the Ballina industrial estate.

5 Piper Drive sold for $1.46 million to an owner-occupier, indicating a 5.92 per cent yield and $1,415 per square metre. The concrete tilt slab property was partitioned into two lettable areas and was previously occupied by the RSL Youth Club for gymnastics and boxing. The building comprised open clearspan warehouse with ground floor and mezzanine office with kitchenette, offices and change rooms and amenities. Another transaction was 33 Southern Cross Drive which sold for $1 million. This was a concrete tilt-slab, L-shaped building comprising three leased areas to local tenants each with amenities and kitchenette. This sale indicated a 6.14 per cent yield and $1,427 per square metre. 7 Convair was another notable transaction occurring in late 2018. A larger modern property with a floor area of 1,589 square metres, the property sold for $2.77 million indicating a 7.05 per cent yield and $1,743 per square metre.

We note significant variation between yields. The variation is in part related to the quantum and the nature of the purchaser and asset. 5 Piper Drive was an owner-occupier purchase and as traditionally occurs for properties suitable to owner-occupiers, indicated a lower yield, while 33 Southern Cross Drive and 7 Convair, as investment products, reflected stronger yields. With the higher quantum, the market traditionally demands a higher yield.

This is a common occurrence for much of the North Coast. The only exception would be for a national tenant on a long term lease which could drive the yield closer to owner-occupier yields.

We can't talk about big transactions without mentioning Byron Bay. In 2019, a vacant parcel of industrial land at 6 Wollongbar Street sold for an astronomical $1.75 million, indicating $1,478 per square metre. This site was purchased by a developer for a high density development. This sale is considered an outlier with no other evidence indicating sales at this level. The last known vacant land sale in Byron Bay occurred in 2015 with two larger parcels of 4,020 square metres and 3,881 square metres, showing $491 per square metre and $509 per square metre.

Victoria

Melbourne

The industrial market continues to be driven by a supply shortage and growth in e-commerce creating a greater need for warehouse and logistics space. Melbourne's industrial market on the back of this demand has continued to perform strongly over the past 12 months. This has seen yields sitting at 30-year record lows.

Land values have also increased significantly throughout 2019, especially industrial areas within proximity of major road linkages. Examples of this include a vacant site at 1-4/678 Boundary Road, Truganina which is a 25,110 square metre site that sold at $237 per square metre, a considerable increase from the $102 a square metre achieved 12 months earlier.

A 30 hectare site also in the west at Altona North sold to the superfund ISPT for $60 million, which equates to $200 per square metre, representing a near 100 per cent increase on its prior sale 18 months earlier.

When it comes to existing built form industrial assets, the high value transactions also appear to be centred around the west. An example of this is 28-30 Marshall Court, Altona, which is a 20,200 square metre industrial logistics facility that sold for $29.5 million, indicating a rate of $1,460 per square metre.

This has seen yields sitting at 30-year record lows.

28-30 Marshall Court, Altona Source: realcommercial.com.au

In terms of high value leasing transactions, Arlec Australia recently signed a pre-commitment to a ten-year lease over premises at Fraser's West Park Industrial Estate warehouse facility in Truganina. In addition, Visy Australia has signed a pre-lease with Frasers Property for a 42,770 square metre purpose built factory at 27 Doriemus Drive, Truganina. As at June 2019, industrial rents in the west were ranging from $75 to $80 per square metre, with rents being slightly higher in the south-east at $85 to $95 per square metre.

Ongoing industrial development should ease supply issues in the near future, however, demand is set to remain strong in the west with continuing demand from e-commerce and logistics companies that require a location within proximity of the CBD and major transport linkages. There is still some downward pressure on yields due to the low interest rate environment in which investors are seeking opportunities to acquire industrial assets to enhance their portfolios.

Queensland

Brisbane

There is strong investment demand at present. Private investors generally seek well leased, modern assets in prime locations (close to major transport routes and infrastructure) along with long WALEs and certain terms. We expect to see this stronger sales activity continue through the remainder of 2019 due to the low interest rate environment, however we do note that investors are holding on to well leased, quality assets due to the lower risk profile these properties offer.

The first half of 2019 saw the Brisbane industrial market continue to demonstrate the cautiousness shown in 2018. Prime and secondary precincts were increasingly tightly held with limited properties offered to the market, a major factor in the decline in sales volumes. Mid 2019 post federal election saw confidence return to sellers and subsequently an increase in sales volumes. The three sales listed below have a combined purchase price of $420 million and show that confidence is returning to the Brisbane market.

40 Schneider Road, Eagle Farm sold for $102.5 million in June to Charter Hall. This is one of Brisbane's major bus depots leased to the Brisbane City Council on a 20-year term. The property sold with a 19.5-year WALE at a reported initial yield of 5.08 per cent.

40 Schneider Road, Eagle Farm — Source: JLL

99 Sandstone Place, Parkinson sold a 50 per cent interest for $134.2 million in June to DWS. This property sold with a lease term certain of 13.4 years to Coles Group and serves as their primary refrigerated facility covering south-east Queensland and northern New South Wales. The sale reflects a reported market yield of 5.34 per cent.

105-137 Magnesium Drive, Crestmead sold for $183.6 million in July to Charter Hall. This property was leased to Metcash who reportedly renegotiated their lease to reflect a ten-year term certain and a yield of 5.35 per cent.

As demonstrated by these sales, institutional investors are able to acquire larger assets on sub-six per cent yields. Other prime investment yields

99 Sandstone Place, Parkinson — Source: JLL

continue to tighten, generally ranging from six to seven per cent. On the back of this, secondary yields have also seen some firming with recent sales showing a range of seven to eight per cent. Despite the flourish of activity post-election, we expect sales volumes to remain strong for the remainder of 2019.

The three sales listed below have a combined purchase price of $420 million and show that confidence is returning to the Brisbane market.

Gold Coast

The Gold Coast has had very limited large industrial transactions in the year to date. Transactions have mostly been small to medium size industrial properties.

However, one notable sale has been the Billabong head office complex, based in Burleigh Waters within a prime location less thank four kilometres from the Burleigh Heads CBD and beach front. The property sold on a leaseback to Billabong (which was recently acquired by Californian based Boardriders). The sale price of $38.46 million resulted in an analysed yield of 7.8 per cent based

HERRON TODD WHITE COMMERCIAL

on a net annual rent of $3 million and rate per square metre of lettable area of $2,575. The yield is considered to be at the higher end of the range for an asset of this size, however understandable given it would have a higher than average risk of re-letting based on its large office footprint of almost 9,000 square metres which would likely require sub-division into smaller tenancies if put to the leasing market in future. Furthermore, the leaseback rent is considered to be at a premium (on a single tenancy basis), reflecting circa $200 per square metre per annum net. The improvements also included a 790 square metre retail showroom and warehouse space of 5,500 square metres on a site of 33,300 square metres. The sale price is considered to reflect relatively robust market conditions at present for large industrial properties with strong lease covenants.

Burleigh Connection Road, Burleigh Heads Source: realcommercial.com.au

2019 has also seen the announcement of a new 21 lot industrial subdivision at Carrara on the central Gold Coast adjoining the Pacific Motorway. Reportedly acquired for circa $18 million, the 25 hectare parcel recently received Council approval and a formal marketing campaign is imminent. Englobo industrial subdivisions of this scale are few and far between on the Gold Coast and the Carrara site is expected to meet the pent up demand for industrial land coming particularly from the southern Gold Coast market.

As a wrap, we would anticipate a time of quiet confidence in the Gold Coast industrial market, however with a proceed with caution caveat.

As a general observation, agents are lately reporting a drop in yields (for low to medium value assets) on the back of the two cash rate drops this year and improved borrowing costs. With rental levels holding firm, this is helping bolster industrial property values as land supply remains tight in most industrial precincts throughout the Gold Coast. This, coupled with the current sluggishness of the Australian economy (including most notably retail spending) and diplomatic tensions worldwide, can be positive for the industrial market, which investors tend to view as a sort of real estate safe haven much akin to the investor rush towards gold under turbulent macro-economic market conditions. As a wrap, we would anticipate a time of quiet confidence in the industrial market, however with a proceed with caution caveat.

Eastlake Street Carrara, QLD Source: commercialrealestate.com.au

Sunshine Coast

The industrial market continued to strengthen during 2019. While there have been very few high-profile sales settled to date, underlying fundamentals continue to improve.

5.5% to 7%

Yield range for smaller strata stock across the Sunshine Coast

We have seen further land developed in the Aura estate south of Caloundra with land prices of $250 to $300 per square metre generally being achieved. The majority of larger sheds being constructed in this area are to be owner-occupied with strata development seeing values in the $2,000-plus per square metre range.

The lack of further land development in the Kawana and Kunda Park precincts is driving rental levels higher, even for larger sheds. Some recent rentals that we are aware of include a circa 1,500 square metre modern shed at $135 per square metre gross per annum and a circa 2,600 square metre modern shed at $131 per square metre gross per annum. This shows general rental growth of circa 15 per cent over the past three-year period for similar quality product. Rentals are also increasing for smaller strata titled holdings with recent achieved rents in the $150 to $180 per square metre gross per annum range across the Sunshine Coast.

Yields are generally in the 5.5 to seven per cent range for smaller strata stock which appeals primarily to owner- occupiers. These returns are not attractive to investors generally, though owner-occupiers are seeing this as a good alternative to leasing given lending rates are typically sub-five per cent across the market.

There has been a recent sale of an industrial holding in the Noosaville industrial estate. It is a modern, good quality shed with three tenants in place that sold for $4.2 million indicating a yield of 6.33 per cent with two local tenants and one national tenant in place with a WALE of 3.22 years. This indicates the strength in this market with a number of well leased assets now achieving yields in the sub-seven per cent range over the past 18 months.

Toowoomba

Leasing demand for industrial properties in Toowoomba has been moderate to date in 2019 with an increased level of vacancies. Face rentals have been relatively static, but lease incentives are often required to secure tenants.

Demand from owner-occupiers for vacant industrial properties has been moderate to strong with a number of vacant possession sales recorded. Recent sale transactions have shown that sale prices have remained firm.

Demand from investors continues to be strong with premiums achievable for good tenants on long term lease terms. Generally net yields sit between eight and nine per cent for fully leased properties with a sub-eight per cent yield only achieved for national tenants on long leases.

There have been limited small lot industrial subdivision developments in the city of Toowoomba over the past ten years. This is set to change with two proposed developments in Robson-Hursley Road in Torrington. The proposed subdivisions will contain a total of 29 new lots with areas between 1,000 and 8,500 square metres.

The Townsville industrial market is starting to show early signs of recovery in some sectors, however it is not yet sufficiently widespread to call the overall market as being at the start of recovery.

Major sales of note to date in 2019:

- 310 Anzac Avenue, Harristown – Sale price of $2 million – 1,336 square metre facility leased to a national tenant with an unexpired lease term of 5.31 years. Passing net yield of 7.5 per cent.
- 1-3 Tait Street, Torrington – Sale price of $1.58 million – Vacant site of 8,348 square metres with good exposure to traffic on Boundary Street. Site was improved with gravel hardstand and fencing. Price reflects a rate of $189 per square metre of land.
- 523-525 Boundary Street, Torrington – Sale price of $4.15 million – a 1.4 hectare site improved with an older industrial building of approximately 1,100 square metres with additional yard area. Sold with vacant possession to local buyer.

523-525 Boundary Street, Torrington Source: domain.com.au

Townsville

The industrial market is starting to show early signs of recovery in some sectors, however it is not yet sufficiently widespread to call the overall market as being at the start of recovery.

To date in 2019, the biggest settled industrial sale to have occurred was for a large industrial complex on a 1.34 hectare site occupied by two tenancies. The sale price of $3.3 million reflected a yield of just over nine per cent with a WALE of 2.01 years.

There continues to be interest in manufacturing and heavy industry big asset property with strong lease fundamentals. Several transactions occurred during 2018 reflecting yields between eight and 9.6 per cent. There are a number of big asset properties currently on the market priced between $7 million and $10 million.

We have also seen a good number of industrial land sales during 2019 on a range of lot sizes from 2,200 square metres to over one hectare. A number of these have occurred in the Northern Link industrial estate, which are likely to be developed for distribution and service industry users.

Rockhampton

Sales activity in Rockhampton's industrial market has been limited in the 2019 period thus far, with the most recent major transactions having occurred in the later part of 2018.

These more substantial sales were that of the Stramit workshop (41-49 Johnson Street, Parkhurst) and the Siemens workshop (292-

296 Alexandra Street, Park Avenue). The Stramit workshop transacted in November 2018 for a purchase price of $5 million showing an analysed market yield of about 8.9 per cent. The improvements were purpose built for Stramit and there was about four years remaining on the current lease term.

The Siemens shed transacted in October 2018 for a purchase price of $3.3 million, showing an analysed market yield of about eight per cent. The owner had recently constructed an extension for the tenant and a new lease was struck, with about 4.8 years remaining on the initial lease term. These larger transactions demonstrated renewed investor confidence in the Rockhampton industrial market.

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

There have been very few transactions of industrial land in recent years. Most recent industrial land sales in Gracemere demonstrate the poor demand at present with land values appearing to have softened further over the past 12 to 24 months. Some more recent sales of average size land parcels in more established industrial precincts of Rockhampton have shown a stabilisation of land values in these areas.

Owner-occupiers have remained active throughout 2019 and recent transactions of industrial properties show activity by this buyer type up to a price point of about $1.5 million.

Gladstone

As a result of weak market sentiment and limited quality properties listed for sale, there have been no major sale transactions of industrial properties in 2019. Of note is the sale of a 2.8 hectare medium impact vacant industrial site in March this year.

The site in Benstead Road, Callemondah sold for $1.55 million. There is an easement at the rear of the property of 5,096 square metres, reducing the developable area of the site to 22,914 square metres. The sale reflects $55 per square metre overall or $68 per square metre over the developable area of the site. The land was listed for sale by Economic Development Queensland and purchased by a local engineering company.

Whilst rental rates generally appear to have stabilised, one recent rental transaction of a large engineering shed (approximately 2,209 square metres) negotiated in November 2018 showed a reduction of nearly 60 per cent from the rental that was established in 2014. This rental demonstrates the continued volatility in the market and the weak demand for large industrial workshops. It indicates very limited ability for businesses in Gladstone to afford rental commitments in excess of $200,000 per annum gross.

Wide Bay

2019 has been a relatively stable year for the Wide Bay's industrial market. A low and steady rate of sale has occurred throughout Hervey Bay and Bundaberg, which has been typical of the market in previous years.


235 Connors Road, Paget Source: c commercialrealestate.com.au

New industrial land is set to be brought on to the market around both the Bundaberg regional and Hervey Bay airports. The respective local governments are developing the land aimed towards airport industry uses. Stage 1 of the Dury Lane Industrial Park at Hervey Bay is now on the market. This demonstrates a renewed confidence in the local industrial land market which has been over supplied for some time.

Mackay

A 6.633-hectare industrial development site at 235 Connors Road, Paget is presently under contract after being offered for sale by auction on 14 August. If this sale proceeds to settlement, it will be the first transaction of this type since 2014 and signals that a steady post-mining downturn recovery is now underway in Mackay. This site is located on the corner of Crichtons Road and is zoned high impact industry. An area of 2.643 hectares is encumbered by an open drain. The residual developable area equates to 3.99 hectares. Analysis of the as yet undisclosed contract price indicates a value level marginally below peak levels earlier in the decade.

If this sale proceeds to settlement, it will be the first transaction of this type since 2014 and signals that a steady post-mining downturn recovery is now underway in Mackay.

COMMERCIAL

HERRON TODD WHITE COMMERCIAL

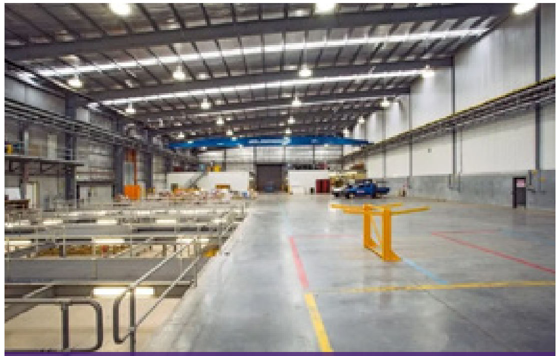
South Australia

Adelaide

Adelaide's industrial property market has continued a steady recovery over the preceding months as investment in infrastructure projects as well as the defence and health industries continues to buoy the market. The various transportation upgrades continue to progress, cutting travel times to the industrial hubs around the state's northern and southern areas. The cash rate has been left at the historic low of one per cent, however economists and analysts alike have predicted future rate cuts, which would further reduce the cost of capital in an attempt by the RBA to increase investment in both residential and commercial property markets.

The table below shows a number of the major transactions to have occurred in the Adelaide industrial market in the past six to nine months:

Centuria Industrial Real Estate Investment Trust (REIT) tops the list of purchasers after acquiring the 13,007 square metre facility in Edinburgh. The $19.5 million sale price reflected an initial yield of seven per cent. The industrial building is situated on a site of 6.5 hectares that features extensive hardstand and a site coverage ratio of just 20 per cent. 250 Regency Road in Regency Park, a suburb that HTW identifies as a premier industrial locale in Adelaide, is an industrial property that comprises 6,900 square metres of lettable floor space over four separate buildings, a hardstand of 2,000 square metres as well as B-double access.


32-54 Kaurna Avenue, Edinburgh Source: commercialrealestate.com.au

	Address	Sale Price	Site Area (m2)	Building Area (m2)	$/m2 Building Area	Reported Yield (%)
1	32-54 Kaurna Avenue, Edinburgh	$19,500,000	65,000	13,007	$1,499	7.00
2	250 Regency Road, Regency Park	$14,025,000	42,900	6,900	$2,033	VP
3	42-56 Grand Junction Road, Kilburn	$10,400,000	23,100	12,045	$863	VP
4	29-33 Woomera Avenue, Edinburgh	$3,500,000	22,410	8,600	$407	VP
5	7-13 Wilson Street, Royal Park	$2,650,000	4,375	2,507	$1,057	NA
6	6 Priority Court, Edinburgh North	$2,500,000	18,300	3,699	$676	VP

The sales listed above indicate that the northern suburbs are the hot spots for industrial sales in 2019. The inner-northern suburbs of Kilburn and Regency Park remained popular for investors and owner-occupiers alike looking to secure industrial property, while the northern suburb of Edinburgh was also on the radar. Transactions in the southern parts of the state were much less common at these high price levels, however industrial properties in Melrose Park and Edwardstown transacted for $2.25 million and $1.96 million respectively. Sales research indicates that the majority of transactions in the southern industrial precinct occurred in the suburb of Lonsdale.

On the leasing front, major leasing deals have occurred in the inner northern suburbs of Regency Park and Dry Creek and also further north in Green Fields. Leasing transactions have been much less common throughout 2019 in comparison to the previous year, with the record low interest rates and low cost of capital encouraging more potential tenants to become owner-occupiers instead. Adelaide remains an enticing opportunity for investors, with yields registering around one per cent higher than our eastern seaboard counterparts, however rental growth within the Adelaide market is stagnant, as opposed to the growth in rental levels that Melbourne and Sydney experience. The inner west and inner north remain the most sought-after areas, with sharper yields in comparison to the south and north industrial precincts.

Infrastructure projects in the state are expected to increase in 2020 and beyond, as investment in the defence industry fills the gap left by the departure of major manufacturing facilities in the state. The state currently possesses $95 billion

HERRON TODD WHITE COMMERCIAL

worth of naval shipbuilding programs, as the $535 million transformation of the shipyard at Osborne is ongoing. The continued government investment in defence, healthcare and renewable energy will fuel the need for industrial property and should increase leasing demand throughout 2020.

The sales and reported yields identify that owner-occupiers are becoming active in the industrial market, mainly due to the compression of yields and the low cost of capital available to purchasers of industrial property.

Western Australia

Perth

To date in 2019, the Perth industrial leasing market has seen rental rates stabilise and there is a growing consensus that the industrial property market has reached the bottom of the cycle.

Premises suitable for heavy engineering, manufacturing and transport or logistics are experiencing higher levels of interest compared to those of a more generic nature or in secondary industrial estates. Generally however the number of leasing transactions remains subdued with many of those recorded to date in 2019 being pre-commitments. We have also seen a clear preference for sitting tenants to re-negotiate lease terms off-market rather than re-locate to alternative premises.

Face net rental rates for prime industrial premises tend to range between $80 and $105 per square metre per annum, whilst rates for secondary quality space are commanding between $50 and $70 per square metre per annum.

Some of the more notable leasing deals are highlighted below:

- Portion of 26 Cutler Road, Jandakot: Older style industrial premises of approximately 5,600 square metres plus hardstand was let to Gage Roads Brewing for a three-year term commencing July 2019 at a net face rent of $81 per square metre per annum;
- 47 Progress Way, East Rockingham: Modern industrial premises with a GLA of about 4,372 square metres plus one hectare of hardstand has been let to Boom Logistics for four years from March 2019 at a face net rent of $117 per square metre per annum;

47 Progress Way, East Rockingham Source: realcommercial.com.au

- 88 Sultana Road West, High Wycombe: Modern industrial premises of over 10,000 square metres GLA was leased from April 2019 to Fastbrick Engineering for a three-year term at a face net rent of $79 per square metre per annum;
- 4 Bickley Road, Maddington: Dulux has reportedly pre-committed to a new purpose built 17,000 square metre facility for a ten-year initial term at face net rent of $100 per square metre per annum.

Whilst there has been a tendency in the market to limit incentives (usually up to 15%) this has placed considerable downward pressure on face rental rates in recent years. The uptick in enquiry levels for particular industrial facilities however may see rental rates stabilise in the short term.

In terms of capital transactions, there has been a limited volume of sales of large scale (greater than 5,000 square metres GLA) industrial facilities in the year to date and whilst this is a function of limited stock (particularly good quality, securely leased assets) we believe it is more a reflection of local market uncertainty.

Somewhat counter-intuitively, the lack of opportunities has led to yield compression for those few industrial properties offered to the market despite the general malaise that has engulfed the broader Western Australian economy.

Yields for prime industrial assets tend to fall between 6.25 and 7.25 per cent with yields for secondary industrial properties much softer.

We highlight the following recent transactions:

- 103 Stirling Crescent, Hazelmere: $15.2 million in November 2018 at 8.03% initial yield.
- 19 Miles Road, Kewdale: $45.25 million in December 2018 at 5.84% initial yield.
- 16-18 Baile Road, Canning Vale: $18.1 million in February 2019 at 7.05% initial yield.

Premises suitable for heavy engineering, manufacturing and transport or logistics are experiencing higher levels of interest compared to those of a more generic nature or in secondary industrial estates.

REITs continue to be the most active purchaser profile in this space.

In terms of industrial land, there has been strong demand reported for sites in the Roe Highway Logistics Park released earlier this year. The developers have indicated that over 50 per cent of lots are already under negotiation, sold or pre-committed. A number of major tenants have taken up residency or announced their intention to do so including BP, Brady Corporation, Northline and Silk Contract Logistics.

The locational attributes, in particular the proximity to freight rail and RAV 7 access to a number of nearby major transport routes, are generating good demand compared to outer lying industrial land estates.

Northern Territory

Darwin

There have been very few large industrial property transactions in Darwin in 2019, reflective of current market conditions.

One of the main areas of development is the new Truck Central industrial subdivision which was completed by the NT Government's Land Development Corporation in 2018. This subdivision is located between Palmerston and Darwin, within easy access of the Port of Darwin and with Tiger Brennan frontage. As can be deduced from its title, the subdivision targets logistics industries, especially heavy vehicles, with larger sized blocks of 3,000 to 9,000 square metres.

There is a major BP fuel stop constructed in the subdivision which is designed to support heavy vehicles, adjacent to a three-hectare concreted road train assembly area. Also in the subdivision is the new NT Government heavy vehicle inspection facility. This has been purpose designed to be able to inspect up to three fully configured 53.5 metre triple road trains with drive through access.

The decision to lift the moratorium on hydraulic fracturing has led to hopes of the development of an on-shore gas and oil industry in the Territory, most likely centred around the Beetaloo Basin. The NT Government has already identified a 255 hectare parcel of land adjacent to the Katherine railway station (currently part of the Manbulloo pastoral lease) which has been rezoned to facilitate a logistics and agribusiness hub that would be able to provide support for that type of development.

Whilst it is prudent of the NT Government to ensure that adequate industrial land is available for these types of projects, it should be noted that there is no immediate demand. Assuming that areas such as the Beetaloo are developed, it will be a minimum of five years before the production phase would commence, which is when industrial land would be required. Proposals such as the Katherine logistics and agribusiness hub and the Middle Arm industrial precinct may languish for some years before there is genuine industry demand.

The decision to lift the moratorium on hydraulic fracturing has led to hopes of the development of an on-shore gas and oil industry in the Territory, most likely centred around the Beetaloo Basin.

Australian Capital Territory

Canberra

The Canberra industrial market has continued to witness stabilisation and level growth. Local commercial agents are reporting increased activity on the back of a stable residential market, improved consumer confidence and a less restrictive lending environment.

The ACT Government's Four Year Indicative Industrial Land Release Program is based on the current level of demand for industrial land. The program is intended to achieve a number of objectives, but in essence it is to increase the ACT Government's responsiveness to market changes by developing an inventory of land stock, where serviced industrial sites are available for immediate release. Land will be available across new estates in Symonston (2020-2021), Fyshwick and Majura Valley (Pialigo, 2021-2022) as well as Hume. The program aims to release 110,000 square metres over the next four years.

6% - 7%

Typical analysed market yields for sub $1.5 million properties in industrial precincts

Owner-occupiers and private investors are active while there is also increased demand for higher valued assets as demonstrated by the February 2019 (settled) sale of 2 Paspaley Street, Hume through Burgess Rawson for $10.3 million including GST (ten year lease until 2027 plus options to 2042); reflecting rates of $2,537 per square metre of lettable area and $810 per square metre of improved land area. Typical analysed market yields are between six and seven per cent and lower for sub $1.5 million properties in industrial precincts.

Queanbeyan continues to provide a desirable alternative for industrial owner-occupiers with municipal rates continuing to increase in the ACT, discouraging activity.