

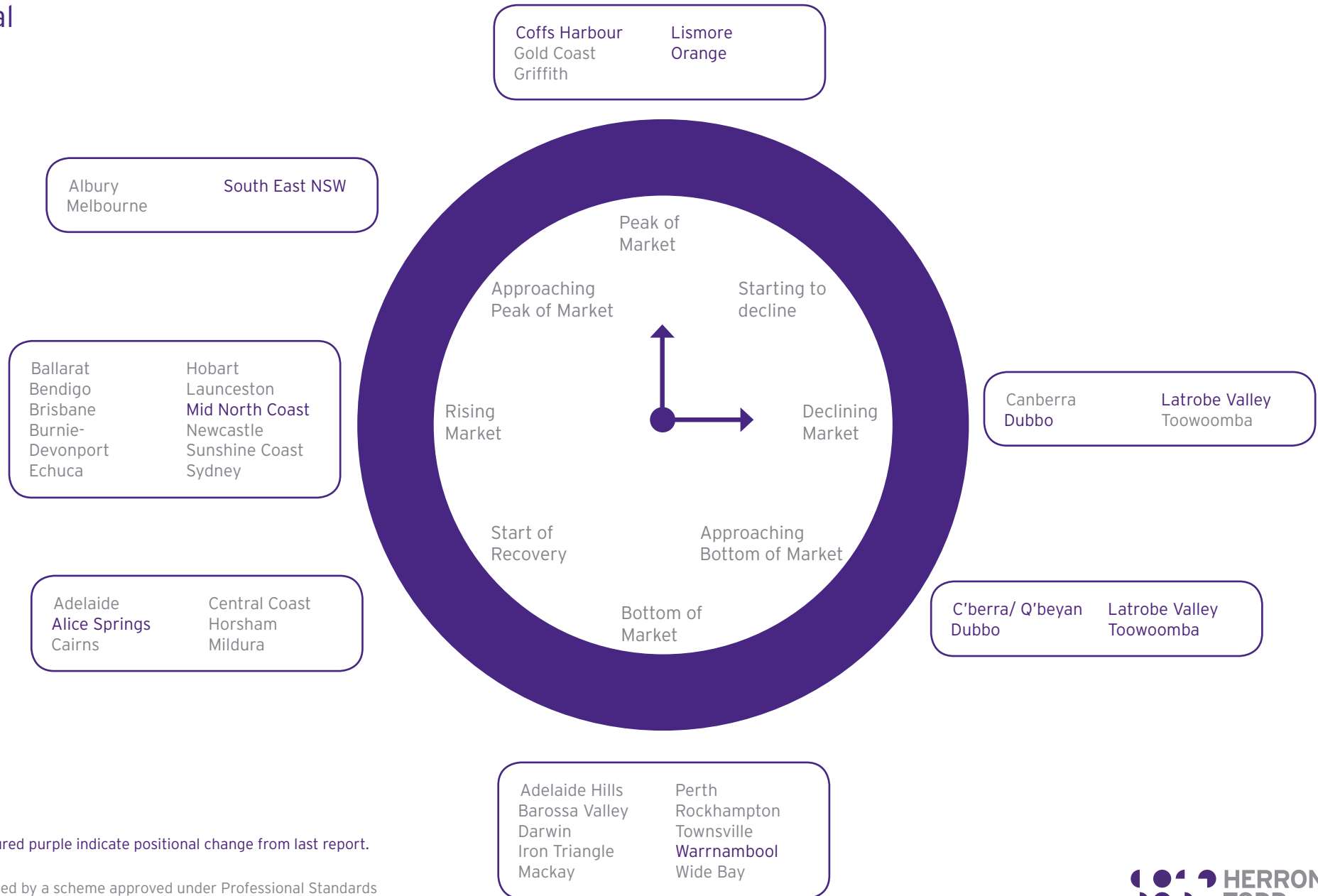
Commercial



National Property Clock

September 2018

Industrial



Entries coloured purple indicate positional change from last report.

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New South Wales

Overview

Innovations in design are not restricted to high-end residential and office properties. Industrial property has also evolved in 2018 to cater to the requirements of modern day tenants.

But of course, the elements that excite lessees in one part of Australia don't necessarily thrill those further afield.

This month, our teams give an overview of their industrial markets while highlighting exciting and innovative inclusions seen in today's industrial sector.

Sydney

Warehousing and storage are currently the key asset types for Sydney industrial. Tenants and owner-occupiers have been very active in the market and are seeking warehousing and logistics of a large format and storage within the strata space.

Clearance and access remain important features, clearance being crucial to the amount of volume a warehouse can hold and access that allows for trucks.

Good quality, functional office space is being seen as a requirement for most owner-occupiers and tenants. On site facilities such as cafes are the norm.

New development for industrial is at two ends of the scale - small storage units (40 to 150 square metres) especially in inner city areas such as Marrickville, Caringbah and Alexandria and large clear span,

higher clearance warehousing and logistics centres capable of handling large amounts of imported goods or high volumes for distribution. These are generally located in the western Sydney region.

The trend for strata development is a higher number of smaller units as opposed to a smaller number of larger units. These units don't just feature a typical industrial or manufacturing use. In many cases they are used as storage units, business offices and in some instances even small scale wholesaling and retail (zoning permitting). This new sector of occupier to the market has ultimately been a large contributing factor to the substantial price increases noted, as many of these properties are purchased on a price point rather than a square metre rate or a net yield.

The focus for large format industrial is centred around transport and infrastructure, with access to rail and road being a priority.

Food is also driving the industrial market particularly in areas around the Sydney Markets (for example Silverwater). Demand for good quality warehousing, cold storage and distribution is strong.

In South Sydney, small businesses needing to be near the city and airport such as professional services, printing, food, catering etc are driving the market, especially as old stock is redeveloped for residential.



Badgerys Creek Airport (Source: domain.com.au)

Infrastructure projects have been driving demand for industrial properties and land. There is much speculative buying happening, especially in the western Sydney region.

Major projects are driving demand. These projects include the North-South rail link, Badgerys Creek Airport and, whilst currently speculation, planned road and freight rail lines, including one that will connect to Erskine Park which is being considered but is not yet confirmed. Freight rail lines connecting from other intermodals are also being investigated.

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

Generally, the industrial market in Sydney has been through substantial growth over the past 18 to 24 months as a result of increased demand for good



investment assets, growth in rental income and increased demand from owner-occupiers. Increased demand from owner-occupiers, self-managed super funds and developers is currently driving the market.

Tightening of yields and rising of capital values have been experienced across most Sydney industrial precincts. The larger format, new warehousing is generally seeing a net yield in the range of 5.25% and 6%, with smaller industrial strata units displaying net yields of around 4% to 4.5%.

Owner-occupiers have been strong in the Sydney market, particularly in the construction, food, retail and technology sectors and primarily driven by record low interest rates, creating strong competition for assets which has driven capital values higher and seen yields firm with effective rents across Sydney increasing by an average of 5%. Rental growth remains strong.

Owner-occupiers continue to remain dominant in the city fringe, north and south Sydney, whilst investors remain active in all areas of the market.

In the strata unit market which is popular with owner-occupiers, recent off the plan developments have seen significant increases in their capital values, rising by over 30% in the past eighteen months.

South East NSW

Overall, we expect the market to continue on its current trajectory and for the most part remain neutral in 2018.

The industrial market is arguably the strongest of the main asset classes at the moment. There has been significant price growth in the past two years. Developers have returned to the sector with numerous small bay strata complexes under construction or recently constructed and selling well. Recently completed complexes include the Portside complex in Port Kembla and the complex at 7 Investigator Drive, Unanderra. Strata industrial units are attracting very high rates per square metre, but trading on price point. Although large portions are selling to owner-occupiers, these complexes have also been popular with self-managed super funds and mum and dad investors. There is however the potential for oversupply in this market.

Industrial rents are currently stable and local agents are reporting an increase in enquiry levels, particularly for smaller to mid-sized efficient warehouse tenancies that are well located. Demand for older style large heavy industrial space remains relatively soft given the struggling manufacturing and mining sectors.

Most of the activity in the industrial market is being driven by the Port of Port Kembla with logistics

a rapidly developing sector particularly in new vehicle transportation. There is a long term plan to facilitate containers but this will require rail and road infrastructure upgrades. There is the potential for the area to be a logistics hub.

The tight supply and rising values and rents of industrial property in the Sydney market is also impacting on the local market. The property market and broader economy are heavily driven by the low cost of borrowing at present.

Industrial values in the local market have increased relatively significantly over a short period of time. As such there is considered to be an increased risk of price volatility and an overheated market.

NSW North Coast

Typically within inland regional locations, transition to more innovative product and design tends to be at a slower pace. Our industrial areas tend to be relatively static with well established businesses and few new entrants driving change. Traditionally, we would expect to find standard industrial concrete tilt up metal sheds on larger sites with a relatively small and modest office component.

Change is more readily apparent in our coastal localities where population growth and change are more dynamic. New businesses are entering the market and require superior product with additional features catering for the higher expectations and



needs of their clients. Examples include fitness centres, bulky goods showrooms, funeral parlours, churches, brothels, trade wholesale and retail suppliers and large footprint retail complexes. This is effectively resulting in a morphing of industrial, retail and commercial. This is evident in older style industrial use (for example, motor mechanics) who are now incorporating a higher quality presentation with reception and office space creating an overall improved professional atmosphere.

We tend to see these superior components achieving 50% to 100% higher rents.

Given the increase in rents we have tended to see smaller strata units becoming more prevalent in part due to affordability (both to purchase and rent) with technology aiding this transition.

Byron Bay again is setting the standard on the Far North Coast of NSW. Traditionally the industrial estate has included an illegal component of residential accommodation and semi retail and commercial uses which has been strongly sought after. Byron Shire Council and developers have recognised this strong demand and have met the market with a new mixed-use precinct known as Habitat.

The Habitat development comprises a commercial precinct, live work units, shared indoor and outdoor meeting spaces, licensed café and food outlets, lap pool with shower and change room facilities,

open grassed area, children's play area and passive recreational use, barbeque facilities, covered ping pong tables, car parking and bicycle parking. The innovation has been well received.

Coffs Harbour

There are limited new innovations in the local market. Developers are providing industrial strata title units in response to market demand from small business, predominantly owner-occupiers. Industrial units are mostly 100 to 250 square metres in size, concrete tilt up construction and sell for \$1,500 to \$2,400 per square metre depending on size, position, construction and fit out. Typically there is minimal fit out supplied by developers unless for pre sales with tenant specific requirements.

Larger complexes are purpose built to a tenant's requirements and there are a number of developers operating in this market space catering for a more restricted market.

There is a trend for retailers exiting traditional commercial premises and gravitating towards industrial locations with office showrooms plus production areas within attached warehouses. The industrial market is exhibiting an oversupply of smaller industrial bays for lease which has led to a broader range of rental evidence. Industrial sales remain firm with firm yields linked to the prevailing low interest rate climate.

There is a shortage of land stock however the proposed development of land adjacent to the Coffs Harbour airport and at Valla to the south may alleviate some of the market concerns about supply.

Newcastle

Our focus this month is on the changing dynamics in industrial property situated close to the Newcastle CBD. In recent times we have seen land values in Mayfield West, known as the Steel River Eco Estate, overtake land values further to the west at Beresfield. Beresfield is at the base of the M1 Freeway to Sydney and close to the New England Highway, providing a favourable position for logistics and distribution users.

While both localities have seen value improvements in recent years, the market improvement at Steel River is primarily due to two factors. Firstly, up until only a few months ago, there was a shortage of vacant land available for sale in Mayfield West. Once the land to the eastern most portion of the estate was subdivided in 2017, having exposure to Industrial Drive and Tourle Street, agents have reported swift buyer enquiry and land sale rates at around \$170 to \$175 per square metre, where Mayfield West land had previously been selling at around \$135 to \$145 per square metre in 2016.

Secondly, the current construction boom in and around the Newcastle CBD has seen an increase



in smaller trades requiring storage and small office facilities in the area. We've seen a rise in small strata industrial developments such as My Space Commercial. With marketing aimed at the self-storage ownership market, this particular development, *"aims to provide storage solutions to more than just those living in smaller homes. Tradesmen, retailers and business owners alike are searching for more economical and simpler ways of storing their tools, excess stock, archived files, furniture, and supplies. And with so many new businesses operating only online or from their home, MySpace Strata Storage provides a permanent solution to their storage needs."* Stage 1 of this two-stage development has sold out, with Stage 2 nearing fully sold status. This development is just one example of the changing dynamics in the Newcastle industrial market that is relying more heavily on the residential and commercial boom in the CBD and moving away from a reliance on the mining industry and Newcastle's more traditional steel making facilities.

Gunnedah

Industrial demand in Gunnedah is driven equally by the agriculture and mining industries and their supporting businesses. The Mores Creek coal mine hit its peak this year, employing 450 people, and the proposed Shenhua coal mine is attracting new mining support businesses to Gunnedah.

New industrial sheds are being built for specific tenants at strong rents. Smaller industrial sheds are generally owner-occupied or leased by smaller businesses. Most recent demand has been pushed by existing businesses expanding including two gyms, local irrigation and bore companies and drought support tenants. Some demand is driven by new business moving to Gunnedah for agriculture, transport and mining services.

Vacancy rates are low for industrial sheds of all sizes at present. Tenants are currently looking for an affordable rent range for their business and good exposure. Gunnedah is located on the railway line which supports the three Gunnedah based flour mills and the coal mines. The inland railway line will have a hub located in the nearby town of Narrabri. This will support local business expanding further however due to the uncertainty of construction dates there has not yet been any influence on the local market.

Dubbo

Dubbo is a logistics hub, service sector and small manufacturing centre and has seen strong construction growth in the industrial sector in the previous two to three years. The transport sector also wants industrial complexes with at least B-double truck access if not road train, such as Purvis Lane and Yarrandale Road, which also offer light and heavy industrial zones.

The Blueridge Business Park has also seen strong

recent construction of stand-alone industrial space for distributors, including Mid-west Foods and Century Batteries, and surprisingly, smash repair workshops. The attraction of new space is the tilt up panel construction, utility of use, better office accommodation and compliance with regulations.

Strata industrial development is limited to having a retail component and is therefore concentrated on the main thoroughfares through Dubbo, such as Bourke Street (Newell Highway).

Like the commercial property market in general, industrial property that is subject to strong lease covenants has met with keen investor enquiry (6.3% to 7%) however there is also a strong owner-occupier element in Dubbo that underpins the sub-\$1 million market.

Orange

The industrial market in general is underpinned and impacted by the local Newcrest owned Cadia gold mine. As the mining industry and gold prices retract, there is a direct influence on the Orange industrial market.

Not dissimilar to other regional industrial markets, industrial property that is subject to favourable lease terms is met with keen investor enquiry, however owner-occupiers dominate and underpin the sub-\$1 million industrial market and properties are required to be priced right in order to sell.



Victoria

Melbourne

With the industrial multi-unit development market becoming saturated in Melbourne's well regarded industrial suburbs, developers are looking for new ways to set their product apart from the competition.

In recent times we have seen adaptable spaces with brighter designs and developers will modify the spaces to meet the purchaser's requirements. Such product is being strongly supported by investors assuming strong WALEs and owner-occupiers looking to operate their small businesses or meet their ever-growing storage needs.

The strata industrial space is also being driven by the requirement to redevelop dated and functionally obsolete industrial properties into smaller, concrete tilt panel strata developments. Most industrial strata spaces comprise a mix of concrete tilt panel and aluminium glazed facades to provide natural lighting and in turn, a positive work environment for their occupants.

We are seeing strata industrial developments continuing to grow in the inner-city markets, particularly in the inner west, north and east, due to high land values in these areas. An example of an industrial infill development is 10 Cawley Road, Yarraville 3013, where 50 small strata units have been constructed to provide both self-storage and office/warehouse unit accommodation (ranging between 107 and 203 square metres).



'The Assembly' - 329 Bay Road, Cheltenham VIC 3192
(Source: <http://theassemblybayside.com.au/project-overview/>)

Another development which is combining small scale storage units and high-tech office/warehouse units is The Assembly, located at 329 Bay Road, Cheltenham 3192. The development is nearing completion with most units being secured by pre-commitment sale transactions prior to completion. The development focuses on being aesthetically pleasing, as demonstrated by the architecturally designed units and incorporating vertical garden walls, as well as being pragmatic at the same time, creating the perfect balance for occupants.

Where larger land allotments are more readily available and affordable, such as in the outer west

and south-eastern markets, there has been an increase in large scale distribution centres being constructed, particularly within proximity of major transport routes. As the online shopping market continues to develop, many businesses are seeking to expand their operations to incorporate options for distribution to their customers. Smaller office to warehouse ratios are being constructed to coincide with technology advances and work-life balance, with employees able to work from home, creating a reduced requirement for high office to warehouse ratios in part.

Aside from the above, currently planned infrastructure upgrades and road projects will benefit the industrial corridors across Victoria and the sector as a whole. Projects include the Western Ring Road upgrade, CityLink Tulla widening, West Gate Tunnel project and the anticipated North East Link project. The completion of these upgrades will positively impact the aforementioned growth corridors across Melbourne and allow for further efficiencies with regard to transportation and logistics, particularly with regard to the growth in e-commerce and the importance of distribution centres. These infrastructure upgrades are creating stable links between destinations, reducing the risk of contingency when transporting goods.

Across the industrial market, rents have continued to stabilise with little movement noted. Yields on



the other hand are a different story, in particular well-located investment properties with strong lease covenants and WALEs, with yields continuing to firm.

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

Echuca

Industrial innovation has been relatively static given the relatively small level of demand in Echuca Moama. Smaller scale factoriette type developments are still a relatively good fit for smaller start-up businesses, although the bulk of demand continues to be from owner-occupiers. There has been a slight increase in uptake of solar panels across the commercial sector more generally reflecting the potential for reduced outgoings and ongoing savings.



South Australia

Adelaide

Market conditions throughout South Australia have not been conducive to a large investment in new builds within the industrial sector over the past five years, however the contraction of the manufacturing sector has seen a shift in design towards more holistic buildings that can accommodate all aspects of a business's operation. It's less often about manufacture and more often about logistics - product in and product out - and warehousing (high clearance).

We recently had a client construct an industrial building that included a 3,500 square metre warehouse and a 2,500 square metre canopy for covered loading and unloading. The same building had a small office and an equal sized showroom for product display and sales. Whilst in an industrial area, it is not seen as economical nowadays to have sales and a showroom in a separate location.

Environmental factors are also becoming common with new buildings often including a significant investment in solar power and battery technology; other measures such as LED lighting and sarking are also common. Whilst it would be nice to think that industrial users are now environmentalists, these measures are typically done to curb the cost of power. South Australia is enduring some of the world's highest power prices. This is having a significant impact on the industrial sector, which is

already enduring a range of other challenges.

We are also seeing advances in the quality of the office accommodation that is included within industrial buildings. The project discussed above included bike racks, change rooms and showers as well as the kind of meeting room space typically only seen in good quality CBD office space.

Renewal SA has a number of industrial projects predominantly situated to the north and south of the Adelaide CBD. These include the Grand Trunkway Estate and Port Direct developments to the north-west of the CBD and close to Port Adelaide, Edinburgh North to the outer north, Tonsley to the south and Seaford to the outer south.

- The Grand Trunkway Estate is a General Industry zoned development of 15 hectares and has strong transport links to the Outer Harbour, Interstate Main Rail Line and the Port River Expressway. Renewal SA also retains land for further stages 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 and export facilities and to the facilities within the Naval Shipbuilding Precinct which is within 1.2 kilometres.
- The Northern Adelaide Food Park, Edinburgh



Tonsley Park site in Adelaide's south (Source: renewalsa.sa.gov.au)

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 redeveloped into a mixed-use district with



residential, high-value manufacturing and commercial allotments. The Main Assembly Hub, an 80,000 square metre warehouse, has been adapted for re-use as the centre of Tonsley's social activity and features shops, cafes, services and facilities.

The General Motors Holden site, approximately 122 hectares at Elizabeth (north of the Adelaide CBD), is reportedly under contract to an interstate developer with a large portion of the site to be transformed into an innovative business park. Reports indicate that Holden will retain a significant portion of the site as a spare parts operation and the history of the site will also be recognised with a proposed heritage and hospitality centre.

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

The north-south corridor is integral to the delivery of the 30-Year Plan for Greater Adelaide. At present there are a number of stages and ongoing works underway for the project spanning some 78 kilometres between Old Noarlunga (south) and Gawler which include a series of strategic non-stop links to connect the expanding industrial and residential growth areas throughout the north of metro Adelaide.

Herron Todd White research has seen yields within well located, prime industrial locations tighten. Prime industrial yields across all precincts are typically between 7% and 8% whilst secondary yields are between 8.25% and 9.5%.

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



Queensland

Brisbane

Tenants continue to have a preference for new, premium grade space within prime locations and there is reportedly some pent up demand for such accommodation as this trend increases. Generally, tenants look for buildings that provide modern office space with modern services and amenities. Other must haves include concrete tilt panel improvements which is the preferred construction style as well as space that has good natural lighting, good internal clearance and clearspan accommodation. Flexibility in design, adequate car parking and on site manoeuvrability for trucks and heavy vehicles are also key facets.

A good example of a modern concrete tilt panel facility with a good internal clearance (circa 10 metres) and in a prime location is 71 Charles Ulm Place, Eagle Farm which recently sold for \$35.5 million with a passing yield of 5.88%.

For smaller stock, in particular the strata/workstore unit market, fully fitted out stock is preferred so purchasers look for turnkey products.

Tenants are seeking larger spaces, notably within the logistics sector with Silk Contract Logistics leasing a proposed modern style warehouse facility of 15,250 square metres at the Port of Brisbane as well as Quatius Logistics leasing circa 15,947 square metres at 70 Fulcrum Street at Richlands.



71 Charles Ulm Place, Eagle Farm (Source: Cushman & Wakefield)

New transport infrastructure in Brisbane is helping drive industrial demand through benefiting connectivity to existing major infrastructure. The Kingsford Smith Drive upgrade is set to improve traffic flow within the TradeCoast to allow more efficient access to the Brisbane airport and other transport routes. Other major infrastructure improvements include Brisbane airport's new runway, the Logan Enhancement project, Gateway Upgrade North project and Inland Rail which are all expected to drive industrial demand once completed.

There has been no significant rental growth within the industrial market. Tenants remain cost sensitive as developers offer attractive rents and incentives which is holding back rental growth. Prime net face rents generally range between \$100 and \$140 per square metre and for secondary assets generally between \$60 and \$110 per square metre depending on the precinct (with the TradeCoast generally being at the upper end of both ranges).

Yields continue to compress going into the second half of 2018 due to strong demand with prime grade yields generally ranging between 6% and 7% and 7.75% and 9.75% for secondary stock.

It appears that vacancies are showing steady improvement with incentives being offered to secure tenants typically ranging between 5% and 20% for prime assets depending on size and between



8% and 25% for secondary assets. Incentives are generally in the form of rent free periods however may include fit out contributions. Vacancies within prime locations are typically lower than that of stock in secondary locations.

Gold Coast

There is a rising trend in new industrial design of late for smaller industrial units or man caves which have experienced strong demand. More specific end users are being targeted which are of the demographic seeking storage for either leisure or luxury domestic items. This is a result of residential design moving towards smaller housing as well as the ageing population and downsizing of housing requirements in the older age brackets. These units have identified a need for more of a compartmentalized approach of having housing separated from storage or leisure units as a means of escape or necessity.

Several of these projects have been completed recently on the central Gold Coast with very good reception from the market, having fully sold. The design of one project in Molendinar in particular has introduced a new design layout for the Gold Coast of three level industrial units, which suit storage/garage space on the ground level for larger bulk items and two levels above more suited to storage of smaller items, office space or entertainment areas. This has obvious advantages from economies of scale and



Warehouse in Molendinar (Source: commercialrealestate.com.au)

cost perspective in terms of greater profit from lower building costs per unit and higher building coverage to land area ratios.

Conversely, there have also been projects of multiple medium size (circa 2,000 square metre) freestanding industrial buildings within a single title complex which have been well received by the market for lease. These developments have responded to a lack of industrial supply in the central and southern Gold Coast rental markets and suit investors looking for secure returns rather than profiteering from strata titling. These developments (such as the recent development at 27 Industrial Avenue, Molendinar) are also more commonly incorporating modern design features such as architectural style brick and aluminium cladding facades (as opposed to

traditional 100% concrete tilt panel construction) commensurate with modern commercial design incorporated in office or retail buildings.

Similar design concepts are being implemented with modern buildings (and existing buildings which have been refurbished) with the advent of the craft beer brewery and public bar trend that has taken hold in the Gold Coast with beer brands such as Balter Brewing, Burleigh Brewing Co, Black Hops Brewing and Lost Palms Brewing Co, situated in Currumbin Waters, Burleigh Heads and Miami industrial estates. These types of enterprises have helped create an artisan style hub amongst similar businesses in these areas and would offer scope for redesign or development opportunities for industrial stock in similar beachside locations within the Gold Coast for investors or developers. Following the popularity of these quasi-retail/ industrial centres, it is anticipated that there would be strong demand for more bespoke space in industrial locations that would suit smaller businesses of a more creative nature.

As an overview, the industrial market continues to be dominated by owner-occupiers (within the Gold Coast central and southern locations particularly). Yields are now reflecting sub 5% levels for owner-occupied industrial strata units, with smaller units recently breaching the \$3,000 per square metre mark and beyond as the lack of supply is driving prices further



upwards along with continued high demand due to the low interest rates.

Freestanding industrial buildings are showing yields of 6% to 6.5% in the sub \$5 million range for investor product and sub 6% (circa 5.50% to 6%) for owner-occupier product in the sub \$3 million price bracket.

The high owner-occupier activity has also flowed on to stronger rental demand as tenants have to compete with a lack of supply and against the backdrop of a generally thriving business environment on the Gold Coast at present. This has resulted in modest increases in rental rates in the past year or so.

Regional industrial locations such as South Murwillumbah are also experiencing a flow on effect of these market forces, with land values increasing recently. Developers are becoming active in these areas as the price point for new product is beginning to tip in favour of development viability once more.

Industrial land availability remains extremely low in most industrial areas on the Gold Coast with only one significant project in the pipeline on the southern Gold Coast that we are aware of, opposite the Gold Coast airport with a commencement date as yet uncertain.

Two recent interesting sales are:

21 Notar Drive, Ormeau, QLD, 4208

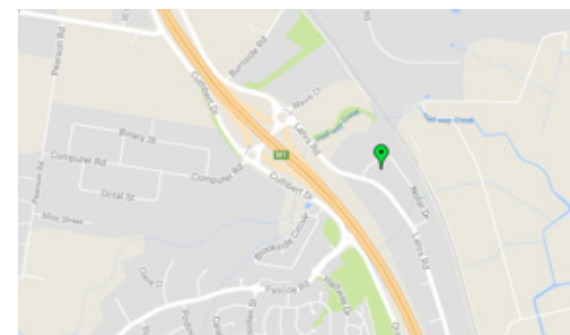
Lot 8 Survey Plan 139327.

Sale Date	16/02/2018
Sale Price	\$8,000,000
Land Area	20,510 m ²
Lettable Area	4,469 m ²
Passing Yield (%)	6.92%
Analysed Market Yield	6.92%
\$/m ² Lettable Area	\$1,790

Comments

Land/location: This is a level, irregular shaped, corner site that is at road height. The property has a dual road frontage to Lahrs Road and Notar Drive. The property is located in the Yatala Enterprise area and approximately 500 metres from the M1 Motorway. The site is classified Low Impact Industry under the Gold Coast City Plan Version 4. Land Area is 20,510 square metres.

Building: This is a semi-modern style, high clearance warehouse of sheet metal construction. It comprises 3,828 square metres of factory space, 376 square



(Photo: realcommercial.com.au Map: Google)

metres of ground floor office, 185 square metres of mezzanine space and a receiving/dispatch area of 80 square metres for a total of 4,469 square metres plus a 300 square metre welding bay. Site coverage is 22%.



The property sold leased to a national tenant, Stoddart Group, on a three plus two year lease which commenced 1 January 2018. Net income is \$654,000 (\$146 per square metre) plus recoverable outgoings of \$39,139 (\$9 per square metre) per annum. The WALE equates to 2.87 years. The sale analyses to a yield of 6.92% based on the following assumptions: passing gross income of \$693,139 per annum (\$155 per square metre inclusive of hardstand), estimated outgoings of \$139,739 per annum (\$31 per square metre).

Apportionment of sale: Land \$5 million (\$244 per square metre); Improvements \$3 million (\$671 per square metre). Further analysis of sale: Gross floor area \$1,374 per square metre, balance land \$200 per square metre.

27 Millennium Circuit, Helensvale, QLD, 4212
L2 SP133900

Sale Date	06/03/2018
Sale Price	\$2,250,000
Land Area	2,107 m ²
Lettable Area	1,206 m ²
Passing Yield (%)	VP
Analysed Market Yield	5.96%
\$/m ² Lettable Area	\$1,866



(Photo: realcommercial.com.au Map: Google)

Comments

Land/location: This is a near level, irregular shaped internal allotment at street grade; it has a near level contour. The property has a single road frontage to Millennium Circuit. It is located within the Millennium Business Park, which extends between the eastern side of Millaroo Drive and the eastern side of the Pacific Motorway at Helensvale. The site

is classified within the low impact industry zone under the Gold Coast City Plan Version 4.

Building: Erected on the property is a modern style, industrial building of irregular shape comprising 1,011 square metres of warehouse and amenities with 195 square metres of mezzanine office space. The areas are as follows: warehouse - 870 square metres, warehouse amenities - 141 square metres, overcroft mezzanine office - 101 square metres, converted mezzanine office - 94 square metres, basement storage - 175 square metres (not included in the total lettable area). Site coverage is 57%.

The property sold with vacant possession. The sale analyses to a yield of 5.96% based on the following assumptions: assessed gross income of \$179,245 per annum (\$145 per square metre over the building's standard accommodation and \$25 per square metre for the basement storage), outgoings of \$35,925 per annum (\$30 per square metre), letting up allowance of six months plus three month incentive plus leasing fees (\$153,899).

Apportionment of sale: Land \$1 million (\$475 per square metre); improvements \$1.25 million (\$1,000 per square metre for the standard accommodation and \$250 per square metre for the basement storage).

Further apportionment: standard accommodation - \$1,822 per square metre; basement storage - \$300 per square metre.



Rockhampton

Improvement in coal prices and greater stability over the past 12 months have increased coal mining activity and therefore mine support industries. This is fuelling some renewed interest in industrial property in the Rockhampton region however the market remains sluggish overall. Leased properties are tightly held with few offerings made to the market. The most active buyer class is the owner-occupier, however few new offerings are available and there are now fewer of these buyers active in the market.

There are no significant changes in building design, however we note that industries are requiring greater specialisation and higher technology in their machinery, and this is most often fitted within standard building designs. A longer term trend is the increased presence of depots for logistics businesses which often require larger sites, some with vehicle wash down, refuelling and servicing capacity. We have seen particular growth of the logistics and transport industry within the Gracemere industrial areas. Generally speaking, the industries that operate in the Rockhampton industrial market are diverse and generally have varying requirements.

Gladstone

The industrial market in Gladstone has been oversupplied in recent years as demand softened significantly as a result of the local LNG projects progressing out of construction phase and into

operational phase. As a result, tenants have been able to upgrade to newer, more modern premises and it is now difficult to attract tenants to older, secondary industrial premises.

The businesses that operate in the industrial market in Gladstone are diverse and generally speaking, the requirements of the occupiers varies dramatically. There are large scale national engineering businesses that require heavy duty, engineering workshops, equipped with gantry cranes, and also local service industry businesses that require only a modest workshop and office. During stronger times, workshops equipped with gantry cranes would attract rentals that were notably higher than that of an unequipped shed, however in the current state of the market there are fewer tenants requiring cranes and landlords have had to reduce their rentals in line with unequipped workshops.

There has been increased sales activity in the industrial sector in the past 12 to 24 months, with various leased and vacant sheds transacting by a mixture of locals and non-locals. This is a positive sign that buyers have renewed confidence in the market and consider there to be a more positive outlook for the short to medium term.

Mackay

An interesting innovation we have seen recently in modern industrial properties is the use of solar

power. A good example of this is the Linked Group Services Building at Maggiolo Drive which comprises a fully off the grid solar system with battery storage. There is a lack of rental and sales evidence for properties improved with solar power systems in the current market to demonstrate any premium attributable to solar infrastructure despite providing a long term benefit to the tenant or occupier of the building in terms of electricity savings.

The industrial market in Mackay remains oversupplied, but leasing activity is improving with the resurgence in coal mining. The rental market has undergone a correction through the coal mining downturn but has now consolidated at a new lower level approximately 30% below the 2012 market peak. Heavy engineering workshops with good overhead crane facilities are in short supply and are expected to show moderate growth over the next 12 months.

Toowoomba

The Charlton-Wellcamp Enterprise Area is a large industrial precinct located to the west of the city of Toowoomba. The key feature of the precinct is its position close to the Toowoomba Bypass Road (construction commenced in 2016 with completion expected circa late 2019), the proposed Melbourne to Brisbane Inland Railroad (\$8.4 billion in federal funding announced earlier this year) and the Brisbane West Wellcamp Airport (opened in November 2014).



The precinct will appeal for traditional manufacturing and transport/warehousing uses but has also drawn interest from a number of specialised users. Examples of some of the specialised uses include:

Data Centre - Construction of Stage 1 of the new Pulse Data Centre has been completed. The \$40 million facility is located within the Witmack Industry Park and is the first data centre located in regional Australia. The facility will enable companies to store and distribute data at high speeds. The centre was developed by the FKG Group with Telstra and Schneider Electric listed as key partners in the project.

Egg Pasteurisation Facility - Construction of an egg pasteurisation facility in Vision Street has also recently been completed. The initial stage includes an office of approximately 350 square metres and a processing facility of approximately 2,400 square metres. The facility will be operated by Australian Pasteurised Eggs.

Milk Formula Facility - A powder milk processing facility is being constructed in the industrial park adjoining the Wellcamp Airport. The location of the facility near the airport will enable easy export of milk formula to Asian markets. There are also plans for a second stage that will contain a fresh milk factory.

Townsville

Townsville's industrial market is currently seeing limited innovation or new construction with an excess of both rental and sale property relative to demand resulting in no real stimulus for new construction.

Strata industrial units have seen some activity over the past six months with the price point being typically under \$500,000 making them attractive. This is allowing owner-occupiers of smaller service industry businesses to move from a home office operation to a dedicated workplace.

Affordability remains a market driver in the current environment with owner-occupiers attracted to the price points and selections on offer, enabling them to upgrade or move from a rental situation to owner-occupied.

Overall the industrial market sits at the bottom of the market cycle with a mildly reducing trend in market activity, however there remains increased sentiment surrounding the mining sector.



Northern Territory

Darwin

Herron Todd White (NT) was recently commissioned by the Property Council to review the supply of industrial land and improved industrial property across Greater Darwin. The preliminary findings of this study were delivered at a Property Council function in August 2018.

The total amount of commercial/industrial land across Greater Darwin (excluding the CBD) is about 10.5 million square metres (1,050 hectares). Of this land about two million square metres (19%) is vacant land ready for development or in various subdivisions which will be completed in the next 12 months. The vacant land area available exceeds the size of the suburb of Winnellie and based on current land take-up rates, will satisfy the demand for land for many years to come.

The estimated total gross building area of commercial/industrial space (excluding retail) across Darwin is just under two million square metres. This would tend to indicate that substantial additional supply would also be available from subdivision of existing blocks and also from redevelopment of older style accommodation, especially in pre-cyclone areas such as Winnellie.

In an environment of high supply and low demand, it is imperative that landowners provide a product to meet the specific demands of buyers. The recent

release of Stage 2 of Berrimah Business Park sees an increased availability of smaller freehold blocks and it is our expectation that many small businesses will be attracted to these, as opposed to the strata type accommodation which they have historically used.

However, the high level of land supply available and the weak economic conditions being experienced in Darwin have served to hold values at declining to static levels over the past six months, on a low volume of trade. The announcement that hydraulic fracturing will be allowed in the NT (under a tightly controlled regime) has not yet flowed through to any improvement in demand for industrial land in Darwin. We note that most of the fracking opportunities are in areas such as the Beetaloo Basin, so any benefit to Darwin will only result from it becoming a logistics or processing centre for these products.



Australian Capital Territory

Canberra

Highly innovative industrial projects are new to Canberra when compared to other larger cities such as Sydney and Melbourne.

New developments include a focus on good access, on-site amenities and regular maintenance/upkeep of the premises. For example, industrial tenants have a demand for property with parking and storage. This is becoming harder to find in some ACT suburbs and as a result, demand for properties with parking is increasing. Developments often include a small office on the first floor of a strata unit warehouse with kitchenette and bathroom. Common amenities are not favoured however ingress and egress between sites can be beneficial with clients being able to visit a range of businesses within close proximity.

One notable project currently in the design process is a Chilean style industrial project which will be built in Fyshwick. The project, named the Para Building, has been commissioned by the Molonglo Group, a well-known local developer, and may be under construction as early as 2019. This construction is to be innovative as the project is to have a unique mix of industrial, residential and commercial uses incorporated into the design that the ACT has not seen before. The project will occur on a 14.5 hectare site and span 10 to 15 years with over 50 proposed buildings to be constructed and complement the surrounding wetlands precinct. Designs are meant to



A model of the "Para building", a pavilion of two towers proposed by the Molonglo Group for its new development at Dairy Road, Fyshwick. (Source Canberra Times 20 March 2018 article by Kirsten Lawson)

be innovative, challenging and draw interest to the buildings themselves and the surroundings.

The ACT industrial market is currently steady in the first half of the year. The latter half of the year will be subject to the impact of stricter lending rules on loan approvals due to the Royal Commission into the banking sector and this will influence affordability and growth.



Western Australia

Perth

The broader Perth industrial property market has remained subdued in the past 12 months, a reflection of the downturn in the resources sector which had previously driven strong rental and capital value growth.

Discussions with agents active in the leasing of industrial accommodation indicate there is minimal 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 \$55 and \$65 per square metre per annum.

From a purchase perspective, demand for industrial property has generally also been 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% with yields for secondary industrial properties much softer.

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 number of prospective buyers as opposed to pricing, particularly for those sites greater 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 estate have tapered off during the past nine months.

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



Forrestfield Airport Link (Source: forrestfieldairportlink.wa.gov.au)



The continued growth in on-line retail is likely to heighten the need for modern logistics facilities.

Design trends in contemporary industrial spaces include higher truss clearances (over 7.5 metres), under-cover car parking, heightened security (for example, fully enclosed fencing and automatic entry gates), mobile gantry cranes and greater emphasis on architectural aesthetics.

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 rail line is scheduled to be operational in 2020.

NorthLink WA is a \$1.02 billion transport project in Perth's eastern/north-eastern corridor to be constructed in three stages. Stage 1 has already been completed and Stage 2 is well underway. Once all sections are complete (estimated for the middle of 2019) NorthLink WA will provide a non-stop transport route from Morley to Muchea and is likely to directly benefit industrial estates in that corridor.

