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Industrial

February 2020

National Property Clock: Industrial

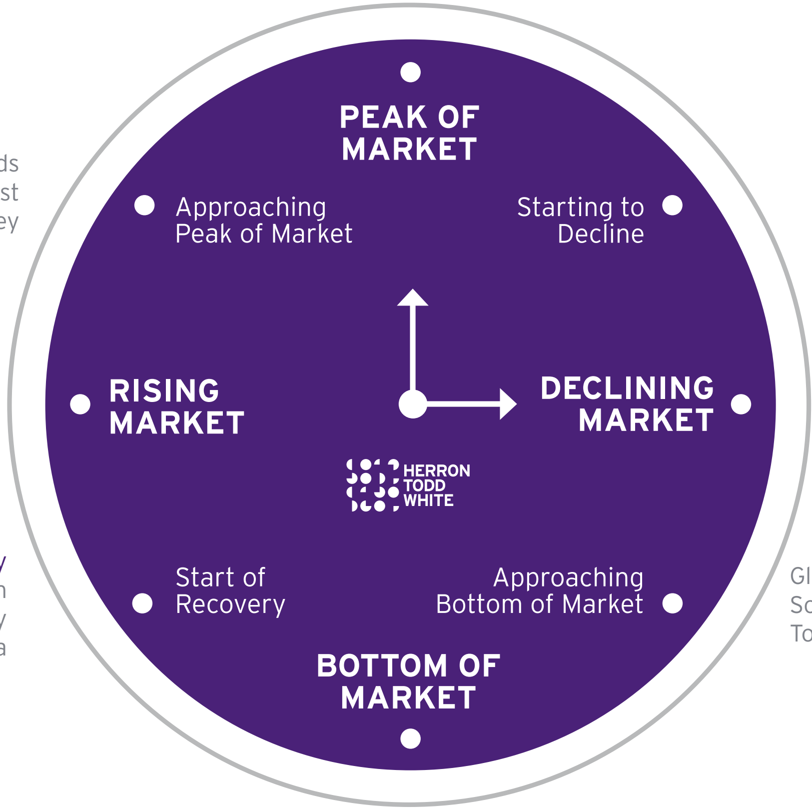
Entries coloured purple indicate positional change from last month.

Alice Springs
Ballina/Byron Bay
Coffs Harbour
Gold Coast
Lismore
Melbourne

Brisbane
Geelong
Illawrra
Southern Highlands

Southern Tableands
Sunshine Coast
Sydney

Central Coast
Ipswich



Echuca
Hobart

Newcastle
Orange

Adelaide
Bundaberg
C'berra/ Q'beyan
Cairns

Hervey Bay
Horsham
Mackay
Mildura

Gladstone
South West WA
Toowoomba

Darwin
Perth

Rockhampton
Townsville

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New South Wales

Overview

In many locations, industrial property has been a great commercial performer for investors – both big and small – who seek cash-flow security away from other sectors such as retail.

But as we head into 2020, what is the outlook for this property type. Are there signs of overheating in regions where value gains have been greatest? And what's in store in terms of rents and lease terms?

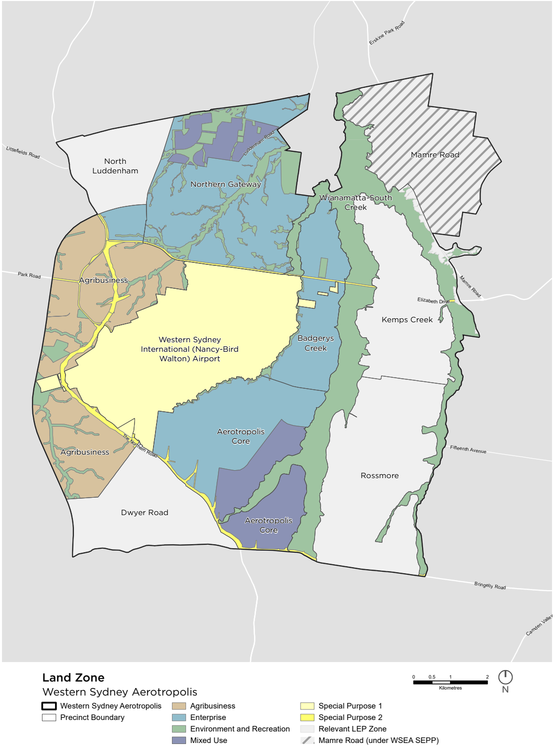
Here's our nuanced view on industrial property in 2020.

Sydney

In general terms, the Sydney industrial property market performed strongly in 2019. We predict it will be the most exciting market to watch in 2020.

There was a notable increase in demand in Sydney's industrial market over 2019. Tenants and owner-occupiers alike experienced difficulty finding well located, good quality industrial space, a trend we expect to continue in 2020. Demand continues to be driven by lack of supply that has been influenced by residential infill re-zonings in traditional industrial precincts close to the Sydney CBD, airport and ports. The increase in demand for imported goods and the need for transport and logistics centres have also contributed to the strong increase in demand for warehousing space.

As a result, well-located industrial precincts with good connectivity to major transport routes and ease of access to regional business centres including Liverpool, Campbelltown, Parramatta,



Source: Western Sydney Aerotropolis Plan 2019 Draft for public comment

Blacktown and Penrith will continue to perform well this year. Such precincts include Wetherill Park, Silverwater, Bankstown and Moorebank, all of which are well placed for access to key transport routes.

We saw yield compression across most industrial precincts in 2019 and we expect this to stabilise somewhat in 2020 with most areas showing relatively low yield rates, currently generally sitting between 4% and 7%. We expect that in some areas it is possible that these yields will continue to tighten, but more generally we are expecting stability.

4-7%
Sydney industrial yield rates.

Average rents across most industrial markets in Sydney grew in 2019, particularly in well located precincts that offer ease of access, transport or proximity to the CBD and ports. We expect that this upward trend will continue in 2020.

A continued lack of land supply will see premiums paid for vacant land and under improved sites. In some areas we have noted the return of developers undertaking industrial developments and some smaller unit developments being undertaken by local land owners.

We continue to follow the progress of the Western Sydney Airport. The Western Sydney Aerotropolis continues to be a hot topic with the latest plans being released in December. The plans are currently on exhibition and include a proposed six precincts of land to be rezoned by the middle of next year. We will be closely watching these plans and the required rezoning evolve to see the impact on the market.

We consider that 2020 will provide some great opportunities in the market. The challenge will be supply which will make finding the right property difficult. Investors looking for returns will struggle

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at the lower end of the market, however some opportunity for returns and longer-term growth exist at the higher end of the market (say above $5 million). Overall we will be excited to see how 2020 plays out for the industrial market in Sydney.

Wollongong

The industrial sector has been the best performing real estate asset class in the region over the past two years and we expect this performance to continue throughout 2020. This statement is not shocking by any means with most pundits sharing similar views. The main risk in this sector will be one of overheating.

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. The very tight supply and escalating values and rents of industrial property throughout Sydney (notably south-western Sydney) is also impacting on the local market given its proximity to Australia's largest city.

Given recent performance, current momentum, interest rate cuts and a strong performing local economy, we expect to see continued downward pressure on investment yields, although the challenge for investors in 2020 will be the availability of assets to purchase. Outside of small to medium sized strata warehouses, owner-occupiers may also struggle to find suitable premises and industrial land supply is limited at present.

For better quality properties where demand exceeds supply, we expect there to be upward pressure being placed on rents and it will be interesting to see where market rents set for tenants who exercise options in 2020, and of course for tenants entering into new lease agreements.

Newcastle

When we look at the industrial market in Newcastle, there are five key precincts to consider.

The Beresfield precinct continues to grow with 16 hectares of land sold at the end of 2018. There have been a number of strata and stand alone buildings constructed in this area in the past 12 months and there are a number of buildings in the planning or initial construction phase.

In the Cardiff precinct, the extension of Munibung Road with the expected link to Lake Road at the western end has seen a number of new developments at that locality, with a number of developments recently completed.

In the Steel River precinct in Mayfield West, there have been sales of development land, however the market for established properties has slowed. We also note the completion and sale of the Myspace development which is targeted at the smaller end of the market, having units with areas less than 100 square metres.

Thornton is very stable with no significant new developments, however we note that there have been some recent sales in that area.

Finally, the Tomago precinct, which is more suited to heavy industrial, is starting to show some signs of activity after a relatively stagnant period.

Overall, the key issue facing the local market is the demand for quality industrial properties outstripping supply. Moreover, decreases in lending rates have the potential to lead to an increase in investor activity, however there have been very few sales to investors recently. We are seeing more owner-occupier sales in recent months indicating that the reduction in the cash rate is having the effect of stimulating the market.

Coffs Harbour

We would anticipate the year ahead to remain stable for the industrial and commercial property market. Industrial property yields and rentals remain stable. The Coffs Harbour Airport Enterprise Park comprises a 23 hectare development which was approved in 2017 and has now progressed with earth being turned and fill compacted on site.

The commercial market demonstrates firm yields across a broad spectrum of price range. Based on the low interest rate climate, these conditions should continue throughout 2020.

The acquisition of property for the proposed diversion of the Pacfiic Highway around the CBD is well advanced and hopefully construction funding will be announced by mid 2020.

Whilst there will be limited impact throughout 2020, we would anticipate the market will become aware of the beneficial economic impact the construction development phase will bring to the local property market.

Industrial property should benefit and the demand for services will increase. We would expect that retailing will remain difficult with a continuation of the current market, featuring high vacancy rates and sensitivity with rental levels.

The Woolgoolga commercial market is expanding with a number of new developments proceeding and this market should continue to strengthen throughout the year.

When we look at the industrial market in Newcastle, there are five key precincts to consider.

Victoria

Melbourne

Looking at 2020, the general consensus is that the Melbourne industrial market will remain strong, boosted by strong population growth and unprecedented levels of infrastructure investment. Further, the global share market is expected to remain volatile with the potential for a US-China trade war, wage growth is expected to remain stagnant, there is a risk of recession and there is uncertainty regarding Britain's exit from the European Union. This has led to an even greater appetite for real estate investments, with industrial leading the way when it comes to investing in commercial property.

The industrial sector is considered to have the strongest pull for investors, predominantly due to the rise of e-commerce. In the case of high value industrial assets, yields remain firm due to bidding wars, particularly as there is the guaranteed cash flow of a strong WALE. We have seen increased interest in industrial assets from onshore and overseas real estate investment trusts and private equity firms. Some of these started out with zero industrial assets and now have these assets making up a substantial portion of their portfolio.

Knight Frank is predicting double digit growth in 2020 on the back of the continued low interest rate environment, which further advances yield compression. Vacancy rates in Melbourne also remain at five year lows. Melbourne industrial yields are currently sitting at 5.73%, having significantly tightened through increased investor interest and capital growth is set to rise from 6% to 6.4% in 2020.

The industrial sector is considered to have the strongest pull for investors, predominantly due to the rise of e-commerce.

The north-western area of Melbourne, with its expansive industrial sector, continues to be Australia's preferred location for warehouses and distribution. There has been a steady flow of new builds and many are sold off the plan or leased prior to completion. According to Savill's 2020 outlook report, rental rates have been increasing, currently standing at \$80 to \$90 per square metre. Given the sustained demand at present, this rental growth is expected to continue albeit at a diminishing rate. Lease incentives have also dropped due to the consistently steady demand for industrial space. Some smaller strata units are selling at rates towards \$3000 per square metre, which is new territory for the industrial market. Buyers and tenants no longer seek just a warehouse to store goods; there are many considerations that factor into their decisions. These include purchasing or leasing premises close to their prime customer bases and employees with appropriate skill sets, whilst being in a prime location in order to limit transport costs and avoid the impact of slow transit times.

RENT

\$80-\$90

North-west industrial rents per square metre.

Source: Savill's 2020 outlook report

Industrial properties for first time investors are becoming harder to find, however there are still reasonably priced strata developments in which mum and dad investors can purchase a unit and benefit from a strong yield and steady income. Industrial properties to avoid include contaminated sites as well as secondary locations, away from major infrastructure and transport routes. Investing in properties with long term tenants in declining industries (for example, the printing and newspaper industries) should only be pursued with the knowledge that there is a likely chance of vacancy at the end of the lease, which leads to vacancy costs and associated refit costs to attract new long term tenants.

Queensland

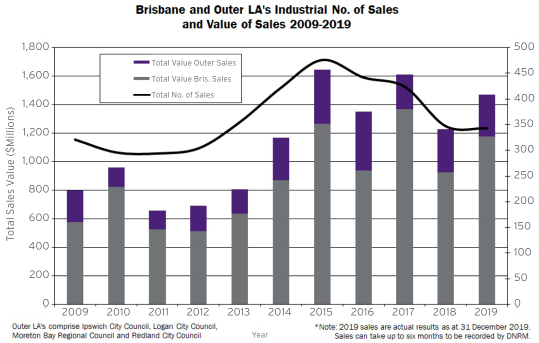
Brisbane

Brisbane's industrial property investment market experienced strong growth throughout 2019, with firm yields reflecting the limited availability of quality stock and solid purchaser demand. Whilst demand for quality industrial assets remains extremely strong, particularly for well-located properties with long-term leases and strong lease covenants, secondary properties continue to see long lease up periods and are generally less attractive in the current market. 2019 saw a shift in the Brisbane industrial market with institutional purchasers beginning to focus on areas such as the TradeCoast and along the Logan corridor.

Throughout the latter parts of 2018 and 2019, demand for industrial development sites throughout Brisbane increased substantially with increases in value evident across a number of industrial precincts. Whilst there are still difficulties in obtaining development finance from financial institutions, this does not seem to have restricted demand in recent times. Since the federal election in 2019 there has been a slight increase in sales volumes. We expect to see this sales activity continue to strengthen throughout 2020 due to the low interest rate environment and lack of supply within the wider Brisbane area.

Rents continue to stay steady with no dramatic increases, particularly for net effective rentals, as incentives continue to rise. The most active segment of the market will continue to be transport and logistics with tenants gravitating towards modern properties with good access to motorways.

The graph below illustrates the historic sales volumes and values over the past 10 years:



As illustrated above, the total number and value of sales fell in 2016. This was primarily due to a shortfall in supply of quality industrial assets, however sales picked up again in 2017. We saw a similar fall in sales in 2018 which carried over to a slower start in 2019. Since the federal election in 2019 there has been an increase in sales volumes. It is expected that stronger sales activity will continue throughout 2020 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.

We expect to see this sales activity continue to strengthen throughout 2020.

Investment yields for high quality assets continue to trend closer towards 6.00% with an example of a major transaction being 39 Graystone Street, Tingalpa, a well sought after location within the TradeCoast. The property had a 4.57 year lease term and transacted at $17.6 million with an analysied yield of 6.34%. 2020 will continue to see a high demand for prime industrial properties with money coming from mum and dad investors through to major industrial institutional trusts.

39 Graystone Street, Tingalpa Source: Core Logic

Gold Coast

The Gold Coast industrial market relies on a range of economic factors including interest rates, lending conditions, business confidence and overall supply of developed land or buildings available to the market.

Interest rates are currently favourable, however lending conditions are still challenging. At a macro level, the economy is fairly stable at present,

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Market commentators are suggesting that core markets on the eastern seaboard are expected to remain tightly held

however has begun to show signs of weakening conditions across a range of sectors. In addition, business confidence is relatively low and has been on a downward trend for some time now.

However, due to significantly low supply, record sale rates for new properties are being achieved for units in southern Gold Coast. In addition, land values are hitting all time highs throughout the central and southern Gold Coast.

We are not aware of any notable supply additions mooted for the southern end of the Gold Coast, however a new industrial estate proposed in Carrara has the capacity to deliver 21 lots with a total area of circa 106,000 square metres. This is not considered to significantly impact on the overall supply of industrial land within the area.

The Yatala region at the northern end of the Gold Coast still contains large tracts of industrial land suitable for further subdivision. Notwithstanding, supply and demand metrics have been quite balanced in recent times and as a result, industrial land values on average have shown strong or steady value levels.

Gold Coast Source: zenithfoto_

Rents for industrial properties are moderately trending upwards in the area combined with declining yields tied to low interest rates bolstering value levels, however this is being off-set to a lesser degree by increased outgoings (which can be largely attributed to improving land values flowing through to higher rates and land taxes).

Analysed yields in some areas are now going below the 5% threshold, with the recent sale of 44a Currumbin Creek Road for $2.7 million evidence of strong market sentiment, however yields in less desirable or higher supply locations such as Yatala can still be above 7%. This may be an indication of potential for further rental upside in the Gold Coast's fully developed or traditional industrial precincts.

Market commentators are suggesting that core markets on the eastern seaboard are expected to remain tightly held, with continued supply constraints creating demand for industrial product beyond existing core areas.

We have already seen this over the past year, particularly within Murwillumbah, where new industrial unit developments are occurring more rapidly than at any other time in order to meet demand from buyers for a lower price point than the established Gold Coast industrial precincts. Similarly in the north, land is being delivered at a rapid pace in Yatala to meet market demand at a lower price point than the Gold Coast proper.

Overall, our industrial market outlook for the Gold Coast in 2020 is positive.

Sunshine Coast

The industrial market on the Sunshine Coast looks like it will have a year of further improvement after the improvements noted over the past three years.

Overall land supply has fallen away over the past three years with the estates in Kunda Park, Caloundra West, Kawana and Noosaville now having limited land available for further development. Estates at Coolum, Yandina and Bells Creek have had significant development in that time and while there is still land available for development, overall supply has dropped with underlying land prices increasing slightly over the past 12 months.

The Aura industrial estate began to take shape over 2019 with the completion of a number of strata tilted complexes as well as stand alone buildings that have typically been owner-occupied to date. This estate has a higher quality of finish than typically seen in other industrial areas of the Coast with a number of complexes having semi showroom style areas to the street front.

We have seen steady firming of yields over the past three years for investment grade holdings with yields for modern complexes with strong lease covenants in place typically below 7% across the market. Owner-occupiers still dominate the market in the sub $800,000 space and this trend is likely to continue in 2020, particularly for strata titled holdings.

<7%
Investment-grade asset yields

We have seen redevelopment of some older industrial holdings in arterial locations, particularly in Caloundra and Noosaville, into showroom

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style development. A larger site has been purchased in Kunda Park with exposure to Maroochydore Road and this is likely to continue the upgrade of accommodation in this area.

The limited vacancy across the market is likely to continue to see some firming of rents. The market is now typically seeing rents from $90 to $160 per square metre gross per annum depending on size, quality and location.

$90-$160
Sunshine Coast
rents per SQM per annum

The main negative impact we may see is if macro economic conditions impact the residential market, it would have a flow on effect to the industrial market. This is due to the heavy influence of owner-occupiers in the Sunshine Coast market, which would then reduce demand in the market.

Toowoomba

The Toowoomba industrial market is expected to continue its steady growth trajectory during 2020, while the smaller markets throughout the Darling Downs are expected to remain static.

Strong demand from investors for quality cash flows should ensure that quality leased assets will be highly saleable provided vendors' expectations are not over inflated. Unrealistic price expectations are the major risk to the market in 2020. While yields are generally firming for commercial property, industrial lease terms rarely exceed three to five years and there are limited national tenants, resulting in softer yields than other asset classes.

Demand for vacant possession industrial properties has been weak in recent years and this is expected to continue, with the value gap between fully tenanted quality assets and vacant possession secondary assets widening during 2020.

A glut of secondary properties available for lease is likely to result in declining rental rates for secondary assets and stable rental rates overall.

373 Anzac Avenue in Harristown is currently on the market via expression of interest and may be a litmus test of the year ahead. The 2.5 hectare site is improved with a large modern showroom/office/workshop and a second brand new workshop and has a lease and options to 2036 and a reported current net income of $892,507 per annum.

373 Anzac Avenue in Harristown Source: commercialrealestate.com.au

Townsville

Broadly speaking, the industrial market in 2020 is likely to be bolstered by the upturn in the mining sector along with construction projects and generally increasing levels of market confidence.

Owner-occupiers currently underpin the market in the sub-$1 million bracket. We have seen a number of vacant land sales in the Northern Link industrial estate over the past 12 months, particularly within the 2000 to 4000 square metre land size bracket. It would appear that this is the land size the market is seeking to construct new small to mid-scale high clearance start-up workshops, allowing enough balance land available for expansion if required. Older stock is typically on smaller land sizes with warehouses and workshops of a lower clearance and therefore in some cases not suitable for some specialist users.

It is anticipated that mining support businesses such as manufacturing and heavy engineering along with heavy vehicle service and support may see some expansion during 2020 on the back of the mining and construction industries.

Woolworths has commenced a major expansion of its distribution facility at Bohle which will reportedly make it the largest food and grocery distribution centre in North Queensland. Given Townsville's geographic location approximately halfway between Cairns and Mackay and its nexus to Mount Isa, it provides a great strategic location for distribution. Lion Drink and Dairy is also in the process of completing a new distribution facility at Shaw including approximately 4700 square metres of cold room capability.

We are likely to continue to see southern investor interest for big asset industrial property with strong lease fundamentals due to the attractive yields available relative to their home locations with yields in the 6.5% to 9.0% range.

Rockhampton

We believe that the industrial market in 2020 will continue along a similar trend to 2019, showing continued signs of improvement and increased confidence. With more stable coal prices and significant infrastructure spending now occurring and set to occur over the next five years, we expect employment growth will have a positive impact on the industrial property sector in Rockhampton. The rate of growth will depend on the timing of infrastructure projects coming to fruition.

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Rental rates have remained relatively stable and there have been no notable increases, however there appears to be a steady uptake of some vacant industrial properties. We anticipate that as demand increases and supply reduces, we may start to see some growth in the rental market.

8-10%
Mackay industrial yield rates.

With investors returning to the market in 2018 and 2019, activity by this group of buyers is likely to continue throughout 2020 for investment properties with good unexpired lease terms and quality tenants. Yields have generally been achieved in the 8% to 10% range for properties with local tenants, which is an attractive option in comparison to southern metro markets, driving interest from non-local buyers. Yields can be somewhat lower for properties with national tenants. Owner-occupiers are likely to also remain active while interest rates remain at record low levels.

Gladstone

With no substantial drivers to the industrial sector for the next 12 months, we consider that the market will remain flat, with some particular sectors still being volatile, however improving conditions in Rockhampton and Emerald and job opportunities created by the resources sector and major infrastructure projects are likely to have some positive flow-on effects to the Gladstone market. There was limited activity for developed industrial properties during 2019, with weak demand and few quality opportunities. With various lots in the Chapple Street business park now sold, 2020 may see some new development within this precinct.

Owner-occupiers are likely to also remain active while interest rates remain at record lows and properties are available at affordable entry-level prices. We do not foresee any rental growth, however we consider we will see continued stabilisation of rentals.

We believe that the market for large industrial premises will remain volatile, with very weak demand from tenants and owner-occupiers for substantial sized workshops.

The market is very volatile above $2 million and there are also very few tenants with an ability to afford annual rentals in excess of $200,000. We consider this is likely to continue throughout 2020.

Wide Bay

The industrial markets throughout the Wide Bay have remained stable for an extended period with little on the horizon to suggest a change in 2020. The Wide Bay hosts an elevated supply level of vacant industrial land which limits the capacity for growth in a market heavily dominated by owner-occupants.

Sales of investment industrial stock are few and far between, however when investment grade stock is taken to the market it is often met with good demand.

We expect 2020 to be a similar year. Owner-occupants should dominate the market in terms of volume of sales. Investment stock should be met with a good level of demand.

When investment grade stock is taken to the market it is often met with good demand.

Mackay

The Mackay region has seen continuous improvement in economic conditions over the past 12 months with significant infrastructure and development projects including: the Mackay Ring Road; Walkerston Bypass; Queens Park upgrade; Edmund Casey Drive link at Mackay Harbour; Rotary Lookout North Mackay and Qantas Academy.

Currently there are under 50 industrial properties listed for lease in Paget, the main industrial hub of Mackay, ranging from small strata units to warehouses and off the plan workshops. Industrial workshop rents range from $140 to $200 per square metre per annum for over 1000 square metres of lettable area, although there appears to be a lack of heavy engineering workshops with hardstand available for lease.

In the industrial sales sector, we note that there are less than 30 industrial properties listed for sale in Paget, including industrial vacant land, strata titled units and freestanding industrial properties. List prices range from $435,000 for a vacant strata titled unit to $8.5 million for a tenanted, purpose built distribution warehouse.

The sale of 12-16 Progress Drive for $3.012 million in the first quarter reflected an analysed yield of 8% with a reported 10 year lease term to Austbore.

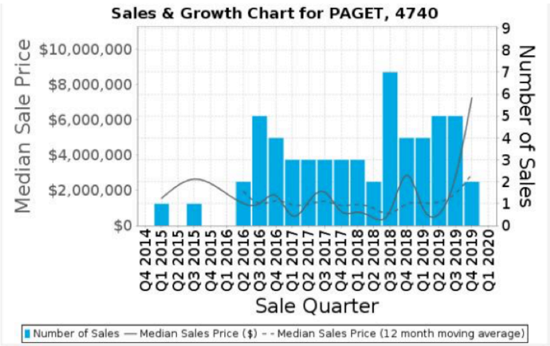
12-16 Progress Drive, Mackay Source: Colliers

Tenanted properties with long unexpired lease terms are attractive to investors somewhat irrespective of the location with the expected return and security of income being the key selling points.

$140-$200

Paget workshop rents per square metre.

The number of sales has been steadily increasing since 2015 (excluding quarter three of 2018 when there was an unusually high number of sales) with a recovery in the median sale price after an extended depression of values post the mining downturn. We are expecting the number of sales to increase in 2020 and sale prices to continue a moderate recovery.



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South Australia

Adelaide

With our first edition of 2020, it's time to look ahead for the year and attempt to predict how commercial property markets will play out over the next 12 months, with our focus on the industrial sector.

Reflecting on 2019, it was a tumultuous year that brought the Australian federal election and the surprise victory of the Liberal Party, the Royal Commission into banking and in recent months the ongoing horrendous bushfires which have ravaged much of the South Australian hills and Kangaroo Island, as well as considerable regions throughout New South Wales and Victoria.

Looking ahead to 2020, there will be more political changes and instability abroad with a United States election set to occur. We can also expect some uncertainty in the United Kingdom with conservative Boris Johnson succeeding in the election over Labour opponent Jeremy Corbyn and now pushing for the United Kingdom to secure the Brexit deal and leave the European Union.

The buzz-word for commercial and industrial property this year is logistics. As we look to the year ahead for industrial property in South Australia, we're expecting continuing solid performances, headed by the persistent growth of the logistics industry and the rise of e-commerce. Logistics facilities are tipped by analysts to be the most sought-after properties in the year to come among individual investors and real estate investment trusts alike, particularly properties that are modern and located close to transport hubs around the state.

Furthermore, analysts are predicting capital growth rates of between four and six percent in industrial markets, which are in line with Herron Todd White expectations for the upcoming year.

On the interest rate front, more cuts are forecast in an attempt to stimulate the economy, with the overnight cash rate edging closer to zero percent. Analysts are predicting between 25 and 50 basis points of interest rate cuts throughout 2020. Additionally, land tax changes have been agreed and will come into effect on 1 July 2020. The changes mean that investors will no longer be able to avoid land tax through the utilisation of separate trust and company structures, however there will be tax breaks in the form of reduced land tax rates and higher thresholds.

Throughout the latter half of 2019, major real estate investment trusts drove strong capital raising options, looking to secure or develop assets in the industrial sector. The significant capital raisings of listed trusts with a focus on industrial investment and development, can be seen below:

Company	Total Capital Raised	Purpose of Capital Raising
Mirvac	$750 million	Repay debt and fund development in industrial, office, residential and mixed-use sectors
Charter Hall	$725 million	Acquisitions of industrial property
Growthpoint Properties Australia	$150 million	Acquisition of a Sydney tower and development of office and industrial projects
Investec	$84 million	Acquisition of industrial properties in Adelaide, Perth and Darwin
Centuria Industrial REIT	$70 million	Acquisition of three industrial assets

Source: Australian Financial Review.

Goodman Group set the precedent for real estate investment trusts throughout 2019, with the company surpassing Scentre Group as the most valuable real estate investment trust in Australia. The secret for Goodman Group has been simple - industrial property. Greg Goodman, CEO of Goodman Group, has attributed much of the company's recent success to the growth of e-commerce which has fuelled demand for logistics facilities. Goodman expects that demand will continue to outweigh supply in this sector, meaning the company is well placed to continue its current growth trend.

Further yield compression is expected throughout 2020 to accompany the anticipated levels of capital growth in the industrial market. Yields for

We're expecting continuing solid performances, headed by the persistent growth of the logistics industry and the rise of e-commerce.

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prime industrial real estate in the eastern states have compressed to roughly 5.5% in Sydney and 6.25% in Melbourne. While Adelaide records higher yields than its eastern seaboard counterparts, further compression could see prime yields move closer to 7% throughout the upcoming calendar year, without the rental growth experienced in Sydney and Melbourne.

4-6%
Adelaide
predicted
capital growth.

As mentioned previously, opportunities exist in the industrial market in the form of properties that facilitate e-commerce and logistics businesses. With growth expected to continue in these spaces, companies will be looking for properties to occupy that will enable their business and hence we expect leasing demand to be high. The prospect of further yield compression amid lower interest rates will continue to buoy commercial property investment as investors search for higher yielding assets in the low interest rate environment.

Western Australia

Perth

The consensus during 2019 was that the industrial property market in Western Australia had reached the bottom of the cycle. Market conditions were subdued and relatively unchanged from the preceding 12 months in the wake of the much-publicised downturn in the state's mining and resources sector.

Although signs of a recovery have been few and far between, market participants are quietly optimistic that 2020 will mark the start of a revival in this sector.

Leasing demand for industrial accommodation however remains soft and in-situ tenants are continuing to reconsider their space requirements. The lessee's market is lingering with prospective tenants taking advantage of the oversupply of stock and often able to negotiate very attractive deals.

On a positive note, our enquiries reveal an uptick in leasing enquiry for modern, high quality fabrication facilities over the past six months with such properties currently being in limited stock.

Our enquiries suggest that present day building compliance requirements have rendered older facilities often unfeasible to bring up to code. Accordingly, prospective tenants are inclined to enter into design and construct agreements.

From a purchase perspective, demand for industrial property remains subdued with a low volume of transactions attributed to market uncertainty. These soft conditions are more pronounced within secondary industrial precincts. Competitive pricing remains vital in order to achieve a sale within a reasonable marketing period.

Market participants are quietly optimistic that 2020 will mark the start of a revival in this sector.

Interestingly, demand remains strong for securely leased investment property with the prevailing low interest rate environment leading to significant yield compression over the past 12 months.

The prospect of further rate reductions by the Reserve Bank may spark renewed investor interest in industrial assets in 2020, placing even more pressure on achievable returns. Traditional low risk vehicles (e.g. long term deposits, bonds) are now offering insufficient returns and it is likely that investors will re-direct cash reserves to commercial property in a bid to secure better returns – industrial property is thus likely to be benefit.

The rise of e-commerce is also likely to benefit the industrial sector (at the expense of bricks and mortar retail property) as the demand for logistics and distribution centres and the associated warehousing of goods prior to delivery grows to meet the rise in online shopping.

The Roe Highway Logistics Park in Kenwick was launched in February 2019 and has been met with firm demand, signifying the market's appetite for newly created industrial land. In particular, the demand for industrial land of more than 5000 square metres has been firm not only in this development but also in other newly developed industrial estates, likely a by-product of the lack of supply in the more traditional and established industrial precincts.

Notable infrastructure projects including the Forrestfield Airport Link and NorthLink WA are making sound progress. 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 first trains are set to operate in the second half of 2021.

NorthLink WA is a $1.02 billion transport project in Perth's east and north-eastern corridor and will provide a non-stop transport route from Morley to Muchea. The project is likely to directly benefit industrial estates in that corridor. The final section of construction is scheduled for completion in early 2020.

We envisage that these and other major infrastructure projects in Perth together with renewed activity in the state's resource-rich north-west may mark the start of a recovery in the industrial property sector in 2020.

Northern Territory

Darwin

Twelve months ago, we predicted in the Month in Review that the 2019 calendar year promised to be challenging for all property markets across the Territory, including commercial property. The year met our predictions and unfortunately at this stage it appears that 2020 will not provide any relief from the current moribund conditions.

Implementation of the Northern Territory government's five point gas plan may trigger some activity in the industrial sector, especially in the Middle Arm Industrial Precinct south of Darwin. This precinct has been floated as a support hub for the large LNG plants nearby and could also support other mining and manufacturing processes in a mainly greenfield area, yet it is close to the population centres of Darwin and Palmerston. Already over ten percent of Japan's gas imports are processed in Darwin and any expansion of this industry would see flow on effects in the local property market.

Exploration drilling has commenced in the Beetaloo Basin, a huge untapped gas reserve estimated to be 6.6 trillion cubic feet. Regardless of one's views on hydraulic fracturing, there is no doubt that exploitation of this gas reserve could significantly improve the Northern Territory government's finances as royalties would be directed locally rather than to Canberra, which is the case with most existing offshore developments.

A number of larger scale projects are in the planning stages and if consummated, will boost economic activity in the Northern Territory and should therefore boost the property sector. The $400 million ship lift in Darwin, which will be the largest in northern Australia, is one example. Another is Sun Cable, a project to develop a 15,000 hectare solar array near Tennant Creek planning to supply 20 percent of Singapore's electricity via an undersea high voltage cable. There is also a proposal to develop a space rocket launching centre in north-east Arnhem Land.

Unfortunately, there is a significant lead time before any of these projects commence, if in fact they commence at all. We do not expect there to be any substantial fillip to Northern Territory property markets from any of these projects for some time. As a result, the oversupply of industrial land and industrial accommodation in Darwin is expected to persist throughout 2020. In Alice Springs, the industrial sector has not exhibited the same level of volatility as Darwin and is expected to remain relatively stable for the next 12 months.

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Australian Capital Territory

Canberra

It's the time of year for us to look into our crystal ball to see how the industrial market is going to play out in 2020. With lowering yields across asset classes in 2019 and an expectation for continued low interest rates, how does the industrial market look to perform this year?

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 in Hume and across three new estates in Symonston (2020-21), Fyshwick (2021-22) and Pialligo (2022-23). The program aims to release 100,000 square metres of industrial land from 2019 to 2023.

In the Canberra region, investors and owner-occupiers are currently attracted to the small scale industrial market, particularly for superannuation purposes and also to have an asset that has potentially appreciating value and the ability to provide collateral for borrowing power. A unit titled industrial development in Hume, completed in 2019 and comprising 14 high clearance modern warehouses (of various configurations) with mezzanine store and office options as well as rear hardstand has been received well. The development achieved $2000 to $2500 per square metre, reflecting yields of circa 7%, demonstrating the demand for this property type.

Our crystal ball is telling us that 2020 is set for continued growth.

Queanbeyan continues to provide a desirable option for owner-occupiers in the market, as municipal rates within the ACT continue to rise year on year, discouraging sales and leasing activity. These increases throughout the territory (often outweighing CPI rental increases) have resulted in an increase in net leases and landlords electing to pass on any increases in outgoings over the base year to the tenant is becoming more prevalent. Tenant incentives have typically consisted of rent free terms and contributions to fit out in order to facilitate moves to newer premises with longer term leases in place.

Our crystal ball is telling us that 2020 is set for continued growth. Industrial leasing demand is improving, however rents remain stable generally with a continued need for incentives. Further proposed rate cuts will have an impact on the market in the long term and some rental growth may be observed when tenant demand levels increase and sales activity begins to soften. The outlook for the Canberra and Queanbeyan industrial market is for increasing take-up levels over the next 12 months.