

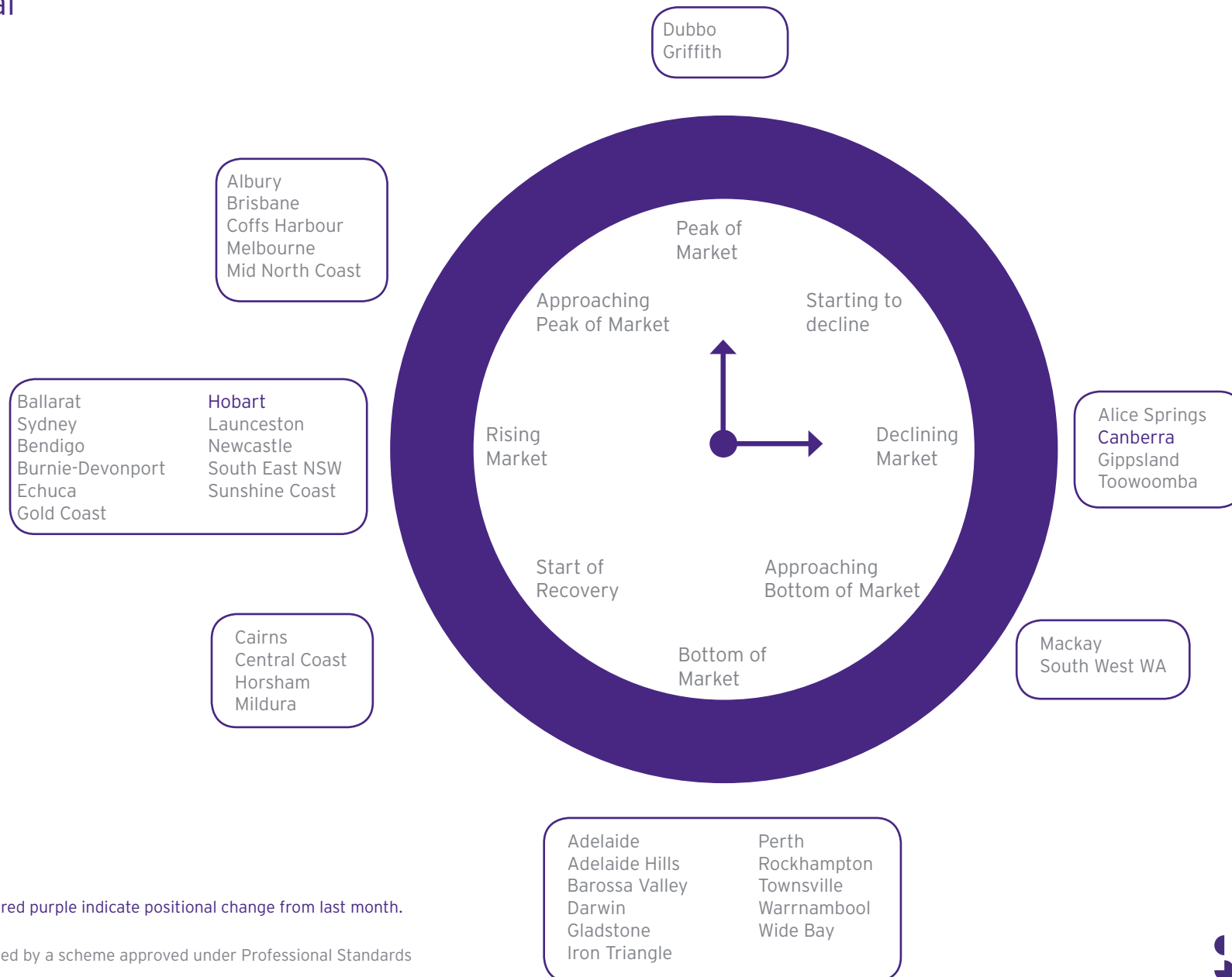
# Commercial



# National Property Clock

## March 2018

### Industrial



Entries coloured purple indicate positional change from last month.

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## New South Wales

### Overview

Industrial markets have always been a go-to for entry level investors looking for a yield driven alternative to their residential portfolios. In addition, big institutional operators love the idea of investing in sheds, with long term, generally secure tenancies helping to lock in returns and keep the balance sheet humming along nicely.

2018 will be a compelling year in industrial investment around the nation. There will be opportunities in some locations, while others may be overheated and inaccessible.

Whatever your area of interest, this month's year ahead view of the industrial sector will prove highly informative.

### Sydney

The industrial market in Sydney has been through substantial growth over the past 12 months as a result of increased demand for good investment assets, growth in rental income and increased demand from owner occupiers. The market is anticipated to continue at the strong levels seen in 2017. Increased demand from owner occupiers, self-managed superannuation funds and developers will continue to drive the market.

Most market commentary of late seems to anticipate a continued tightening of yields through 2018 and a continued rising of capital values. Some sales and

leasing transactions already completed for 2018 indicate that this is accurate and we consider it likely that the growth in capital values will continue in 2018.

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

Rental growth remains strong, with no signs that this is likely to slow in 2018.

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 18 months.

Of interest is that local agents on the North Shore are reporting that buyers from the South Sydney area have moved north in search of affordable

industrial assets as more and more stock in South Sydney is removed for redevelopment. As a result, recent sales are showing yields as low as 3% and capital value increases of over 50%. We expect this trend to continue in 2018.

In the South West and Western Sydney industrial markets, we anticipate the market to continue to remain strong throughout the year. Liaison with prominent local agents indicates that there is no stock and a long waiting list of buyers keen to get into the market.

Along the south-west corridor we note that Moorebank Intermodal is in full swing, currently in the construction stage, with operation tipped to commence in 2019. Emanating from this is a ripple effect on local properties which are in even higher demand by businesses wanting to be close to this facility.

The greater west continues to grow with areas surrounding the M7/M4 interchange seeing a continuation of warehouse construction by the bigger players in the market all looking to capitalise on the availability of land and proximity to one of Sydney's biggest highway interchanges.

On the smaller scale, industrial strata units all over Western Sydney have gone from strength to strength and the demand for these units continues to grow as land subdivisions produce smaller and smaller



allotments and the availability of conventional storage at home diminishes.

These units now don't just feature a typical industrial or manufacturing use or market. In a lot of cases they are used as storage units, business offices and in some instances even small scale wholesaling and retail uses (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.

We also note that in the current economic climate of low interest rates and relatively low term deposit offerings, many first time commercial investors have turned to the relatively safe industrial unit market seeking investments with returns over and above bank offerings. Whilst returns achieved are generally in the 4% to 5.50% range, which is traditionally considered low for this type of asset, investors couple this with the added mindset of steady rental growth and longer term capital appreciation. It appears to be a logical move given the alternative.

### Canberra

The Canberra industrial market appears to be struggling compared to the broader economy and transactions for 2017 were down compared to 2016. The industrial market tends to follow on slowly from a strengthening residential market. 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. The program aims to release 166,000 square metres over the next four years in Hume, Symonston, Fyshwick, Majura Valley and Pialligo.

As a consequence, land availability has outpaced demand in the marketplace. Industrial sales volumes have outweighed the demand for tenanted properties. The opportunity for tenants to purchase and develop a purpose built site in conjunction with low interest rates has driven the market and the flow on has resulted in less demand for established sites. Consequently, tenant incentives are around 8% to 9% and typically consist of rent free terms and contributions to fit out in order to facilitate moves to newer premises with longer term leases in place.

Rental growth in the marketplace is limited and as it is predicted that interest rates will increase in 2018, this will have an impact on the market in the long term. Some rental growth may be observed when tenant demand levels increase, resulting in softening sales activity.

### Lismore

Byron Bay has been an extremely strong market over the past 12 months with record low yields generally in the vicinity of 4.5% to 6%. The rental market has experienced strong demand with significant increases in rents. This has been on the back of a very strong commercial and retail market within the CBD which has had strong demand, limited supply and very strong value and rental rates. Accordingly, the industrial area has become more appealing due to affordability for investors, tenants and owner occupiers. Ultimately, without any significant change in the broader economy, yields are likely to remain relatively strong and growth dependent on rental levels.

Ballina has generally performed well with strengthening yields and more modest increase in rents. Yields are 1% to 2% higher than Byron Bay. The Ballina market tends to fit between Lismore and Byron Bay, however is more cyclical than Lismore. There remains some uncertainty in relation to supply with Ballina Council planning a new access road to the airport which is likely to result in a significant increase in the amount of land available for development along the new road. The new road will also offer an opportunity for companies looking for superior profile on a site that will better suit their needs.

The Alstonville industrial market is relatively small and generally fits neatly between Lismore and



Ballina both physically and in relation to rents and value levels. Generally well held, the market has experienced increased demand over the past twelve months. Ultimately it will be impacted by activity in both Ballina and Lismore. Without any significant change in the broader economy, Alstonville is likely to remain static over the next twelve months.

Lismore is generally a much quieter market dominated by owner occupiers rather than investors with limited growth in rents and stable to slightly lower yields over the past two years of 7% to 9%. We would envisage Lismore to continue to perform at a similar level to this, with no significant sign of change in supply and demand generally modest but stable.

Casino is a relatively stable market of a reasonable size which is similar to Lismore in that it is dominated by owner occupiers. It has been relatively stable over the past twelve months and is likely to remain so unless there is a significant correction.

After the significant growth in 2016 and 2017, we anticipate the industrial market across the Far North Coast to stabilise in 2018 with limited to modest growth. Any changes are more likely to be driven by rents and supply unless there is an adverse change in economic factors (such as interest rates, the international share market, or general economic activity). Those areas which have seen more significant increases in values and rents over the past twelve months would likely be most adversely impacted by any correction.

### Coffs Harbour

The industrial market in Coffs Harbour overall could be described as steady. There is sound market interest for reasonably priced property, principally emanating from owner occupiers and self managed superannuation fund activity, particularly in the lower price bracket. The year ahead should remain consistent with steady demand against reasonable supply. Rental levels remain variable, although vacancy levels have decreased slightly with rents generally tracking in line with CPI or 3% increases per annum. There is a looming shortage of industrial land stock. This is particularly relevant for those requiring larger land holdings. Accordingly land prices are expected to edge upwards over the next 12 months. Planning is well advanced for the opening of excess land at the Coffs Harbour airport and this could assist with the land stock supply.

The rental market for smaller to medium sized industrial sheds is variable and demonstrates some market uncertainty. Rental evidence in prime industrial estates displays some variance at \$95 to \$145 per square metre for modern tilt up design of 200 to 400 square metres. This variance should gradually level as supply reduces, although there remains some available scope for further development in this market space.

Rental in a secondary industrial estate for smaller to medium sized industrial sheds of 200 to 400 square metres is in the range of \$70 to \$100 per square

metre per annum, however there is variation in the market with many established long term tenants holding over on lower rental levels. This classification of secondary industrial property could attract a lift in overall rental levels in the short to medium term, following the expected trends of prime estates. Larger industrial sheds of 1,000 to 1,600 square metres show a rental range of \$55 to \$90 per square metre per annum.

There remains a slight oversupply of smaller industrial bays available for sale in the lower price bracket and leased property will invariably achieve lower pricing in comparison to owner occupier purchases. Incentives are common in the market with rent free periods of one to two months, often written into leases.

Strata units of 150 to 250 square metres and buildings up to \$600,000 remain popular for owner occupation with self managed superannuation fund purchaser activity. Modern smaller strata industrial tilt up units achieve \$1,700 to \$2,300 per square metre of building area. Older style, secondary located, concrete tilt up industrial units achieve sale prices of \$1,400 to \$1,700 per square metre of building area.

Larger, older buildings above \$1 million are more difficult to sell as they have a more specific and narrower market. All larger new development is pre-leased or has been developed for owner occupation.



Capital value levels for secondary located larger factory and warehouses generally show \$600 to \$1,300 per square metre of improved building area.

The Grafton industrial market has improved and should experience an overall lift in value levels due to the Clarence River new bridge crossing currently under construction which is set to improve access between Grafton and South Grafton. Industrial property close to the river around Spring, Through and Bent Streets should experience redevelopment activity as they become more attractive to the market. Recent redevelopment of bulky goods, showroom and fast food restaurants in this precinct has been well received.

The Woolgoolga industrial market is fully developed and prices are generally firm to slightly higher than 12 months prior. The market should remain steady.

The Raleigh industrial market has benefited from improved access to Coffs Harbour via the Pacific Highway upgrade, as has Macksville and Nambucca Heads. These markets should remain steady with a slight improvement in value levels.

The outlook for the next 12 months in all markets is reliant, to a large degree, on Government economic policy and the continuation of the low interest rate climate.

### Dubbo / Western NSW

We believe the industrial property market will stabilise in 2018 from the elevated levels achieved in 2017. There appears little prospect of tighter cap rates given the prospect of higher interest rates, while rents also appear stable.

The Dubbo and Western New South Wales industrial property market is relatively unaffected by movement in capital city markets and relies on demand factors specific to the region - returns for the investor and competitive occupancy costs for the lessee and owner occupiers.

If there is upward movement in interest rates or cost of borrowing in general, we could see a softening in capital values, however capital value movements are also impacted by the local economy and demand factors. We expect Dubbo in particular to remain relatively stable over the 2018 calendar year.

We expect rents for Dubbo industrial property to remain stable in 2018 with a balanced supply and demand outlook. The expectation is for yields to stabilise at current levels with a possible softening in the event of higher interest rates or a perceptions of higher risk.

The industrial property market has enjoyed strong investor and owner occupier interest across all industrial property sub-sectors in 2017 leaving few, if any, opportunities to capitalise on neglected market segments.

Older, more obsolete warehouse and workshop buildings achieve much lower values due to lack of utility and adaptation to modern work practices. Lease up periods can be extended and at much reduced rates per square metre.

### Newcastle

It's go, go, go in the industrial sector throughout the Hunter Region, Newcastle, Lake Macquarie and the Central Coast. The mining industry is busily restocking hardware and local trades and services companies are servicing the unit development booms happening concurrently in the Newcastle and Gosford CBDs.

The Raine and Horne Commercial Industrial Average for the Hunter Region reports overall average vacancy rates of 4.53%, down from an average of 5.32% in 2017 and 7.56% two years ago. The only location showing an increase in vacancy during this time is Wickham-Maryville, with local agent Jason Morris indicating that this can be primarily attributed to the disruption caused by the high levels of unit construction in the area.

We expect a general continuation in the current tight rental market conditions throughout the industrial sector in 2018. The main catalyst for an increase in vacancy will come late in 2018 as the proposed and under construction strata industrial unit developments throughout inner city estates such as Steel River in Mayfield West are completed. Higher



levels of stock will ease pressure on the current low vacancy levels.

The second catalyst will be the slow down in residential unit construction activity, with the majority of the current major projects due for completion in late 2018 and early 2019. Out of town builders and contractors working in the city may well leave the market at around this time. While there are still major projects in the pipeline, including the East End development centred around the Hunter Street Mall, many of the projects to the west will be completed.

So all in all, we see a short term continuation of strong industrial market conditions to continue throughout 2018, with the potential for some market weakness to creep in next year. We cannot, however, see the future and activity in the mining sector will play its part too. A continued strengthening in this sector has the potential to buoy industrial markets in the Hunter Valley for longer yet.

### South East NSW

The industrial market is arguably the strongest of the three main asset classes at present, coming to life following the past two years of prolonged stagnation post the GFC. We expect this strong market sentiment to continue throughout 2018 although possibly not at the same pace as 2017.

The drivers of this market are low interest rates, extremely strong conditions in the Sydney industrial market, high confidence in the local economy and activity surrounding the port of Port Kembla. The relative affordability compared to Sydney combined with the region's proximity to Australia's largest city is making the Illawarra an attractive option for owner occupiers, while investors continue to chase a yield that this major regional market can offer.

Industrial rental rates are generally stable, fluctuating largely with location, access, quality of the improvements, efficiency, hardstand and size. Rental rates tend to range broadly from \$100 to \$150 per square metre gross.

Yields have continued to compress as exhibited by the recent sale in December 2017 of the Remondis tenanted facility in Unanderra at \$5.6 million, reflecting a yield of 6.5% and a capital rate of \$400 per square metre of improved land area. Broadly, yields tend to sit in the 6.5% to 8% range.

Developers are now active again in the small to mid-sized bay strata warehouse complex space with strong off the plan sales seen throughout 2017. Buyers of units in these complexes are driven by price point and when analysed on a rate per square metre tend to range from \$2,500 to \$3,500, which is a large increase from rates achieved in years gone by although bay sizes are smaller, dropping below 100

square metres in some cases. Additional projects are planned for Port Kembla and Unanderra.



## Victoria

### Melbourne

The Melbourne industrial market performed strongly in 2017. With interest rates remaining low and a relatively stable economy, new industrial developments are continuing to come onto the market. This can be seen in growth corridor areas where there is an abundance of vacant land prime for development, including suburbs such as Clyde and Pakenham in the south-east, Carrum Downs in the south, Truganina and Derrimut in the west and Epping in the north. The need for small scale industrial units continues to grow, especially for tradies and retirees looking for extra space solutions to store their associated tools or lifestyle equipment.

On the back of this, we expect to see increased demand for large scale warehousing and distribution facilities, particularly in the western suburbs. The proximity and access of the western suburbs to the West Gate Freeway, Princes Freeway and Western Ring Road is a major draw card for transport, logistics and distribution. There have been a number of new major projects throughout Melbourne, including the Woolworths Distribution Centre in Dandenong South, the Merrifield Business Park in Mickleham and the Bund Business Park in Port Melbourne, which are all due for completion in 2018.

Throughout 2017 there was extensive investment in infrastructure with major road widening projects for the City Link Tullamarine Freeway, Western

Distributor Project and the Monash Freeway. Industrial areas in the vicinity of these transportation routes are anticipated to have continued demand.

Rental levels are expected to remain reasonably stable for the first quarter of 2018. Prime face rental rates in Melbourne's industrial outer areas have generally ranged between \$70 and \$90 per square metre of building area per annum net plus GST, with secondary rates around \$50 to \$70 per square metre of building area per annum net plus GST.

Tenant demand has remained relatively strong over the previous 12 months however we remain cautious of oversupply given the large amount of industrial development occurring, especially in the south, south-east and west.

Incentives are expected to remain reasonably high with larger scale new developments achieving a range of 15% to 35%. Yields have been under increasing downward pressure for prime grade industrial development with yields for secondary development generally steady. This has been underpinned by the current low interest rate environment and investors hunting quality investments and there being limited properties for sale. Vacancy rates are continuing to decrease in comparison with 2016 as tenant demand is increasing to match the supply on offer.

Demand has remained consistent this year in the northern suburb of Epping following the relocation of Melbourne's fruit and vegetable market to Cooper Street in late 2015. This area has seen an influx of speculative development for both standard office and warehouse accommodation and cold storage facilities.

Areas to avoid are markets with over supply, vacant older style properties without any development upside and industrial properties with high rental rates yet short WALEs.

Areas of continued demand include the Melbourne Airport precinct, west of the Essendon Football Club Training Facility in Tullamarine. Demand for larger warehouses, distribution centres and other transport and logistics facilities is expected to continue to grow in the south-east, where developers are listening to and meeting tenant and occupier requirements. Greenfield land available throughout suburbs such as Keysborough, Dandenong South, Lynbrook and Cranbourne West are expected to be sought at strong levels, with rates breaking the \$400 per square metre of land area barrier (for sites under 4,000 square metres).

In addition to the above, further opportunities foreseen in the market are those properties with solid cash flows underpinned with medium term re-development potential.





### Echuca

With the local market expected to continue to be relatively stable and flat we would expect limited gains in this segment, with ample land available for development keeping a cap on the local industrial market. The importance of the second bridge construction may result in some short term gains for properties in close proximity to the work site or which meet specific demands of non local contractors though it is difficult to see how this might come together. Ongoing renewal of the irrigation district and buoyant conditions in the rural sector may result in some increased demand for space although this is likely to be limited absent a major processing development or additional funding for reconfiguration of the irrigation district.

### Latrobe

The industrial market throughout the Latrobe Valley and Wellington took a significant hit in 2017 with the closure of Hazelwood Power Station and the Carter Holt Harvey timber processing plant in Morwell, together with the significant job losses at Australian Sustainable Hardwoods in Heyfield. Whilst the initial downturn has steadied somewhat, the outlook for 2018 is for continued slow market conditions, softer yields and generally protracted letting up periods.

Agents are reporting a slight increase in tenant enquiry this month, however certainly not at levels seen prior to the Hazelwood announcement. The uncertainty surrounding the future of the power generation industry in the Latrobe Valley has left investors taking a cautious 'wait and see' approach, which is expected to continue in 2018.

### Riverina and North East Victoria

The economy may slow down but its impact will be negligible this year. It may lead to more volatility in the future but it appears this year will be a period of wait and see.

Regional markets are often owner occupier driven. Whilst low yields appear to be the norm in capital cities, any increase is not considered to impact significantly due in part to the buyer market and the relatively low value, more often than not below \$750,000.

There do not appear to be any signs yet that the market will move one way or the other. It appears quite steady.

We expect rents for the Riverina and North East Victorian industrial property to remain stable in 2018. Global economic uncertainty and possible interest rate rises might lower growth expectations

and earning. This may lead to less demand and yields softening.

There appears to be a reasonable supply of vacant land. Building your own purpose built industrial premises offers both a modern and aesthetic look to your workplace or warehouse and allows for full depreciation and tax benefits.

When buying property with a leaseback option, an inflated rental figure would lead to an inflated sale price and an incorrect capitalisation analysis.



## South Australia

### Adelaide

The industrial market has been flat for several years and the effect has been sporadic performance of the entry level market, at best.

The decision by GMH and the Federal Government's policy shift in supporting the industry, exemplifies the problems facing almost all forms of general manufacturing in South Australia across the last 12 months.

Melbourne-based developer, Pelligra Group, was announced as preferred purchaser for the GMH Site in October 2017. The 122 hectare site is to become a Business Park with uses including employment industries, defence, resources, food, construction and logistics; there have also been recent media reports of Electronic Car manufactures investigating the site. However, nothing is expected in the short term with the decommissioning process expected to continue into 2019 before the land is transferred to Pelligra.

Another positive has been the securing of Defence construction contracts. After the completion of the Air Warfare Destroyer (AWD) construction contract, the Future Frigates programme will commence in 2020 with an estimated spend of circa \$35 billion. Following this in 2022 is the Future Submarine project, comprising 12 submarines at a spend of circa \$50 billion. The projects are expected to provide over 2,000 jobs.

Managing the transition from the Automotive Manufacturing to Ship Building has seen the South Australia Government increase infrastructure spending to \$9.5 billion over four years.

Whilst this infrastructure spending has helped drive up advertised job numbers and increase the slow economic turnaround, we don't anticipate significant shifts in demand in the next 12 months. Speculative development and pre-committed development has been subdued over the last 18 months and this is not expected to change in the next 12 months.

Yields continue to be higher throughout South Australia than for the eastern states. The lack of investment opportunities may firm yields in the next 12 months, but it would be unrealistic to think that there would be any major movement.

Similar to yields, the lack of demand and poor economic conditions as well as the high supply of available space, particularly through the lower grades of industrial space, has resulted in limited rental growth over the last few years. This is not expected to change significantly over the next 12 months but there may some upward pressure within premium assets, with some agency based firms reporting a number of firms looking to expand into South Australia.

As is often the case with this kind of market, fortune favours the brave. Yields are significantly higher

than the eastern states and whilst the demand fundamental are transitioning, yields over 10% for leased industrial space should accommodate the reduced rental growth and ultimately provide reasonable incentive for the brave investor.



## Queensland

### Brisbane

We envisage that the industrial market in Brisbane will remain steady as it has done for the past three years where other markets have enjoyed a buying frenzy. Stronger areas such as the TradeCoast and Logan Motorway corridor will continue to prove attractive for investors and owner occupiers.

We think selling and leasing markets will be supported by several key infrastructure projects in the greater Brisbane region, including:

- Duplication of the international runway at Brisbane airport
- Upgrades to Kingsford Smith Drive, Bruce Highway, M1 Pacific Motorway and Mt Lindesay Highway

Suburbs in close proximity to these projects may experience an uplift in rental values, tenant demand and capital values.

We agree with other commentators that prime stock will continue to be stronger than secondary stock, which will continue to struggle. We also agree with market forecasters that industrial is the property sector benefiting most from technological change.

The market is steady, investment appetite is strong for well leased and located assets and those with locational, letting up or obsolescence risks will have these risks factored into their values.

In terms of investment yields, prime properties range from 6% to 7.5% while secondary properties are in the vicinity of 7.5% to 9%.

Prime rents range from \$100 to \$140 per square metre of GLA per annum, while secondary rents range from \$70 to \$95 per square metre of GLA per annum.

There is a limited amount of investment stock coming onto the market at present. With pent up demand for prime investment assets in key locations, buyers will experience strong competition in attempting to acquire long term, income producing properties. However, despite elevated levels of competition for tenanted buildings, a good yield spread remains compared to other investment assets, property or otherwise.

We believe there are also opportunities emerging with the rise of online retailing. The types of industrial properties that will meet this opportunity range from small warehouses for last-mile deliveries to full scale distribution centres in and around Brisbane's ports and major arterials.

Secondary assets in poor locations will carry significant leasing risk. 91 Spine Street, Sumner just sold fully leased at a passing yield of 8% to a private investor, who originally balked at the property 18 months ago due to the level of vacancy in the property at the time. This demonstrates investors'

caution surrounding secondary property vacancies. On the flip side, if the investor successfully took on the risk of finding tenants to fill the vacancies 18 months ago, their return on investment would have been greater. Overall, there are opportunities in some secondary markets to add value via letting up vacant buildings or refurbishing older accommodation.

### Gold Coast

The year 2017 ended with a low to moderate level of market activity for the industrial sector across the Gold Coast. On average, traditional industrial areas such as Nerang, Arundel and Molendinar recorded four to five sales in the last three months of the year, mainly involving industrial units sold between \$220,000 and \$560,000. There were a few stand alone factories sold for between \$1.4 million and \$1.75 million in these industrial pockets.

There were more properties sold in the Burleigh Heads/Varsity Lakes/Currumbin and Yatala/Ormeau/Stapylton industrial regions, with each region recording 10 to 15 sales in the same period. However, these regions cover a much wider geographical area and thus, more transactions are expected in these districts compared to the traditional areas.

Sales in Burleigh Heads were for mostly industrial units priced between \$250,000 and \$665,000. The most significant sale was a modern cold storage



facility for \$2.225 million. The value of industrial sites has continued to increase as supply is still very limited. There have been sales of small sites showing around \$500 per square metre for vacant land values. Yields are low for the industrial sales, especially for strata units, where analysed yields as low as 5.75% are being recorded. Similarly, there have been some factories being transacted at low yields, although most would be within the 6% to 6.25% bracket. There have not been many investment sales, with the market still dominated by owner occupiers. Strata industrial units are now selling for above \$2,500 per square metre regularly for small sizes, or above \$2,200 for medium units, although older style units continue to sell for lower prices. Rental rates are around \$170 to \$180 per square metre gross for small units, \$150 for medium and \$140 to \$150 for small to medium freestanding properties.

The Yatala Enterprise Area recorded the highest capital sales value in the overall Gold Coast industrial market at about \$20.5 million, with the sale of a large 5,640 square metre industrial complex on Darlington Drive for \$8.7 million, two factories on Lahrs Road for \$3.5 million and \$6.25 million and an old cold storage facility for \$2.1 million. The rest were sales of strata units ranging in price from \$200,000 to \$539,000 with the exception of a large unit with specialised fitout for \$1.35 million. Unlike Burleigh

Heads, analysed market yields for industrial strata units are firm at between 6% and 7%.

Last year, various large englobo industrial sites in Yatala and Arundel were sold. We believe these sites are intended to be reconfigured for release as new industrial estates or subdivisions, bolstered by the decreasing stock of serviced industrial sites for sale, particularly in the central and southern regions. Successful sales at \$280 per square metre in Yatala and up to \$450 per square metre in Arundel and Burleigh Heads are attracting more developers to this sector of the market. They could potentially flood the market in 2018 with an oversupply if the sellers choose to release their products during the year. Pricing is crucial for these new industrial subdivisions, noting that there are still a significant number of unsold sites priced at more than \$350 per square metre in the market. However, affordable small sites of less than 1,500 square metres are the exception, with a few sales netting \$500 to \$700 per square metre where there was no competition from other sellers.

So far in 2018, Tweed Heads has had four sales of strata units in January for a total value of \$1.81 million whilst other parts of the Gold Coast seem to have had a relatively slow start. We expect sales activity to pick up soon as there are a few sales that are pending completion.

Overall, a similar market trend to last year is expected for the months ahead, based on the current outlook that interest rates will not increase until 2019. However, the growth in value levels may soon start to taper off should building activity and market demand decrease after the Commonwealth Games coupled with the likelihood of interest rate rise.

#### Sunshine Coast

The industrial market on the Sunshine Coast has noted a year of consolidation during 2017. A number of vacant lots across estates in Noosaville, Coolum Beach and Bells Creek were sold to a range of buyers including end users and developers.

The most active part of the market remains the sub \$500,000 owner occupier strata market, with values rising over the past 12 months and generally ranging from circa \$1,800 per square metre to \$3,000 per square metre, depending on location and overall size.

This market is likely to continue improving during 2018 with the construction market still strong on the Sunshine Coast and generally driving these types of buyers.

The larger investment grade market has also improved and is likely to continue to firm with investors seeking higher returns in the industrial market compared to the retail market.



Overall, levels of vacant land stock has diminished, though still will constrain values moving forward.

### **Toowoomba**

Leasing demand for industrial properties in Toowoomba is currently moderate and has resulted in an increase in vacancies. Although face rentals have been relatively static, lease incentives may need to be introduced to secure tenants.

Demand from owner occupiers for vacant industrial properties is also considered moderate with values likely to remain relatively static over the coming year.

Whilst interest rates are low, strong demand from investors is likely to continue. Yields between 8% and 9% are often achieved for fully leased properties in good locations. There have also been a few instances where properties with a strong tenant on long term lease have achieved a sub 8% net yield.

Demand and supply for smaller industrial strata units in Toowoomba is limited. This market is predominantly owner occupied with capital values also likely to remain static in the short to mid term. The lower price bracket often makes these industrial units attractive to entry level investors.

As construction of the Toowoomba Bypass Road continues (construction commenced in 2016) and the proposed Melbourne to Brisbane Inland Railroad project progresses (\$8.4 billion in federal funding

announced last year) it will be interesting to see whether demand increases for industrial land in the Charlton-Wellcamp Enterprise Area (located to the west of Toowoomba and positioned close to both projects).

### **Rockhampton**

Movement in the industrial market in Rockhampton in 2016 and 2017 saw reductions in rentals but also a slight tightening of yields for well tenanted properties. For 2018, we expect an increase in activity in the industrial sector on the basis of sustained commodity prices (mainly coal). Also, if major infrastructure projects such as the Rockhampton Ring Road and Rookwood Weir come to fruition we anticipate stronger demand for industrial property both in Rockhampton and Gracemere. With increased activity we would expect rental levels to slowly increase, however prior to this there will need to be a take up of vacant space in the market which could take some time. Yields will be driven by the wider investment markets and sensitive to any movement in interest rates, but unlikely to be driven by local factors. While interest rates remain low, we anticipate continued activity in the owner occupier market. There continues to be good opportunities for owner occupier buyers, however there are few industrial offerings for investors that offer quality improvements and attractive cash flow and tenant profile.

### **Gladstone**

We anticipate that the industrial sector in Gladstone will continue at much the same pace as seen in 2017, with limited activity and continued stabilisation of rentals and values. Most leases struck during peak market conditions have since been subjected to market review, with many rentals now negotiated to more affordable levels. There is still a high level of vacant industrial property and until such time as this stock is absorbed, tenants will continue to have bargaining power in new lease negotiations. We consider that good opportunities remain for the owner occupier market given continued low interest rates and relatively affordable value levels. Vacant properties will continue to appeal to the owner occupier market only, with no interest in this sector of the market from investors. In the later part of 2017 we saw some renewed investor activity for leased properties, albeit at high yields that reflect market sentiment. We anticipate that investors will remain opportunistic in 2018, seeking counter cyclical investment opportunities.

### **Mackay**

The industrial market in Mackay has probably hit the bottom of the market cycle. It is always easier to say exactly when that was with the benefit of hindsight. Agents reported strong leasing activity in the later stages of 2017 however this has moderated in recent weeks. Rents appear to have settled at a new lower



level. There has been particular interest in industrial properties with large hard stand areas suitable for heavy vehicles and equipment. This is not surprising given the extent of major infrastructure projects around the city including the \$500 million Mackay Ring Road.

Throughout 2018 we expect that there will still be keen interest for quality investment grade assets with strong lease covenants at any price level. This sector was not badly impacted by the local coal mining downturn and is traded within the national market.

The market for standard owner occupier industrial properties in the price range of \$750,000 to \$2 million experienced a price correction through the coal mining downturn. We do not expect the value of these assets to fall any further, neither do we expect any appreciable value growth through the course of 2018.

Vacancy rates for older, standard sized sheds with minimal hard stand area remain fairly high. Extensive take up is required before any increase in rental rates can be anticipated in this asset class.

Industrial units experienced good levels of rental take up throughout 2017 albeit at very affordable rental levels. There was a particularly cheap sale in the Harbour City Central complex late last year which

suggests that this sub sector may not have reached the bottom just yet. It is possible that there could be some industrial unit stock taken to the market by receivers in 2018. This looms as a threat to value levels.

We believe that properties with extensive hardstand areas will remain in high demand throughout 2018. We expect that there may be some growth in rentals and sale prices in this asset class. Local infrastructure works are likely to be a key driver in the Mackay market for many years to come.

#### Wide Bay

Bundaberg's industrial property markets are likely to remain stable throughout 2018 with some targeted infrastructure projects offering benefits to some properties such as the extension of Kay McDuff Drive and Johanna Boulevard, the Rubyanna Wastewater Treatment Plant and developments at the Bundaberg Port. The market for industrial premises in Bundaberg predominantly transacts under \$1 million. There have been some positive signs for the higher priced industrial assets with a handful of industrial premises selling in the top end price brackets in the Wide Bay markets. Industrial investment grade stock has been very low with owner occupiers the more likely buyers at present.

#### Emerald

A recovery of the coal price in early 2017 saw the beginnings of renewed confidence in the industrial market in Emerald. We anticipate that 2018 will continue to show steady signs of a market recovery with increased activity in both the sales and leasing markets. Two recent sales showing signs of renewed confidence in the sector are the Flexihire building at \$750,000 and a large industrial premises on Wills Road recently transacting at \$1.4 million. The Flexihire building was sold on a lease back arrangement with a new five plus five year lease, showing an analysed market yield of about 9%. There were multiple other sales recorded during 2017 in the sub \$550,000 market mostly to owner occupiers and we anticipate this activity to continue throughout 2018 while interest rates remain low. Whilst there is still a high number of vacant industrial sheds, we acknowledge that most of this is generally older quality stock and there are limited rental opportunities for quality, well presented industrial premises. There may be opportunities throughout 2018 for landlords to upgrade their properties as part of lease agreements for new tenants, or the potential for new development if demand for modern premises increases. We consider the overall outlook for 2018 to be more positive than this time 12 months ago.



### Townsville

The year ahead for the industrial sector is likely to remain at status quo with improvement in the mining sector and sentiment in the market remaining positive.

We are currently seeing positive economic conditions and sentiment in Townsville on the back of major projects already underway including the Townsville Stadium, Ross River Solar Farm and Haughton pipeline duplication. However, there remains some hesitation in the market around Adani's \$22 billion Carmichael Mine, with ongoing media coverage currently keeping this issue at front of mind. Our general feel is that although there is positive sentiment surrounding the market, this is currently not translating to any real increase in activity.

We are likely to see continued interest from southern investors in the industrial sector given the attractive yield spread in regional areas relative to their home locations. This drive will continue to be towards quality property offering strong investment returns with long term leases or national tenants.

There remains an oversupply of stock available relative to current demand in the leasing sector and incentives are likely to continue throughout the year as a requirement to entice prospective tenants.



## Northern Territory

### Darwin

It's probably fair to say that the industrial sector has been the hardest hit of any of Darwin's property markets in the slowdown of the past three years. This can be attributed to a number of factors including the limited involvement of local industries with Inpex and the larger supply of new industrial land in estates which have been developed over the past few years.

Business confidence and therefore property confidence is a very fickle thing. There is an oversupply of doom and gloom at present and there is no doubt that the next 12 months will be challenging for many industrial businesses and property owners. There will be seismic changes this year as the Inpex project adjusts from its construction phase, employing a peak workforce of about 9,000, to the operational phase which will employ about 300.

On the more positive side, the NT Government has just announced a \$1.75 billion capital expenditure program across the Territory and there are also significant Commonwealth (mainly Defence) and private sector projects emerging in 2018. It is to be hoped that when these projects come to fruition it will cause a multiplier effect on demand across all Darwin's property markets. Industrial type property should be at the forefront of many of these projects.

Rents have certainly been under downward pressure for the past two years which has been a factor in

reduced industrial property values. Yields generally have increased reflecting the perceived increase in risk of industrial property as an investment. Tenants and buyers are in stronger negotiating positions as a result. There is no short term change to this equation in sight until these upcoming projects can reverse the negative employment growth across the Northern Territory, especially in Darwin.

In this environment, a severe discount is being applied to vacant possession properties. This represents an opportunity for owner occupiers to buy their own premises or possibly expand (although few are looking at expansion in the current market). For investors with the foresight and cash to withstand the possibility of an extended period of vacancy, some of these properties are available at a price well below replacement cost.





## Western Australia

### Perth

There are still signs that a two-tiered market exists between prime and secondary industrial space, however we consider that the market has reached the bottom and looking forward, we hope to see some recovery in the industrial sector as mining projects once again come on stream.

On average, the 12 months to December 2017 saw leasing activity fall just below the five year average. Once again, the main takers of industrial space in the Perth industrial market were the transport and logistics and the manufacturing and engineering sectors, followed by the construction, mining and agricultural sectors. Most of the leasing activity centred around the core and east industrial markets (Kewdale, Welshpool, Perth and Jandakot Airports and Canning Vale) accounting for the majority of industrial stock reported leased in the 12 months to December 2017, covering close to half of total leasing volumes through the year.

In regard to rentals, prime industrial net face rents typically range from \$70 to \$100 per square metre per annum in the core and north (Malaga, Wangara), \$60 to \$95 per square metre per annum in the south (Bibra Lake, Henderson, Yangebup, Kwinana, Rockingham, O'Connor) and \$70 to \$90 per square metre per annum in the east. While both average prime and secondary grade rents declined between 10% and 15% between 2013 and early 2016, the

past 12 months have shown some signs that rents are close to stabilising. The trend suggests that the first signs of recovery have emerged in the market and while this is yet to translate into higher leasing volumes over the past 12 months, there are indications that tenant demand is gaining some momentum on the back of improved business sentiment and jobs growth.

According to research with Landgate, HTW noted approximately \$500 million worth of industrial property transactions in the 12 months to December 2017. This is below the five year average of \$640 million.

Half of the sales exchanged in the 12 months to December were for assets of \$20 million or above. This has led to a change in vendor composition with more private investors offloading assets than the previous period. Growthpoint Properties acquisition of the Desmar Portfolio at Perth Airport for \$46 million was one of the largest for 2017 but included four separate yet adjoining properties.

Looking to the year ahead, leasing enquiry is expected to trend upwards for opportunities in the traditional, more established precincts, with a steady increase in transactional activity likely as a result. It is anticipated that this demand will be mostly in the sub 10,000 square metre segment for existing supply. Activity in the pre-lease sector

has lifted recently with a number of firms currently undertaking or looking to scope out market options for upcoming requirements. We may see further improvement in leasing volumes as 2018 plays out. Speculative development has been limited, largely in the less established regions, and 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 due to the shortage of prime quality facilities in the core and east as owners look to reposition assets on the back of a brighter outlook for jobs growth and business climate.

Yield compression has begun to slow in some of the precincts for prime investment assets, however there is at least a 50 basis point spread between the prime eastern seaboard markets and Perth, potentially indicating that there is still some compression to come. We do note that there are examples of prime assets with strong lease covenants trading on market yields closer to 6%, below the average prime yield range.

Flight to quality may compound this divergence between prime and secondary in 2018, most likely in the traditional precincts first.