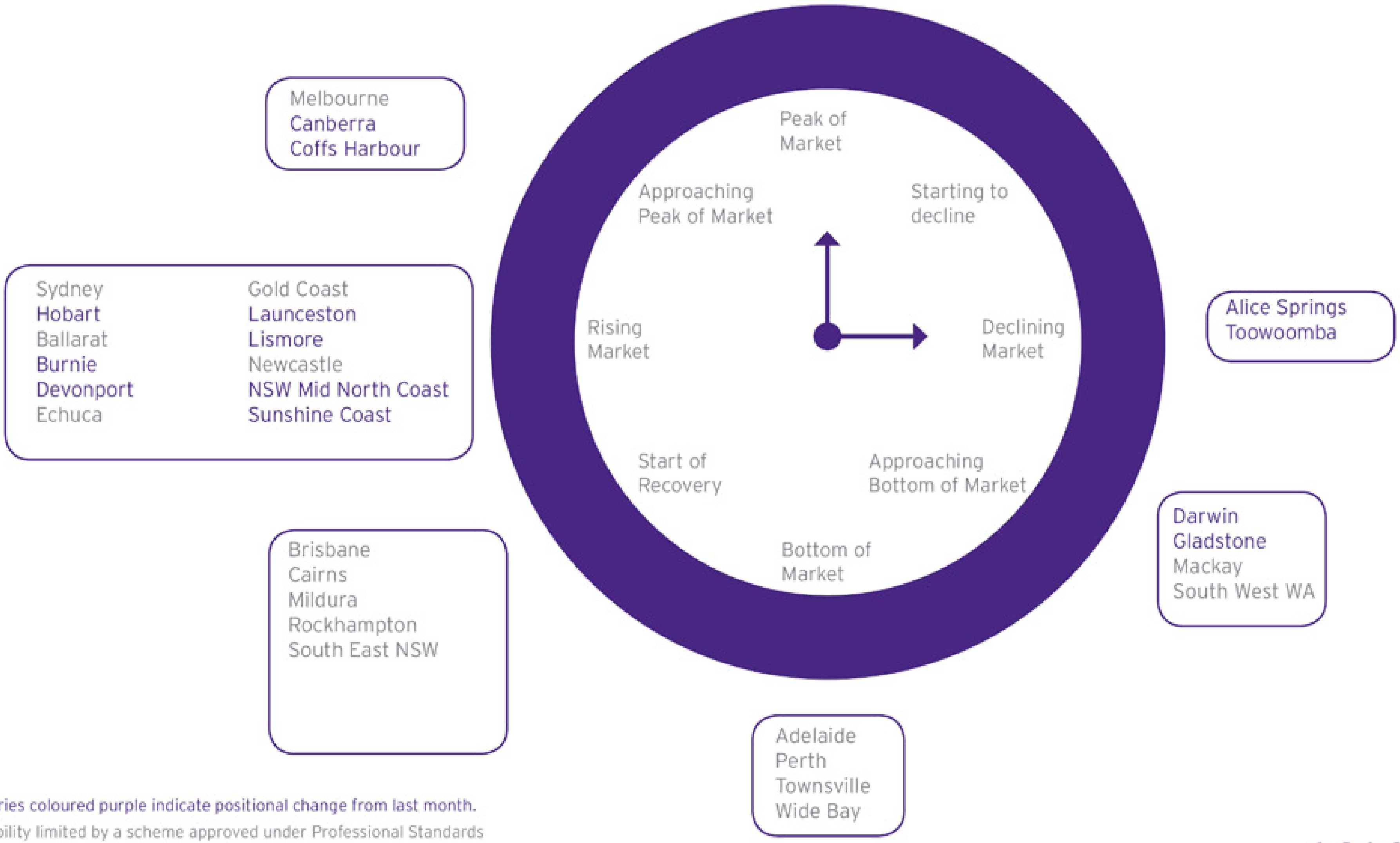
Commercial

HERRON TODD WHITE COMMERCIAL

National Property Clock
August 2017
Industrial



Entries coloured purple indicate positional change from last month.

HERRON TODD WHITE COMMERCIAL

New South Wales

Overview

Rent levels are the bedrock which determine the success or failure of industrial investment, and having a handle on how they're tracking is imperative.

This month, our team deep dive into industrial rentals, dissecting the good from the bad and analysing movements so you can stay ahead of the pack.

Sydney

Industrial markets have continued to show signs of strong growth across the whole of the Sydney metropolitan area. Generally speaking, the performance of the industrial market in Sydney's inner ring and particularly southern Sydney stems from an aggressive reduction in available stock due to the rezoning of land and conversion of existing stock, whilst the outer suburbs of Sydney are benefiting from an unprecedented level of infrastructure investment and the on flow of owner occupiers and investors being priced out of industrial precincts within close proximity of the Sydney CBD. Numerous local agents have reported a shortage of quality, well positioned industrial holdings.

Within the small to medium size bracket we note rentals appear to be very consistent, ranging from $100 to $120 per square metre per annum net plus GST and some of late have even hit as high as $130 per square metre. Leases at this level of the market are negotiated on a net basis, with tenants responsible for outgoing costs. We are noticing that incentives have diminished with many large scale operators happy to commit to long term leases of five to ten years plus options with minimal abatements depending on the location and improvement quality.

In the sub 1,500 square metre bracket we note rentals have also strengthened. At this level of the market, leases are generally negotiated on a gross basis with only a few agreements passing on the costs of outgoings. This sector rarely features rentals below $100 per square metre in metropolitan Sydney, with the exception being low quality low clearance warehouses in less desirable locations. We have seen the most uplift in this sector due to the affordability of most of these assets, typically at the sub $500,000 price point. Given the population growth particularly in the north and south-west of Sydney, many of the fringe industrial locales have seen a spike in demand from a sale and leasing perspective as many of the existing occupiers have been pushed out of the main centres to make way for residential redevelopment.

Overall, the rental market is expected to continue to grow due to a lack of supply together with a relatively healthy industrial outlook over the coming months.

Canberra

Canberra's industrial market is concentrated in three main localities: Mitchell in the north; Hume in the south; and Fyshwick centrally located near Canberra airport. The Fyshwick market remains the most popular of the three industrial areas in Canberra providing a mix of small, medium and large industrial and bulky goods use space, but activity in Mitchell continues to increase on the back of population growth in the Gungahlin district.

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 (2016-17) 30,000 square metres, Fyshwick (2017-18), Hume and Symonston 55,000 square metres and Majura Valley, Hume, Symonston and Pialligo (2018-19) 42,000 square metres. A further 39,000 square metres will be released in 2019-20. The program aims to release 166,000 square metres over the next four years.

The land release of industrial sites has seen new developments attract tenants from older established sections of Fyshwick to new industrial sub division locations. Currently rents for small units in Fyshwick range from $125 to $200 per square metre. Larger premises over 1,000 square metres are letting for $130 per square metre.

Hume rents are achieving rates of around $100 per square metre for units averaging 200 to 300 square metres and $120 per square metre for larger buildings of 1,000 square metres plus.

Mitchell properties are achieving rates of $220 per square metre for units between 100 and 300 square metres and $130 per square metre for over 1,000 square metres.

> Industrial sales have been improving and are dominating the market compared to rentals.

Tenants incentives have consisted of rent free terms and contributions to fit out in order to move to newer locations with long term leases.

Tenant demand is low at present with tenants opting to purchase sites rather than rent due to low interest rates and good economic growth. Rents are stable and should remain so for the short term. Predicted increases in interest rates will impact the market in the long term and we would anticipate some rental growth when the momentum swings back to tenant demand increasing and out performing sales.

Local agents report that tenant enquiry is at low levels and those who can afford to purchase a property are taking advantage of low interest rates and acquiring properties for long term investment.

South East NSW

The industrial property market has shown clear signs of improvement over the past two years with a slight increase in leasing transactions, demonstrating improved confidence after a prolonged period of static conditions post the GFC.

In general, industrial rents are stable however local agents are reporting a notable increase in enquiry levels, particularly for small to mid-sized efficient well located warehouse tenancies. Demand for larger warehouse space is also increasing. Demand for older style large inefficient heavy industrial space remains relatively soft given the struggling manufacturing and mining sectors.

Local agents are however finding that some tenants (usually established businesses) prefer to purchase rather than lease with low interest rates making owner occupation more attractive. This is putting a cap on leasing activity.

Prime industrial rents typically range from $120 to $150 per square metre gross. Low site coverage properties with good usable handstand components can achieve in the circa $170 to $200 per square metre range. Second tier industrial rents tend to have a broad range from $80 to $110 per square metre gross.

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 tight supply and rising values and rents of industrial property in the Sydney market is also impacting the local market, likewise the significant infrastructure investment in the south-west Sydney growth corridor most notably the proposed second airport at Badgerys Creek.

Newcastle

Location is a big factor in industrial rental growth around the Hunter Valley and Central Coast at present. While we're seeing some increase in coal mining services activity, this sector has been weak for around five years now and areas heavily reliant on mining sector activity such as Singleton and Rutherford are still seeing downward pressure on rents across the board. Given the rental supply and demand mismatch, rents are not expected to increase in the short term in these locations.

Mayfield West on the other hand is under stocked with industrial property. Local industrial leasing agents are reporting increased enquiry in this locality. This is on the back of the significant construction boom in the CBD, Mayfield West being the closest established industrial estate to the CBD.

Other major Hunter Valley industrial estates such as Beresfield and Thornton are indicating steady, albeit slow rental growth patterns. While stock listed for sale is scarce within the Beresfield estate at present, the number of warehouses listed for lease is growing in this ever increasing owner-occupied market sector.

Lismore

The Byron Bay industrial market has seen quite a bit of action in the past six months. There has been high demand for industrial strata product with a lack of available stock (both to purchase and lease). This has resulted in increased values and premiums being paid to secure a property. The demand is from both investors and owner-occupiers alike. The rental rates have seen a sharp increase also for the 100 to 150 square metre size industrial strata unit in the past six months from $150 to $180 per square metre to $230 to $260 per square metre.

The recent growth in industrial strata titled unit product is, advised by some agents, due to reports Byron Shire Council have relaxed their regulations on illegal residential occupation of industrial units. Traditionally this has always been an affordable form of residential accommodation within Byron Bay, with people permanently occupying industrial strata units on a residential basis (albeit illegal). Part of the industrial estate is zoned B7 Business Park, which permits residential occupation in conjunction with business use.

As for the remainder of the North Coast, Ballina has seen a slight increase in rents in industrial estates and decreased vacancies. The industrial markets in Casino, Alstonville and Goonellabah remain steady. The South Lismore industrial estate has recently been affected by a major flood. There has been anecdotal evidence that some industrial business have packed up and moved up the hill to higher ground, however the majority have remained. It will be some time before we can determine the effect the flood has had on the industrial market.

Coffs Harbour

The rental market for smaller industrial sheds is variable, demonstrating some market uncertainty, with a lower volume of recent lettings. Rental evidence displays a wide variance from $90 per square metre to $130 per square metre for modern tilt up small bays of 200 to 300 square metres in size in prime locations.

The industrial rental market still remains price sensitive with a broad range of rents being achieved, which confirms the uncertainty in the market. There remains a slight oversupply of smaller industrial bays in the lower price bracket and valuations of poorly leased property will invariably be lower than those with vacant possession for this owner-occupier dominated market.

Incentives are common in the market with rent free periods of one to two months, often written into leases. Bulky Goods accommodation remains price sensitive with rental levels circa $140 to $180 per square metre, depending on size. We are aware of a 2016 leasing of circa 1,500 square metres which included a 12 month rent free period over a ten year lease.

Victoria

Melbourne

The Melbourne industrial market performed strongly in the first half of 2017. With interest rates remaining low and a relatively stable economy, new industrial developments are continuing to come onto the market, especially in growth corridors where there is an abundance of vacant land prime for development, including suburbs such as Clyde, Pakenham and Dandenong South in the south-east, Carrum Downs in the south, Truganina and Derrimut in the west and Epping in the north.

Industrial rents have remained relatively stable over the past 12 months with the exception of the northern industrial market, which includes Campbellfield, Coolaroo, Somerton and Broadmeadows. This area has felt the impact of losing the Ford Motor Company manufacturing plant in Campbellfield last October.

> Incentives are not as prevalent in the industrial sector as they may be in other markets, however are becoming more common, especially within new industrial estates.

Incentives mostly take the form of rent free months at the beginning of the lease. Standard length leases (three to five years) generally receive one to three months rent free, which usually covers the setting up period of the property, whilst longer leases (five plus years) are seeing three to five months rent free. This usually ends up being about 25% to 35% of the commencing rental amount.

In the south-east, in a well-regarded industrial area such as Dandenong South, a 2,500 square metre, modern office/warehouse could expect to reach between $70 and $90 per square metre per annum net plus GST, with larger properties expecting less and smaller properties expecting more. Older properties and ones in inferior locales would reach between $50 and $70 per square metre per annum.

In the outer east in Kilsyth, we're seeing rates of $70 to $80 per square metre per annum net plus GST for good quality large industrial properties (2,000 square metres plus), with brand new warehouses smaller than 500 square metres reaching up to $130 per square metre per annum net plus GST.

We expect tenant demand to remain relatively strong over the coming 12 months, however remain cautious of oversupply given the large amount of industrial development occurring, especially in the south, south-east and west.

Echuca

Industrial rents have been relatively static for some time, with the market generally capped at the cost of construction for owner builders in the amortized over the life of the asset in conjunction with owner-occupiers looking to take advantage of self managed super funds. Consequently there have been limited gains in industry locally and this has also been exacerbated in some regards by challenging manufacturing conditions. Consequently there have been limited gains in industry locally and this has also been exacerbated in some regards by challenging manufacturing conditions.

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South Australia

Adelaide

The industrial rental market is generally subdued as the South Australian economy faces continued challenges.

The market in the outer north, specifically the areas surrounding Elizabeth South have experienced weak demand over the past 18 months due to the closure of Holden's production plant and the loss of approximately 1,250 on-site jobs.

As the 2017 departure of Holden approaches, there are noticeable vacancies arising throughout industrial northern areas and properties are experiencing extended marketing periods given the uncertainty surrounding the local industrial market.

Unfortunately, GM Holden's departure is only part of the bigger picture but has typified the contraction of manufacturing in South Australia. This contraction has led to an oversupply of industrial space throughout the market and placed downward pressure on rents.

There is now an evident difference between renewals and new leases with incentives becoming more common, as has the need to reconfigure larger spaces for multiple occupants.

When the subdued rental demand is coupled with weak investor sentiment and a low interest rate environment, it is not surprising that those left active in the market are equally attracted to buy as oppose to rent.

The rental market for industrial property has previously been more simplistic than other markets such as office space or retail where face rents and effective rents can vary significantly. The increasing use of incentives has seen the industrial market become more complex and less predictable.

Also, the increase in outgoings has placed additional downward pressure on net rents. It was recently revealed that Adelaide has the highest power prices in the world, which has a particular impact on industrial businesses. Although the recent announcement of a raft of spending by the South Australian Government, including a 100MW battery in Jamestown, may soften the consumer electricity costs.

A 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. These projects are expected to provide over 2,000 jobs.

In addition, the South Australian Government has significantly increased its expenditure on infrastructural projects. In 2015 to 2016 the budget was $1.8 billion which has increased to $2.2 billion by 2017 to 2018.

The projects are:

- Darlington Upgrade
- Anzac Highway to Darlington
- River Torrens to Anzac Highway
- Regency Park to Torrens Road
- South Road Expressway
- Northern Connector

The combined effect of the Defence contracts and the infrastructure expenditure is going someway to soften the blow, however the fall-out to the South Australian economy has been harsh.

Queensland

Brisbane

The Brisbane industrial market has been generally buoyant throughout the first half of 2017 with leasing and sales activity levels within the TradeCoast continuing to outstrip other industrial corridors. There have been record land value rates set in this precinct over the past six months with limited supply and pent up demand driving land value rates to exceed $600 per square metre of site area in some instances, particularly in Eagle Farm. Whilst industrial developments remain unfeasible for the majority of projects (due primarily to high underlying land values, rental stagnation and rising construction costs), the land market is instead being driven by owner-occupiers seeking to purchase sites in prime locations with the intention of constructing purpose built facilities for their own business purposes.

The TradeCoast has been the most sought after precinct historically given its proximity to ports and the CBD, and is set to remain this way with several major infrastructure projects, including the doubling of the Brisbane airport runway and the upgrade of Kingsford Smith Drive ensuring continued growth in the area over the medium to long term.

Within the sub $5 million price range, modern stock with strong leasing covenants continues to receive strong interest from private investors and syndicates. We have seen sub 7% yields achieved on these transactions, however these have been in isolation.

Demand in locations such as Acacia Ridge, Brendale, Northgate, Salisbury and Sumner is presently being driven by owner-occupiers and we have seen capital values increasing within these established precincts for quality assets.

In regard to the rental market, the flight to quality continues to support prime grade rents, particularly for those locations within close proximity of major transport routes and Brisbane's ports. With the exception of the TradeCoast and pockets of industrial properties on the north and south sides, rental rates have remained stagnant throughout the greater Brisbane region. This is largely a function of weak performance across a number of key economic indicators such as inflation and growth in wages and GDP. There has been some uplift in activity led mostly by large scale tenants (7,000 to 10,000 square metres) who took advantage of higher incentives particularly in the northern and southern precincts as developers aimed to secure pre-commitments for their developments.

In the case of Seventeen Mile Rocks, rents were undermined 18 months ago by an unusually large supply of new stock (Metrowest) coming onto the market simultaneously in circa 2015/16. This caused net face rents to fall $20 to $40 per square metre and from discussions with local agents, this supply has finally been taken up by the market and we should expect to see rents return to their historical averages over the course of the next few years.

Elsewhere, suburbs such as Caboolture, Banyo, Hendra and Northgate are experiencing relatively low levels of vacancy, with prime grade buildings and properties with exposure to motorways or arterials in high demand.

More broadly, many agents are reporting weak rental market conditions for buildings with 2,000 to 5,000 square metres of GLA. There has been anecdotal evidence emerging of declining face rents for secondary buildings of this size and an upward trajectory in incentives - around 10% plus over the initial term of a lease is becoming more and more common.

Looking forward, future rental movement will depend on economic conditions, business confidence and the future supply of both vacant land and built product.

Finally, leaseback agreements where the vendor sells the property with a three to ten year commitment in place to lease the premises back from the purchaser are common in the current market. This is primarily the result of businesses seeking to free up capital or rebalance the books. The current search for yield amongst investors is encouraging yield compression across the industrial landscape during a period of sustained low interest rates. This, together with a weak rental market, is making these agreements an attractive proposition for owners of prime grade stock as a strong return on investment can be achieved through the sale, while simultaneously locking in an affordable rent for the medium to long term.

Toowoomba

Industrial rentals in Toowoomba have been relatively static with only modest increases over the past two to three years. Leasing demand however has declined recently which coincides with the decrease in activity within the Surat Basin coal seam gas industry. The number of vacancies has increased over the past twelve months which could result in the tightening of rentals or the introduction of lease incentives.

Industrial rental rates in Toowoomba can vary from $75 to $140 per square metre gross for warehouses and $120 to $200 per square metre gross for the office components. These rates will vary depending on factors such as size, quality of building and inclusion of overhead gantry cranes.

The inclusion of additional hardstand yard area could also affect a property's achievable rental. A standard industrial property in Toowoomba will generally have a site coverage of 25% to 30% with premiums often achieved if the site coverage falls below this rate. Rentals of between $8 and $20 can be achieved for hardstand yards with the variances due to size, location and type of hardstand (gravel, bitumen, concrete etc).

The other major factor that will affect rental rates is location. The western suburbs of Wilsonton, Glenvale and Torrington have always been considered more popular industrial precincts with suburbs such as North Toowoomba, Rockville, Harlaxton and Drayton generally considered secondary locations.

Gold Coast

The main thrust of the Gold Coast industrial market in the past few years has come from owner-occupiers driven by the low interest rate borrowings and the flat cash rate. The trend of renters turning into owner-occupiers is mainly happening in the traditional industrial precincts in the central and southern regions which are mostly composed of small to medium sized properties that were developed to cater for the demands of local companies. The larger factories are concentrated in the Yatala Enterprise Area (YEA) in northern Gold Coast which encompasses the suburbs of Ormeau, Yatala and Stapylton. Not surprisingly, the leasing market is more active in the north than in the south. Amongst the national companies that have set up roots in the YEA in recent years are Caterpillar, O-I Glass, Jeld-Wen and Markwell Cold Storage whilst Aldi, Visy Industries, Harvey Norman, Stratco and Beulieu Carpets have stayed as prominent owners and renters.

Market rents for large format industrial factories and warehouses have stagnated despite the growing number of national companies setting up their branches in this region. As far back as 2010, active leasing agents for the area have been marketing vacant industrial space at the rental rate of $100 to $110 per square metre per annum plus outgoings and the current going rates are still the same. However the outgoings such as council rates, land tax and cost of repairs and maintenance have been rising. This has resulted in gross rental rates appearing to increase to the level of $130 to $160 per square metre per annum. Due to keen competition, there have been some properties, particularly those more than 3,000 square metres in lettable area, being leased at gross rates at this level, thus the actual net rates would be in the order of $90 to $100 per square metre per annum. Of course, the older sheds of sheet metal cladding would only command net rates of $70 to $80 per square metre per annum. The general gross rates for small industrial units in this region have also levelled at $120 to $140 per square metre per annum.

Further to the north of the YEA, the less significant established industrial estates of Beenleigh, Bethania and Logan Village at the fringe of Brisbane's south are experiencing very low leasing demand and consequently, rental rates are staying at a low level. There are hardly any large format industrial factories available for lease due to a lack of demand and even small industrial units are only achieving rental levels of $70 to $110 per square metre per annum gross.

The same owner-occupier dominated market scenario is occurring in the central and southern industrial regions, although the market levels are at higher levels of $110 to $150 per square metre per annum gross. Due to a limited supply of industrial sites, there has been very few new stock added to the market, which translates into limited new stock available for lease. However due to a preference to own rather than to lease, leasing demand has been sporadic and rental growth has been rather slow, if not stagnant. For this reason, it is still a common sight to see roadside for lease signboards in the industrial estates.

There are however, pockets where some evidence of rental increase has been seen due to diminished supply of serviced industrial sites coupled with a rise in land values and cost of construction. These pockets are in Arundel, Southport, Helensvale, Coomera and certain parts of Burleigh Heads where rental rates at $140 to $180 per square metre per annum gross are common. However, these rates appear to apply to modern units and freestanding industrial buildings whilst older style premises still prevalent today appear to be less affected, with the general level mostly falling at the old rates of $120 to $160 per square metre. With outgoings currently falling between $30 and $50 per square metre of lettable floor area, the net rates have remained at around $90 to $110 per square metre.

There are early talks of an imminent interest rate rise, the only uncertainty being when. Any rise in the lending rates could be a game changer. Landlords would be looking to pass on any increase in cost to tenants, however, is the market demand capable of absorbing the increase? Property is a very inelastic commodity and it will take many months for the market to adjust to any change in the cash rate and any projections of rental increase or yield increase in the short term would be rather presumptuous at this time.

Sunshine Coast

Over the past six to 12 months we have seen rental rates continue to firm in the industrial market in established estates across the Sunshine Coast. Vacancy levels, particularly for sub 300 square metre spaces in areas such as Kunda Park, Warana and Caloundra West are limited, which has led to an increase in rental levels for these locations. Typically, rentals for these types of property range from $120 to $180 per square metre gross.

Within secondary industrial locations we have seen a reduction in vacancy levels which has led to some rental growth, however it's still common for incentives to be offered to attract prospective tenants, which has led to some inconstancy with rental levels. A summary of the rental levels for the sub 300 square metre market is as follows:

Location	Rental Range (per sqm gross)
Kunda Park	$120 to $145
Warana	$130 to $160
Caloundra West	$130 to $180
Bells Creek	$120 to $140
Coolum Beach	$100 to $130
Noosaville	$130 to $180

These primary industrial areas still note vacancy in the 300 square metre to 1,500 square metre sector, though have also begun to drop over the past 12 months, which has led to some rental growth dependant on specific property attributes. We note that rental rates for good quality larger industrial properties vary from $110 to $140 per square metre gross for warehouse, $140 to $180 per square metre gross for office components and $15 to $35 per square metre for hardstand components.

Gladstone

The industrial rental market in Gladstone has continued at a relatively slow pace with limited activity. New rental negotiations in the past 12 to 24 months have shown reductions in excess of 50% from peak market conditions. It appears that these rentals however have perhaps started to flatten out with no notable further reductions in recent months. Rental evidence shows rentals generally falling between $90 and $150 per square metre gross, depending on a variety of factors, particularly condition and nature of improvements, site coverage and crane availability. In terms of rental variance and location, higher rentals are generally achieved in the industrial precincts around Callemondah. Lower rentals and generally higher vacancies exist in secondary industrial locations around South Trees and the South Gladstone area. Given the high level of supply relative to demand, tenants continue to have bargaining power in new lease negotiations. Incentives are common as part of these negotiations, generally taking the form of rent free periods or contributions to tenant fit out.

There has been some activity on the industrial sales front in the past 12 months, with two significant sales to local owner-occupiers, both at $1.9 million. These are large industrial complexes both in Callemondah Drive. There is also the notable sale of the RCR Tomlinson workshop in Ganley Street that sold for $6.2 million, reflecting an analysed market yield of about 9.75%. There was close to ten years remaining on the lease term.

Rockhampton

The Rockhampton market benefits from a fairly diverse economy which has somewhat cushioned the impact that the downturn in the resources sector has had on the industrial lease market. There has however been a slight softening of the industrial market in Rockhampton in the past 12 to 18 months (mostly for larger industrial premises) and the current supply of leased industrial properties exceeds demand.

Rates per square metre for industrial leases tend to fall within the $100 to $140 per square metre range, but it is not uncommon for rentals to be negotiated outside of this range. Properties at the upper end of this range are generally located within established industrial precincts and provide quality workshop and office areas. Another contributing factor in the achievable rental rate seems to be the local versus national tenancies with national tenants tending to be able to afford slightly higher rates per square metre. We are aware of four recent leases of large industrial properties in Parkhurst of between 1,685 and 2,300 square metres, which have been leased at between $90 and $138 per square metre gross. We consider these rentals provide the best recent evidence of market rentals for large industrial premises.

There appears to be an increasing tendency for shorter lease terms, with potential uncertainty for the medium term direction of rental rates. Owner-occupiers continue to remain active in the market, with most activity in the $750,000 to $1.5 million price bracket.

A 1,122 square metre warehouse recently sold in Alexandra Street for $1.3 million to an owner-occupier, reflecting $1,159 per square metre of lettable area. We anticipate that owner-occupier activity will continue in the medium term as a result of low interest rates and current market conditions.

Mackay

The industrial rental market in Mackay has experienced a significant downward correction in rental levels as a result of the coal mining downturn. Based on a fairly limited number of reported new leases, we believe that rents are down by 30% to 40% from the peak in 2011/12. The market features high levels of vacancy and weak levels of demand.

In some cases, new lease rentals are subject to confidentiality clauses and cannot be reported. This is a new characteristic which has probably occurred to suppress the full extent of the market correction and to protect the market from a more severe outcome.

Rental rates are yet to consolidate at new lower levels and new rentals have been negotiated within a fairly broad and inconsistent range. A recent example is a modern warehouse at Caterpillar Drive, Paget of over 1,000 square metres in lettable area which was leased at $81 per square metre per annum net which is considered reflective of the market.

Rental incentives in the form of rent free periods or lower rent in the first lease year were fairly common throughout 2016. This has not been as common in 2017.

The market has been most active at total annual rental ranges of $30,000 to $65,000 per annum net. The highest recent rental was struck at approximately $210,000 per annum net in August 2016. At the peak of the market, total annual rents for large premises exceeded this level. The market is approaching its cyclical trough.

Townsville

The industrial market remains flat with current market activity being largely confined to affordable properties that tick all the right boxes in the sub $1 million range and largely catering to intending owner-occupiers. There are occasional high end syndication or trust purchases, but only for properties with strong lease profiles.

Industrial rents have been on a declining trend and appear to have reached a level that is being accepted by the market. As a result of softening rents, incentives also appear to have settled to reflect rent free periods of around three months.

Broadly speaking, a large portion of mainstream industrial property falls within the $90 to $110 per square metre rental range. Within the lower end of this range is typically smaller older light industrial properties in Garbutt with small office components. Larger better quality mainstream industrial properties in Garbutt and Bohle generally fall within the mid to higher end range depending on the office size component and hardstand areas. Industrial property exhibiting large office components and extensive hardstand areas can reflect rents up to above $140 per square metre.

Overall rents are flat with the market continuing to exhibit a balanced to oversupply of property available relative to current demand. This is likely to see downward pressure remain on rental rates until such time as the rental vacancy situation improves.

Cairns

The industrial sector in Cairns is relatively small with areas close to the CBD showing stronger demand. Though we now perceive the industrial market to be entering a recovery phase, industrial property development remains slow.

Prices per square metre for established strata titled industrial units have been steady at around the $1,250 to $1,500 mark for some time. Commercial agents advise limited availability of good quality stand alone warehouse stock with slow to reasonable demand for this type of premises. Strata titled industrial warehouses are also limited in numbers to both sell and lease with similar limited demand.

Industrial property rents range from $100 to $150 per square metre per annum gross depending on size, location and quality. A lack of new stock should see availability tighten as we move through 2017.

There is good investor demand for leased industrial properties across all price ranges of the market, from small stratas through to large showrooms. However there is very limited quality investment stock available for purchase. This will tend to support values for well leased properties over the short to medium term. The market has been gradually consolidating over the past 12 to 18 months and the outlook is for stable conditions as we move through 2017. A recovery in the vacant industrial land market in Cairns will continue to depend on more widespread recovery in the local economy.

Northern Territory

Darwin

A short drive through any of Darwin's industrial areas, such as Winnellie or Berrimah, will confirm the prevalence of for lease and for sale signs scattered at regular intervals across all property types.

In such an environment, tenants have the upper hand when negotiating new rentals or renewing their existing arrangements. Many of these tenants are experiencing difficult trading conditions anyway and renegotiation of rents can be a matter of economic survival, rather than just a cost cutting exercise.

Inevitably, this is leading to downward pressure on rents and sometimes an increase in rental incentives such as rent free periods. In the current market, it is not unheard of for rental reductions of 20% to be negotiated in the industrial property market, especially for older style stock where the rent was set close to the 2014 peak.

Sale transactions have also slowed. For this calendar year to June, there have been a total of 47 sales of industrial properties across Darwin and Palmerston (zoned LI or GI), compared to 79 in the corresponding period in 2014. This is a 40% reduction in sales volume which is fairly consistent with other property types in the Greater Darwin area.

Demand for industrial property in Darwin is closely linked to domestic demand for goods and services. Therefore, until we see prolonged population growth here, it is unlikely we will see a sustained recovery in the industrial property market

Western Australia

Perth

In these times when demand is low as a result of the maligned resources sector, the flight to quality is prevalent in the industrial eastern corridors of Perth such as Kewdale, Welshpool, Hazelmere, Forrestfield and to some extent Maddington. The dynamic shift in the state's economy as a result of the mining downturn creates a number of opportunities for occupiers in this core industrial circle which has historically been tightly held.

> Although some companies have been rationalising space requirements, other businesses have used this as an opportunity to upgrade or relocate to alternative, often larger industrial space that better suits their long-term business needs.

As tenants have relocated this has also created backfill opportunity in properties which have previously been tightly held for many years. Agents advise of an increase in tenant enquiry, mostly for core or east located properties. Whilst they do admit that enquiries for larger space above 10,000 square metres is low, the requirements for space below 10,000 square metres has increased.

Prime industrial rents at present typically range from $70 to $100 per square metre per annum net in the north, between $70 and $100 per square metre per annum net in the core, between $60 and $90 per square metre per annum net in the south and between $70 and $100 per square metre per annum net in the east.

Secondary industrial rents at present are typically 15% to 20% below prime industrial rents.

Leasing enquiry is expected to remain positive in the short term, mostly 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. Although major pre-commitment leasing demand (greater than 10,000 square metres) has appeared to soften in comparison to previous years, there are a number of active requirements in the market which may lead to an increase in this activity in the medium term.

In recent months there has been an increase in pre-commitment activity in the east precinct, including Jandakot airport and Maddington. The market appears to be more positive. There are a number of quiet murmurs with regard to resource projects and the general consensus in the market is that we have reached the bottom.

On average these requirements have been for between 7,000 and 8,000 square metre buildings on large sites, which in some cases have offered the potential for expansion at a later date. It is likely this trend will continue in the short to medium term.

Challenges do persist for secondary and older style industrial space and heavy discounts to previously achieved rents are required to at least attract any enquiry.