HERRON TODD WHITE

Month in Review

Commercial - November 2023

The Month in Review identifies the latest movements and trends for property markets across Australia.

Executive address

Welcome to our November edition of Month in Review

We were honoured to host our annual Southeast Queensland Property Overview Breakfast this month. The event is in its 35th year and we presented to a packed house of well over 550 attendees. This breakfast is an opportunity for us to do a deep dive on the information our teams have collated throughout the year.

One of the more frank and somewhat confronting observations is that it's apparent there's no quick fix for the immediate rental crisis in our region – and a lack of housing supply is the root cause. Of course, the Queensland experience isn't unique in this, but is a familiar template for discussion.

One consolation is that the supply issue is finally gaining prominence at all levels of government. While ambitious targets around national housing construction have been announced by politicians, the practicalities of meeting those benchmarks will be challenging. Short-term relief is needed, and in my mind, that requires engagement with mum-and-dad property investors who supply around a third of all rental accommodation. A recent move by Western Australia's government to incentivise investors away from short-stay and into the long-term rental markets may provide guidance for other jurisdictions to follow.

The Brisbane City Council has also started to introduce incentives for developers to increase supply, but that is the tip of the iceberg in terms of what is needed in our region. Market forces should also compel solutions. For example, an increase in the number of people per home seems inevitable – in fact, it's already happening, particularly via multi-generational households.

On the same day Australians were enjoying the Melbourne Cup, the RBA announced another 25-basis point increase to the cash rate – it's 13th rise in 18 months. It was a stark reminder that despite many experts predicting we were at the peak of the rate cycle, the Reserve's campaign against inflation remains a priority… and they may do more yet to stymie the cost of living.

Unfortunately, increasing interest rates are and will continue to be an impediment to increasing supply both for owner-occupiers and investors. Serviceability thresholds remain a barrier to would-be buyers and investors.

There is potentially some capacity emerging in the low-rise housing construction market, but the volume of medium and high-rise residential projects remains constrained, with the ability of developers to deliver new product hampered by rising costs and limited capacity.

The impact monetary policy will have on our markets will continue to be significant. Property stakeholders want certainty rate increases are done, but the RBA isn't delivering that as yet.

Looking to this month's edition of the Month in Review and our teams have produced another extraordinary report. Our residential experts have chronicled their 2023 prestige property markets, including lists of the nation's highest priced sales and rentals.

On the commercial front, Herron Todd White's industrial property valuers have conducted a retrospective analysis of their service areas.

Finally, our rural experts deliver their commentary, including a comprehensive list of some of the most significant primary production sales to have occurred this year.

Please enjoy our November edition of the *Month in Review*.

Gavin Hulcombe
Managing Director - Herron Todd White Brisbane

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National Industrial Overview

In 2023, the industrial market in Australia continued to perform well, although not as strongly as in 2021 and 2022. This was expected due to the RBA's aggressive interest rate hikes since May 2022, which caused disruptions in the broader market, especially concerning debt cost and commercial yield uncertainties. The industrial property supply has been limited due to high absorption rates in the previous three years, creating a pressing need for more stock to satisfy the demand and supply constraints. These challenges on the supply side have resulted in robust rental growth, while the investment market, particularly for higher-grade assets, has displayed signs of softening with little activity.

The standout feature of the 2023 industrial market has been the remarkable rental growth achieved in both prime and secondary locations across all major cities and regional precincts. Not so good for tenants but well received by landlords. After over a decade of stagnant rental growth, factors such as increasing land values and construction costs forced developers to raise rental rates to make their projects viable. Combined with supply limitations, this resulted in rental increases of some 30 to 50 per cent since 2021.

David Walsh
Industrial Director

The industrial property supply has been limited due to high absorption rates in the previous three years, creating a pressing need for more stock to satisfy the demand and supply constraints.

The Brisbane industrial sales market has performed well throughout the year, though overall sales volumes have been far lower than in previous years. Institutional players remained cautious due to various challenges and uncertainties about future cash rate movements. In contrast, owner-occupiers in the sub-$10 million price range have been very active, benefiting from strong balance sheets and lower interest rate exposure compared to leveraged investors looking for return on investment. With the surge in rental rates, buying one's premises rather than renting became more financially advantageous if capital was available. Strata titled projects have also been a standout in terms of capital value appreciation and demand due to the traditionally lower attainable price points for many businesses and their proximity to inner and mid ring residential catchments. There has been a lot of hype about the Olympics in Brisbane and the Woolloongabba precinct experienced a surge in demand throughout 2023 from the increased attention and proximity to one of the main Olympic precincts.

In our various Australian capitals, our key industrial valuers have noted comparable trends in the industrial sector. Adelaide experienced a scarcity of new industrial properties, leading to persistent rental growth. Supply chain uncertainties, rising interest rates and capital acquisition difficulties discouraged speculative construction, with high-density industrial parks not expected to complete until early 2024. A shift from interstate investors to owner-occupiers has been observed, creating unique competitive conditions in inner industrial and showroom/warehouse properties.

Perth's industrial sector has emerged as the top-performing asset class. Land values, especially for larger holdings on the city's fringes, experienced substantial growth. Eastern states investors have been noticeably active in the sub-$5 million market segment and local agents have prioritised buyers' agents with east coast clients, anticipating higher sale prices. Prime, modern industrial rents have nudged approximately $150 per square metre per annum, while existing industrial properties achieved rents above $100 per square metre per annum net. Supply constraints have also been evident due to construction costs and labour availability.

Sydney and Melbourne have continued to see rental growth across various sectors, with owner-occupiers also playing a significant role in properties below $10 million. These markets faced persistent challenges, including construction costs and limited available stock, leading to a trend of repurposing older buildings. The land market remains strong, with no signs of declining prices; in some cases, values have appreciated. Inner city sites offering both holding income and future development potential have been highly sought after. This has also been evidenced in Brisbane.

In one of the major Queensland regional precincts, Mackay, our local director reports that the market for tenanted investment properties was thinly traded throughout 2023 due to a lack of listings rather than an absence of demand. Because of this, there are insufficient transactions to provide objective guidance on yield trends with the general view being that yields are generally stable compared to 2022 levels. Like other parts of the country, industrial vacancies decreased throughout the year and rental rates steadily increased. As mentioned previously, the construction volatility is no different in our regional precincts which is a major constraint to new supply.

All in all, 2023 has been another strong year for the industrial market as a whole and whilst the supply and demand equation remains unbalanced, we might be in for a similar year in 2024.

National Property Clock: *Industrial*

Entries coloured purple indicate positional change from last month.

New South Wales - Industrial 2023

Sydney

2023 has seen stagnant conditions across most of the Sydney industrial markets. The market is coming off a high with unprecedented growth over the past two years that resulted in record-breaking rates being paid and record low yields. The strong demand has been attributed to numerous factors including lack of stock, increased consumer spending for online goods during the pandemic, increased demand for building supplies and strong confidence in the market.

Interest rate rises continued to affect market confidence. We have started to see deterioration in capital values. We have noted a decline in the volume of sales as well as longer selling periods and an increased number of sales failing to settle. The record-breaking streak is over and rates per square metre are lower than the rates achieved last year but could still be described as strong.

The big news in the industrial markets is increasing rental rates. We have noticed a significant uplift in industrial rental rates and an increased demand, potentially derived from reduced purchasing power as a result of interest rate rises and lack of supply. Agents are reporting that they are achieving rental rates higher than asking prices.

A great example of this is in the inner Sydney suburb of Marrickville. In November 2021, a basic warehouse on Shirlow Street leased for circa $220 per square metre gross. Recently another older style warehouse property on the same street leased for $350 per square metre gross.

We are gradually seeing yields increase and may see more investors returning to the industrial market to capitalise on the better returns. The rising rental rates may spur some interest from investors, but overall, the decline in market demand has resulted in higher yields. It would appear that the uncertainty in the market is being priced in.

We note the recent sale of an industrial strata unit in Taren Point. The property sold with a long-term tenancy and was reported to have sold at a yield well over 5%. This is in contrast to the sales we analysed throughout 2021 and 2022 in which yields were below 4%.

We look forward to seeing what 2024 brings for this dynamic market.

Angeline Mann
Commercial Director

We have noticed a significant uplift in industrial rental rates and an increased demand.

Illawarra

As predicted at the start of the year, the industrial market has continued to go from strength to strength throughout 2023, highlighting the severe lack of supply across all industrial precincts throughout the region. The market is screaming out for more land which unfortunately appears to be years away. In the meantime, developers are doing what they can to bring newly built stock to the market, testing the highest and best use of existing infill sites.

Owner-occupiers are the dominant buyer type, pushing capital rates to new highs, while analysed market yields remain at relatively low albeit stable levels, propped up by increasing rents. Capital rates for small bay warehouse units are now approaching and exceeding $5,000 per square metre in some instances.

Land values have more or less doubled within the past three to five years, as exhibited by the sale in late September 2023 of 88 West Dapto Road, Kembla Grange for $10, million, reflecting a rate of circa $700 to $800 per square metre of usable land area with development approval in place. This property previously sold in November 2019 for $4.088 million. Agents are indicating the market is willing to accept near $1000 per square metre for smaller serviced industrial lots in the more established industrial precincts in the Wollongong LGA.

Scott Russell
Director

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Newcastle

It has been common to start these market reports with the comment that the major issue for the lower Hunter industrial market is a lack of stock and with limited supply coming online, this is considered to be the outlook for the short term. There are a number of factors at play in the market at the moment, and if we consider the market for strata units, some factors are becoming more apparent. Is the Australian dream of owning property creeping into the industrial market? There are those who suggest that it is. Increases in rates per square metre and dwindling supply could possibly be attributed to a sense of urgency and a fear of missing the boat. It is now more common for smaller units to be purchased by small businesses with a view to ultimately transferring to a super fund. Those who previously leased are now purchasers. New inner city strata unit developments are selling quickly and at rates well above what we were seeing only 12 months ago.

Meanwhile on the rental side, we are seeing rental rates per square metre rising steadily, albeit not as rapidly as purchase rates. Landlords are tending to opt for three-to-five-year terms in most precincts, with shorter term leases now being the exception.

The sharpest increase in values has been for industrial land. The scarcity of this product is dramatically pushing up rates, in some case quite significantly. Again, this is a function of the lack of available stock in the first instance. As a secondary consideration, Newcastle and the surrounding precincts are becoming a very viable alternative for transport hubs away from the Sydney metro area. This will continue to drive the industrial land market in the short term.

Overall, the Newcastle industrial market continues to surprise and given the current level of demand relative to available stock, there is no indication that this will change in the short term.

Scott Beker
Valuer

Is the Australian dream of owning property creeping into the industrial market? There are those who suggest that it is.

Victoria - Industrial 2023

Melbourne

It has been well documented that the Melbourne industrial market showed rapid growth across improved property and vacant land holdings throughout 2021 and 2022. The scarcity of serviced land, substantial population growth and an expanding economy have been some of the drivers for this increased development. Low interest rates and a fear of missing out were key factors to that growth throughout 2021 and 2022.

This year however we have seen capital values within the industrial market stabilise somewhat as have land values. The current rising interest rate environment, the added economic uncertainty, ongoing challenges with construction costs and overall challenges with development feasibility have certainly contributed to the correction. There appears to have been a continued slowing of sales activity of improved industrial properties since interest rates began to rise in May 2022. High end properties and investment property sales are almost non-existent or very limited. This is a function of a lack of property being offered for sale. Agents indicate there is still demand. How long that demand remains as interest rates rise further is open to conjecture. However, as indicated by recent land sales, the underlying land values are showing no significant reduction yet in the sub 4000 square metre category, whilst larger land holdings (two hectares or larger) have seen minor price retraction.

Another contributing factor to the stabilisation in prices is the increased number of completed projects in Quarter 2, 2023 which saw a total of 163,000 square metres of industrial property go from being under construction to completed. This figure is 10.1 per cent above the 10-year quarterly average which has meant that the undersupply that influenced the industrial market significantly over the past 12 months is somewhat correcting itself, easing demand pressures and leading to the stabilisation of property prices.

The industrial market has seen surging rental growth across 2023, rising by 13.5 per cent over the past year.

As predicted, the industrial market has seen surging rental growth across 2023, rising by 13.5 per cent over the past year. This has provided an offset for the outward yield shifts which have recently been seen. Prime rents grew fastest in the east and south-eastern suburbs, followed by the west, with the north being the slowest of the regions. This substantial rental growth has seen many tenants look to purchase the property they occupy. As a result, they typically pay a premium due in part to the high costs to relocate their business and a vendor or landlord who is well aware of the importance of the property to the sitting tenant.

The market has seen a softening of yields as investors have higher yield expectations due to the perceived higher risks and higher holding costs in the current market. In Melbourne's western suburbs we have seen prime yields soften for the fourth consecutive quarter and with the lack of sales activity in the market, yields are expected to continue to drift. The overall level of investment in Melbourne has slowed considerably with the lowest number of investment sales made in Melbourne over the past six months since 2013. Prime yields in Melbourne now sit at an average of 5.19% which is up on last year.

Going forward into 2024, yields are likely to be directly reactive to interest rates and as a result, values may decline further if not met with continued rental growth. If construction costs continue to rise, a broad-based impact may be felt.

Nick Michael
Director

COMMERCIAL - INDUSTRIAL

Queensland - Industrial 2023

Brisbane

2023 has been yet another strongly performing period for the Brisbane industrial market, albeit to a lesser extent than 2021 and 2022 on the back of aggressive interest rate hikes from the RBA. The market has realised a significant shortage of industrial property due to high levels of absorption in the three years prior, creating a desperate need for additional stock to be brought to the market to relieve stress on supply levels. These supply side challenges have brought about another year of strong rental and capital growth, whereas the investment market has shown signs of softening.

The standout attribute of the industrial market throughout 2023 has been the record rental rates achieved in both prime and secondary Brisbane locations. Although rent levels have been subdued for some time, the rapid increase in land values and construction costs has forced developers to increase asking rental rates to make a development feasible. Coupled with supply constraints, especially for prime stock in established industrial locations, this has led to rentals increasing by some 30 to 50 per cent across the board since 2021. A good example of this is a recent pre-commitment in the TradeCoast, by CG Property, for a circa 45,000 square metre facility which is currently under construction and due for completion mid-2024. The property achieved a rental rate of over $170 per square metre of GLA per annum which is a record rate for a property of this size. Rental rates have also set new benchmarks for strata-titled stock, especially for brand new developments, as the lower end of the market continues to experience strong demand conditions. Strata-titled workstore complexes have achieved rental rates north of $250 per square metre in some projects as local businesses and mum and dad users expand.

The standout attribute of the industrial market throughout 2023 has been the record rental rates achieved in both prime and secondary Brisbane locations.

Tradecoast project Source: RealCommercial / CG Property

The industrial sales market has also performed well throughout the year, however overall sales volumes have significantly varied between the sub $10 million price bracket and the institutional market. Institutional purchasers have been on pause throughout the year due to the uncertainty surrounding future cash rate movements. Pricing assets and forecasting the required rates of return have therefore been difficult, inducing a lull on institutional activity.

Private investors have been relatively active in purchasing industrial investments, albeit exhibiting a 50 to 100 basis point softening in yields compared to approximately 12 months ago. This is largely driven by both contractionary monetary policy and rental growth which have edged returns upwards. Buyers in the sub $10 million price bracket however have been very active throughout the year due to having strong cash positions with lesser interest rate exposure in comparison to more leveraged investors. Properties with short term WALEs have been in high demand as buyers are able to realise rental reversion in the short term and capitalise on the strong rental growth.

Developers have also been active in refurbishing existing stock after an expiry and reletting properties at higher rental rates. Workstores and strata-titled units continue to find favour with both owner-occupiers and investors due to the attainable price points and their proximity to medium to upper end demographic locations as many businesses move away from CBD operations. In some rare instances, capital value rates have exceeded $6,000 per square metre however this is certainly not the norm.

Developers in 2023 have continued to face headwinds on the back of high inflationary conditions across the year and higher construction funding rates. Material and transport costs have begun to ease however labour costs now make up a significant proportion of the total development cost. This has resulted in many projects being unfeasible and developers have opted to either put projects on hold or sell off the land to avoid incurring the holding costs. Despite the insatiable demand for new stock to come to the market, one of the greatest challenges of the year has been making a project profitable. Until such time when cost pressures ease, there will be a continued strain on the supply of industrial property with demand conditions showing no signs of being alleviated.

David Walsh
Director

Gold Coast

Strong conditions within the industrial market across the Gold Coast held firm during 2023 despite economic and interest rate headwinds.

Regular readers will know that the Gold Coast industrial sector is dominated by SMEs and the respective price point sits largely in the sub $5 million price bracket. In fact, over 80 per cent of industrial transactions recorded in our databases during 2023 sit in the sub $5 million price bracket (30 per cent being sub $1 million).

Investment yields of sub 6% are still commonplace in this market and yields for assets with strong lease covenants have held up particularly well. Two examples include the recent sales of Tradelink Ashmore for $3.8 million, reflecting 5.29% (lease term certain of 4.24 years) and Total Tools Coomera for $7.65 million reflecting 5.11% (lease term certain of 10.5 years).

Total Tools at Coomera Source: Burgess Rawson

Industrial land on the central Gold Coast remains highly constrained with value rates also holding firm during 2023. Small sites in central industrial pockets continue to achieve premium pricing as evidenced by 15 Margaret Street, Southport (1,214 square metres) which sold in July for $1.8 million, reflecting nearly $1,500 per square metre. Interestingly, large industrial sites have demonstrated very little discounting due to the ongoing imbalance between supply and demand. 21 Wrights Place, Arundel (12,2602 square metres) settled in August 2023 after a 12 month settlement, selling for $12.26 million ($1,000 per square metre).

Industrial properties in the southern Gold Coast continued to garner very strong demand despite significant increases in borrowing costs over the year with yields bucking expectations and remaining firm. The ability for rents to be lifted against rising outgoings aided in this trend of entrenching low yields in the early to mid 5% range on the back of very low supply levels.

A significant contingency of buyers not requiring finance is looking at industrial property as a hedge against volatility in other capital markets. A sale at 27 Central Drive, Burleigh Heads highlights this sentiment, reflecting a very low passing yield of 3.18% and an analysed yield of 5.23% following some heavy rental adjustments. The passing return is significantly lower than current borrowing rates, indicating market repositioning and capital growth is the primary focus.

Over the latter part of 2023, some agents have reported a slowing in the man-cave/self-storage strata development space. This product was extremely popular during 2021 and 2022, however these units are often burdened by restrictive approvals and limited on-site car parking. Some developers appear to be pivoting to a mix of traditional industrial units and self-storage units.

In the northern Gold Coast, around the Yatala Enterprise Area, continued growth has been seen across the board over the course of 2023. Land values have passed $600 per square metres in some estates, net rental rates are upwards of $150 to $160 per square metre and capital values are now regularly breaching $3000 per square metre for new product. Whilst the rate of growth has been unprecedented, Yatala remains a much more affordable option than the central Gold Coast.

Ryan Kohler
Director

Industrial land on the central Gold Coast remains highly constrained with value rates also holding firm during 2023.

Sunshine Coast

As highlighted in our industrial iteration in August, the Sunshine Coast industrial market experienced phenomenal levels of growth over the past 24 to 36 months due to the effects of the COVID-19 pandemic. As the end of 2023 is now in sight and a major shift in interest rates has occurred, the landscape for commercial property markets in general has changed. The local industrial market appears to have been the most resilient largely as a result of constrained supply.

Owner-occupiers have remained very active in the market over the past 12 months for both smaller strata-titled units and standalone assets. As interest rates have increased, investors have generally recalibrated their appetites for yields based on higher borrowing costs. A lack of supply however has seen the demand from owner-occupiers remain strong, often achieving premiums over investors in order to secure a premises.

End users and owner-occupiers have also remained active in the vacant land market this year. Constrained supply has bolstered values in this segment particularly as escalating costs of construction and high land prices have made pursuing new developments increasingly difficult. Consequently, we have observed that end users and owner-occupiers have become somewhat the dominant buyer profile, as the price of underlying land has become too steep for most developers.

In regard to investment holdings, local agents have generally reported a softening of interest with feedback from prospective purchasers indicating they are being more decisive. Limited transaction activity in 2023 makes it difficult to gauge yields at present although they have generally softened. In short, prime assets remain sought after if they are brought to the market, whilst less desirable assets are becoming harder to sell. Amidst the volatility of the past 12 months, rental rates have continued to improve in most areas as a result of low supply levels and continued demand from tenants. It is difficult to gauge where things will go from here, especially as inflation remains persistent. As previously highlighted, a general lack of supply will likely underpin values and rents over the short to medium term.

Jaydon McDowell
Associate Director

Cairns

The industrial market has seen significant value increases over the past one to two years with values reaching record levels and the market overall being very heated. This is assumed to be off the back of record low interest rates and high demand and workflow for all industrial sectors. Achieved value levels for improved property were also considered a reflection of a strongly performing rental market and yield compression over the past one to two years.

Values, yields and rentals in the industrial market appear to have stabilised in more recent months, however there is still considered to be some pent up demand for quality industrial property and very limited stock available in either the prime industrial precinct of Cairns or industrial estates to the north and south of Cairns.

The smaller and more affordable commercial market is dominated by owner-occupiers with agents advising strong buyer activity and pent up demand in the sub $2 million and particularly the sub $1 million industrial space. New small strata complexes are selling for $3,500 per square metre, driven by a near complete lack of stock.

Pure investment stock is limited with the market strong, however properties in the sub $2 million space typically achieve higher value levels if sold with vacant possession unless offered to the market with a quality lease covenant.

Land values have increased substantially over the past one to two years due to a near total lack of vacant land stock and it is assumed this will correlate to higher unimproved land values in future (and higher associated land tax and rates). This along with increased insurance premiums may negatively impact net incomes.

It is difficult to gauge how market conditions will fare in the coming 12 months. While there is still considered to be some pent up demand, it appears the market has reached its peak and overall we consider the market to be reasonably stable.

While economic conditions suggest softening of the market, we consider the limited availability of industrial land and high building costs will result in property maintaining reasonably high values levels in the short term.

Shane Quinn
Director

While there is still considered to be some pent up demand, it appears the market has reached its peak and overall we consider the market to be reasonably stable.

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Rockhampton

As we near the end of 2023, the industrial market in Rockhampton market appears to be seamlessly continuing the momentum it has built over the past two years. Fuelled by a series of substantial government projects and an upturn in the local economy, the Rockhampton industrial sector has sustained robust activity and this trend is foreseen to persist for the remainder of 2023.

Investors are actively engaged, although the limited availability of industrial properties with strong tenant occupancy has heightened competition when such properties enter the market. Real estate agents continue to report high levels of interest from both local and non-local investors, however the lease covenant and tenant profile continue to have considerable influence over investment decisions.

Developers are largely inactive in the industrial space. Owner-occupiers however remain actively engaged, pursuing established industrial properties or acquiring vacant industrial land to build premises specific to their needs. These are usually strategic decisions which are in line with the longer-term growth and operations of their businesses. Land remains limited in the well-established industrial precinct of North Rockhampton. A a result, land prices have moved from a typical range of $100 to $120 per square metre to now averaging $120 to $150 per square metre. In addition, we are now starting to see increases in industrial land prices in emerging markets such as Gracemere (approximately 10 kilometres west of Rockhampton City), where prices have typically been sitting at circa $75 per square metre, however we are aware of a recent contract at $100 per square metre.

A notable vacant possession sale is 32 Alexandra Street, Park Avenue which sold in April 2023 for circa $900,000. The site has a land area of 2022 square metres and lettable area of approximately 456 square metres. The site is improved with a former fire station which was converted into a single level, light industrial property approximately 20 years ago and generally presents in good condition for a building of its age and use. The property was vacant at the time of sale, with the agent reporting a high level of interest and multiple offers. The sale has an analysed market yield of 7.8%.

Owner-occupiers remain actively engaged, pursuing established industrial properties or acquiring vacant industrial land to build premises specific to their needs.

Gladstone

The Gladstone industrial property market is a dynamic and resilient sector that has traditionally been closely linked to the region's resource industry. In recent years, this market has demonstrated a remarkable recovery from a low point following the post-LNG construction boom downturn. Over the past year, the Gladstone industrial sector has continued to sustain its gradual ascent, with a promising outlook for the remainder of 2023. This is primarily driven by an array of ongoing projects in the region, with agents reporting heightened interest and challenges posed by the limited supply of industrial properties.

Owner-occupiers are actively participating in the market, driven by the relatively cost-effective nature of property ownership as well as providing a base for medium to long-term strategic operations. Concurrently, investors are actively engaged, but their decisions are largely contingent on the lease agreements and tenant profiles. This trend mirrors the broader Central Queensland region.

A notable investment sale is 1-5/10 Side Street, Gladstone Central which sold in August 2023 for circa $1.9 million to an interstate investor. The site has a land area of 4789 square metres and lettable area of 1724 square metres. The site is improved with a modern, strata-titled complex of two industrial-style buildings converted and refurbished in the mid 2010s. The complex is an aggregation of five strata-titled lots providing a total of six lettable areas. The property had a WALE equating to 3.81 years, with the sale having an analysed market yield of 7.8%.

Richard Dunbar
Valuer

Mackay

Major sales this year include:

- **30-34 John Vella Drive, Paget** - sold in April for $6.9 million with a land area of 7,222 square metres and a lettable area of 3831 square metres. The property is improved with an attractively-presented industrial complex comprising two high clearance, concrete tilt slab, warehouse or light workshop buildings. The property was multi-tenanted and showed a net yield of approximately 8.0% with a WALE of 2.46 years. It also shows a rate of $1801 per square metre of lettable area.
- **9 Michelmore Street, Paget** - sold in June for $3.85 million with a land area of 5383 square metres and a lettable area of 2452 square

metres. The property is improved with two industrial warehouse buildings with Colorbond and concrete tilt panel walls and Colorbond roof. The property was tenanted on one short lease term and on one periodic lease term. The property was purchased for eventual complete owner-occupation by an entity related to a sitting tenant. Analysis shows $1570 per square metre of lettable area.

42-44 John Vella Drive, Paget Source: www.realcommercial.com.au

- **42-44 John Vella Drive, Paget** - sold in July for $3.65 million with a land area of 4745 square metres and a net lettable area of 2,636 square metres. The property is improved with a clear span warehouse and was subject to a new three-year lease. Analysis indicates 8.49% or $1385 per square metre of lettable area.
- **39 Crichtons Road, Paget** - sold in July for $2.2 million with a land area of 1.51 hectares. This is a vacant industrial site near the city's waste transfer station. Analysis shows $146 per square metre of land area. The property had been on the market for about two years.

The market for tenanted investment properties was thinly traded throughout 2023 due to a lack of listings rather than an absence of demand.

There are insufficient transactions to provide objective guidance on yield trends. Our general view is that yields remain unchanged from 2022 levels.

Industrial vacancies decreased throughout the year and rental rates steadily increased.

Rising building costs are a major constraint to new supply.

Gregory Williams
Director

Darling Downs

The major activity of note in the Toowoomba industrial market is the relocation of a number of existing businesses currently located in the city into new facilities being constructed in the Charlton Wellcamp Enterprise Area. These firms have outgrown their existing properties and will relocate to larger, purpose-built facilities.

The Charlton Wellcamp Enterprise Area is an industrial precinct to the west of Toowoomba positioned close to the Toowoomba Bypass Road, Gore Highway, Toowoomba Wellcamp Airport and the proposed inland rail route. The precinct has been developed slowly over the past ten years with the inland rail considered the last piece of infrastructure required. The precinct was designed to contain larger scale industrial uses such as heavy manufacturing, transport and warehousing and an intermodal rail terminal.

The relocation of existing businesses will create a number of vacant industrial properties in the Toowoomba market that should become available for sale or lease in the near future, with two already on the market.

A summary of activity for some of the businesses set to relocate is:

- Bradmans Windows & Doors has recently relocated to a new facility located on the Warrego Highway in Charlton. Their former premises at 446 Boundary Street, Wilsonton is now listed for sale with an asking price of $8 million.
- RDO Equipment (John Deere dealership) is to relocate to a new $40 million facility currently being constructed on the corner of O'Mara and Witmack Roads in Wellcamp. RDO Equipment currently leases a 4.9 hectare site on Carrington Road in Torrington. The existing site comprises three adjoining properties that could potentially be leased or sold separately.
- Kotzur Toowoomba (grain silo manufacturer) is to relocate to a new $20 million,10,152 square metre facility currently being constructed in Leesons Road, Charlton. The existing premises at 19-29 Enterprise Street, Wilsonton is currently being marketed for sale or lease via an expressions of interest campaign.
- Darling Downs Tarpaulins is to relocate to a new facility currently being constructed in Leesons Road, Charlton. The firm currently occupies two facilities in Carroll Street and Industrial Avenue in Wilsonton which are expected to be offered to the market for sale or lease.

The increase in supply of vacant properties could potentially have a negative impact on the industrial market in the coming 12 months and will test the level of demand for this type of property.

Ian Douglas
Director

HERRON TODD WHITE

South Australia - Industrial 2023

Adelaide

2023 has been one of the strongest years on record for the industrial sector in South Australia. The primary driving force towards record-level sales prices, increasing rents and cast-iron yields is the lack of supply.

The year of economic uncertainties and an ambiguous outlook created by rising interest rates and inflation, the cost of construction and a distinct labour shortage locally, have made speculative construction of industrial projects cost-prohibitive and less feasible. As a result, there is limited new supply being brought to the market.

The year has also been heavily powered by the owner-occupier market with a shift away from interstate investors who have historically been heavily active within this market. The compulsory acquisitions along South Road caused by the Torrens to Darlington Road project have displaced as many as 524 residential and commercial properties. Local agents have reported an estimated commercial/industrial supply gap of approximately 35,000 square metres of lettable area to be absorbed within other areas of metropolitan Adelaide. Much smaller scale, market-entry industrial tenancies, circa 150 to 200 square metres of lettable area, have been absorbed quickly within the market at higher price points given the high demand.

For example, 3 Manfull Street, Melrose Park is a Community Titled industrial building leased on a periodic basis which sold in August 2021 for $830,000 over a lettable area of 235 square metres ($3531 per square metre). The property was sold at public auction with several registered bidders and received a high level of interest from owner-occupiers. At the time, the sale price (more specifically, that $3531 per square metre) was a milestone sale for small industrial units by agents and valuers across Adelaide.

3-7 Paula Avenue, Windsor Gardens, comprises a newly built group of five industrial units all with a lettable area of circa 260 to 280 square metres. A 277 square metre unit in this group recently sold off-the-plan for $4506 per square metre of lettable area with vacant possession. The unit is of a comparable style overall to the Manfull Street, Melrose Park property, however Windsor Gardens is considered a far less desirable location for industrial users of this scale.

These two sales provide insight that vacant industrial property, in some instances, has increased in value at least 20 to 30 per cent since 2021.

Increasing levels of market participants are also showing upward pressure being applied on rental rates. Heavy inflation created circa six to eight per cent CPI rent review increases for existing tenants in 2023, which have generally increased the asking rate for rents. With the lack of supply of newly constructed industrial properties, there is a distinct lack of available accommodation for tenants and incentives at the moment are near non-existent.

Again referring to the example from 2021, 3 Manfull Street, Melrose Park had a passing rent of approximately $157 per square metre net per annum upon sale. At 400-442 Hanson Road, Wingfield, a 2022-built group of twenty industrial units in a far less desirable location, rents are being secured at $185 per square metre net per annum. This quantum of rent is typical for industrial accommodation of this scale at present with some asking rents reaching beyond $200 per square metre net per annum.

400-442 Hanson Road, Wingfield Source: realcommercial.com.au

The year has also been heavily powered by the owner-occupier market with a shift away from interstate investors who have historically been heavily active within this market.

COMMERCIAL - INDUSTRIAL

HERRON TODD WHITE

We have noticed a significant reduction in the amount of investment sales occurring in 2023 with vendors preferring to release their properties to market as vacant possession or with short-term holding income to exploit highly motivated owner-occupiers. Whilst other commercial market segments have experienced softening yields for investment assets throughout the year after a peak in late 2022, the lack of supply of industrial investment assets has stabilised yields, with some noteworthy outliers along the way.

61 Goodwood Road, Wayville is a circa 2000s-built industrial office and warehouse leased to Paws Dog Day Care with a lease expiry of 3.15 years. The tenant has occupied the property since 2021 on a 5+5+5 year deal. McGee's Property sold the site prior to public auction in October 2023 due to overwhelming pre-auction enquiry. The sale price of $2.25 million equates to a passing yield of 3.86% at a time when the RBA cash rate was 4.10%.

On a larger scale, 56-60 Millers Road, Wingfield was acquired by RF Corval Property Fund in March 2023 for $14.7 million. The property comprises a 30,453 square metre site improved with a 2000 square metre office and warehouse with the remainder of the site being predominantly unsealed hardstand. The property sold subject to a leaseback arrangement with the vendor, Colas Group (maintenance provider to transport infrastructure) at a passing yield of 6.22% based on a lease expiry of 10 years.

Ben Millar
Property Valuer

Western Australia - Industrial 2023

Perth

At the start of the 2023 calendar year when the industrial property market in Western Australia was touted to sit at the peak of the sector's property cycle, we asked the question: how sustainable was that performance? Now, at the end of the year, we can safely say the industrial property market has proven to be robust and highly prosperous.

Leasing demand for industrial premises continued to strengthen throughout 2023, especially for newly-built, high specification facilities with such properties in limited supply. Face net rental rates (i.e. before any incentives) for such premises approached $150 per square metre per annum of GLA towards the middle of the year. The local industrial market hasn't experienced rental rates at these lofty heights since circa 2012.

The volume of new construction was constrained by a finite supply of land in the core industrial precincts.

With limited new land to be released in the Perth metropolitan region this year, industrial land values continued to exhibit positive market movement. There was noticeable demand for larger tracts of land from both owner-occupiers and developers (including those from the eastern states) in areas such as Hazelmere and Maddington.

Given the lack of suitable stock in the core industrial estates, we witnessed a rise in the number of new projects in peripheral, previously shunned secondary locations such as Neerabup and Forrestdale.

The Western Australian industrial property market, against a background of a robust mining and resources sector, finds itself in a strong position.

There was also a steady take-up of older style stock that had previously sat vacant for a prolonged period.

The clear lack of supply in the market, both in respect of development-ready land and contemporary built-form facilities, was by and large the key to the sustainability of the industrial market performance in 2023.

The owner-occupier market remained steady given the limited stock of large scale and quality premises available which was compounded by construction industry challenges.

Construction material supply chain disruptions and labour shortages contributed to a pronounced escalation in build costs (up to 50 per cent in some instances) and often delays in project timelines.

Demand for securely-leased, newly-constructed built-form industrial property was strong during 2023, buoyed by eastern states based investors. Prospective buyers remain focused on the length of agreed lease terms, prospects for rental growth and depreciation benefits. Where all or a majority of these criteria were met, circa 5.5% yields were demonstrated in select instances.

However the impact of a spate of interest rate rises in the latter half of 2022 and into 2023 significantly increased the cost of debt funding in comparison to the low interest rate environment that was prevailing in the post COVID-19 pandemic period. The significant yield compression over the 2021 to early to mid 2022 period began to soften as investment returns needed to increase in order to offset the significant increase in the cost of debt.

Discussions with a number of industry participants suggest that a disparity over yield expectations between buyers and sellers has emerged which has limited the number of transactions.

Owner-occupiers remain active within the Perth industrial market and as such there has been a reasonable level of transactional activity in the sub $3 million market.

Nevertheless, the Western Australian industrial property market, against a background of a robust mining and resources sector, finds itself in a strong position. As market participants re-emerge from the holiday season, our team will keep a close eye on activity to gauge to what extent (if any) the impact of macro-economic headwinds will have on the local industrial market in 2024.

Greg Lamborn
Director

Northern Territory - Industrial 2023

Darwin

The Middle Arm Sustainable Development Precinct (MASDP) is a key feature of the Darwin industrial property landscape.

Middle Arm is within Darwin Harbour and already accommodates two LNG processing facilities, sourcing their gas offshore. The remainder of Middle Arm is largely undeveloped.

The NT government is preparing 1500 hectares of land in larger scale parcels for a development-ready precinct to support renewable and low emission energy, manufacturing and mineral processing. The Commonwealth government is also providing $1.5 billion in support for waterfront export facilities.

Civil works are well under way, with titles already issued for three of the smaller blocks.

Five lots are already under due diligence by various operators including green hydrogen production, onshore gas processing from the Beetaloo Basin and critical minerals processing.

The development of the MASDP sees the opportunity to expand various industrial activities around Darwin. Support of these industries, as well as other projects such as the ship lift facility at East Arm, represents a significant opportunity to develop Darwin's industrial property sector, which has experienced weak conditions for some years, albeit with some improvements more recently.

Middle Arm Development Precinct Source: Northern Territory Government

The oversupply of industrial land within the Greater Darwin urban area could be partly relieved by industries supporting the MASDP and other major projects. Whilst it is expected to be a minimum of 12 months before the benefits of these projects are seen in the Darwin market, the progress being made augurs well for an improvement in industrial property market conditions in the future.

Terry Roth
Director

The NT government is preparing 1500 hectares of land in larger scale parcels for a development-ready precinct.

HERRON TODD WHITE

Property Market Indicators

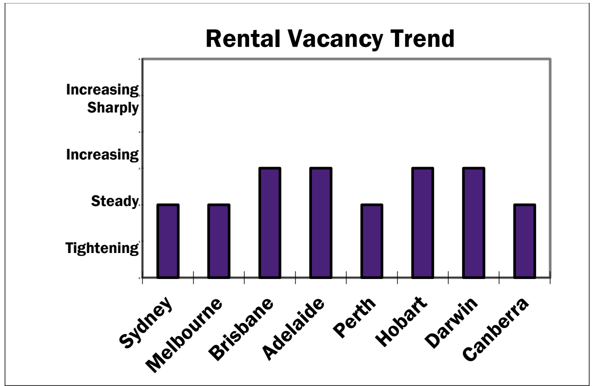
November 2023

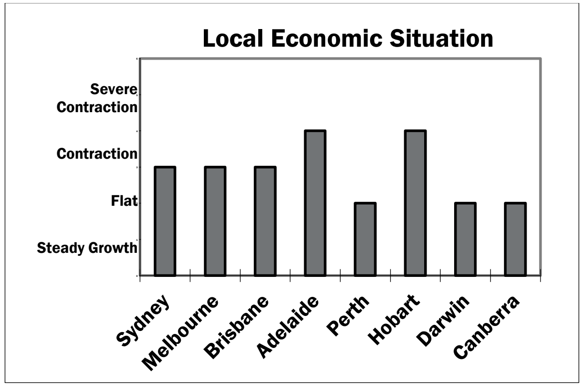
Capital City Property Market Indicators – Industrial

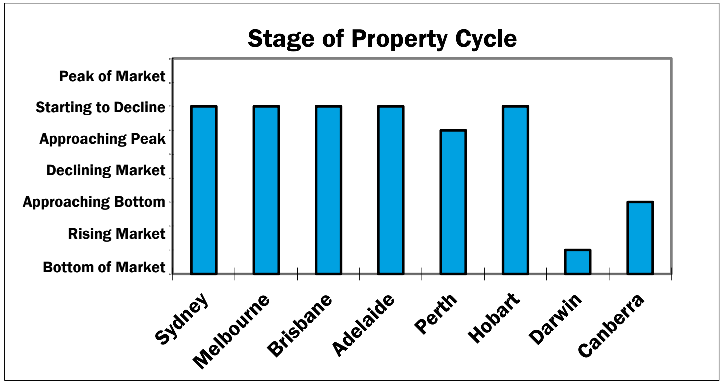
Factor	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Rental Vacancy Situation	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Over-supply of available property relative to demand	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Tightening	Steady	Steady	Tightening	Steady	Steady	Tightening
Rental Rate Trend	Increasing	Increasing strongly	Stable	Increasing	Increasing	Increasing	Stable	Increasing
Volume of Property Sales	Declining	Steady	Declining	Declining	Declining	Declining	Steady	Increasing
Stage of Property Cycle	Starting to decline	Starting to decline	Starting to decline	Starting to decline	Approaching peak of market	Starting to decline	Start of recovery	Rising market
Local Economic Situation	Flat	Flat	Flat	Contraction	Steady growth	Contraction	Flat	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Large	Small	Significant	Large	Small

Red entries indicate change from 3 months ago to a higher risk-rating

Blue entries indicate change from 3 months ago to a lower risk-rating







East Coast & Country New South Wales Property Market Indicators – Industrial

Factor	Canberra	Central Coast	Coffs Harbour	Lismore	Ballina/Byron Bay	Newcastle	Southern Highlands	Sydney
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand	Balanced market	Balanced market	Balanced market	Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Steady	Steady	Steady	Tightening	Tightening
Rental Rate Trend	Increasing	Stable	Stable	Increasing	Stable	Increasing	Increasing	Increasing
Volume of Property Sales	Increasing	Declining	Declining	Declining	Declining	Steady	Increasing	Declining
Stage of Property Cycle	Rising market	Starting to decline	Approaching peak of market	Peak of market	Starting to decline	Approaching peak of market	Approaching peak of market	Starting to decline
Local Economic Situation	Steady growth	Flat	Steady growth	Flat	Flat	Flat	Steady growth	Flat
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Significant	Small	Small	Significant	Small

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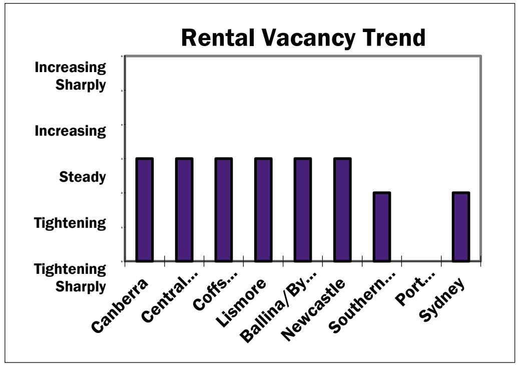

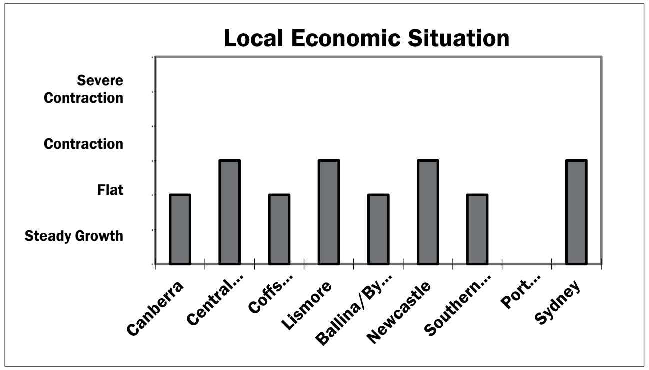

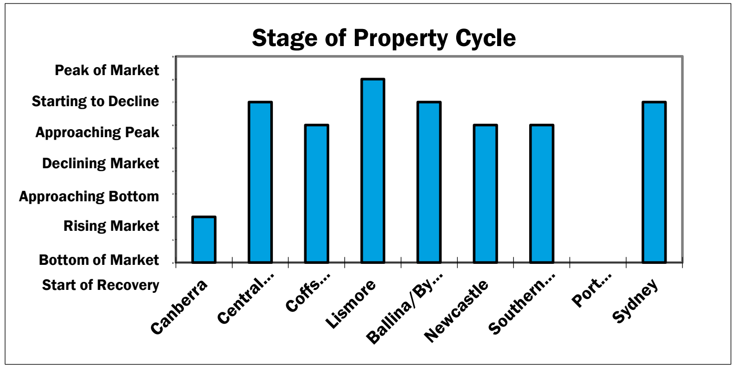

Victorian and Tasmanian Property Market Indicators – Industrial

Factor	Geelong	Echuca	Horsham	Melbourne	Mildura	Hobart
Rental Vacancy Situation	Shortage of available property relative to demand	Balanced market	Over-supply of available property relative to demand	Shortage of available property relative to demand	Balanced market	Shortage of available property relative to demand
Rental Vacancy Trend	Tightening	Steady	Steady	Tightening	Steady	Steady
Rental Rate Trend	Increasing	Stable	Stable	Increasing strongly	Stable	Increasing
Volume of Property Sales	Increasing	Steady	Steady	Steady	Steady	Declining
Stage of Property Cycle	Peak of market	Rising market	Start of recovery	Starting to decline	Start of recovery	Starting to decline
Local Economic Situation	Flat	Flat	Flat	Flat	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small	Significant	Significant	Small	Significant

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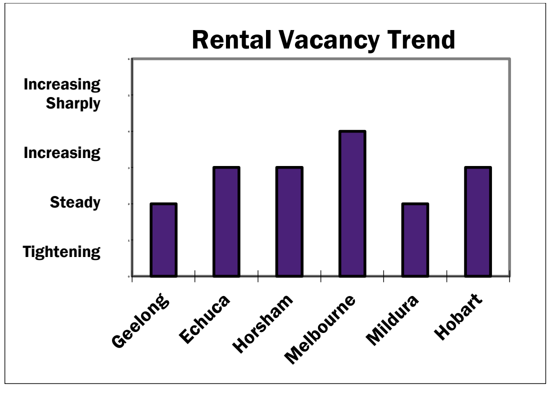

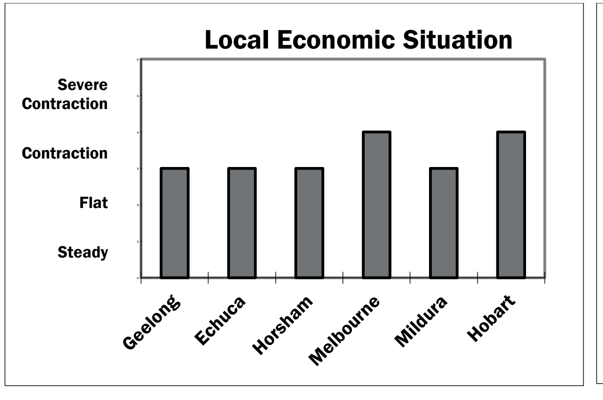

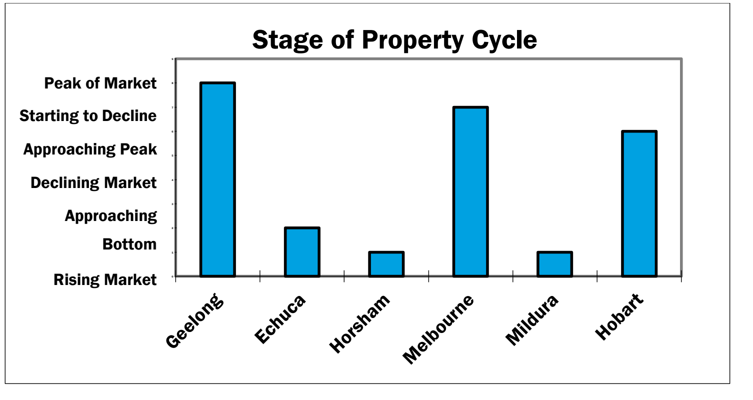

Queensland Property Market Indicators – Industrial

Factor	Townsville	Mackay	Rockhampton	Gladstone	Bundaberg	Hervey Bay	Sunshine Coast	Brisbane	Ipswich	Cairns	Gold Coast	Toowoomba
Rental Vacancy Situation	Balanced market	Balanced market	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Shortage of available property relative to demand	Severe shortage of available property relative to demand	Shortage of available property relative to demand	Balanced market
Rental Vacancy Trend	Tightening	Steady	Tightening	Tightening	Tightening	Tightening	Tightening	Steady	Steady	Tightening sharply	Steady	Steady
Rental Rate Trend	Stable	Stable	Increasing	Increasing	Increasing	Increasing	Stable	Stable	Stable	Increasing	Increasing	Stable
Volume of Property Sales	Steady	Steady	Increasing	Increasing	Declining	Declining	Steady	Declining	Declining	Steady	Declining	Declining
Stage of Property Cycle	Peak of market	Approaching peak of market	Rising market	Rising market	Peak of market	Peak of market	Starting to decline	Starting to decline	Starting to decline	Approaching peak of market	Peak of market	Starting to decline
Local Economic Situation	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Steady growth	Flat	Flat	Steady growth	Flat	Steady growth
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Small	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Significant	Small	Small	Large

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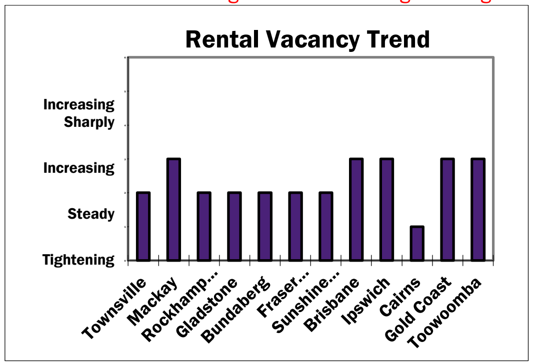

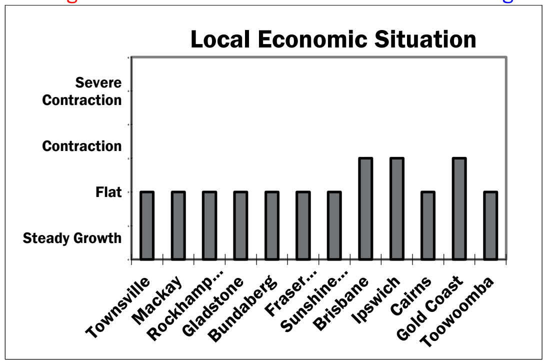

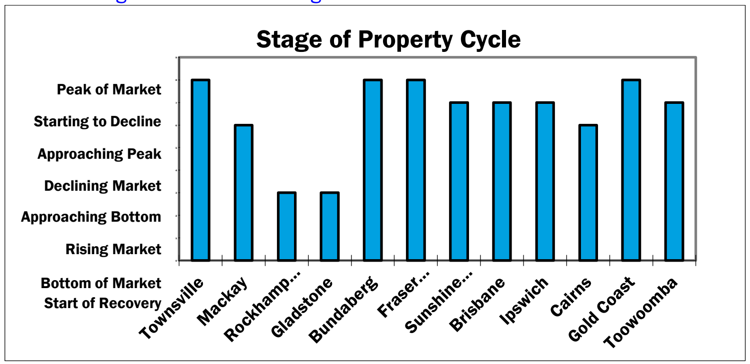

SA, NT and WA Property Market Indicators – Industrial

Factor	Adelaide	Alice Springs	Darwin	Perth	South West WA
Rental Vacancy Situation	Balanced market	Balanced market	Over-supply of available property relative to demand	Severe shortage of available property relative to demand	Over-supply of available property relative to demand
Rental Vacancy Trend	Steady	Steady	Steady	Tightening	Increasing
Rental Rate Trend	Stable	Stable	Stable	Increasing strongly	Declining
Volume of Property Sales	Steady	Steady	Steady	Declining	Steady
Stage of Property Cycle	Rising market	Starting to decline	Start of recovery	Approaching peak of market	Approaching bottom of market
Local Economic Situation	Flat	Flat	Flat	Steady growth	Contraction
Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants	Significant	Small	Large	Significant	Large

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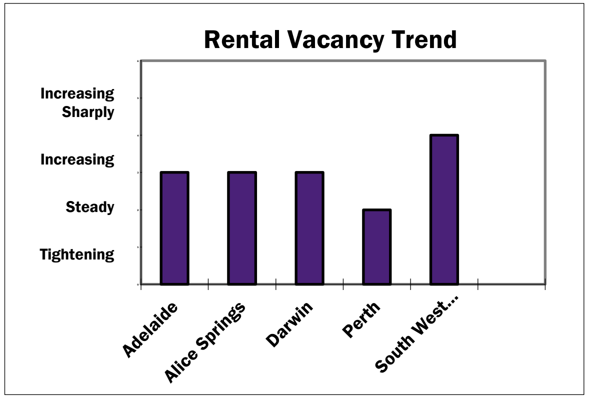

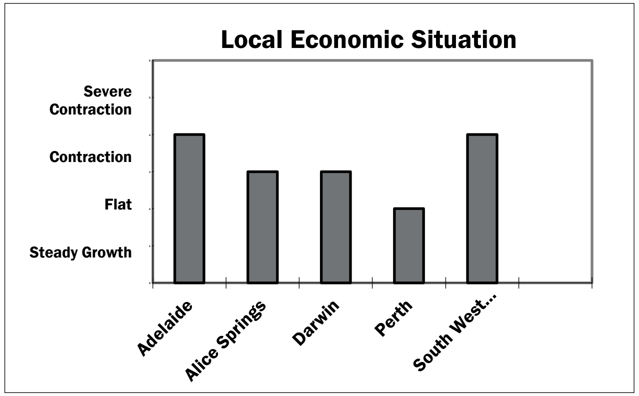

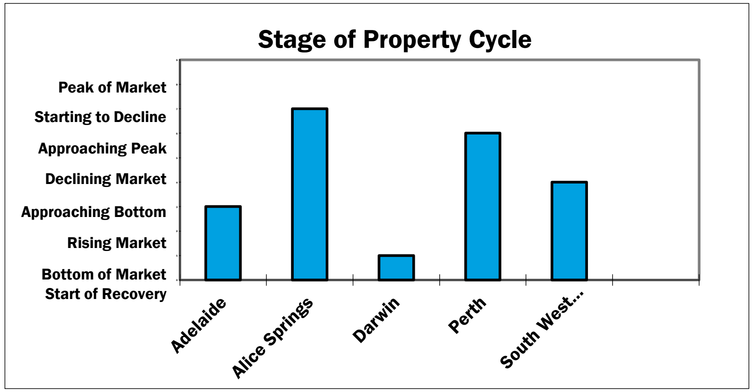

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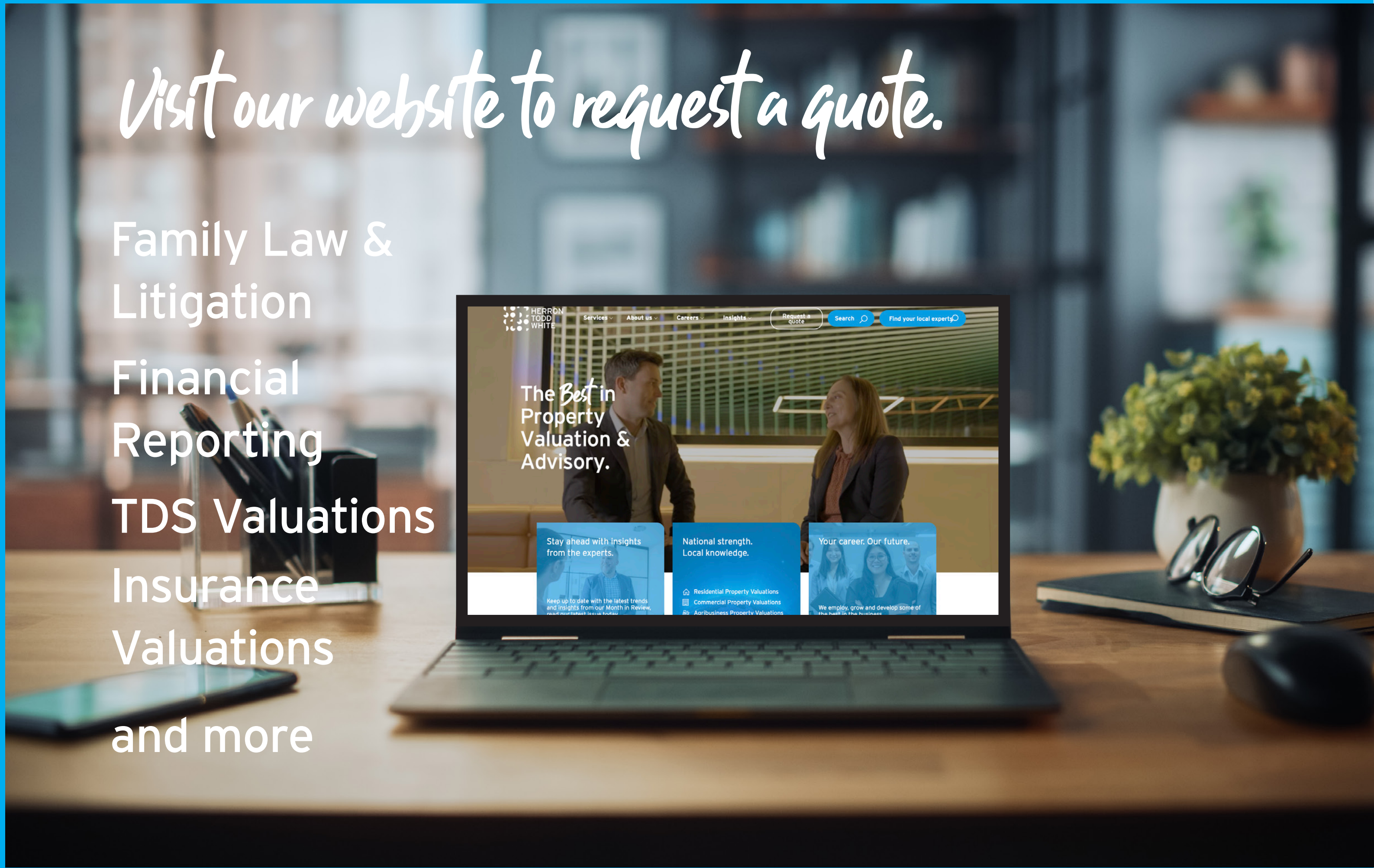

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