The Month in Review identifies the latest movements and trends for property markets across Australia.
Significant events have been a feature of Quarter 1, 2022. The Federal Budget highlighted the importance cost of living will play in May’s election. Relief at the petrol pump, childcare assistance measures, an expansion of first homebuyer schemes, and big spending on infrastructure were all featured.

But of course, this sort of budget walks a fine line between spending and keeping inflation in check. Once that genie is out of the bottle, interest rate rises usually follow.

Interestingly, the Reserve Bank held interest rates steady again this month. While the market is factoring in several rises in 2022, the RBA are yet to confirm when rates will begin to rise. In their most recent statement, the RBA simply indicated they want to see where inflation will settle before they act.

This is adding further uncertainty to households whose budgets are becoming stretched. Interest rate movements are, of course, an evolving space. The scale and timing of any changes, and how they’ll affect markets, are difficult to predict.

Property market activity to the end of March remained, overall, robust but there are clear signs we’re approaching a peak.

Some centres have done well, such as Brisbane which experienced a more than 6.0 per cent increase in home values for the year to date. Others saw growth attenuate, like Sydney and Melbourne who’ve both remained relatively flat in 2022.

Looking ahead and the next quarter will, again, prove seminal on both the domestic and world stages. The war in Ukraine, supply chain pressures on construction, and fallout from recent east coast floods continue to put pressure on real estate markets. It’s obvious we’ll see turbulent forces influence our peaking property market over the coming weeks and months.

In short, there’s a lot to digest and contend with at present, with an extraordinary number of unknowns pervading the Australian psyche.

This is a time when stakeholders must proceed with prudence. You need to ensure your portfolio has the rigor to withstand market changes, which can only be achieved by seeking comprehensive professional advice from independent experts.

This is where Herron Todd White’s teams thrive. Experts who can guide you through the uncertainty.

We open our advice this month with national overviews in residential and commercial delivered by two outstanding professionals – commercial director David Walsh, and National Director, Group Risk and Compliance, Kevin Brogan.

In our main commercial section this month our valuers have delivered their opinions on how industrial property markets will perform in 2022. Among the stories are:

• Sydney – Value gains in excess of 50 per cent for some industrial assets;
• Brisbane – Land supply for new industrial development is limited;
• Perth – A robust mining and resources sector will prompt further gains in industrial property.

We hope you enjoy another excellent edition of Herron Todd White’s Month In Review.

Gary Brinkworth
Who’s driving the homebuyer market?

“The Great Australian Dream is a fundamental tenet of our nation’s collective psyche. It’s the very foundation of egalitarian Australia. If you dream big, work hard and adopt some common sense to your finances, homeownership is within your grasp.

Or is it? There’s been plenty of chatter in recent years around the affordability of housing and whether the dream has died. Ever-rising prices outstripping incomes is the culprit for many. Chat with young folk in and around our biggest capital cities and they’ll tell of their frustrations. Many have had to be creative via co-purchasing, rentvesting or financial assistance from family to get that longed-for front door key of their very own.

But, despite the challenge, most of us will never give up on owning a place called home.

Another point of significance is the homebuyer market itself and what it tells us about the Australian real estate landscape. For starters, the homebuyer demographic is a broad church. There’s first timers, upgraders, families, empty nesters and retirees and any number of subsets among the homebuying pool. Each group requires a home that fulfills a particular need for their age and stage.

This month we celebrate homebuyers around the nation.

Our residential teams have taken a gaze across their patches and identified how homebuyers are shaping their service areas. They’ve broken down the market into buyer types and looked at what they’re purchasing and why. There’s also some very useful information among these pages for those looking to progress to the next stage of home ownership.

For our commercial crew this month it’s all about industrial property investment in 2022. The sector has been a standout performer over the past two years, but will the strength continue? We look at the overall national market direction, but also break down industrial property on a location-by-location basis. From established industrial to new developments to the machination of leases, our teams are on hand to share their wisdom.

Finally, Herron Todd White’s rural teams have come together and provided a selection of submissions from specific markets around the country. We’ve also asked our specialists to deliver their take on any new technology being adopted by our primary producers.

There it is once more dear reader – a collation of up-to-date information unlike any other in publication. But of course, while Month In Review is a handy compass to point you in the general direction, your specific property path requires an experienced guide. Be sure to contact your nearest Herron Todd White office to discover the inside running on your area of interest.
To say events unfolding over the past few weeks were ‘significant’ would be a monumental understatement. While there’s unease on many levels, I’ll restrict myself to comments on how the current state of play will affect our nation’s industrial markets in 2022.

The industrial sector has been a superstar across the nation since mid 2020. Supply line issues throughout the pandemic saw strong performance in cold storage, temperature controlled, 3PL (3rd Party Logistics) facilities and storage assets. With online shopping growing over the past 18 months to record highs, these types of assets will be of significant utility as e-commerce continues to be the consumers’ first choice for shopping.

The upshot has been increased demand for industrial space, with compressed yields, stronger rents and lower vacancies the result – particularly throughout 2021. For those of us who were around in 2007, the leasing take up in Brisbane over the past six to nine months has been reportedly similar.

The big question is, ‘Can the momentum be sustained as we enter the new year?’

While the industrial property sector might feel like an unstoppable force at present, history tells us that no market can continue to rise indefinitely. Market forces will eventually come into play.

So, what will be the big influences on our sector in 2022?

There’s, of course, an interesting discussion around interest rate rises and whether this might hit industrial property investment. I have no doubt some investors will be increasingly coy about their returns when rates rise, but the underlying fundamentals for industrial remain strong.

Substantive falls in property values in response to increased interest rates are unlikely, but market activity could certainly ease off from its heady highs, with yields stabilising closer to current levels.

I also think some types of industrial property will perform far better than others. The market – both for rentals and investment – will simply be more discerning in 2022.

For example, the Ukraine conflict has resulted in fuel price increases, and that’s one input which will hit suppliers hard. Approximately 35 per cent of freight is transported by trucks, making this cost a huge impost on operators.

As such, those facilities closer to population centres should benefit. If businesses can reduce the cost of moving goods from their warehousing to their customer base by being physically closer to consumers, then they’ll be willing to pay a premium for that.

Therefore, infill style industrial should do well. Prime locations within easy reach of population centres should remain strong. Even better if they have easy access to major transport corridors. These properties can expect rents to rise and yields to hold firm.

The other matter worth factoring in is the continued scarcity of good, developable industrial land. There’s simply too little land to satisfy current demand. Land take up in the last 12 months has been extremely strong, as has price growth with some locations achieving eye watering rates per square metre. This story is evident across all major cities and regions.

But look at that in conjunction with the other big constraint – the one around construction – and you can see why I remain reasonably bullish about industrial in 2022. Securing a reputable builder, acquiring materials and employing skilled labour for any development at present is a struggle. So long as this is the case, I feel demand will continue to outstrip supply in the sector. That is of course if you can make these projects feasible. With land values at their current level and construction costs extremely volatile, this remains to be seen. What I am certain of is that with these two pieces of the construction pie challenging the feasibility of projects, we are likely to see a third piece – rents – experience a long-awaited increase.

So, while the overall view is that markets may be a little more challenged in 2022, well-chosen assets will continue to be a savvy investment.
National Property Clock: Industrial

Entries coloured purple indicate positional change from last month.
New South Wales - Industrial 2022

Sydney
The industrial market has had a strong start to 2022. There is no real sign of the market slowing down from what we have observed and predictions are that the industrial market will remain strong over the remainder of the year. We are still seeing value increases and yield compression within most Sydney industrial markets and we expect this trend will likely continue.

The market is still largely underpinned by demand outstripping supply due to a lack of stock, particularly for Torrens title property and land, and low interest rates. Most of the market commentary is in line with this, the only caveat being uncertainty surrounding interest rate hikes.

Rents have remained largely stagnant over most of the past 12 to 24 months, particularly for secondary stock, however we have seen increases in some more recent deals (in the past three to six months). Strong growth is forecast for the next few years with location being a prime factor irrespective of stock grade. Vacancy is fairly low and supply constraints are still there. We are of the opinion that rental increases will be more modest over the next year in Western Sydney.

We caution that in the current market there is a possibility of over-capitalising on certain developments or redevelopments when considering historically high industrial land values and international supply issues leading to escalated construction costs.

We also consider it very likely that the trend of regional and interstate investment will continue. With yields being so tight, often 3% to 4%, investors, particularly with higher risk appetites, may look to other regions or asset classes for higher returns.

Generally speaking, the majority of conversations with local property owners and buyers indicate that their businesses have performed extremely well over the past 24 months, particularly businesses involving automotive, online retail and construction. They are often seeking to expand their business by purchasing a larger property. We have noticed more tenants buying the properties that they are currently renting. As a whole, buyers tend to be more cashed up and can afford to borrow more.

We have noted some significant growth in values over the past 12 months. A couple of examples in South Sydney show increases in excess of 50 per cent.

We have noted some significant growth in values over the past 12 months. A couple of examples in South Sydney show increases in excess of 50 per cent.

An industrial unit on Burrows Road, St Peters sold for $2 million in September 2020; it subsequently sold for $3 million in November 2021.

Another in Bradford Street, Alexandria sold for $2.1 million in October 2020 and subsequently sold for $3.405 million in October 2021.

However, there are potential headwinds that could emerge in 2022 and impact sentiment for the industrial market. This includes a further rise in inflation which could trigger sooner than anticipated interest rate rises. This has the potential to have flow-on impacts to value levels given the increased funding costs.

Angeline Mann
Commercial Director

Wollongong
We are a quarter of the way through the year and it’s already clear that the industrial market is continuing its current upward trajectory which started to gain pace in 2018. Demand across the board remains strong, supply is limited and despite the uncertain global environment and the likelihood of an interest rate rise in the second half of the year, conditions are ripe for ongoing strong performance in this sector.

We have witnessed recent announcements that Port Kembla is the Defence Department’s preferred choice for a new submarine base, BlueScope Steel has secured a $55.4 million federal government grant to upgrade its steelmaking capabilities by way of a $237 million advanced steel manufacturing precinct at its Port Kembla site, while construction of a new $300 million LNG terminal at Port Kembla commenced in late 2021. This combined with the onshoring drive throughout global manufacturing
The turnaround and growth in this asset class over the past ten years is quite astounding.

industries and the current high coal price are expected to further boost the region’s industrial property market.

The turnaround and growth in this asset class over the past ten years is quite astounding.

Scott Russell
Director
Melbourne
In 2021, Melbourne’s industrial market boomed. E-commerce accelerated due to the COVID-19 pandemic with the main driver being a requirement for storage space of goods. This e-commerce and associated transport and logistics activity, paired with extended pandemic restrictions, low interest rates, a fear of missing out and low stock levels, saw a firming of yields, vast increases in land values and a strengthening of rents in the industrial market.

In late 2021, leasing activity remained high as there was an increased requirement for warehouse space to diminish disruptions in the supply chain. Many major retail and wholesale businesses were forced to up-scale their operations to increase stock volumes and therefore required more space. This increased activity has in turn created competitive markets and therefore shortages in prime existing stock.

The demand for new space contributed to the consistent rise in industrial land value across 2021. A record level of new development, particularly in Melbourne’s west, is in the pipeline well into 2022 however a shortage in industrial zoned land across the city is causative to the continued driving up of land values.

The industrial market shows no sign of slowing across the early to mid-part of 2022 with record development levels expected to continue well into this year and a further tightening in prime yields. That said, any tightening is expected to be marginal given the spectacular results already shown across 2021 within the Melbourne industrial market.

Rental growth was clearly evident across most industrial regions of the Melbourne industrial market in 2021 and saw a reduction in incentive levels offered by landlords as the year wore on. We expect to see rents continue to increase across 2022 as landlords recover the increased costs of new developments, further supply constraints continue, the continued expansion of e-commerce and the intensifying of competition for space.

As we move forward across 2022, we highlight industrial assets to avoid. Those assets generally sit within the secondary industrial sector. They may include assets with access issues and poor ingress or egress, poor clearance, properties with high office to warehouse ratios in markets which generally have no requirement for such a ratio and development sites with potentially costly asbestos removal requirements prior to any major redevelopment.

Nick Michael
Director

A lack of land supply together with the rise in tenant demand and moderately low interest rates is expected to place continued upward pressure on land values well into 2022 as owner-occupiers compete with institutional owners.
Brisbane
On the back of a historically strong year for industrial markets in 2021, characterised by extremely buoyant property market and economic conditions, the industrial market entered the new year at an existing level of euphoria. A prominent indicator of the strength of the industrial market throughout the previous quarter is the rise in industrial land values across south-east Queensland, underpinned by the strong investment sentiment and limited availability of land at present. Existing industrial assets have also experienced heightened levels of capital value rates as a result of this general stock shortage and strong absorption, which would indicate that these levels of demand are likely to be sustained in the short to medium term whilst the investment sentiment remains strong.

Looking forward however, it is unlikely that the markets can sustain these levels of increased sentiment. This is due to the early signs of interest rate movement and commentary from the RBA surrounding a likely rise or two in the latter half of 2022, which for the industrial market will likely translate into a plateau in yields and discourage further compression. There has been a large amount of commentary within the marketplace surrounding the state of the market and how it could play out this year. Discussions with leading agents have revealed that the greatest challenge the market is likely to face is the current shortage of stock and the implications this will have for yields, capital value rates and land values. Prime industrial locations such as the TradeCoast precinct have been in a critical shortage of investment-grade and owner-occupier stock over the past quarter which led to transactions achieving record level metrics. Resultantly, there was heightened discussion surrounding the availability of stock and increased demand for development sites. This saw significant growth in the Brisbane industrial land market in the latter half of 2021. Whilst this provides an opportunity for developers to secure pre-commitments and deliver brand new, high quality buildings, the volatile nature of the construction industry will translate to pressure on project feasibility. Whilst leasing demand is very strong at the present time and there continues to be insatiable demand from owner-occupiers, investors and tenants, increasingly high construction costs have the potential to slow the supply of new industrial stock due to the unfeasible nature of these projects. Market feedback confirms that a modern style, industrial office and warehouse building in Eagle Farm that sold in vacant possession achieved a capital rate per square metre of $3725 (noting the office component was 37 per cent of the GLA). This was a sale to a private investor who was willing to take on the leasing risk of securing a tenant, indicating that there are strong levels of confidence in the investment market and that investors are willing to pay a premium for A-grade, investment grade stock in prime locations due to the existing shortages. Furthermore, it was revealed by the marketing agent that this property was leased within a matter of months of selling at a rate of $180 per square metre per annum net. Without the benefit of hindsight, it is inherently difficult to say where the industrial market may be in 12 months’ time, however leading economic
indications both in Australia and internationally coupled with commentary from the RBA are hinting at provisions for interest rates to rise. Whilst this may somewhat slow the levels of consumption and investment, it is unlikely this will result in a significant softening of industrial yields when considering the large availability of capital both in the pockets of investors and in the institutional space against the shortage of stock in the industrial market. Resultantly, a rise in interest rates in the coming 12 months and the recently implemented loan buffers will likely be absorbed by well-capitalised borrowers due to their strong cash position. A minor softening in yields should be expected in order for investors to maintain a healthy spread in cash flow.

Another leading indicator regarding the future performance of the sector, which I touched on above, is the rising construction cost pressures and increase in land values. Through verbal market feedback with leading agents and developers, it has been revealed that this has led to early signs of rental growth which will be required to make these projects feasible to account for the increase in total development costs. Whilst the lessee will ultimately be responsible for these increases in costs, the current shortage of stock is leaving tenants exposed. Despite this being a positive prospect for lessors, it is a high risk to developers, particularly when considering the large availability of capital.

Although 2022 is shaping up to be another strong year for the industrial sector, it is not anticipated to be a market entrant friendly time on the property clock as it is probable that we are at the peak of the market. As emphasised through the limited investment and purchasing opportunities available across most industrial areas and the rise in capital values, it is clear we are amidst a seller’s market. Notwithstanding this, the amount of reserve capital circulating within both the industrial market and broader economy suggests that a future interest rate hike may have little effect on investment sentiment.

David Walsh
Industrial Director

Gold Coast
The industrial sector was the star performer of the Gold Coast commercial property market in 2021 and we expect this positivity to carry through into 2022.

In the central Gold Coast industrial precincts, demand for industrial stock is still outstripping supply and there is a paucity of industrial stock available for either purchase or lease. More recently, the supply of strata units has been primarily facilitated through pre-sales of brand new industrial complexes in Arundel and Carrara; there has been strong demand for this product with developments often selling out of the plan and some units even selling above asking price. Sale prices within these complexes typically range from $2800 to $3500 per square metre, generally influenced by size, exposure and configuration of mezzanine accommodation. Similar complexes at Burleigh Heads and Southport have achieved rates in excess of $4500 per square metre.

Freestanding industrial warehouses with higher quantum values are also experiencing strong market conditions, with value rates for these assets having experienced significant increases more recently. A strong notable sale is 1A Technology Drive, Arundel which is a modern 1580 square metre industrial building which sold in October 2021 for circa $4.6 million. This transaction reflects over $2,900 per square metre on lettable area. We are aware of similar rates achieved at Coomera and even higher again at Burleigh Heads.

Recent discussions with agents suggest there is still an unprecedented level of interest in industrial properties at the southern Gold Coast from both the owner-occupier and investor markets, with the local business environment bolstering demand for this sector and supply remaining constrained by a lack of land availability. We are aware of several recent sales of industrial freestanding buildings reflecting analysed yields in the order of 4.50%, which is a new level for this area. More traditional industrial investments removed from the coastline are still reflecting a yield gap, generally falling in the range of 5.0% to 6.0%.

On the northern Gold Coast, the Yatala Enterprise Area and the Upper Coomera industrial precinct continue to perform strongly, breaking all previous records set. The common theme is one of strong demand and a lack of supply, with agents advising of high demand for all types of industrial product...
on both a sales and leasing basis. There has been a substantial increase in value rates over the past few years.

In the Yatala region, settled sales of freestanding industrial buildings tend to range between $1850 and $2100 per square metre of floor area, however many of these were sold in mid-2021 (some off the plan) and anecdotally, the market has continued to improve in 2022, noting that both land rates and building costs have increased. There are settled sales of serviced lots reflecting between $400 and $475 per square metre, which two years ago would have sold for between $300 and $375 per square metre. Agents advise of smaller serviced lots that have been placed under contract at $500 per square metre or more, although titles are yet to be issued. Rental rates have been increasing also, with rents for some freestanding buildings now reaching $180 to $140 per square metre per annum net (plus outgoings and GST).

Upper Coomera, being closer to the central Gold Coast, is also performing strongly, with evidence of building floor area rates for freestanding buildings in excess of $2750 per square metre, serviced land at over $650 per square metre and rents at over $150 per square metre per annum net.

Ryan Kohler
Director
Sunshine Coast

The Sunshine Coast industrial market has experienced steady growth for a number of years as a result of increased demand in the region. Throughout the pandemic, the industrial market has been one of the market sectors most resilient to the impacts of COVID-19 with continued market activity and strong demand apparent. There have been high levels of interest throughout numerous value levels including leased and owner-occupied assets.

As a result of a prolonged record low interest rate environment, both local and interstate investor demand in the industrial market has remained strong, particularly for good quality buildings with strong lease covenants.

Moving forward, key drivers for market activity will be interest rates. Interest rates in Australia as well as globally have experienced a declining trend for over a decade. The RBA currently has the cash rate set at 0.10 per cent. There appears to be widespread upward pressure on prices as a result of COVID-19 and disruptions to global supply chains which appear to be leading to a spike in inflation. This may require a tightening in monetary policies worldwide, leading to increasing costs of funds for lenders which would then lead to increases in interest rates. As we move into a landscape of increasing interest rates, a softening of yields achieved from commercial properties is expected.

As a result of a prolonged record low interest rate environment, both local and interstate investor demand in the industrial market has remained strong, particularly for good quality buildings with strong lease covenants.
Throughout 2022, the lack of available land is likely to help underpin the industrial market. Improving rental rates is also a positive for this market sector across all holding sizes.

Chris McKillop
Director

Townsville

The Townsville industrial market gained solid traction in 2021 on the back of continued improvement in the mining, manufacturing, intermodal transport and logistics and warehousing sectors. This is expected to continue throughout 2022 although we would anticipate a deceleration from the current pace.

We highlight that industrial sales to the end of 2021 exceeded the total number in 2020 averaging almost 25 sales per quarter. We anticipate that the industrial sector will continue to outperform the broader commercial property sector. Our market analysis reveals that industrial sales comprise a compositional volume of over 60 per cent of analysed non-residential transactions in 2021.

Notably, there has been elevated regional focus from southern investors seeking higher investment yields in comparison to the overheated southern markets, which in turn has created a distinct barrier to entry for local investors. 2021 witnessed an increased market for vendor leasebacks which has also created a price barrier for prospective owner-occupiers, especially in the sub $2 million bracket.

Market commentators tend to agree that property investors are becoming increasingly indiscriminate and the fear of missing out mentality is inflating prices and possibly creating a false ceiling.

Our analysis reveals sharp yield compression of 150 basis points over the past 12 to 18 months with most sales now demonstrating an analysed market yield spread of 6.5% to 8.5%. We do caution that the yield range is dependent on individual property attributes and specific key market drivers. The continued rise in construction costs is also having an impact on existing property pricing and will continue to have an influence on the industrial market moving forward.

Industrial rents remained relatively stable throughout 2021 although vacancy levels tightened on the back of increased demand. Vacant land has also been absorbed leading to a recovery in land rates, but rising construction costs and supply chain issues present a significant hurdle to new development leading into 2022.

Townsville has an abundance of industrial zoned land including State Development Areas with nexus to road, rail and sea supply chain networks.

Continued chatter around vulnerabilities in offshoring supply lines have been well exposed in recent years and the current global situation only exacerbates prospects for onshoring. Townsville is well placed in relation to future development of major intermodal warehousing and distribution and offers a significant foundation for domestic manufacturing opportunities. The sentiment around our industrial market will remain positive throughout 2022 and beyond.

Jason Searston
Director

Mackay

The heavy engineering investment property market in Paget has been more active than normal since mid 2021. Recent sales include:

- **41 Michelmore Street** - $3.5 million at an analysed market yield of 7.88% with an unexpired lease term of 6.14 years;
- **27-29 Enterprise Street** - $5.3 million at an analysed market yield of 6.97% with an unexpired lease term of 4.68 years;
- **520 Milton Street** - $3.85 million at an analysed market yield of 7.40% with an unexpired lease term of 4.35 years;
- **6 Evolution Drive** - $2.875 million at an analysed market yield of 7.39% with an unexpired lease term of 4.35 years.

Analysed market yields have firmed by 100 basis points over the past two years and values for investment grade heavy engineering workshops have recovered to about pre coal mining slump levels of 2011/2012. This has been largely delivered by firming yield rates rather than rental growth. We expect that yield rates will consolidate at around 7.0% to 7.5% for this class of asset this year.

We anticipate that the industrial sector will continue to outperform the broader commercial property sector.
A 2019 built refrigerated transport facility at 512 Milton Street, Paget has sold at $7.75 million to show an analysed market yield of 6.63% with an unexpired lease term of 7.82 years.

The tenant was Scotts Refrigerated Transport. The property was sold after a four-week marketing campaign which attracted four expressions of interest with reported offers slightly below the eventual sale price. This is a highly specialised investment property with considerable tax depreciation benefits.

Greg Williams
Director

Rockhampton

As we near the end of the first quarter of 2022, the industrial market in Rockhampton seems to have picked up where it left off in 2021. On the back of a number of large government projects as well as an improvement in the local economy, the Rockhampton industrial market has been relatively active and this is expected to continue throughout 2022. Owner-occupiers have been active for established industrial properties as well as vacant industrial land to construct tailored industrial properties for their needs. Investors are active in the market, however due to limited well-tenanted industrial properties being offered to the market, any that are offered are well contested. Agents are still reporting strong interest from both local and non-local investors, however as always, the lease covenant and tenant profile are key factors for any investor decision. All indications are that the industrial market throughout 2022 should remain active for both investors and owner-occupiers.

Richard Dunbar
Property Valuer

Gladstone

The Gladstone industrial market gradually improved over the past 12 months and expectations are that this will continue in the year ahead. Demand is being driven by low interest rates, improvement in the local economy as well as a number of local projects slated or already having commenced. Owner-occupiers are active in the market, spurred on by the affordability of buying compared to paying rent, with interest repayments often cheaper than paying rent. Investors are active in the market, however consideration is given to the lease covenant and tenant profile and with limited quality stock available, agents are reporting good levels of interest for well tenanted properties offered to the market. Non-local buyers generally appear to be more willing to accept a lower return than local investors, as it is still generally a higher return than they can achieve in the capital cities.

In summary, 2022 should see continued activity in the industrial market for both owner-occupied and investment grade properties.

Richard Dunbar
Valuer

Wide Bay

Most industrial property sales activity transacts frequently in the sub-$500,000 price bracket. Beyond this price bracket, market demand has traditionally been soft and longer selling periods are required. Proposed local infrastructure projects and significant private sector projects that could significantly enhance activity for industrial land include the Bundaberg Brewed Drinks Super Brewery under construction in the Bundaberg Industrial Park, the proposed new Bundaberg Base Hospital in Thabeban, the train manufacturing facility proposed in Torbanlea and returning the Paradise Dam wall to its original height.

We also highlight that the buoyant local economic conditions are occurring in an environment with very low lending interest rates and anecdotal evidence indicates improved net internal migration to the Bundaberg region. We think there may be opportunities in fringe CBD light industry locations in the sub $500,000 price bracket where vacancies appear to be very tight and the rental market has improved. Large tenancies still represent a significant risk for industrial property, particularly in secondary locations.

Ben Harnell
Property Valuer
Modern, multi-tenanted industrial complex with a lettable area of 7305 square metres. Sold to an investment fund.

**25 Ruthven Street, Harlaxton:** Sale price of $6.3 million. Former Weis ice cream factory comprising a site of 2.7 hectares and a specialised food processing facility of approximately 4810 square metres. Sold with vacant possession to Country Synergy, a Pittsworth based business.

Ian Campbell
Senior Property Valuer

Toowoomba

Over the past six months we have seen an increase in leasing activity in the Toowoomba industrial market. This follows an extended period of limited tenant demand and a general increase in vacancy rates.

There is currently a shortage of smaller vacant industrial lots (sub 5000 square metres) in Toowoomba which has resulted in a moderate increase in sale prices. There is a new eight lot subdivision currently under construction in Robson-Hursley Road that will increase supply in the coming months. Another subdivision (also in Robson-Hursley Road) has been approved and is expected to provide smaller (sub 4,000 square metre) lots.

Demand from investors continues to be strong and the supply of quality investment opportunities is limited. This has resulted in premiums being achievable for modern facilities with good tenants on long lease terms. Sales reflecting sub 7% net yields have been recorded.

Shane Quinn
Director

Major sales of note in Toowoomba over the past six months include:

- **398 Taylor Street, Gienvale:** Sale price of $2.425 million. A modern industrial building with a lettable area of 1645 square metres divided into three tenancies. Fully leased with a WALE of 0.97 years. Net yield of 7.09%.

- **7-9 Gardner Court, Wilsonton:** Sale price of $11 million. A 168 hectare lot improved with a modern, multi-tenanted industrial complex with a lettable area of 7305 square metres. Sold to an investment fund.

Cairns

The industrial sector in Cairns is relatively small and its manufacturing base is largely geared towards servicing the engineering requirements of local and regional industries. For this reason, most demand for industrial space is derived from businesses supporting the marine, tourism, sugar milling, residential construction, transport and mining services industries.

Sale conditions within this market over the past 12 months have improved and the industrial market is very buoyant at present. This is assumed to be (at least in part) off the back of government stimulus to manufacturing and building, coupled with record low interest rates. Leasing market conditions for industrial property are strong with the limited availability of rental properties driving up achieved rentals. The limited availability of rentals is in part a result of very strong owner-occupier purchaser demand for industrial property which is off the back of buoyant manufacturing and building industries.

Achieved prices particularly for owner-occupied stock in the sub $1 million market are at levels unseen before and there is also a near total lack of vacant industrial land available.

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Shane Quinn
Director

The industrial sector in Cairns is relatively small and its manufacturing base is largely geared towards servicing the engineering requirements of local and regional industries. For this reason, most demand for industrial space is derived from businesses supporting the marine, tourism, sugar milling, residential construction, transport and mining services industries.

Sale conditions within this market over the past 12 months have improved and the industrial market is very buoyant at present. This is assumed to be (at least in part) off the back of government stimulus to manufacturing and building, coupled with record low interest rates. Leasing market conditions for industrial property are strong with the limited availability of rental properties driving up achieved rentals. The limited availability of rentals is in part a result of very strong owner-occupier purchaser demand for industrial property which is off the back of buoyant manufacturing and building industries.

Achieved prices particularly for owner-occupied stock in the sub $1 million market are at levels unseen before and there is also a near total lack of vacant industrial land available.

Shane Quinn
Director
The South Australian industrial property market finished 2021 in good shape and this is likely to continue throughout 2022. The latter half of 2021 saw strong investor activity amongst industrial assets which created downward pressure on yields and upward pressure on rents and values across the board.

Industrial yields have dipped below the 5.0% mark for high quality assets with strong lease covenants, and further yield compression can be expected in 2022. A recent transaction in Wingfield of a circa 900 square metre office and warehouse with a five-year lease recorded a yield of just 4.31%. The 2007 built property presented a net income of approximately $77,000 per annum and provides an indication of the yield compression that has been evident for industrial assets of this nature. In the inner south-western suburb of Forestville, a circa 542 square metre office and warehouse has sold reflecting a yield of 3.33% with a net income of approximately $60,000 per annum and 3.5 years remaining of a five plus five year lease term.

Current market activity levels are high and there are a lot of listings hitting the market. Competition for industrial zoned land is still high as the surplus of land that existed a few years ago is being consumed and developed.

There are opportunities for owner-occupiers with 59 Hampton Road, Keswick being listed for sale through Leedwell. The property offers 218 square metres of office space over two levels with a warehouse area of 354 square metres, roller door access and clearance of 4.92 metres.

For investors, 24 Croydon Road, Keswick is a 670 square metre office and warehouse listed for sale through Raine and Horne Commercial. The building is leased to a picture framing business and is offered for sale with a net income of approximately $74,000 per annum. The lease runs until 2024 and the tenant has an option for a three-year extension. The property features a warehouse and workshop of 275 square metres, with associated showroom and office areas over two levels that incorporate unisex amenities and a kitchen.

Finally, for the potential developers and with the competition for land still high, 13 Graham Street, Wingfield offers a 700 square metre allotment within an Employment Zone. The site is advertised as a fully serviced allotment with power and water and a 60 square metre warehouse situated on the allotment.

Overall, South Australian industrial property is highly sought after by investors with yields presenting up to one per cent higher than industrial property in the eastern states. The market remains competitive for entry level investors, owner-occupiers and institutional investors alike and this trend looks set to continue in the early parts of 2022.

Chris Winter
Director
Perth

As we enter the 2022 calendar year, it has become clear that the industrial property market in Western Australia has forged ahead to be the best performing of the three big asset classes in the wake of the COVID-19 pandemic.

Leasing demand for industrial premises strengthened throughout the course of 2021, especially for newly built high specification facilities, with such properties in limited supply. Early signs are that face net rental rates (i.e. before any incentives) for such premises upwards of $120 per square metre per annum are likely to be mainstream in 2022.

Demand for older style stock is also likely to show signs of life again with a slow but steady take-up of space which previously sat vacant for a prolonged period. Much of this stock had however been subject to compliance upgrades and specification enhancements.

Nonetheless, tenants are likely to demonstrate a preference to enter into design and construct agreements, often at inflated rental rates having been negotiated on a formulaic basis as a percentage of total construction cost (i.e. economic rents) as opposed to market fundamentals.

Construction material supply chain disruptions and labour shortages have contributed to a pronounced escalation in build costs and often delays in project timelines. To date, market rental rates have lagged behind however they would appear to be rapidly gathering momentum.

Whilst new construction activity has been prevalent in recently created industrial land estates such as Tonkin Highway Industrial Estate in Bayswater and Roe Highway Logistics Park in Kenwick, the volume of construction was constrained by a finite supply of land in these and other core industrial precincts.

As a result, industrial land values in secondary industrial estates have demonstrated positive market movement for the first time in many years. Transactions in established secondary industrial estates such as Maddington and Armadale demonstrated marked price increases compared to historical numbers for similar products and we expect this trend to continue.

Not surprisingly, our team has witnessed a rise in approvals for proposed industrial facilities in peripheral, previously shunned estates such as Neerabup.

The rise of e-commerce after the disruption to normal business operations caused by the COVID-19 pandemic has put the spotlight firmly on large-scale warehousing, transport and logistics facilities. These facilities are likely to become more prevalent in Western Australia in order to meet customer delivery expectations and accord with advances in technology.

Demand for newly constructed built-form industrial property has soared in the past six to twelve months and shows no signs of abating. Led by an influx of eastern states based buyers, we envisage demand for modern, securely leased investment property on the back of the prevailing low interest rate environment to lead to even further yield compression in the short term.

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 have been met, sub 5% yields feel almost inevitable.

Until recently, the owner-occupier market has been relatively subdued however we expect an uptick in activity in 2022. Buyer demand for industrial facilities is considered limited (compared to investment-based buyers) however there is also a limited stock of similar scale and quality premises available which has been compounded by construction industry delays.

Against a background of a robust mining and resources sector, there is cause for even greater optimism in the Perth industrial property sector as we progress through 2022.

Greg Lamborn
Director

Against a background of a robust mining and resources sector, there is cause for even greater optimism in the Perth industrial property sector as we progress through 2022.
Northern Territory - Industrial 2022

Darwin

Regular reports from the deep south refer to heightened demand and prices for industrial property over the past 12 months in cities such as Sydney, Melbourne and Brisbane. Unfortunately, this trend has not yet emerged in Darwin; the industrial property market (excluding some specific exceptions) remains weak, with no indication of any improvement over the next 12 months.

Demand drivers such as distribution centres for internet retail are not evident in Darwin, with most of these functions being carried out in larger interstate centres. Demand in Darwin is mainly limited to industrial accommodation for other domestic functions.

The large supply of vacant industrial land in Darwin is especially problematic. It is expected that the recent increases in building costs will see businesses remain longer in older style accommodation in areas such as Winnellie, rather than go to the expense of new construction where the end value of the new premises will be less than the building cost.

There is also a significant supply in Darwin of small-scale industrial strata units. Although there is a regular turnover of these to tradespeople and the like, the supply level is such that we see limited opportunity for price growth in this sector.

The one bright light in the industrial property market sector involves investment grade property with strong lease covenants. This type of property remains well sought after, noting that most interest is coming from interstate investors chasing the (relatively) high yields in the Top End. Even with strong leases, such property in Darwin usually generates a net yield over 6.0%. We are seeing some local owners divesting to interstate investors as a result.

It would appear the Darwin industrial property market will only improve when a major infrastructure project takes place to create more demand for space. There are a number of projects on the horizon, mainly involving defence projects, mining and oil and gas projects. Site works are well under way on the $270 million US Defence fuel storage facility near East Arm wharf, which will have a capacity of 300 million litres of military jet fuel to support US defence operations across the Top End, however more of these types of projects will need to become reality if the current oversupply of industrial accommodation in Darwin is to be absorbed.

Terry Roth
Director

The industrial property market (excluding some specific exceptions) remains weak, with no indication of any improvement over the next 12 months.
## Capital City Property Market Indicators – **Industrial**

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<thead>
<tr>
<th>Factor</th>
<th>Sydney</th>
<th>Melbourne</th>
<th>Brisbane</th>
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<td>Shortage of available property relative to demand</td>
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*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

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<tr>
<th>Factor</th>
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<th>Central Coast</th>
<th>Coffs Harbour</th>
<th>Lismore</th>
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<th>Newcastle</th>
<th>Southern Highlands</th>
<th>Sydney</th>
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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
Victorian and Tasmanian Property Market Indicators – Industrial

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<th>Factor</th>
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<td>Declining</td>
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<tr>
<td>Stage of Property Cycle</td>
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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
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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.
### SA, NT and WA Property Market Indicators – Industrial

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<th>Adelaide</th>
<th>Alice Springs</th>
<th>Darwin</th>
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<td>Over-supply of available property relative to demand</td>
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<td>Rental Rate Trend</td>
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<td>Steady</td>
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<tr>
<td>Stage of Property Cycle</td>
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<td>Rising market</td>
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<td>Contraction</td>
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<tr>
<td>Value Difference between Quality Properties with National Tenants, and Comparable Properties with Local Tenants</td>
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**TALK TO YOUR LOCAL EXPERT**

**Commercial**

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**Residential**

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**Rural**

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