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Forecast Report



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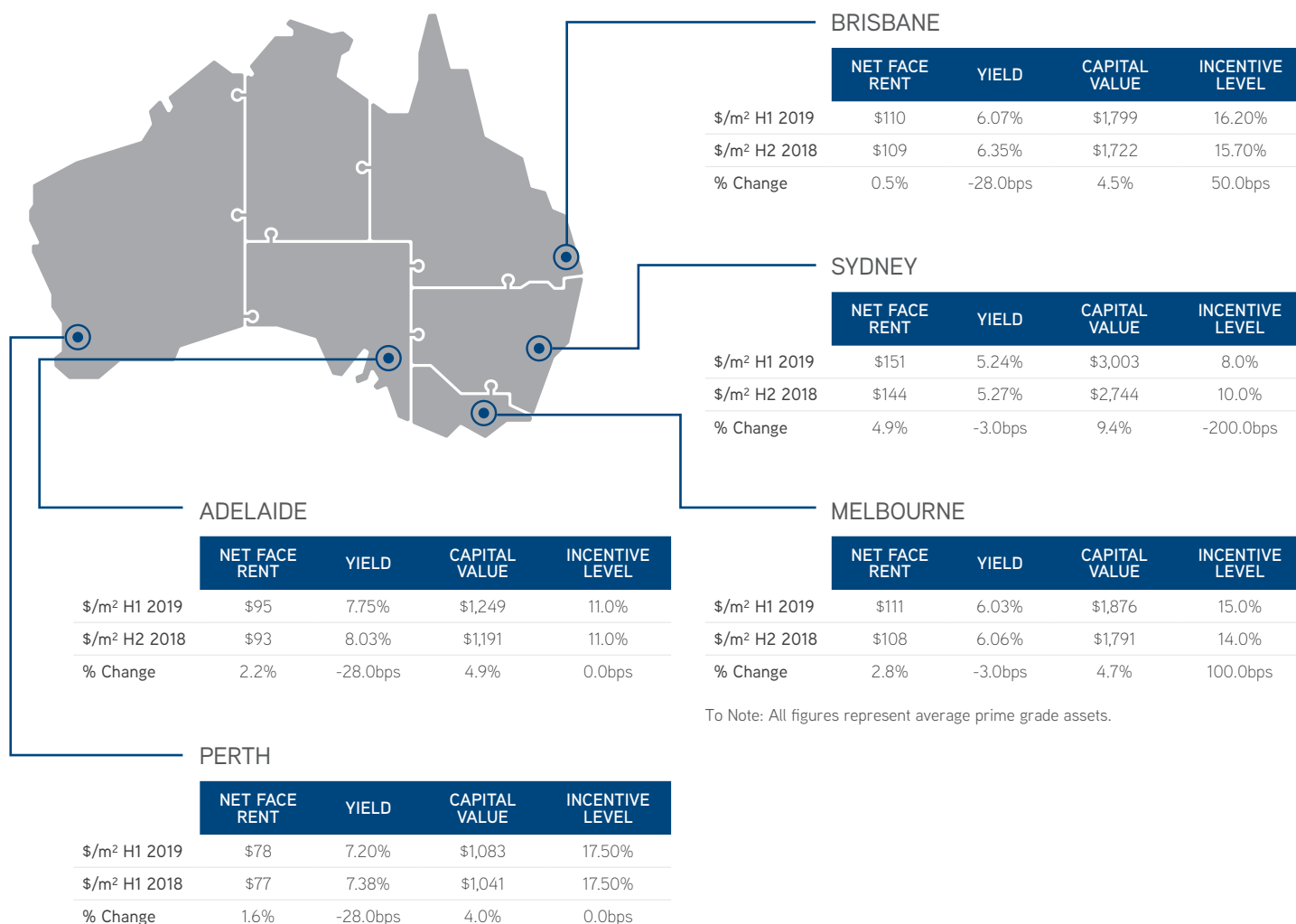
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CONTENTS

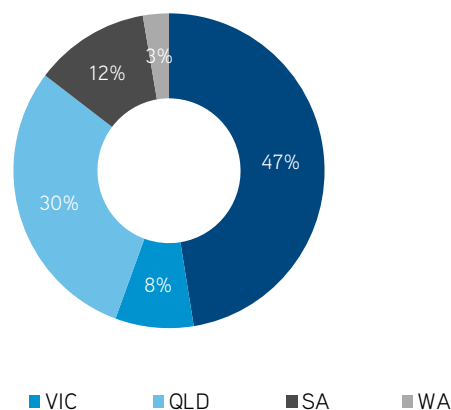
Domestic snapshot	4
National overview	5
Sydney	7
Melbourne	12
Brisbane	15
Adelaide	18
Perth	20
Newcastle	22
New Zealand	24
Our experience – Industrial	36

DOMESTIC SNAPSHOT

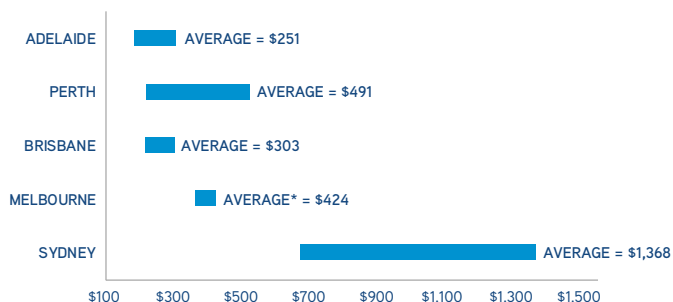
*H2 2018 figures as at Q3 2018



Share of Supply to be Delivered 2019 to 2023



Average Land Value Ranges



Source: Colliers Edge

Note: *This figure for Melbourne excludes the City Fringe

Source: Cordell Connect/Colliers International

NATIONAL OVERVIEW

By Monica Velez

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As the Australian economy continues to navigate through a triple-low environment (low growth-low interest rates-low inflation), Australian businesses are increasingly focusing on improving their operational efficiency to improve the bottom line. Supply chain optimisation has become a critical competitive advantage for many industrial users and operators. The process of supply chain optimisation often begins with a review of their network strategy, which is one of the most basic steps for overall Supply Chain Optimisation.

The most common scenarios that trigger a company to re-assess their network model are:

- M&A (Mergers and Acquisitions),
- Restructuring to shift focus onto a business unit or product brand,
- Entering into a new market,
- Diversification or
- Pure realisation

The benefits of optimisation

The positive effects of investing in the consolidation or reduction of nodes in a supply chain, often result in a significant decline in operating costs, sometimes ranging from 10 to 30 per cent of the logistics budget. Colliers has been pleased to collaborate in major consolidation projects where the project cost efficiencies have been in excess of \$12m, if taking one of Largest Global Logistics Companies example. Inside the warehouse walls, the standardisation and optimisation of consolidated warehouse processes presents a prime opportunity to reduce labour costs. However, even more efficiencies are found in property costs when the consolidated warehouses are designed to better utilise the 'site air' by considering alternative storage solutions and pallet handling systems that achieve greater per square meter or cubic density.

As-Is vs. To-Be

During a consolidation project, it is always important to assess the 'current vs future' or AS-IS vs TO-BE metrics to visualise key efficiency metrics drawn from any transformation project. As an example, the warehouse density ratio is indicative of efficient use of footprint. The measure can range from >1.00 sqm per pallet to a very-efficient ratio of <0.18 sqm per pallet; the tracking of this metric is especially important when land costs are soaring in the region putting pressure on rents. As a consequence of soaring land values, land taxes – which will be passed to occupiers as outgoings – are expected to rise substantially over the coming years. The average industrial land value across Sydney has increased by 17.5 per cent over the past year with some regions rising by more than 50 per cent.

Rising transport costs are another key concern for industrial operators in Australia. Warehouse consolidations can lead to the reduction of distribution or transport costs, which sometimes can account for almost half of the overall benefit. Additionally, within a consolidated warehouse, the dispersed volume is centralised, thus creating economies of scale in the single site; and therefore, allowing potential bargaining of more attractive transport rates from 3PL suppliers or when overall distances between nodes have been shortened as an effect of a new network design.

The principles of consolidation projects

The principles of any consolidation projects are varied, however it's paramount to start by triple-checking that the consolidation path is the right alternative, having assessed other possibilities such as deconsolidation, centralisation, downsizing, outsourcing or process reengineering. Once a thorough decision has been made, one of the first steps is to ensure within the network the purchase, supply and sales nodes are strategically positioned to achieve overall cost/benefit maximisation. Colliers perform network studies by using GIS (Geographical Information System) modelling to visualise demand, supply and production concentration. GIS coupled with market intelligence from the most reliable sources, can also uncover land and labour availability, as well as add additional layers such as population growth, Infrastructure planning, road networks and port accessibility. It is also important to consider the value generated by locating warehouses close to manufacturing facilities or a direct-to-customer (D2C) service capability, whenever viable, feasible and suitable. Various companies have benefitted from the D2C approach including companies like Walmart, e-commerce giants and even apparel companies such as Nike.

No one-size-fits-all approach

There is certainly no one-size-fits-all methodology to warehouse consolidation projects, however there are basic tasks that should always be considered, including:

- Explore different scenarios to ensure consolidation is indeed the right choice;
- Find out what the current or 'AS-IS' cost-to-serve per customer or market segment is from both a warehousing and transport perspective;
- Simulate theoretically the costs and 'TO-BE' cost/benefits for each option, perform a quantitative and qualitative assessment for each scenario;
- Whenever possible, run small pilots on preferred options to validate assumptions;
- Perform a right-size assessment to ensure the dimension of the network is fit-for-purpose and flexible enough to cater for the company's future requirements;
- Identify project constraints and write a plan to overcome them;
- Lastly, as one of the key components to project success and according to Prince2® Organisation theme, is to engage with the stakeholders by providing the right communication approach.



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Sold on behalf of Private Client

By Alex Pham

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MARKET HIGHLIGHTS

The NSW economy has been growing at an above-trend pace and outperforming the national average over the past four years.

A significant pipeline of infrastructure projects is on track to be delivered across New South Wales over the coming years and will be an impetus for rising industrial demand.

Net face rents have risen across the board with the Outer West and South West outstripping the rest of the sub-markets.

The investment market continues to flourish off the back of strong rental growth expectations.

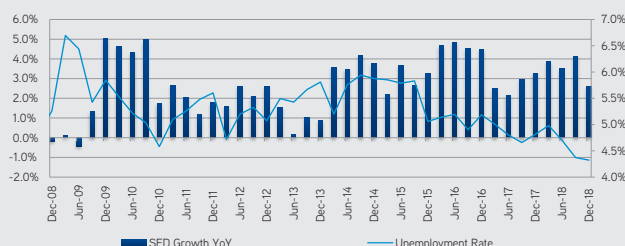
Overview

NSW economic growth outperforms the national average

New South Wales continues to enjoy uninterrupted economic growth off the back of significant infrastructure investment, solid employment growth and ongoing population increases. The state economy has been growing at an above-trend pace and outperforming the national average over the past four years. The real gross state product is forecast to expand by 3.0 per cent over 2017-18 while real estate final demand is expected to grow by 3.75 per cent. Despite emerging challenges in the housing sector, the outlook for the next two years is forecast to remain upbeat with growth drivers shifting from the construction sector to public spending and the strengthening service sector.

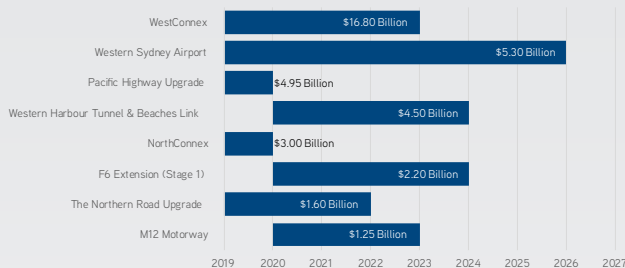
The strong economy has translated to strong employment growth over the past few years. In fact, the Emerald State recorded the largest increase in its contribution to national employment with 125,600 additional jobs created over the 12 months to February 2018. Year-on-year employment growth was 3.2 per cent as at February and well above the 20-year average. The ongoing job

NSW Economic Growth and Unemployment Rate



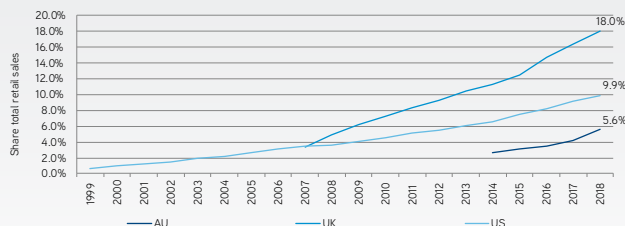
Source: Colliers International, ABS

NSW Major Infrastructure Projects



Source: Colliers International

Online Retailing Share of Total Retail Sales



Source: Colliers International, ABS, USCB, ONS

boom has attracted a significant number of international skilled migrants into the state. As a result, NSW's population is expected to rise by more than one million over the next 10 years. Colliers International's analysis reveals that this strong population growth would translate to total industrial demand of between 4.0-4.5 million sqm of industrial space in NSW over the next decade.

Public infrastructure spending to accelerate

A significant pipeline of infrastructure projects is on track to be delivered across New South Wales over the coming years and will be an impetus for both economic growth and industrial demand. A total of \$153.5 billion worth of projects are currently in progress across the state, making it the infrastructure capital of Australia. More importantly, the total investment value in New South Wales has soared by more than 50 per cent over the past five years, while activity across the rest of the country had declined by 33 per cent. Additionally, the Government has further committed \$87.2 billion to state infrastructure projects over the next 4 years. Colliers International believes this stimulus will have a significant and positive effect on the industrial sector through both the expansion in industrial employment and improved productivity. Furthermore, upgrades to transport networks across Metropolitan Sydney are creating more connected industrial precincts, boosting tenant expansion and enticing new international entrants to the market.

Multibillion-dollar projects that are well underway include; the WestConnex project (\$16.8 billion - 2023 completion), Western Sydney Airport in Badgerys Creek (\$5.3 billion - 2026), Pacific Highway Upgrade (\$4.945 billion - 2020), NorthConnex (\$3.0 billion - 2020) and the Northern Road Upgrade (\$1.6 billion - 2022). A further \$50 billion worth of construction projects is in the pipeline with the largest of them being the Sydney Metro West rail project (\$10.4 billion). Other mega-projects include the Western Harbour Tunnel and Beaches link (\$4.5 billion), F6 Extension Stage 1 (\$2.2 billion) and the M12 Motorway (\$1.25 billion). All these new infrastructure developments will be a game changer for the Sydney industrial market, especially the Western Sydney industrial precincts.



7 Enterprise Drive, Beresfield, NSW
Sold on behalf of Fairfax Media Management

E-commerce continues to underpin demand

The online retailing industry continues to grow at a spectacular speed. Importantly, this growth is not only supported by the pure-play online retailers, but also by the traditional retailers that are increasingly embracing omnichannel retailing and click-and-collect strategies. Over the past year to February 2019, the total online retail turnover, which includes both pure-play and multi-channel online retail trade, have increased by 31.3 per cent to reach \$18.2 billion. Nevertheless, the online retailing industry in Australia still has a long way to go as it currently only accounts for 5.6 per cent of total retail sales in the country. Consequently, third-party logistics providers (3PL) and omnichannel retailers remain one of the most active industrial tenants over the past 12 months. Food retailers are also having a growth spurt off the back of the resilience of non-discretionary spending, which has outperformed discretionary spending in recent years.

Supply is rising in response to demand

With demand continuing to rise on the back of strong market fundamentals, Colliers International expects the development pipeline to increase over the next 12 months. A total of 761,596 sqm of new industrial space is projected to be delivered during 2019. The bulk of this new supply will concentrate in the South West (39 per cent of total) and Outer West (31 per cent) precincts, where demand has been the strongest. These markets are also benefiting from improved transport networks and infrastructure projects such as the Western Sydney Airport, Sydney Metro West and Moorebank Intermodal Terminal. Major completions in these precincts over the next 12 months will include a 27,500-sqm warehouse at the Crossroad Logistics Centre being developed by AMP Capital and a 37,860-sqm warehouse for Target Australia within the Moorebank Logistics Park. The North West is also expecting to see over 100,000 sqm of new industrial space (14 per cent) coming online over the next 12 months, with around 38 per cent already pre-committed to. Limited supply is expected to be generated across the Central West (8 per cent) and Inner West (6 per cent) due to a lack of available development sites coupled with rising land prices. As expected, the North and South precincts will have the lowest levels of new stock being generated with strong competition from alternative uses and land prices being priced on an FSR (floor space ratio) basis.

Over the past 12 months, the average price for industrial land across Sydney soared by 8.1 per cent to circa \$1,050 per sqm as at March 2019. The North and South industrial markets remain the most expensive markets in Sydney with prices ranging at \$1,500-4,000 and \$1,500-3,250 per sqm respectively. Industrial-zoned land in these markets continue to be competitive, with investors pricing future development potential due to changes in zoning and density. Recent transactions around the Alexandria precinct have reached as high as \$6,000 per sqm. However, with the North and South markets excluded, the average land price in the Western markets of Sydney average around \$619 per sqm as at March 2019, up 7.6 per cent YoY.

Land tax increases to lift gross face rents

The NSW Valuer-General has recently conducted land valuations across NSW for 2019, which resulted in significant uplifts in industrial land values. In fact, industrial land showed the strongest overall increase amongst all uses with the average industrial value jumping by 17.5 per cent due to infrastructure improvements and rising demand from local industries. More significant increases were recorded in the local government areas of Cumberland (53.9 per cent), Blacktown (33.1 per cent), Bathurst Regional (28.4 per cent) and Central Coast (22.2 per cent). Although these escalations are yet to be reflected in our data for Q1 2019, we expect gross face rents will rise significantly from the second half of this year. Our modelling shows that gross face rents across Sydney could be lifted further by between 5.0 and 8.0 per cent on top of the natural increases expected over the next 12 months.

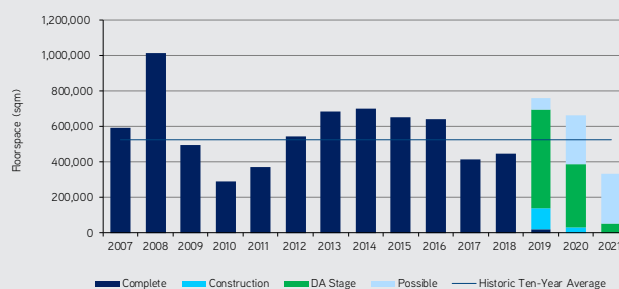
Net face rents, however, will not be impacted as land taxes will generally be passed on to outgoings payable by the tenant. The average prime net face rent for Sydney has increased by 2.3 per cent to \$144/sqm as at September 2018. Prime incentives declined by one percentage point to 10 per cent resulting in net effective rental growth of 3.3 per cent. Stronger face rental growth was recorded in the secondary market, where face rents advanced by 5.5 per cent over the past 12 months to \$124/sqm in September 2018. Secondary incentives are currently between 10 to 11 per cent.

Investment Market

The investment market continues to flourish off the back of strong economic and market fundamentals aided by the strength of online retailing and infrastructure investment. A total of \$1.5 billion (for transactions of \$10 million and over) worth of industrial assets have transacted over the year to 1Q 2019. Despite the continued deep pool of capital and undeterred investor appetite, transaction volumes were lower than a year ago by 4.2 per cent due to a distinct lack of institutional-grade stock and large portfolios on the market. This reaffirms Sydney's position as being the most tightly held and in-demand industrial market in the country.

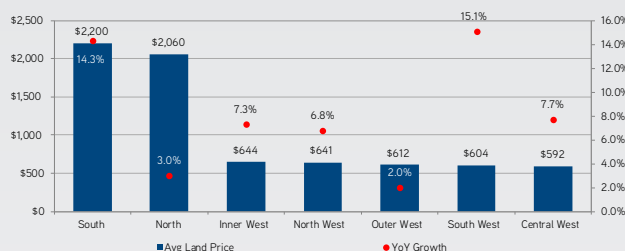
Institutional investors are particularly bullish on the industrial sector, acquiring almost \$1 billion worth of assets in NSW over the past 12 months. This represents about 66 per cent of the total transaction amount. The market remains dominated by local players who have purchased a total of \$1.2 billion over the past 12 months or 80 per cent of the total market. Offshore groups, spearheaded by global mandates from the UK and US, acquired \$230 million over the past 12 months mostly through portfolio transactions.

Sydney Industrial Supply Pipeline



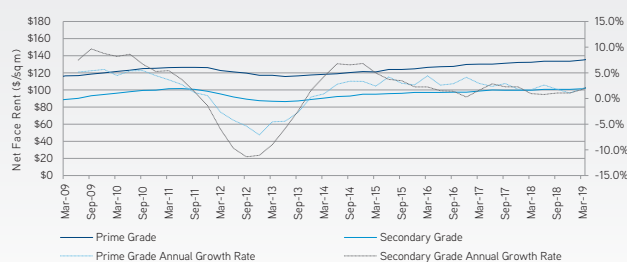
Source: Colliers Edge

Sydney Average Industrial Land Values



Source: Colliers Edge

Sydney Average Net Face Rents by Asset Class



Source: Colliers Edge

The weight of capital amid limited opportunities has seen secondary yields continued to tighten across Sydney by approximately 30-50bps over the past 12 months. Prime yields currently average around 4.82-5.25 per cent, while secondary yields range around 5.46-5.96 per cent as at March 2019. A major transaction over the past year was Calibre by Mirvac, located in the North Western suburb of Eastern Creek, sold for \$125.232 million on a 5.14 per cent initial yield and a rate of \$2,272 per sqm. This deal has reset the benchmark for an institutional grade asset in the Outer West market of Sydney. Other highlight transactions in recent months include 13 Ferndell Street, South Granville transacted for \$24.225 million on a 6.87 per cent core market yield and 3-5 John Morphett Place, Erskine Park sold for \$19.04 million on a 5.53 per cent core market yield.

Sub-Markets

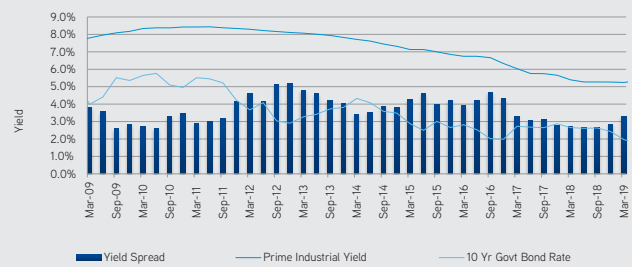
West

Industrial take-up in the Western precincts, which is made up of the North West, Inner West, Central West, South West and Outer West, has remained solid over the past 12 months. From our analysis of enquires, demand has come largely from tenant expansion, relocation to improve supply chain efficiency or new entrants into the market. Demand has derived from a wide range of industries including retail trade, construction, data centres, transport and third-party logistics (3PL). On the back of this positive demand, the average net face rent across the Western markets has increased by 4.1 per cent YoY to \$128 per sqm as at March 2019. The average incentive has declined slightly from 11 per cent from a year ago to 10 per cent as at 1Q 2019. Current market yields for prime assets in the West currently range between 4.9 and 5.3 per cent, while secondary yields sit around 5.5 and 6.0 per cent.

Following several trend-setting deals in recent months, the Outer West has recorded the highest increase in net face rents over the past 12 months. Prime net face rents in the Outer West have increased by 8.7 per cent YoY to average around \$125 per sqm in the first quarter of 2019. Net face rents for secondary assets also registered a strong growth of 8.8 per cent YoY to \$118 per sqm. Positive leasing results were also recorded in the South West precinct, where prime net face rents soared by 6.1 per cent over the past 12 months to \$123 per sqm and secondary net face rents have been brought up to a more comparable level with other markets at \$100 per sqm, up 16.3 per cent YoY. The strong rental growth in the Outer West and South West is reflective of both tenant preference for well-positioned locations that are benefiting from improving infrastructure and connectivity. Additionally, these markets are also seeing the largest share of new supply of new developments, which command higher net face rents. Incentives for prime space in the Outer and South West are being offered at around 10-15 per cent and 10-11 per cent respectively.

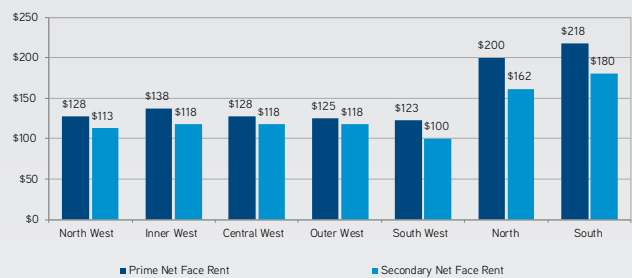
The rest of the Western markets recorded more sustainable rental growth of between 2.0-3.0 per cent over the past 12 months. Prime net face rents in the Inner West grew by 2.6 per cent YoY to \$138 per sqm, while secondary net face rents rose by 4.4 per cent to \$118 per sqm. The North West and Central West recorded similar levels of prime rental growth of 2.0 per cent YoY taking the prime face rents of both precincts to \$128 per sqm in March 2018. In the secondary market, face rents in the North West increased by 2.3 per cent to \$113 per sqm, while those in the Central West remained steady at \$118 per sqm. Incentives for prime and secondary industrial facilities in these markets ranged around 9.0-10.0 per cent and 9.0-11.0 per cent respectively at the beginning of 2019.

Sydney Average Prime Yield Spread (%)



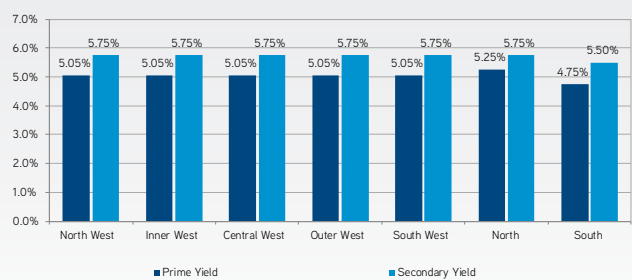
Source: Colliers Edge

Prime and Secondary Net Face Rents by Sub-Market 1Q19

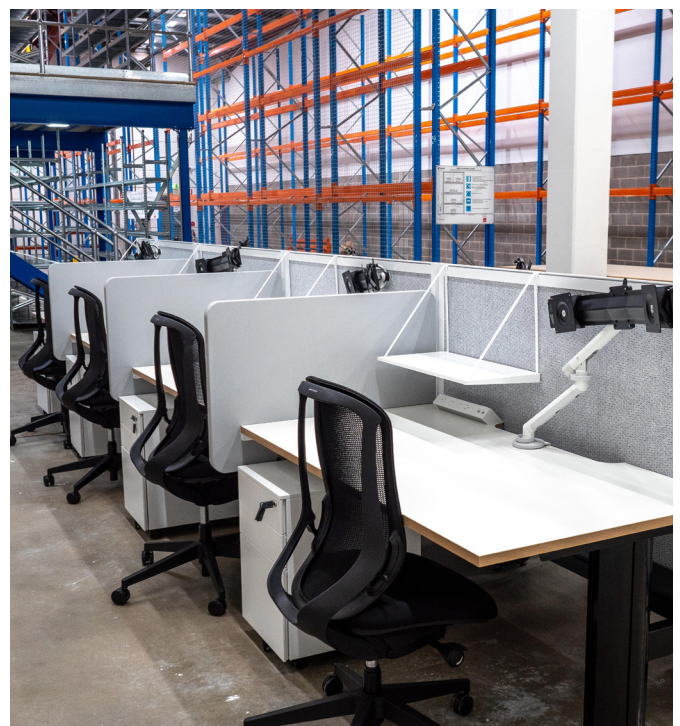


Source: Colliers Edge

Average Prime and Secondary Yields by Sub-Market 1Q19



Source: Colliers Edge



Lane Cove Industrial, Warehouse Fitout, NSW
Project managed on behalf of Kavo Kerr

North

Net face rents for prime space in the North industrial market have remained relatively stable over the past 12 months, with effective rental growth being driven largely by lowered incentives. Prime industrial spaces are currently achieving \$200 per sqm whilst secondary options are getting \$162 per sqm on average as at March 2019. Prime incentives have declined from 10 to 8 per cent, which is similar to the incentive level being offered for secondary spaces. With very limited availability of stock, occupiers with requirements in excess of 2,000 sqm continue to seek accommodation in alternative markets. The market is dominated by mostly SME businesses at the higher end of the supply chain such as pharmaceutical, medical and IT companies or those with strong ties to the North Shore market. Investment yields for prime assets in the area are around 5.0-5.5 per cent and for secondary assets are around 5.5-6.0 per cent.

South

Industrial users in the South continue to be starved for choices due to a lack of new supply amid continued competition from alternative highest and best uses. Prime net face rents have escalated by 22.5 per cent over the past 12 months to average around \$218 per sqm as at March 2019. Additionally, incentives have slid further to 7.0 per cent from 8.0 per cent a year prior. Secondary rents have risen substantially by 29.3 per cent YoY to \$180 per sqm. Nevertheless, due to the significant increases in rents, many of the traditional industrial users have continued to relocate to more affordable markets, while the tenant base has broadened to higher value uses such as car and furniture showrooms, wholesale retailing, import-export goods and services, as well as non-traditional tenancies such as childcare, education centres, gyms, clinics and independent coffee roasters.



2 Byfield Street, Macquarie Park, NSW
Sold on behalf of Stirling Property Funds

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MARKET HIGHLIGHTS

Overall decline in transaction volumes, both QoQ and YoY

Leasing demand strong across the board

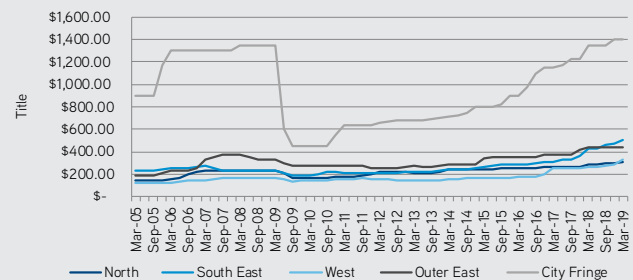
Increased statutory expenses driving more tenants further West from Port Melbourne

Overview

During the first quarter of 2019 only 6 investment transactions were recorded above \$5 million. When compared with the first quarter of 2018, transaction volumes are approximately 70 per cent down year on year to date. The reduction in sales volumes, however, is not an indicator of a reduction in demand for industrial investments, as there is still a weight of capital seeking to be deployed into the sector. Instead it signals the continued tightening of the industrial market in Victoria and we forecast a strong second half of 2019. Melbourne industrial property offers an attractive alternative to other Eastern Seaboard markets given the availability of land and relative pricing.

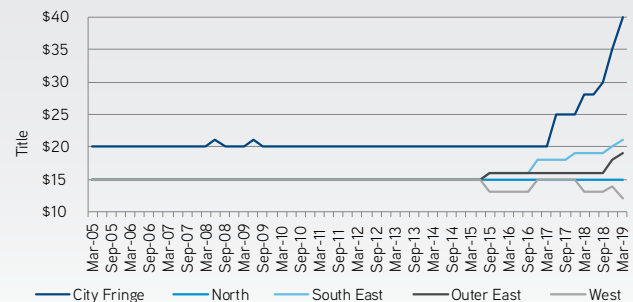
Last year was the year for infrastructure announcements including the Airport Rail Link, North East Link and suburban rail link. Following these announcements, the airport rail link geotechnical drilling has begun with construction to commence in 2022, this project expected to be completed in 2031. Major transport projects not only create more jobs, but major opportunities within the industrial sector across the state. Prime Minister Scott Morrison announced a 200km/h fast rail service between Melbourne and Geelong which could have a major impact on the commercial and residential sector of Geelong with the proposed train to only take 30 minutes. We see these projects continuing to attract investment in industrial land and assets along these growth corridors.

Land Values by Sub Market



Source: Colliers International

Prime Outgoings by Sub-Market



Source: Colliers International

Submarkets

City Fringe

The landscape for the City Fringe industrial market continues to change as underlying land values increase and higher order uses encroach. One of the key demand drivers for industrial assets being overall occupancy costs is being impacted significantly by increased underlying land values as a result of the rezoning of industrial precincts surrounding the CBD. We do not consider the full effect of rising outgoings to be realised until the next financial year as FY20 budgeted outgoings flow through to tenants. We expect this to continue to push leasing demand into Melbourne's west.

In the first quarter of 2019 there have not been any further updates on the Fishermans Bend or Arden precincts. We expect the second half of 2019 to bring more clarity to the market regarding the timing and future designation of land uses in these key city fringe urban renewal areas.

The construction tendering process is underway for Arden where the new North Melbourne metro train station will be located. The Metro Tunnel is due to open in 2025 and it will have a huge impact on the Arden precinct from both a social and economic perspective. A notable sale in the Fringe sub market for Q1 2019 was 30-36 Grosvenor Street, Abbotsford which sold for \$17.3 million to Poly Group. The acquisition is strategic for Poly following their acquisition of the adjacent property at 45 Grosvenor Street, Abbotsford 3 month prior. On average yields in the City Fringe reduced 42 basis points to 5.63 per cent for prime and 52 basis points to 6.13 per cent for secondary stock in the last 6 months to March 2019.

North

The North sub-market is becoming increasingly popular amongst industrial developers and investors as leasing demand strengthens along this growth corridor. Land values have recorded strong growth since 2015, with values currently above \$300/ sqm for land in excess of 5,000sqm. This uplift is due to the tightly held nature of this sub-market and the availability of serviced industrial land to satisfy pre-lease demand. For prime assets, incentives fell 4 percentage points to 15 per cent over the last 6 months. In this same period rents for prime stock increased 6.25 per cent to average \$85/ sqm and secondary increased 7.69 per cent to average \$70/ sqm.

Master planning has begun on Frasers' land at 410 Cooper Street, Epping with the first stage of the estate expected to come to market by mid 2019. The Frasers estate has an estimated on completion value of \$250 million and will accommodate more than 250,000 sqm of space. MAB's Merrifield Business Park has reached completion of stage one with high levels of enquiry already being received for the next stage of the development. At present, there is in excess of 150,000 sqm of enquiry for industrial property in the North sub market. With overall vacancy of less than 2 per cent we expect there to be upward pressure on rents and land values in the near term.

West

Overall leasing demand is skewed to the West sub-market primarily due to the availability of land and capacity for large scale developments. This sub market attracts large freight forwarding companies and third party logistics providers (3PLs) requiring substantial building footprints and hardstand. Historically rents have remained relatively stagnant in the West having only increased 8 per cent in the last 5 years. We expect that as the next wave of supply comes to market, rents will increase due to the price that developers have paid for their most recent land banks. Institutions that have traditionally not been large purchasers of industrial land have recently entered this market. The superfund ISPT purchased approximately 30 hectares at Horsburgh Drive, Altona North for \$60 million. GPT Group is also growing their Logistics Portfolio with the purchase of 399 Boundary Road, Truganina for \$16.7 million which will deliver 48,000 sqm of GLA.

The amount of enquiry for the West currently outweighs supply with more than 350,000 sqm of requirements compared to the long term average take up of approximately 90,000 sqm per annum. Traditional developers who include Dexus, Charter Hall, Goodman and Frasers are beginning to unlock the next wave of new speculatively built development in response to this.

More efficient building designs are resulting in outgoings declining to \$12/ sqm for prime assets, previously \$15/sqm three years prior. Secondary assets are averaging \$14/ sqm which have showed little movement in this same time period. Overall occupancy cost relative to other industrial precincts is one of the key attractors of tenants to the West sub market.



Dexus Industrial Estate, Pound Road West, Dandenong South, VIC
Valued on behalf of Dexus Property Group

South East and Outer East

The South East and Outer East are the most land constrained sub markets outside of the City Fringe only one major existing facility transaction was recorded for the first quarter being 63-79 South Park Drive, Dandenong South for \$17.25 million. The property was sold by Frasers to a local owner-occupier. Development land is relatively scarce however a vacant 41.3 hectare prime industrial land parcel came to market this quarter. This is one of the few remaining vacant land opportunities in the South East that is zoned for industrial use and will therefore be strongly contended for amongst the large institutional property developers. We expect this transaction to set a new benchmark for englobio land and forecast that land values will continue to increase due to the lack of upcoming new stock (most of which has been pre-leased) in an already tight market.

Leasing demand continues to strengthen as tenants are attracted to this key geographic location that affords them easy access to the existing and planned arterial roads and the South East and Outer East population catchments. Average net face rents in the South East have remained relatively stable for both prime and secondary assets in the last 6 months at \$93/sqm and \$70/sqm respectively. Incentives remain at 19 per cent on average for prime and 13 per cent on average for secondary. Net face rents in the Outer East are slightly higher at \$99/sqm for prime stock. Prime rents are expected to increase further as tenants seek a flight to quality and incentives are likely to remain low given the scarcity of new supply.



Unit 7, 331 Ingles Street, Port Melbourne, VIC
Leased on behalf of Dexis

By Karina Salas
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MARKET HIGHLIGHTS

Queensland's industrial production growth to outperform Australia's industrial production over the next decade

Australia TradeCoast (ATC) leading the annual growth in land values in 2018

Concentration of automation investment within the South West precinct

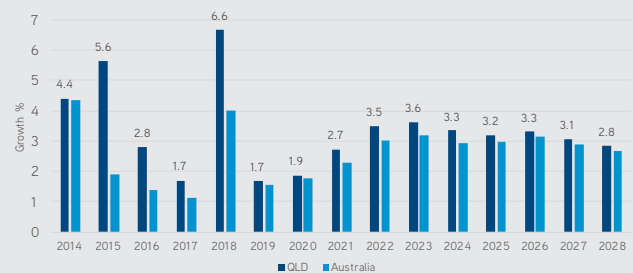
Overview

Solid investment in road infrastructure and connectivity coupled with population growth continue to support industrial activity in Brisbane. The proposed Inland Rail and the Port of Brisbane dedicated freight rail connection projects are anticipated to be a game changer for the industrial market, supporting its future expansion and potentially creating transport-cost efficiencies for regional industrial operators in Victoria, New South Wales and Queensland.

Demand in the Brisbane industrial market continues to transition from traditional manufacturing and industrial uses to transport and logistics, retail warehousing and mixed industry business precincts. Ecommerce and online retail activity is changing the way the industrial market operates in Australia and Brisbane is not isolated to this new trend.

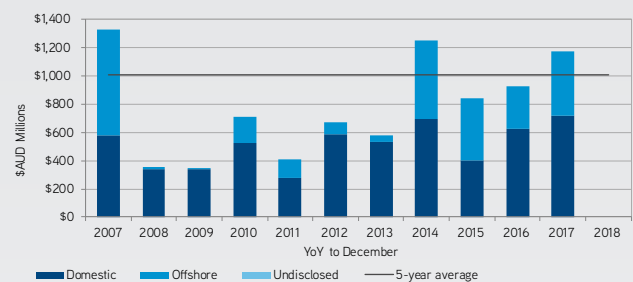
According to Deloitte Access Economics, Queensland's economic growth and industrial production is forecast to outperform Australia over the next decade, with the GSP growing an average of \$13.1 billion a year, from \$345 billion in 2018 to \$475 billion in 2028. The value of Queensland's industrial production increased 6.6 per cent in 2018, to \$65.7 billion in December 2018. The upward trend is anticipated to continue over the next decade as Queensland's industrial production will rise at an annual average of \$2.2 billion, to \$87.6 billion in 2028.

Qld Industrial Production Forecast



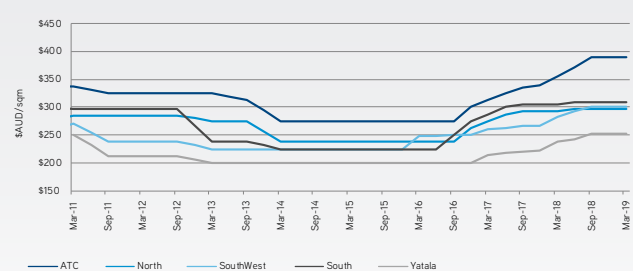
Source: Colliers International and Deloitte Access Economics

Brisbane Industrial Sales (\$5 million+)



Source: Colliers International

Land Values by Precinct (\$AUS/ sqm)



Source: Colliers International

Institutional investors dominated the market

Colliers International have estimated the volume of industrial asset transactions (above \$5 million) reached \$839 million in 2018, representing a fall of 28 per cent compared to 2017 and remaining below the 3-year and 5-year sale volumes. Acquisitions from institutional investors (\$403 million) dominated the market, representing about 48 per cent of the volume of sales in 2018. Singaporean institutions were very active in 2018 acquiring a total of \$142 million of Brisbane industrial assets in 2018.

The ATC and the South precincts were the preferred locations for investors, comprising 72 per cent of the volumes transacted in 2018. The largest 2018 investment transaction was the sale of Coles Distribution Centre at Heathwood acquired by Mapletree Logistics Trust, for \$105 million at an initial yield of 5.83 per cent and offering a 4.25 years WALE.

Colliers International forecasts an increase in the volume of industrial sales in 2019, with circa \$157 million of exchanged and pending sales already recorded. This amount represents an increase of more than 70 per cent compared to the volume of sales in Q1 2018 (of \$90 million).

Yield compression continues

The strong investor demand and limited available assets resulted in further increases in prices and tightening yields generally across the board, with average prime grade yields sharpening for eight consecutive years and average secondary grade yields tightening for a sixth consecutive year.

Prime grade yields have tightened in the range of 25bp to 50bp for the past 12 months, to an average of 6.07 per cent as at March 2019. Lower yields have driven an annual average increase in

capital values of 9 per cent to \$1,799 per sqm as at March 2019. In the secondary market, average yields have compressed 47bp for the YoY to March 2019, to 7.65 per cent. Consequently, annual average capital values for secondary assets have increased by 2.7 per cent, to \$1,073 per sqm. The extent of the capital value increase for secondary assets was limited by a modest fall in rents recorded in the North and South West precincts.

Land Values heading north

The renewal of industrial areas is becoming an issue worldwide as population growth continues putting pressure on land availability to meet housing demand and encroaching into industrial-use land. According to the Brisbane City Council Industrial Strategy 2019, the total industrial land area within the inner five kilometres has been reduced by over a third in the past five years. Similarly, industrial land in outer Brisbane remains under pressure for encroaching non-industrial uses land and has been reduced by 10 per cent in the past five years (2 million sqm of industrial gross floor area).

There is no doubt that the reclassification of industrial area to different uses will continue putting upward pressure on land values. Over the past three years, land values across all precincts have generally trended upwards. The average land value for the YoY to March 2019 has increased 5.3 per cent, to \$310 per sqm.

Colliers International anticipates the rising trend in Brisbane industrial land values will continue over the medium term due to the current and forecast value proposition of the investment achieving solid yield spreads compared to Sydney and Melbourne (of up to 170bp in some instances), and the significant infrastructure investment program under construction in South East Queensland (SEQ).

Sub Markets

Australia TradeCoast – Solid Sales Volumes

The ATC experienced the strongest growth in land values for the YoY to March 2019, increasing by 9.9 per cent to an average price of \$390 per sqm in March 2019, from \$355 per sqm in March 2018. Colliers International anticipates that the limited forecast new development supply will continue putting upward pressure on rents over the next few years. Average prime grade net face rents are \$118 per sqm as at March 2019, holding firmly over the past year. Average incentives fell 1.5 percentage point, to 12.5 per cent for the YoY to March 2019, which could be anticipating a future rental growth for prime grade assets.

Investors continue holding stock tightly, with the ATC being one of the preferred location for investors in 2018, transacting circa \$293 million of assets at an average yield of 5.75 per cent for prime grade and 7.38 per cent for secondary grade assets as at March 2019. Average prime grade capital values increased 5 per cent for the YoY to March 2019, to \$1,956 per sqm and gradually approaching \$2,000 per sqm. Average secondary grade capital values held steady at \$1,254 per sqm for the past year as rents and yields held relatively unchanged.



Steelforce, Port of Brisbane
Leased by Colliers International

North and Outer North

The Brisbane North and Outer North precinct is located in a rapidly growing area extending from the Brisbane North suburbs to the Moreton Bay region. This precinct benefits from overflow demand on the TradeCoast due to its proximity to the Brisbane Airport and the Port of Brisbane. According to the Brisbane City Council Industrial Strategy 2019, 60 per cent of the industrial employment in this precinct focuses on manufacturing activity, reflecting the heavy concentration of manufacturing operators.

Land values increased modestly by 1.7 per cent for the YoY to March 2019, to an average of \$298 per sqm. Prime grade net face rents are currently around \$105-\$115 per sqm and incentives are between 12 to 17 per cent. Secondary spaces are achieving net face rents around \$65 to \$85 per sqm with 14 to 20 per cent incentives.

A total of \$92.1 million of sales (above \$5 million) were transacted in 2018, representing 11 per cent of the total Brisbane industrial sales for the year. Average prime grade capital values increased 8.5 per cent for the YoY to March 2019, to \$1,872 per sqm. Due to the secondary grade rents fall, capital values fell by 2.9 per cent, to \$1,000 per sqm for the YoY to March 2019.

South West – Leading Automation Investment

Large investment in warehouse automation supported by long-term leases is concentrated primarily in Redbank. The largest parcel and delivery centre in the Southern Hemisphere is currently under construction at Goodman's Redbank Motorway Estate. The \$200 million development has been leased by Australia Post for an initial term of 15 years.

Coles has committed \$950 million over the next six years fitting out two automated warehouses (one located at the Goodman's Redbank Motorway Estate), supported by a 20 years lease term. The 66,000sqm facility will be developed by German specialist Wilton Logistik.

Brisbane Prime Industrial Indicators - Q1 2019

Precinct	Average Prime Net Face Rents (\$/sqm)	YoY Annual Rent Growth (%)	Prime Incentive (%)	Prime Average Yield (%)	Average Land Value (\$/sqm)
Australia TradeCoast	\$118	0.0%	13%	5.75%	\$390
North	\$110	0.0%	15%	5.88%	\$297.5
South	\$111	3.5%	18%	6.00%	\$310
South West	\$110	4.8%	18%	6.25%	\$300
Yatala	\$110	8.1%	19%	6.45%	\$252

Source: Colliers Edge

As South West is renewing and becoming a preferred location for large logistic and warehouse, average land values increased a solid 6.2 per cent for the YoY to March 2019, to \$300 per sqm.

A total of \$136.3 million of assets were transacted in 2018. Prime grade average yield tightened 30bp for the past year, to 6.25 per cent in March 2019. A similar trend was seen for the secondary grade average yield, sharpening from 8.23 per cent in March 2018 to 7.75 per cent in March 2019.

The average prime grade net face rent increased 4.8 per cent for the YoY to March 2019, to \$110 per sqm. Average secondary grade net face rent fell 6.1 per cent for the YoY to March 2019, to \$ 78 per sqm due to the low quality of the stock advertised for lease.

South

Land values increased modestly over the past 12 months, from an average of \$305 per sqm in March 2018 to \$310 per sqm in March 2019. Prime grade average yields tightened 40bp for the past year, from 6.4 per cent in March 2018 to 6 per cent in March 2019.

Well-located stock generally attracts higher rents, with the average prime grade net face rents increasing of 3.5 per cent, to \$111 per sqm for the YoY to March 2019. Secondary grade net face rents increased 3 per cent, to \$85 per sqm for the YoY to March 2019. Generally, tenants have a preference to rent from institutional investors due to the quality and efficiency included in the building, which is generally a reflection of the investment commitment made by institutional investors. The average incentives of 18 per cent is the highest one across Brisbane.

Yatala Enterprise Area (YEA) – Largest Annual Increase In Net Face Rents

YEA's value proposition provides for affordable rental options, competitive land values and easy accessibility to the M1 Pacific Highway providing centralised access to both Brisbane and the Gold Coast markets.

Circa \$70 million sales (above \$5 million) have been recorded in 2017, 2018 and the first quarter of 2019. This includes the recent sale of a 624,000sqm development site at 60 Stapylton-Jacobs Well Road for \$20.5 million. According to Cordell Connect, there is circa 90,000sqm of new supply to be added to the precinct from 2020 to 2022. Colliers International anticipates significant development activity will occur over the medium term as development sites are now on the radar of institutional investors and industrial operators are also looking for more affordable options.

Land values increased by 6.3 per cent over the past year, sitting at an average of \$253 per sqm for March 2019 and remaining about 15 per cent to 35 per cent more affordable than other precincts. Average prime grade net face rents reported the highest increase in Brisbane (8.1 per cent for the YoY to March 2019), to \$100 per sqm. However, they remained up to 15 per cent more affordable than other precincts.

By Kate Gray
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MARKET HIGHLIGHTS

Defence spending starting with offshore patrol vessel commencing

New supply expected to strengthen in 2019

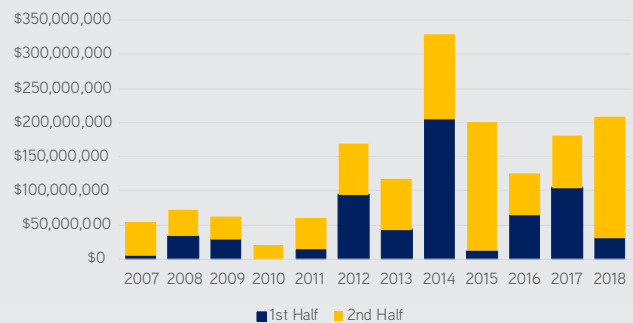
Strong sales volumes in second half 2018 after stamp duty abolished

Overview

The improved interest in the Adelaide industrial market is also underpinned by significant investment in infrastructure, increased defence spending, and improved conditions for mining and energy investment. Over \$1.2 billion of defence infrastructure construction is underway to support the frigates and submarine projects due to commence in 2020 and 2023 respectively. Investment in road infrastructure has been a key driver along the North-South Corridor with a further \$1.5 billion allocated to finish the final sections - expected to be completed within a decade. The abolishment of stamp duty for commercial transactions, which became effective on 1 July 2018, has had a positive impact on sales volumes. This change in legislation has positioned Adelaide as one of the most competitive places to do business and has renewed interest in the Adelaide market.

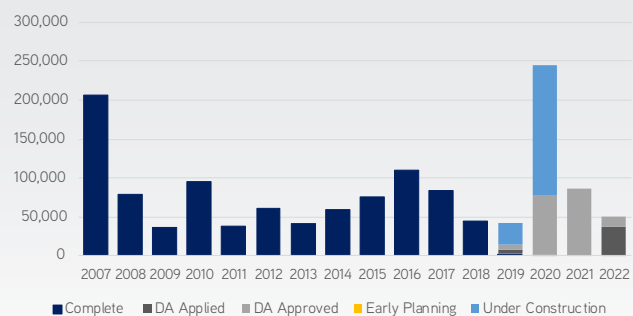
The Adelaide industrial market has seen a significant boost in sales volumes with \$177 million of assets changing hands over the second half of 2018. This has brought total sales volumes for 2018 to \$208 million which is the second highest volume of sales on record with 2014, where over \$329 million of assets were sold. Although there were no major transactions recorded in the first quarter this year, there is significant off market activity underway. This will support stronger sales activity for the remainder of 2019.

Adelaide Industrial Sales Volumes



Source: Colliers International

Adelaide Industrial Supply



Source: Colliers International

The east coast industrial markets have experienced significant compression in industrial yields and investors are looking to Adelaide to balance their portfolio with higher yielding assets. There is a significant amount of capital which is looking to be placed, with the Adelaide market offering higher yields and an improved economic outlook due to investments in defence, mining, energy and infrastructure.

Vacancy in the Adelaide industrial market has fallen to 3.6 percent, down from 4.8 percent. The Outer and Inner North both saw vacancy fall to 3.1 percent and 4.2 percent respectively. The supply pipeline is expected to strengthen over the next 12 months with circa 167,000 sqm of new space expected to be completed this year. Major projects under construction include Metcash new DC, Sigma Healthcare DC and Huhtamaki new DC. There is also a proposal for Woolworths to expand their distribution centre in Adelaide.

Sub Markets

Outer North

The Outer North has seen vacancy to fall to 3.7 percent for buildings over 5,000 sqm. The largest development within the precinct is the repurposing of the Holden site which has been rebranded to Lionsgate. As part of this redevelopment Sonnen, a battery storage manufacturer, is setting up a manufacturing site.

Drakes supermarkets are currently building a new \$80 million distribution centre at Edinburgh North. Construction has commenced on the 45,000 sqm facility which is expected to complete in July 2019. As part of the new facility, over \$12 million will be spent on an automated picking system to help distribute over 23,000 products.

Net face rents for prime space have increased with ranges of \$70-\$90/sqm. Secondary rents have remained stable with a range of \$35-\$50/sqm. Incentives have remained unchanged at 10-15 percent across both prime and secondary space.

Prime yields in the Outer North have tightened by 88 basis points over the last 12 months with a significant tightening at the lower end. The current range is 7.5 percent to 8.5 percent. Yield compression in the Outer North was greater than other Adelaide sub-markets as the risks around the exit of Holden have reduced.

Land values in the Outer North have remained stable over the last 12 months and is now in the range of \$35-\$85/sqm.

Inner North

The Inner North is expected to see the bulk of the new supply with circa 195,000 sqm of space under construction and due to complete during 2019 and 2020. Major projects are the Sigma Healthcare DC, Woolworths DC and Huhtamaki DC. Osbourne has seen an increase in government investment in infrastructure with \$1.2 billion being spent on facilities to support the submarine project. As the ramp up to construction continues, we expect this will lead to further supply to meet demand from supporting industries.

Vacancy in the Inner North has fallen to 4.2 percent, down from 4.8 percent over the last half. Prime net fact rents have remained stable over the last 12 months and are in the range of \$85-\$120/sqm. Secondary net face rents have grown by 2.7 percent and are in the range of \$50-80/sqm. Incentives have remained stable with prime incentives ranging between 5-15 percent and secondary 10-15 percent.

Yields in the Inner North market remained stable over the last six months with prime yields between 6.75-8.0 percent and secondary 8.0-10.0 percent.

Land values have also remained stable over the last 12 months and fall in the range of \$170-\$260/sqm.

West

Net face rents in the West have remained stable with prime rents ranging from \$100-\$150/sqm and secondary net face rents between \$60-\$100/sqm. Incentives have also remained stable with prime incentives at 5-15 percent and secondary at 10-15 percent.

Prime yields in the West have remained stable over the past 6 months with prime yields between 6.25-8.0 percent. Secondary yields however have tightened by 13 basis points over the last six months to range between 8.0-9.25 percent.

Land values in the West have remained stable and range between \$350-550/sqm. The high land values and rents comparable to the Inner North make developing new industrial stock in this precinct more challenging. It is therefore likely to result in industrial sites being converted to a higher and better use.

South

Tonsley has continued to grow with further development under the Main Assembly Body (MAB) including Ziess consolidating their operations with a state of the art \$6 million, 3,950sqm facility.

Prime rents in the Inner South have grown by 4.5 percent ranging \$90-\$135/sqm. Secondary rents have remained stable and ranged between \$55-\$85/sqm. Incentives have also remained stable with prime incentives 5-15 percent and secondary yields at 10-15 percent.

Yields in the Inner South have remained stable over the past 6 months with prime yields between 6.75-8.25 percent and secondary 8.5-9.75 percent.

Market Outlook

The outlook for the industrial market is more positive through 2019. The supply pipeline is forecast to improve over the next two years as a result of reasonably low vacancy and an improvement in demand, which should lead to more design and construct facilities. Furthermore, relatively low vacancy rates are expected to result in some higher than average rental growth over the next two years. Demand for investment grade stock is expected to remain high with the buyer pool strengthening, and therefore there is scope for further yield compression for prime grade investment stock with long WALEs.

By Quyen Quach

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MARKET HIGHLIGHTS

Vacancy stable

Land demand improving

Prime yields may tighten in 2019

Overview

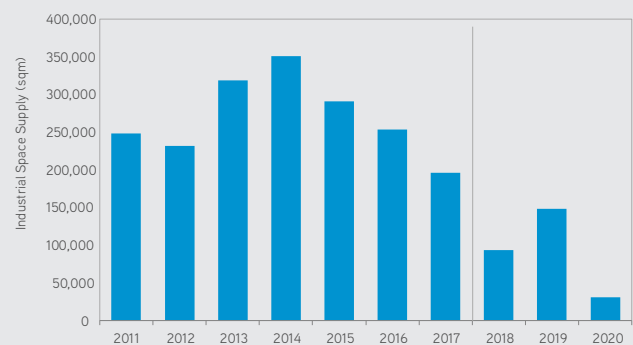
Perth's industrial leasing market appears to have bottomed out and is now showing modest signs of improvement. WA's economic recovery is gathering momentum, with exports leading the way on stronger production volumes and rebounding commodity prices.

Sentiment within the resources sector further strengthened following recent announcements of resource project commitments, rising exploration and stabilising private investment spend. Numerous resource project announcements over the past two years, strong government infrastructure spending and robust commercial building activity is converting into improved industrial space enquiries.

Colliers International has seen consistent growth in both tenant and investor demand in space aligned with freight and logistics operations. Resource projects underpin a significant proportion of this demand, as does the evolving nature of the consumer and business acceptance of digital platforms, which has led businesses to shift towards more cost effective operational footprints.

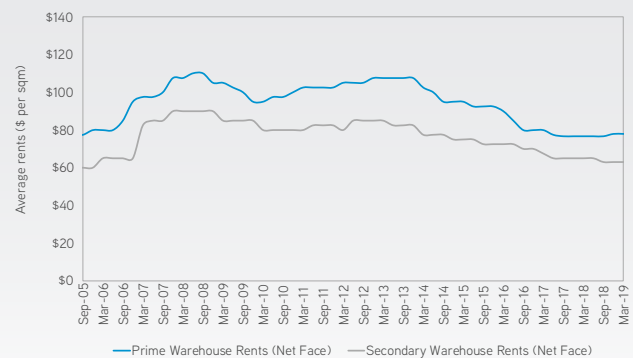
The latest Colliers industrial vacancy survey undertaken in April 2019 indicates a marginal improvement from our October 2018 survey. The industrial vacancy rate across Perth's metropolitan area was estimated to be 7.7 per cent for buildings in excess of 2,000sqm. This represented approximately 765,300sqm of total space available for lease, down from 766,825sqm in October 2018. The industrial vacancy rate has been trending down since the beginning of 2017, and is currently the lowest in 3 years.

Perth Industrial Space Supply



Source: Colliers International

Perth Industrial Face Rents



Source: Colliers International

Vacancy continues to be a larger issue in the smaller end of the market, with 44% (or 336,260sqm) of available space being in the 2,000sqm to 5,000sqm size range. Despite this, it was the only size category that exhibited a vacancy improvement, with available space falling 54,385sqm to 336,260sqm from 390,645sqm in October 2018. This provided an offset to available space increases of 32,110sqm and 20,760sqm in the 5,000 to 10,000sqm and >10,000sqm size categories respectively.

On a region-by-region basis, vacancy is still concentrated in the east and south, with estimated vacancy equalling 340,900sqm and 303,870sqm respectively. This continues to be consistent with the inventory dominance of these two regions of industrial space over 2,000sqm; these two regions account for 88 per cent of Perth's total stock, with the north region makes up the remaining 12 per cent.

Stable Vacancy, Stable Rents

In the six months since we last reported, overall vacancy rates remained stable leading prime grade rents to remain flat. While the secondary grade have seen some instances of landlords reducing their asking rents to attract an occupier, generally speaking, secondary grade rents have also been stable.

In the March 2019 quarter, average prime face rents ranged between \$70 and \$90 per square metre. At the same time, secondary rents exhibited a \$50 to \$75 per square metre range.

Prime grade incentives continued to remain stable between 15 and 20 per cent, while secondary incentives range between 10 and 25 per cent.

Yields Could Tighten in 2019

Over the past two years, domestic institutional investors dominated buying activity in assets over \$20 million, and most were associated with transport and logistic facilities in close proximity to major transport nodes. This is confirmation of the strengthening global interest in transport and logistics assets.

During 2018, 45 industrial properties in excess of \$5 million transacted for a total of \$505.9 million in the Perth metropolitan market. This was down from 48 transactions totalling \$730 million in 2017. Investors are increasingly aware of Perth's favourable market yield spread compared with other geographic locations. This, in combination with the WA economic turnaround story, is underpinning sentiment and encouraging investors to take a hold or accumulate position.

Perth's industrial market yields were ranging between 6.45 per cent to 7.95 per cent for prime grade assets and 7.50 per cent and 8.75 per cent for secondary assets. These relatively high yields in comparison to declining bond yields and yields in other Australian cities is leading to projections of further yield compression in 2019.

Some of the major investment transactions that transpired over the past six months to March 2019 included:

- 19 Miles Road, Kewdale sold for \$42.25 million.
- 39 McDowell Street, Welshpool sold for \$11.2 million.
- 7 Modal Crescent, Canning Vale sold for \$29.3 million.
- 103 Stirling Crescent, Hazelmere sold for \$15.2 million.
- 155 Lakes Street, Hazelmere sold at \$8.6 million.

Land values and new supply

After a number of years of subdued conditions, land values look to be turning the corner. The limited availability of developable core precinct land has started to generate upward pressure on prices as investor interest build.

Colliers analysis shows average core land values has increased by 0.95% between 2017 and 2018. This followed four years of declines. Core industrial land values averaged \$404 per square metre in the 2018 calendar year. Colliers expects tightly held assets in the core precincts will underpin upward pressure on land values during 2019.

Sub Market Update

North

North region vacancy was at 10.3 per cent in April 2019, with approximately 120,535sqm of space over 2,000sqm on the market. This was up slightly from 110,500sqm recorded in October 2018.

New supply of +2,000sqm industrial buildings in the north was limited to 6,520sqm. As at April 2019, only 2,150sqm of space is expected to be completed in 2019.

Prime warehouse space rents remained between \$70/sqm and \$85/sqm during the March 2019 quarter.

South

South region vacancy was 8.3 per cent or 303,870sqm in April 2019, which is encouragingly lower than the 9.1 per cent or 330,835sqm recorded in October 2018.

In 2018, the south region saw new space additions totalling 53,340sqm. Colliers currently expects 55,000sqm will be built in 2019.

Prime rents edged up slightly to range between \$70/sqm and \$85/sqm in the March quarter 2019.

East

Vacancy was up marginally in the east region, rising to 340,900sqm or 6.8 per cent of stock; up from 6.5 per cent or 325,485sqm in October 2018.

During 2018, 33,735sqm of new supply was added to the east region. Colliers is expecting a further 88,215sqm to be completed in 2019.

Prime warehouse rents in the east were generally stable at an average of \$81/sqm during the March 2019 quarter.



15 Ashby Close, Forrestfield, Western Australia
Sold on behalf of Perdamon Group for \$20.5m

By Trent Robertson
Director | Industrial
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MARKET HIGHLIGHTS

- Leasing enquiry remains steady with no sign of slowdown
- Vacancy rates decline further in 2019 in most market regions
- Demand outstripping supply of serviced industrial lots

Leasing activity remains steady with no sign of slowdown

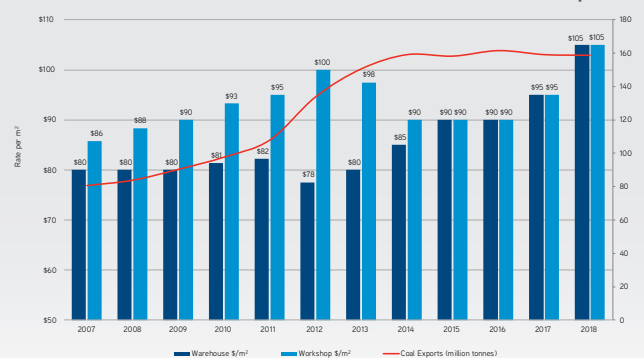
Colliers International has continued to experience strong levels of leasing enquiry during the second half of 2018 and Q1 2019. Enquiry is being received not only from the construction, mining and transport sectors but increasingly from other sectors including solar industries, agribusiness, ecommerce and port services.

Another emerging trend is the significant enquiries originating from outside the Hunter Region. Many of these companies are those securing contracts for public and private infrastructure projects underway in the region, with companies finding their work and clients in the region increasing to the point where they are looking to establish a permanent base with local staff.

As the leasing market tightens, local tenants and companies looking to establish in the region are taking up the supply of industrial accommodation as it become available with reduced letting up periods and therefore fewer days on market being experienced for most properties being handled by Colliers International. Consequently, due to this diminishing supply, growth in average rents for prime grade industrial warehouse and workshop buildings of around 10% has been experienced since the first half of 2018.

Given the tight leasing market, pre-lease construction activity has been taking place but has been limited due to the lack of readily available industrial land. Giving companies little alternative but to seek existing buildings to meet relocation timelines and lease expiry deadlines. Completion of three industrial estates in the second half of 2019 is expected to provide additional land opportunities for

Newcastle Industrial Rents and Newcastle Port Coal Exports



Source: Colliers International | Port of Newcastle

developers and as such, Colliers International forecasts an increase in the pre-leasing activity. This will accommodate the weight of tenant requirements that will be unable to be accommodated from the supply of existing buildings in the market.

The above graph highlights the growth of the rental market in the region since 2007 and also highlights that the disparity in workshop versus warehouse rental rates has closed due to the increasing diversification of the local industrial market.

Vacancy rates fall further in 2019

Vacancy rates for industrial buildings have fallen for most industrial precincts in the lower Hunter Region since the first half of 2018. It is worth noting the lower Hunter Region comprises of five broad market regions with a total market size of 4.9 million square metres of gross lettable building area. Overall the vacancy rate for the lower Hunter Region sits at 3% as at Q1 2019 down from 5% in 2018. The lowest vacancy rates are presently being experienced in the North West and Port markets, with over eight industrial suburbs recording vacancy rates of 1% or less as at Q1 2019 with many of these being established industrial suburbs.

Demand outstripping supply of serviced industrial lots

With a tight leasing market and low vacancy rates, tenants, owner-occupiers and companies entering the market are looking to the region's industrial land releases to accommodate their relocation plans and business growth requirements. The

recent shortage of serviced lots ready for development within major industrial estates has meant many mandates for company relocations have been delayed as companies seek to de-risk their relocation plans by exercising lease options as sitting tenants or turn their focus to leasing or purchasing existing building stock. The impact has not only resulted in rising rents and capital values but an increased demand for off-the-plan industrial land sales. This has been evidenced by steady enquiry being received on all new releases within estates currently managed by Colliers International and the number of off the plan land transactions taking place.

Industrial Land Estate Pre Sales:

Estate	Total Lots	Status	Lots Sold Off the Plan to Date
Steel River Estate Stage 9	17	Under construction	100%
Freeway Business Park Stage 5	11	Under construction	100%
Freeway Business Park Stage 6	30	DA Lodged	53%
M1 Business Park	24	Under construction	38%
Morisset Business Park	30	Under construction	67%
Port link Estate	12	Under construction	42%
Total	124	Total	63%

This high level of demand is driving increased industrial land prices across the board, with price increases ranging from 10% to 30% during 2018. The shortage of readily available industrial land to build on is forecast by Colliers International to ease by the second half of 2019 as construction of most of the available industrial estates noted in the preceding table is completed and the remaining lots come to market.

Investor demand

Demand from private investors and REITs for premium grade industrial investment in the region continues to remain strong. Limited supply of investment assets with long WALEs and quality tenancy covenants has seen compression in yields of prime grade assets in the prime industrial areas from 25 to 50 basis points – currently averaging 6.95%. Yields for secondary grade stock also have firmed (currently at 8%) as investors are increasingly finding it difficult to secure assets with the quality fundamentals. As reported previously, investors continue to compete with owner-occupiers for properties with good leasing potential and features such as low site coverage, high clearance, heavy vehicle access, parking and future development potential.

Strata market steady

With a tightening of the supply and low vacancy rates in most Hunter Region markets, activity from owner-occupiers in strata developments in the sub 300sqm range remains strong. This has resulted in a steady take up of supply of strata units as these projects come to market and are largely from off-the-plan sales. Inner city lifestyle changes, namely households downsizing and purchasing apartments, continues to fuel demand for strata units and a large number have been sold to buyers looking for a permanent solution to store household goods.

Capital values for strata units are currently steady and range from \$2,000/sqm to \$2,500/sqm with rates of over \$3,000/sqm for storage type units under 100sqm being achieved. As a result of the above-mentioned activity there are presently only 18 units under 100sqm available in the region to purchase for immediate occupation. However, demand will continue to be met by a further seven projects with off-the-plan offerings that will deliver around 126 units to the market in 2019/2020. Approximately 44% of these off-the-plan units have been sold to date. There is also a further estimated six projects currently in the pipeline at early stages of planning.



7 Pennant Street, Cardiff, NSW
Leased on behalf of Bendlink Pty Ltd



8 Griffin Street, Heatherbrae, NSW
Sold on behalf of Bunnings

By Chris Dibble
Director | Research & Communications
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MARKET HIGHLIGHTS

Market fundamentals are aligning to provide further uplift in industrial sector conditions.

Tightly controlled land ownership and high construction costs in major markets will moderate the development pipeline and keep space availability low, especially for prime spots.

Rising rents and firmer yields will continue to drive investor confidence over the next 12 months.

Overview

New Zealand's industrial sector remains in a strong position. Expanding corporates and owner-occupiers are driving tenant demand, and a balanced supply outlook will mean space availability will remain tight in Auckland and Wellington. Christchurch has gone through a recalibration in market conditions, and 2019 is seeing stronger sector fundamentals. Investment conditions look bright across the country.

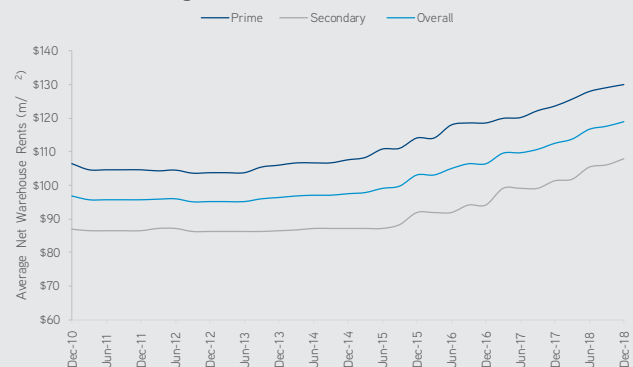
Submarkets

Auckland

High levels of tenant demand pushed the overall vacancy rate to a record low of 1.5% in our February survey. Both prime and secondary vacancy rates are at all-time lows. There is less than 200,000 sqm of vacant space available in Auckland. This is half of the vacant space available just five years ago. New developments will assist alleviate some of the pressure on tenants to find new space. However, conditions remain tight for prime premises in areas like Rosebank/Avondale, Airport Corridor, Manukau/Wiri and North Harbour.

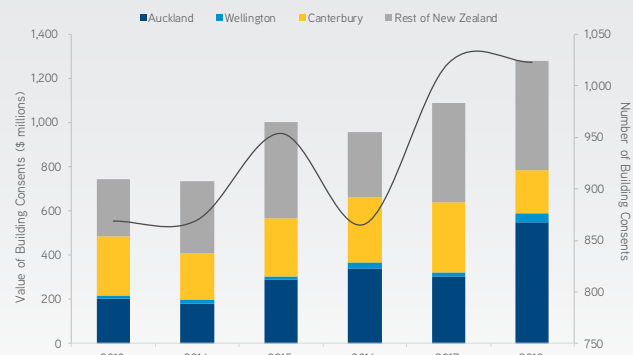
Limited space and the slower firming in investment yields are leading to higher levels of rental growth emerging. Auckland experienced industrial office and warehouse rental growth of a combined 5% over the past year. New face warehouse rent is at \$130 per sqm,

Auckland Average Net Warehouse Rents (m/2)



Source: Colliers International

New Zealand Industrial Building Consents (New) - Value and Number



Source: Colliers International



3 Monahan Road, Mt. Wellington, Auckland
Sold on behalf of Monahan Road Holdings Limited

while net face industrial office rents are at \$263 per sqm. We broadly expect rents to continue increasing by around 3% p.a. Some locations may experience top-end rents increasing by 4% to 5% p.a.

Positive financial conditions are assisting boost investor conditions in the industrial sector. The lower dollar value of industrial property limits offshore investor activity, however, offshore investors continue to consider entry into the sector. For now, the majority of transactions are to domestic investors. The low interest rate environment has supported the industrial sector with prime average yields ranging between 4.7% and 5.7% in Auckland.

An example of the strong investor conditions is the record sale of the North Island, Foodstuffs' 13.12ha distribution centre in Mt Roskill, Auckland which sold to Goodman Property for \$93 million.

Given rising rents and firming yields in a low interest rate environment, we expect Auckland sales activity to continue to remain buoyant over 2019.

Wellington

Tenant demand for Wellington industrial space is also at an all-time high, at just 1.5% representing just under 39,000 sqm of space. This is the lowest result recorded since the annual survey was commenced a decade ago and down further from the already critical shortage seen in late 2017 of 2.1%. In the Hutt Valley, which accounts for approximately 70% of the Wellington industrial stock with around 1.75 million sqm of factory and warehouse space, there is an overall vacancy rate of only 1.6%. The region's largest industrial precinct, Seaview/Gracefield, has an unprecedented vacancy rate of less than 1 per cent. In 2012 it was surveyed at 12.5%.

Strong uptake of vacant industrial land and new build activity is increasing in precincts such as Porirua and Upper Hutt where land values are lower than more centrally located precincts. New builds are still predominantly owner-occupiers but there was also a rise in design builds over the last 12 months. Stronger enquiry for design builds is typically coming from corporates in search of quality and earthquake compliant and resilient premises.

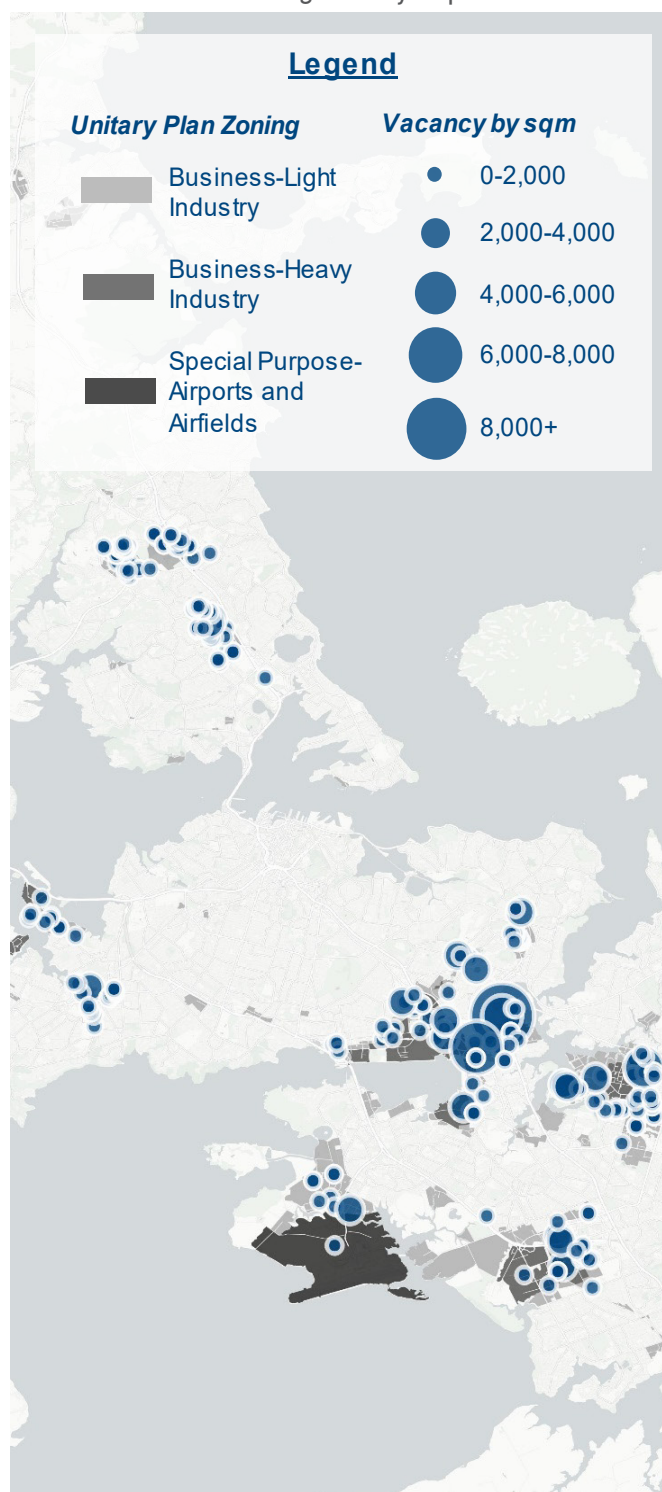
Major infrastructure development has also been a significant catalyst to the upswing in demand. High anticipation of the completion of Transmission Gully – already benefitting most of Wellington's industrial precincts – seems to be creating a cyclical boom that shows no signs of slowing.

Christchurch

A more balanced demand and supply profile is assisting with stronger market fundamental expectations in Christchurch. After a flat leasing market through 2018 vacancy rates have been declining in the first quarter of 2019 with local business expansion being the main driver. Vacancy is estimated at sub-5%.

Land is still very tightly held and next to no spec-building is occurring in the market, supply is only being provided via design-builds of which there has been an increase in the past 12 months.

Auckland Industrial Building Vacancy Map



Source: Colliers International Research

Prime industrial warehouse net face rents have remained the same since mid-2016 at \$100 - \$115per sqm, secondary rents are at \$80 - \$90 per sqm.

A more stable sector with low interest rates continues to drive positive investor sentiment. With very few prime investment opportunities it is hard to analyse true prime yields, however some of the yields on the better-quality assets have firmed further over the last quarter of 2018, with multiple investments selling in the sub 6% yield bracket.

OUR EXPERIENCE INDUSTRIAL

LEASED



4/5 Talavera Road,
Macquarie Park, NSW
3,829m²
On behalf of Goodman



7 Pennant Street,
Cardiff, NSW
2,605m²
On behalf of Bendlink Pty Ltd



Unit 7, 331 Ingles Street,
Port Melbourne, VIC
1,850m²
On behalf of Dexu

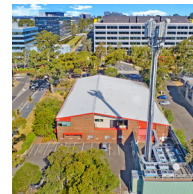
SOLD



54-76 Southern Road,
Mentone, VIC
\$25 million
On behalf of Hella Australia



34 Yarrunga Road,
Prestons NSW
\$23.7 million
On behalf of Private Client



2 Byfield Street,
Macquarie Park, NSW
\$15 million
On behalf of Stirling
Property Funds

MANAGED



2-12 Banfield Court,
Truganina, VIC
Approx. 76,938m²
On behalf of LOGOS



Coles Distribution Centre,
44 Stradbroke Street,
Heathwood, QLD
Approx. 55,739m²
On behalf of Mappletree



Wetlands, 1 Dairy Road,
Fyshwick, ACT
Approx. 33,666m²
On behalf of Molonglo Group

VALUED



Oakdale Central Industrial
Estate, Old Wallgrove Road &
Millner Avenue,
Horsley Park, NSW
On behalf of Goodman Funds
Management Australia Limited

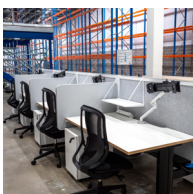


1-2 Sanitarium Drive,
Berkley Vale, NSW
On behalf of Cache Logistics
Trust



3 Sanitarium Drive,
Berkley Vale, NSW
On behalf of Cache Logistics
Trust

PROJECT MANAGEMENT



Lane Cove Industrial
Warehouse Fitout, NSW
On behalf of Kavo Kerr



Blacktown Warehouse
Refurbishment, NSW
On behalf of 3M Australia
Pty Ltd



Clayton, VIC
On behalf of BlueScope Steel

Accelerating success.



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Speak to one of our property experts today.
au.industrial@colliers.com

AUSTRALIA

IN THE LAST 18 MONTHS

570 deals totalling over **1.6 million square metres** of industrial space



384-394 South Gippsland Highway, Dandenong South, VIC

12,485m²

On behalf of AMP Capital



358 Cormack Road, Wingfield, SA

3350m²

On behalf of Confoto Pty Ltd



33 Hinkler Drive, Nerang, QLD

10,000m²

On behalf of Look Enterprises Pty Ltd

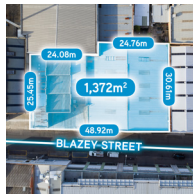
500 transactions equating to **\$1.9 billion** worth of industrial space sold



400-416 Martins Road, Green Fields, SA

\$13.7 million

On behalf of Acklin Pty Ltd



43-57 Blazey Street, Richmond, VIC

\$7 million

On behalf of Alan Hickey



7 Enterprise Drive, Beresfield, NSW

\$3.6 million

On behalf of Fairfax Media Management

More than **4.2 million square metres** under management



Hilton Food (Meat Processing Plant), Heathwood, QLD

Approx. 26,582m²

On behalf of LOGOS



2-10 Bliss Court, Derrimut, VIC

Approx. 9,804m²

On behalf of Australian Unity Ltd

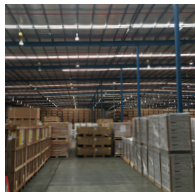


4-8 Johansson Road, Wingfield, SA

Approx. 3,246m²

On behalf of Primewest

Valued over **\$23.1 billion** worth of industrial space



Dexus Industrial Estate, Pound Road West, Dandenong South, VIC

On behalf of Dexus Property Group



Portfolio of 13 major Victorian institutional industrial assets within Keysborough, Dandenong South, Tullamarine, Derrimut and Truganina

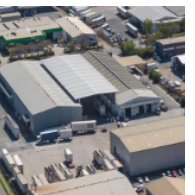
On behalf of Frasers Logistics



DHL – Highbrook Business Park Highbrook Drive, East Tamaki

On behalf of Goodman (NZ) Limited

Projects delivered by our **award winning team**



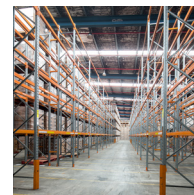
Archerfield, QLD

Hi-Trans Express



Alexandria, NSW

On behalf of NID



Welshpool, VIC

On behalf of AB Mauri



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554 offices in
68 countries on
6 continents

\$2.275
billion in
annual revenue

2
billion square feet
under management

15,000
professionals
and staff

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