Ray White

Commercial Research

Between the Lines

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Industrial TradeCoast Region (sub 2,000sqm) Overview

June 2017

The Brisbane TradeCoast market is often associated with large logistic users given its advantageous location to the port and airport facilities.

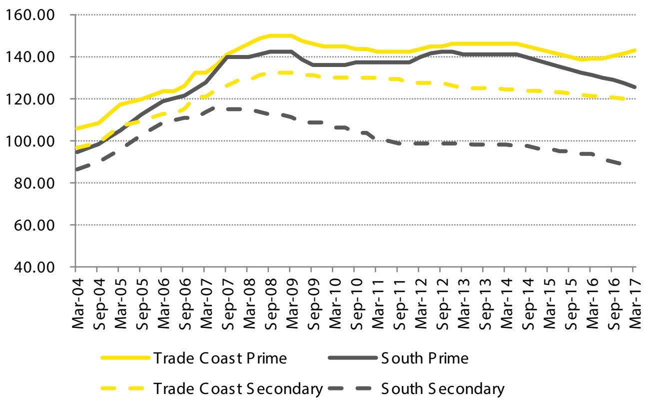
However in the sub 2,000sqm Industrial market there is strong demand by smaller business operators to both buy and rent in this location, highlighting this growing owner occupier and private investor sales market.

Prime quality stock is in high demand for rent by many small businesses with a mix of tenant type spread across this region. Users such as automotive, consumer, trade and construction all feature around this location keeping rents up while secondary assets face a greater challenge.

The investment market is also performing well, with owner occupier businesses being able to access finance to purchase as an alternative to renting while private investors can see the value proposition of these assets. Their low price point and reasonable occupancy levels for prime stock has seen many investors jump in given the reasonable yield range on offer compared to many other assets across the country. Low barriers of entry with affordable lending have seen sales volume high over the last three years while investment returns continue to be compressed.

Net Face Rents

Industrial (sub 2,000sqm) $/sqm



Source: Ray White

Rents in the industrial sub 2,000sqm market has had mixed results. With occupancy being an issue in some locations, a flight to quality has been witnessed with tenants looking to prime stock over secondary assets. As such this has resulted in downward momentum for secondary net face rents more notably in the South precinct which now averages $86/sqm down 6.67% over the last year while TradeCoast has seen more moderate decline of 1.03% to $120/sqm over the same time period.

On the prime market, the divide between these two regions show a greater divergence as Prime TradeCoast assets are in stronger demand resulting in an uptick in average net face rents growing by 2.80% over the last year to $143/sqm while the South continues its decline to $126/sqm. While deals are being done, incentives continue to be a feature in this market, we expect this may become more commonplace in the secondary space until vacancy levels are more aligned.

Recent Transactions

Leases

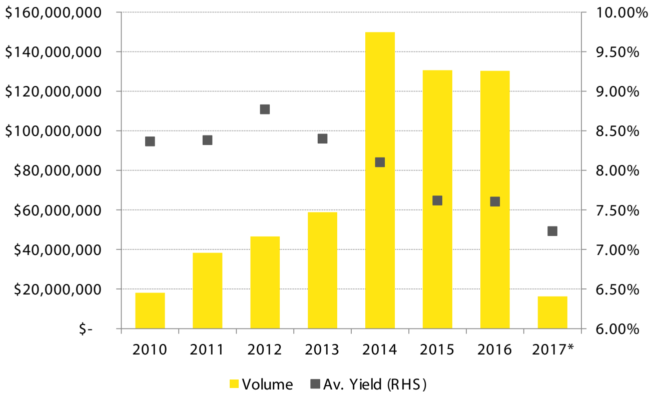
Address	Start Date	Lease Term	Area (sqm)	Net Face Rent $/sqm
5/783 Kingsford Smith Drive, Eagle Farm	Jun-17	3	328	$140
6/31 Londor Close, Hemmant	May-17	2	306	$139
14/197 Murarrie Road, Murarrie	May-17	3	206	$155
1/10 Ingleston Road, Tingalpa	Mar-17	3	700	$79

Sales

Address	Sale Date	Sale Price	Area (sqm)	Capital Values $/sqm
5/41 Steel Place, Morningside	Jul-17*	$415,000	197	$2,107
2/40 Proprietary Street, Tingalpa	Jul-17	$615,000	305	$2,016
1/41 Lavarack Avenue, Eagle Farm	Jun-17	$1,005,000	320	$3,141
4/58 Metroplex Avenue, Murarrie	May-17	$840,000	368	$2,283

Source: Ray White *Unconditional

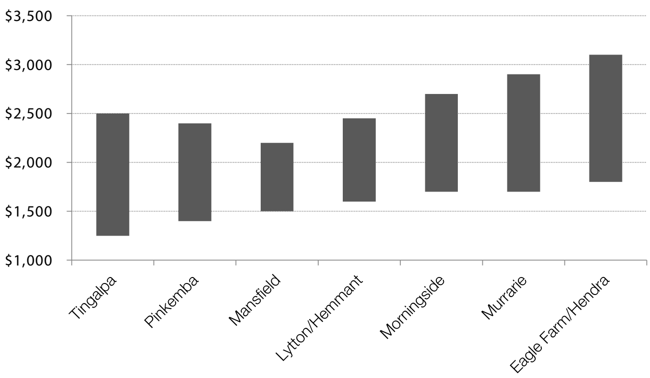
Sales Volume & Average Yield
Industrial, TradeCoast Region



Source: Ray White (*to May 2017)

Like many asset classes along the eastern seaboard, the industrial market has seen an uptick in investment demand. Low interest rates coupled with a want to diversify from residential assets or owner occupier businesses to have greater certainty around costs has resulted in high levels of turnover over the last three years. During 2016 the TradeCoast Region (assets sub 2,000sqm) recorded $130.335million in sales this was on par with the 2015 result. Yields over the 2016 period also averaged a similar rate to 2015 at 7.62% after falling from 8.10% in 2014 after the high of 8.77% in 2012. Preliminary sales for the first five months show transactions of $16.323million with yield indications averaging 7.23%. While this rate is down 37 basis points on the 2016 result, it is well aligned with the yield compression felt in many other investment markets including the larger industrial market across Brisbane. Compared to many other assets across the East Coast, there is some perceived value albiet with risk associated given vacancy levels. However, due to the gap to bond rate, there may be some further yield tightening throughout the remainder of 2017.

Capital Values by Suburb
$/sqm (Sub 2,000sqm assets)



Source: Ray White (year to May 2017)

This region shows some uniformity in regard to values given the advantageous location within the TradeCoast. Access to the Gateway Bridge has held values in Mansfield, Lytton, Hemmant, Morningside and Murrarie in good stead with values ranging from a low of $1,500/sqm in Mansfield and extending up to a high of $2,700/sqm in Morningside and $2,900/sqm in Murrarie. Murrarie has held its values best given the concentration around two major commercial hubs, this has resulted in strong demand to both buy and lease dictating good returns and low vacancy rates. Locations such as Eagle Farm has benefitted from redevelopment in the City Fringe which has seen many tenants be pushed out to this region or require additional storage space. New developments such as PortLink has done much to grow values now achieving over $3,100/sqm whereas the prior high was in the $2,200/sqm range. The regions of Eagle Farm, Hendra, Tingalpa and even Mansfield have seen some value impact due to the new "man cave" phenomenon. These assets used for private use is highly price point driven and with their small size are affordable for private owners particularly given the current low interest rate environment.

Demand for stock is solid across the TradeCoast region. While there has been some uptick in vacancies most notably in the secondary market, this is due to businesses now opting to purchase rather than re-lease given the affordability in financing.

Many buyers are considering purchasing via their self managed super funds and exit the leasing market while many occupiers are looking at ways to reduce their stock holdings in order to occupy smaller premises.

This is echoed in the high increases in total turnover levels over the last three years. Values however have seen solid increases as new stock brings new highs to the region, with those most in demand remaining close by the Gateway Bridge precinct. This has been reflected in the yield compression which has been commonplace across these smaller value commercial assets across the East Coast now averaging 7.23% however expectations closer to 7.00% appear possible in the short term.

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Definition TradeCoast Region: This report has a focus on the Eastern TradeCoast which includes the suburbs of: Bulimba, Cannon Hill, Capalaba, Eagle Farm, Hemmant, Hendra, Lytton, Mansfield, Morningside, Murrarie, Pinkemba, Tingalpa. Information represents the sub 2,000sqm (GLA) Industrial market.

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