

Commercial Research

BETWEEN THE LINES

Sunshine Coast Industrial Overview

June 2018

The Sunshine Coast has witnessed a strong growth in population over the past ten years, fuelled by the release of land and affordable housing in the region. Investment into this region has been high with improvements in a variety of infrastructure projects including the Sunshine Coast University Hospital, Sunshine Coast Airport and various other economic and employment land development which has resulted in Gross Regional Product estimated at \$14.05billion, which represented 4.50% of the state's GSP in 2016. During 2017 the increased investment into the Sunshine Coast including the high volume of civil works across the various residential and employment related lands has resulted in an increase in its share of Qld's GSP to close to 11.00%.

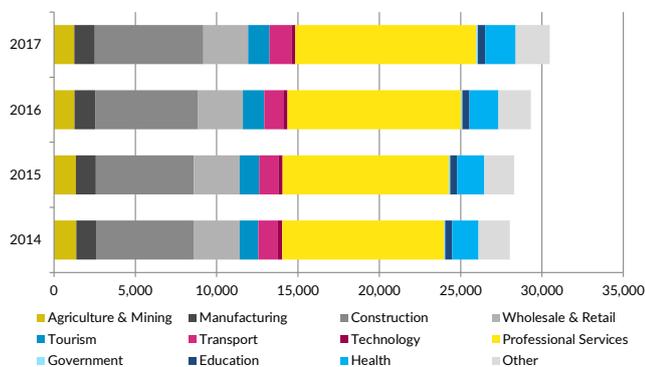
Jobs growth has been strong over the last few years supporting this investment into the region particularly in the construction segment of the market. This segment together with Property Services and Health Care has resulted in local sales well ahead of the Queensland average which is mirrored by the increase in business numbers. The growing population coupled with demand by businesses has seen an improvement in demand for employment related lands.

This has had a considerable effect on the local industrial property market which has grown in size, highlighting a gap in supply of land.

There are a number of new land releases across the Sunshine Coast which looks to fulfil the requirements of the growing employment and ambition for the region including the Aura development which is expected to add over 500,000sqm of industrial product to this market. The development to this estate together with others such as the Sunshine Coast Industrial Park in Caloundra is expected to attract ambitious and skilled people, global opportunities for business and grow the regions competitive advantage.

Improvements in demand for industrial stock has been witnessed across the Sunshine Coast over the last year, volume of sales for land and established stock has increased setting new benchmarks for both land and capital values. Investment yields have continued to reduce as many smaller investors have identified this region for its growth trajectory and take up of stock while increased business numbers have resulted in owner occupiers looking to secure their business premises.

No. Registered Businesses Sunshine Coast



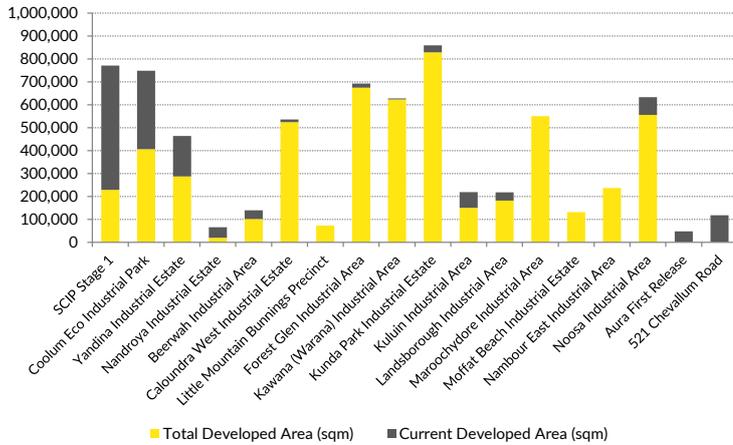
Source: ABS, Ray White

The year on year improvement in registered business numbers across the Sunshine Coast highlights the highly entrepreneurial population who have driven the economic development of the region. Employment numbers have continued to increase with an influx of smaller businesses emerging and relocating from other parts of the country.

2017 results see 30,479 registered businesses, up 3.97% on the previous years results and well represented across a number of market segments. Showing the greatest increase on a proportionate basis, Transport & Logistic business numbers have seen the greatest uptick due to the increased need for storage and distribution of goods with the locational advantage to service Northern Queensland consumption. On a number basis Professional Services businesses have been the greatest increaser in the region, notably Scientific & Professional Services together with Financial & Insurance Professionals. Construction continues to be the most consistent contributor to the Sunshine Coast economy growing their business numbers by over 350 last year to 6,676 and represents 22.60% of sales in the region.

Industrial Land Supply

By projects



Source: Ray White

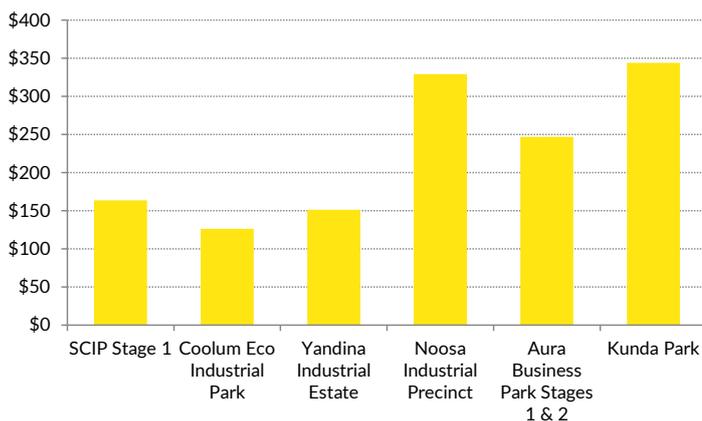
The industrial market across the Sunshine Coast has had a tough trot over the last few years, limited land sales transactions leading to high land vacancies had resulted in price adjustments.

However the economic improvement of the region has done much to turnaround the Sunshine Coast market and its outlook on growth due to improved demand stemmed from strong population growth, investment into infrastructure which has made this location attractive from a growing entrepreneurial segment of the market.

Considering supply of land across the Sunshine Coast, we see there is over 150ha of vacant industrial land available to the market. This is highly attributed to Sunshine Coast Industrial Park (SCIP) and Coolum Eco Park which are significantly empty, these locations providing larger lots than neighbouring developments. Current vacant land at Aura being a portion of the first stage with Stockland looking to continue to drip feed the market in order not to create an oversupply situation. Construction at 521 Chevallum Road is also underway with demand for product showing a steady take up with 11.8ha available across all three stages.

Average Land Values

\$/sqm



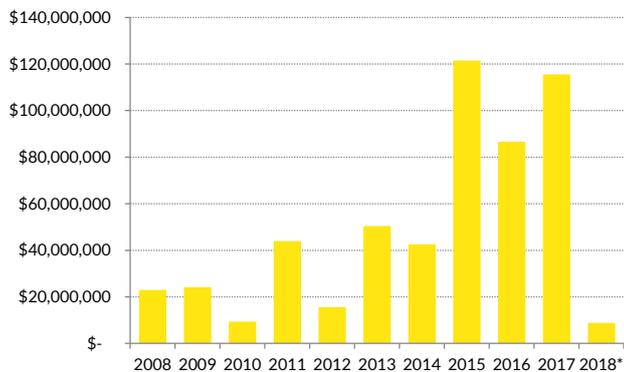
Source: Ray White

Supply of land in the Aura precinct has been well received with interest elevated notably due to the affordable lot size of sub 2,000sqm (averaging 1,556sqm) achieving average land value achieve \$247/sqm. The slow release and absorption of land has been instrumental in keeping these land values stable at this high rate and attractive to growing businesses in the area.

SCIP is home to a number of larger lots averaging 1.2ha in size, this has resulted in reductions in values to attract investment. Currently averaging \$164/sqm, this is slightly ahead of Yandina and Coolum Eco achieving \$151/sqm and \$126/sqm respectively which offer average lot sizes over 6,000sqm. Limited supply of land in Noosa and its smaller average lot size of 2,200sqm have kept values high, a strong owner occupier location which generally attracts a premium averaging values at \$329/sqm slightly behind the Kunda Park precinct which averages \$344/sqm.

A near decade long oversupply of industrial land has almost been completely taken up, with areas such as Kunda Park now creating pressure for growing businesses to look elsewhere to expand their operations.

Sunshine Coast Industrial Sales Volume

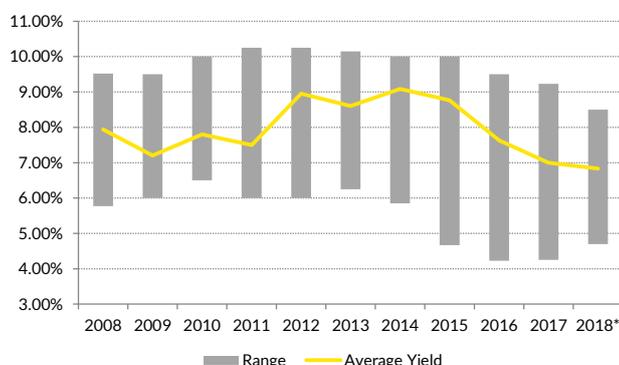


Source: Ray White, PIM *to March

Over the last few years, fuelled by low interest rates and limited residential yields, we have seen a move by smaller private investors into the commercial markets. The hunt for secure, high yielding investments have brought an increasing number of buyers into this market coupled with rising interest by the owner occupier segment. This has been evidenced by the large uptick in investment sales across the Sunshine Coast Industrial market which reached over \$120million in 2015. In subsequent years there was some small reduction in quality assets available to the market which resulted in reduced sales volumes achieving \$86.63million in 2016 and another strong result of \$115.53million in 2017.

The strong residential land sales achieved across the Sunshine Coast and the improved employment position of the region has resulted in an increase in population growth. As people have flocked to the Sunshine Coast to take advantage of affordable housing accommodation and the government investments into infrastructure such as the Sunshine Coast University Hospital precinct, demand has also increased for commercial premises. A growing entrepreneurial population, seeking self-employment and growing small businesses which are evidenced in the increased business numbers have actively sought small industrial properties as their headquarters. This growing population has also aided this improvement in sales volumes as investor finance becomes slightly more difficult to source, owner occupiers have propped up this buying group and is likely to continue throughout 2018.

Sunshine Coast Industrial Average Investment Yields

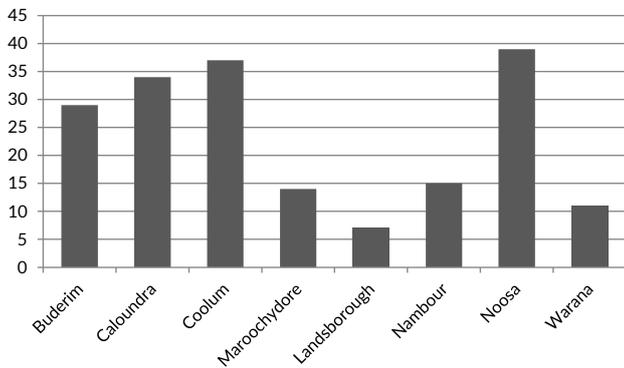


Source: Ray White, PIM *to March

As demand was heightened over the past few years by both local and interstate buyers into high yielding investments we saw average yield levels fall. Historically investment yields have a broad range depending on location, quality as well as the security of the lease covenant; this range has decreased over time in the rush to secure assets typically but non-local buyers. The gap between prime and secondary stock had blurred with new lows achieved. During the first quarter of 2018 the average industrial investment yield was recorded at 6.84% within the range of 4.70% to 8.50%, yet some yields do extend beyond this average particularly those with vacancies. This average has reduced 16 basis points from the 7.00% achieved in 2017 and more aggressively from 7.63% in 2016 and 8.76% in 2015. This trend has been mirrored across most of South East Queensland with urgency in the market by many smaller investors seeking improved returns on funds given the low bond rate on offer by banks.

During these past few years investment fundamentals were not at the forefront of many buying decisions resulting in yields in the sub 5.00% range achieved for some assets. This historic low is not expected to be maintained and sales achieved in 2018 to date have seen an increase in this low to a more historically normalised level.

Sunshine Coast Industrial Current For Sale Listings by region

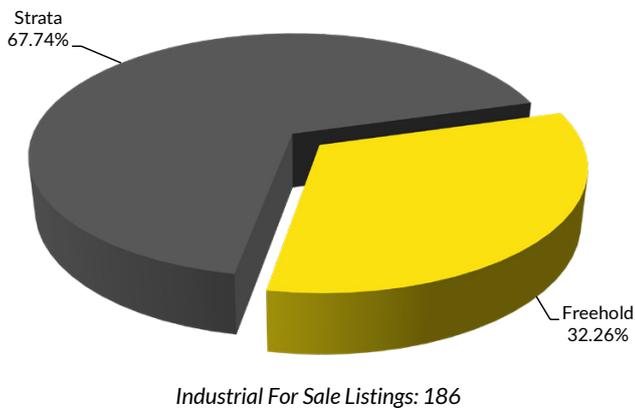


Source: Ray White

Analysis completed by Ray White Commercial has identified **186 industrial property listings (excluding land) currently on the market across the Sunshine Coast market.** The highest volume of stock is located in the northern part of the region with Noosa and Coolum representing 39 and 37 listings respectively followed by Caloundra in the south with 34 active properties on the market.

This analysis shows that those locations closer to key nodes such as the Sunshine Coast airport and economic/financial centre are more tightly held with Maroochydore, Nambour with only 14 and 15 listings respectively on the market. Buderim being the exception with this region (which includes Kunda Park) representing a high volume of listings. Smaller properties dominate these assets on the market with 87.10% of all properties less than 1,000sqm in size and just 3.23% of the stock over 2,500sqm.

Sunshine Coast Industrial Current For Sale Listings

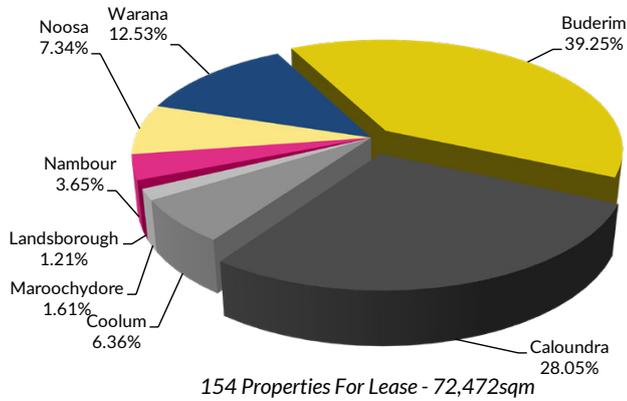


Source: Ray White

Of the 186 Industrial listings currently for sale across the Sunshine Coast, 67.74% of them were for strata titled assets. This highlights the high volume of smaller industrial units which have been supplied to this market and the increased appetite for smaller, sub \$500,000 assets by local buyers, most notably the owner occupier/ starter business market. The average size of strata premises across Sunshine Coast is 247sqm compared to Freehold assets which average 1,180sqm in size. Noosa has the largest number of strata properties on the market with an average size of 169sqm followed by Coolum and Caloundra which averages 298sqm and 308sqm respectively.

Of these assets currently on the market 80.65% of which are currently vacant, being most suited to owner occupier buyers, the remainder being sold as investor stock with a tenant in place. The bulk of the leased investment stock on the market is located in Nambour and represents 73.33% of stock currently for sale with Buderim being the next highest at just a quarter of all stock.

Sunshine Coast Industrial Current area vacant by Region (sqm)



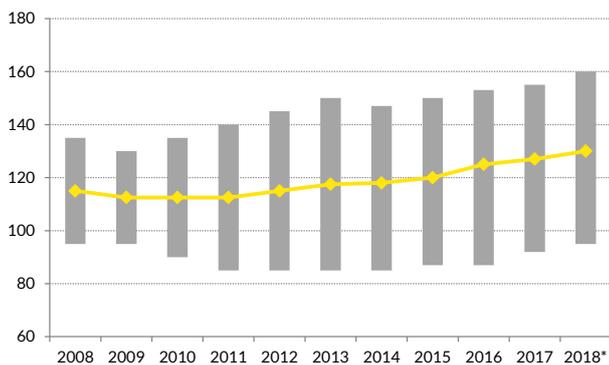
Source: Ray White

Further analysis by Ray White Commercial on the volume of listings on the market has identified 72,472sqm of vacant Industrial space across the Sunshine Coast market.

These vacancies are spread across 154 properties on the Coast and are dominated by stock in Buderim and Caloundra which together represent 67.30% of all actively listed vacant stock in the market. While there are over 13,803sqm of vacant industrial stock currently for sale in Noosa and a further 12,230sqm in Coolum, these assets are not seeking tenancies and are not included in this analysis.

By size range, the largest proportion of vacant stock comes from the 151-300sqm size range, representing 53 listings totalling 11,495sqm these listings are split across Caloundra, Buderim and Noosa while the larger size (501-1,000sqm) is dominated by Buderim, Caloundra and Warana. There are only few larger properties currently on the market with only 10 listings greater than 1,001sqm mostly located in Buderim.

Sunshine Coast Industrial Net Face Rent Range



Source: Ray White *to March

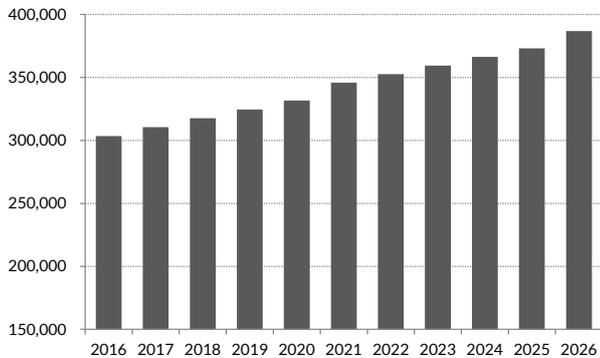
There have been some improvements in vacancy across the Sunshine Coast industrial market with some take up recorded in the last six months.

As a result of this absorption of stock there have been some minor increases in net face rents across the broader Sunshine Coast Industrial market. For the three months to March 2018 the average net face rent has achieved \$130/sqm within a range of \$95/sqm to \$165/sqm. This represents a growth of 2.36% compared to the 2017 period, while this is a small level of increase its performed ahead of the growth achieved over the past ten years which has yielded improvement of 1.56% per annum on average.

The increases in registered business numbers has been a major catalyst for the improved absorption levels across the Sunshine Coast. Enquiry levels also have been elevated by interstate businesses looking to expand or smaller businesses to relocate due to the affordability and lifestyle advantages of living in this region. The rental affordability for modern facilities with access to quality infrastructure and transport has also been identified by Brisbane based occupiers who have made the move up the Bruce Highway.

Sunshine Coast Population Forecast

No. People



Source: id. The population experts (December 2017)

After Queensland has witnessed a decline in population growth over the past three years, there have been some improved gains in more recent times. The year to September 2017 has seen Queensland population growth recorded at 1.67% ahead of New South Wales which recorded 1.58% yet behind the strong growth of Victoria who has been fuelled by affordability and jobs growth with population increasing 2.39% in the last year. This turnaround in Queensland growth has been encouraging particularly given the upward momentum seen in interstate migration which dipped in 2013-2015 period. Victoria continues to outstrip Queensland in regard to interstate migration however its share has increased from 2016 and beyond as NSW's losses have increased.

Looking to Sunshine Coast, population changes have bucked the Queensland trends with increases robust over the last few years. Growth has averaged 2.58% per annum over the past three years well ahead of the State average, consolidating good long term interest in the region which has averaged 2.42% per annum over a ten year period. Looking ahead, these levels of growth are expected to maintain at a rate of 2.75% annually over the next ten years. This level of growth represents 83,300 people who will require ongoing development of housing, infrastructure, retailing and access to employment lands.

We have witnessed the Sunshine Coast market growing over the last few years, spurred on by the significant investment into infrastructure which has aided improvement in business conditions and economic growth. This has been underpinned by strong population growth which has stemmed from the development and growth in the residential market providing affordable housing together with the appeal of an attractive lifestyle.

With affordability and lifestyle ticked, interstate movers particularly those self-employed have been a growing segment of the market. With many businesses able to be operated from any location, a more entrepreneurial population look to Sunshine Coast as home. Online operations have been active which has resulted in greater absorption into industrial and office facilities to operate, manufacture and distribute goods and services which have flowed into the local economy further improving confidence in the region.

The reduction in vacancies and improvement in investment levels into the industrial market highlights this uptick in sentiment and demand which was borne from the high infrastructure investment and low interest rates. This has been further realised with the reduction in investment yields and the greater owner occupier take up of vacant industrial land keeping land values at an elevated level.

The future is bright for the Sunshine Coast; history has shown the resilience of the market with local businesses now thriving and expanding. Improvements across the industrial market is likely to continue pending the demand led nature of supply keeping occupancy high and land values stable.

Research

KNOW HOW

Research

Ray White Commercial North Coast Central

Vanessa Rader

Head of Research

T (02) 9249 3724

M 0432 652 115

E vrader@raywhite.com

Michael Shadforth

Managing Director, Principal Licensee,
Senior Sales & Leasing Agent

T (07) 5430 3777

M 0488 981 076

E michael.shadforth@raywhite.com

Jordan Hayes

Senior Property Analyst,
Sales & Leasing Agent

T (07) 5430 3777

M 0417 999 331

E jordan.hayes@raywhite.com

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