

THE RISE OF THE “MINI-WAREHOUSE”

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Summary

Australia's industrial property is the most in demand asset class - highly sought after by domestic and global players.

From both domestic and global contexts, demand for industrial property is being fuelled by Australia's robust economic conditions, which continues to be underpinned by a confluence of fundamental factors, including;

- Strong growth in the global economy on the back of increases in global industrial production and trade - particularly across the Asia Pacific region,
- The positive spillover effects from increased investment in public infrastructure,
- The improvement in business sentiment (both globally and domestically) and rising non-mining business investment,
- A sustainably low interest rate environment,
- A relatively low Australian dollar, boosting net exports,
- Strong rates of population growth, with the five-year projection (estimated at 1.6 per cent per annum) doubling the average of the world's top 30 economies.

Over the past few years there has been a persistent shortfall of industrial stock on the market relative to demand - further fuelled by the depletion of industrial zoned land. This is being evidenced in the sharp increases in land prices, rental growth, lower investment volumes and tighter yields (with scope for further compression over the next six months) in the major industrial markets across Australia.

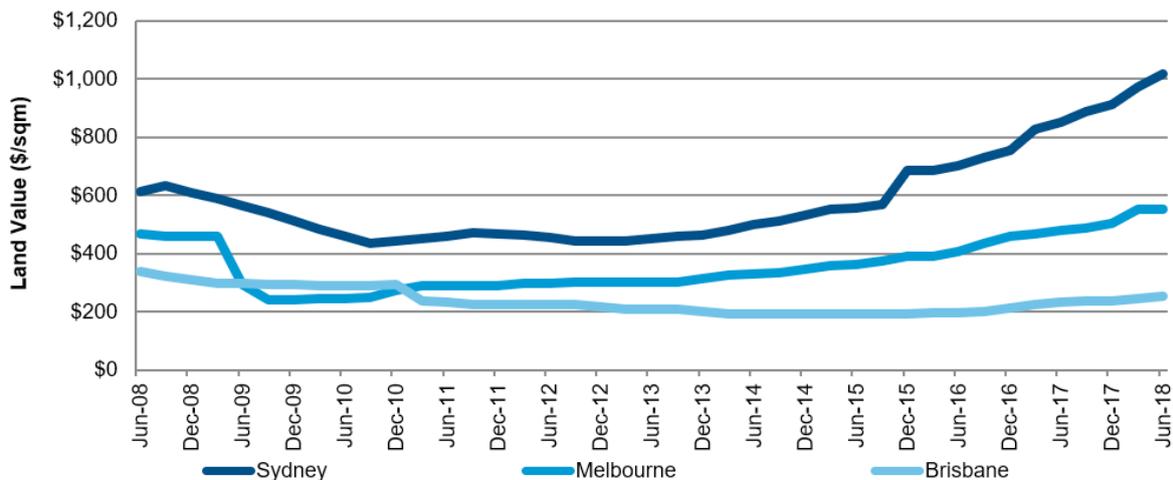
As the economy grows, the dynamics of the industrial market have been evolving and therefore requirements for industrial space have been diversifying. In particular, it is the growth of small businesses (employing nearly half of Australia's workforce and generating a fifth of Australian GDP) that has triggered a rising demand for Strata spaces - not only within the inner metro markets, which has been the case over recent years, however also within precincts of 'strategic proximity'. This encompasses areas with favourable access to major transport nodes.

As a result, developers have been repositioning industrial assets to cater for the industrial users that require smaller spaces that are more easily to acquire financially. As such, the rise of the 'mini-warehouse' is beginning to add affordability into the industrial market, with scope for value uplifts.

Industrial land values have experienced, and will continue to, record growth rates - driven by large commitments in infrastructure projects. As announced in the Federal Budget 2018/19, the government will invest \$75 billion under the 10-year National Infrastructure Plan. With a committed development pipeline until mid-2020, we can expect industrial value uplifts to continue to be supported by major infrastructure projects - boosting the efficiency of industrial operations.

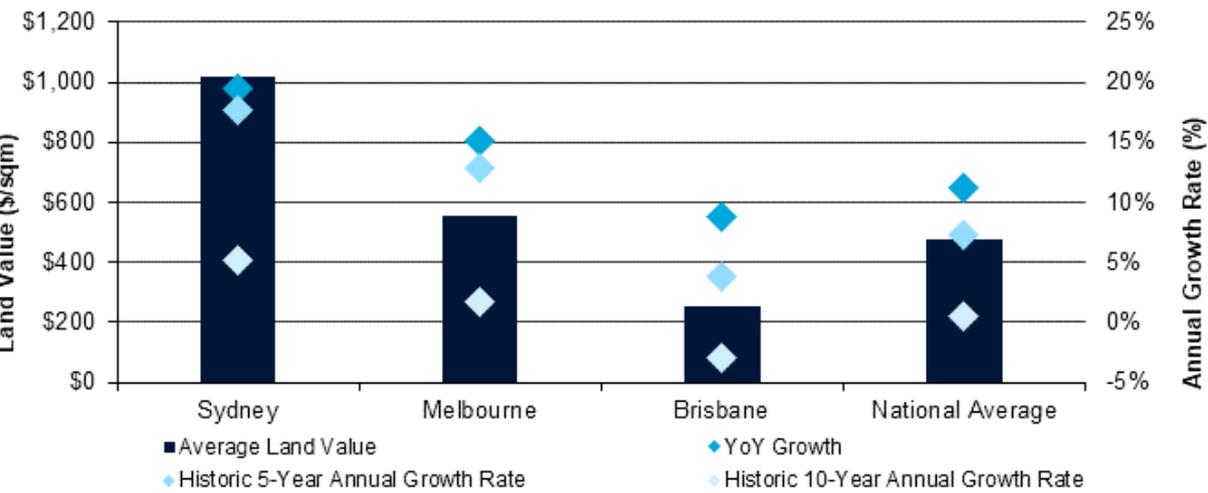
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Industrial Average Land Values, Eastern Seaboard



Source: Colliers Research

Land Values



Note: Annual Growth Rate YoY as at June 2018
Source: Colliers Research

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