News Release

20 March 2019

Industrial property to see strongest performance in 2019

Headline summary:

- **The industrial and office sectors are expected to be the highest performing asset classes within Australian commercial real estate, with forecast total returns for 2019 of 13.4% and 11.4% respectively**
- **Investment returns will increasingly be driven by rental growth rather than yield compression**

Australia's industrial and office sectors are set to experience the double-digit returns in 2019, according to Knight Frank's ***Australian Capital View 2019,*** making them forecast to be the highest performing asset classes within commercial real estate.

According to **Ben Burston, Knight Frank's Partner, Head of Research & Consultancy Australia,** industrial is set to lead the way with total returns of 13.4% forecast, followed by offices at 11.4%.

"Despite slower economic growth in the second half of 2018, the outlook for commercial property remains robust, underpinned by sustained tenant demand. As the year progresses, we expect the market to undergo a transition from yield compression to rental growth as the primary driver of performance, and this shift will see the office and industrial sectors deliver another year of strong returns due to ongoing supply shortages."

Australian Capital View forecasts net face rental growth across the major CBD office markets over the next five years, with Sydney (23%) and Melbourne (20%) topping the list due to tight supply and sustained demand momentum.

"Among the office markets, we expect the fastest growth in Melbourne this year, but over a five year view, Sydney's very limited speculative development pipeline is expected to result in the fastest growth nationally," said **Mr Burston.**

Prime grade industrial investment stock has never been more highly sought after, as the market continues see the flow-on impact from the sustained strength of occupier demand and consequent rental growth, according to **Knight Frank's Robert Salerno, Partner, Head of Industrial Australia.**

"The flip-side of this is that accessing the market remains difficult, and investors accessing scale through portfolio acquisitions are prepared to pay a premium. We expect this will continue in 2019 with investors exploring a variety of creative approaches to increase their exposure to the sector.

"Sydney and Melbourne experienced 4.1% and 4.3% increases to net face rents in the year to January 2019 respectively, while Brisbane and Perth saw 2.5% and 1.7%. This has, and will continue to, contribute to greater speculative development as developers look to maximise rental returns.

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Paul Roberts, Knight Frank's Partner, Joint Head of Institutional Sales Australia said, "The window of opportunity is still open in Australian office markets, but greater selectivity will be needed in 2019 to identify markets and assets with the best prospects of rental uplift.

"Tight occupational markets will underpin further rental growth in Sydney and Melbourne and keep prime yields well supported, and emerging fringe and suburban markets in both cities continue to offer substantial growth potential.

"Brisbane and Perth are expected to benefit from improving leasing market sentiment, and investors seeking higher income returns will be attracted to these markets in greater numbers as the perception of risk subsides."

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Notes to Editors

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