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Knight Frank Newcastle

July 2022 House Views Report

House Views.

Commercial and Industrial real estate remains in a strong position as we move through Q3, with demand continuing for Industrial property and development sites across the Greater Newcastle area. However, with economic headwinds emerging, the commercial and industrial sector is not immune to risks with inflationary pressures driving an upward interest rate cycle projected to soften yields.

Economic Factors

Following the board meeting on 4 May 2022, the Reserve Bank of Australia raised the cash rate for the first time in over a decade by 25 basis points.

Following this, the RBA has issued two consecutive basis point increases at 0.5% each, with the cash rate at 1.35% as at July 2022.

With interest rates forecast to continue to increase it is expected that investment yields will soften across asset classes.

Nevertheless, Knight Frank Newcastle anticipates that investment yields for quality assets with secure lease covenants should continue to hold, with yield softening expected to be more prevalent amongst secondary stock.

Furthermore, demand for development sites remains strong with little downward pressure on pricing at this stage of the cycle.

Inflation and Construction Costs

During the March quarter, headline CPI increased by 2.1%, reasonably higher than the expected increase of 1.7%.

Over the year to the March quarter, CPI rose 5.1% with a substantial price increase seen in new dwelling purchases (up 5.7%).

This rise was recorded as the highest annual and quarterly growth rate since 2000 when the GST was introduced. This comes as a flow on effect from construction costs which are at an all-time high.

The effects from the COVID-19 pandemic and the ongoing Ukraine conflict have resulted in labour shortages, increased material prices and supply chain bottlenecks driving construction costs upward.

Raw and processed materials including timber and steel have all been difficult to secure since mid-2021.

Furthermore, Knight Frank Newcastle is witnessing significant increases in fit-out costs in the negotiation of new lease deals.

Matt Shaw
Partner, Valuations & Advisory

Industrial Overview.

- Industrial property across the Greater Newcastle area remains in high demand. With a limited amount of stock available in areas including Beresfield, Thornton, and Mayfield West, high quality properties are performing well, with secondary assets also achieving firm yields.
- Knight Frank Newcastle is seeing an emerging trend towards a lower office component within new industrial developments. The office component is down to as low as 5% within new warehouse and workshop developments.
- Vacancy rates in established industrial areas such as Beresfield, Thornton and Cardiff now sit below 3%. Markets such as Mayfield West and Heatherbrae are witnessing higher vacancy rates as a result of speculative industrial development, however this is expected to trend downward as both of these estates are built out.

Industrial Market	Investment Yields	Market Rents $/m² GLA	Improved Values $/m² GLA	Incentives	Vacancy	Land Values $/m²
Beresfield	5.25% - 6%	$120 -$145	$2,200 - $2,500	5%	<3%	$400 - $500
Thornton	5.25% - 6%	$115 -$135	$2,200 -$2,500	5%	<3%	$300 - $400
Mayfield West	5.25% - 6%	$130 -$165	$2,500 -$3,000	8%	5%- 10%	$500+
Cardiff / Boolaroo	5.25% - 6.5%	$80 - $130	$1,750 -$3,000	5% - 10%	<3%	$400+
Tomago	5.5% - 6.75%	$80 - $120	$1,500 -$2,000	5%	<3%	$250 - $300
Heatherbrae (new)	5.5% - 6%	$110 -$130	$1,750 -$2,250	5%	10%	$350 - $400
Rutherford	6% - 7%	$70 -$1-5	$1,350 - $2,650	5%	<3%	$160 - $200
Cameron Park	5.25% - 5.75%	$120 -$145	$2,200 - $2,500	5%	<3%	$400 - $500

The figures in the above table assume a WALE of 5 years, 10-15% office component, 50% site coverage and an average land parcel size of 4,000m2. Leasing rates observed >700 sqm GLA

106 Stenhouse, Cameron Park NSW

Sky Residence, 280 King Street, Newcastle NSW

Office Overview.

- The majority of transactions for office buildings has been concentrated in the $5 million to $10 million price bracket. This market is predominantly the confine of local private investors, with larger private syndicates and institutional investors seeking larger A-grade office assets above $20M of which there is limited stock available.
- The availability of parking is a key driver in the marketability of office assets. The reduction in the availability of public parking, particularly in the Newcastle CBD has seen the value of parking increase significantly.
- Incentive levels are varied, with the Newcastle CBD in particular seeing incentive levels as high as 30%. The impact of COVID-19 and the growing Work from Home (WFH) trend has seen larger corporate tenants review their space requirements which is having an effect on the A-grade leasing market. New uncommitted A-grade stock due to enter the market over the next 12-18 months is expected to drive incentive levels higher.

Office Market (sub $10m)	Investment Yields		Market Rates		Improved Rates $/m² NLA		Incentives	Vacancy
	A	B	A	B	A	B		
Newcaslte CBD	5.25% - 6%	5.5% - 6.5%	$425 - $460	$325 - $360	$7,000 - $8,000	$4,000 - $5,000	15% - 30%	15%
Charlestown CBD	5.25% - 6%	5.5% - 6.5%	$350 - $450	$250 - $350	$6,000 - $7,000	$4,000 - $5,000	10% - 20%	10%

The figures in the above table assume a WALE of 5 years.

Development Overview.

- The demand for medium density residential development sites has seen a slight softening over the first half of 2022.
- Residential land subdivisions have continued to perform strongly, particularly in Lower Hunter regions such as Cessnock and Lochinvar where there is more land available for release. Developed lots are now achieving in excess of $400,000 which in turn has driven up the price of englobo land.
- Demand for industrial development sites remains high. There is a distinct lack of serviced land currently available, however the Hunter Land and Stevens Group Joint Venture to develop the former Coal and Allied land adjacent to the M1 Motorway at Beresfield will ease supply constraints.

Development	Appetite (High, Medium, Low)	$/m²
Residential Land Subdivisions	High	$50 - $200
Medium Density Residential	Medium	$500 - $1,500
High Density Residential	Medium	$3,000 - $6,000
Industrial	High	$50 - $250
Office	Low - Medium	$3,000 - $4,000
Large Format Retail	Low	$500 - $600
Multi-level Medical	Medium	$1,000 - $2,000

24 Bluebell Street, Belmont NSW - Render only

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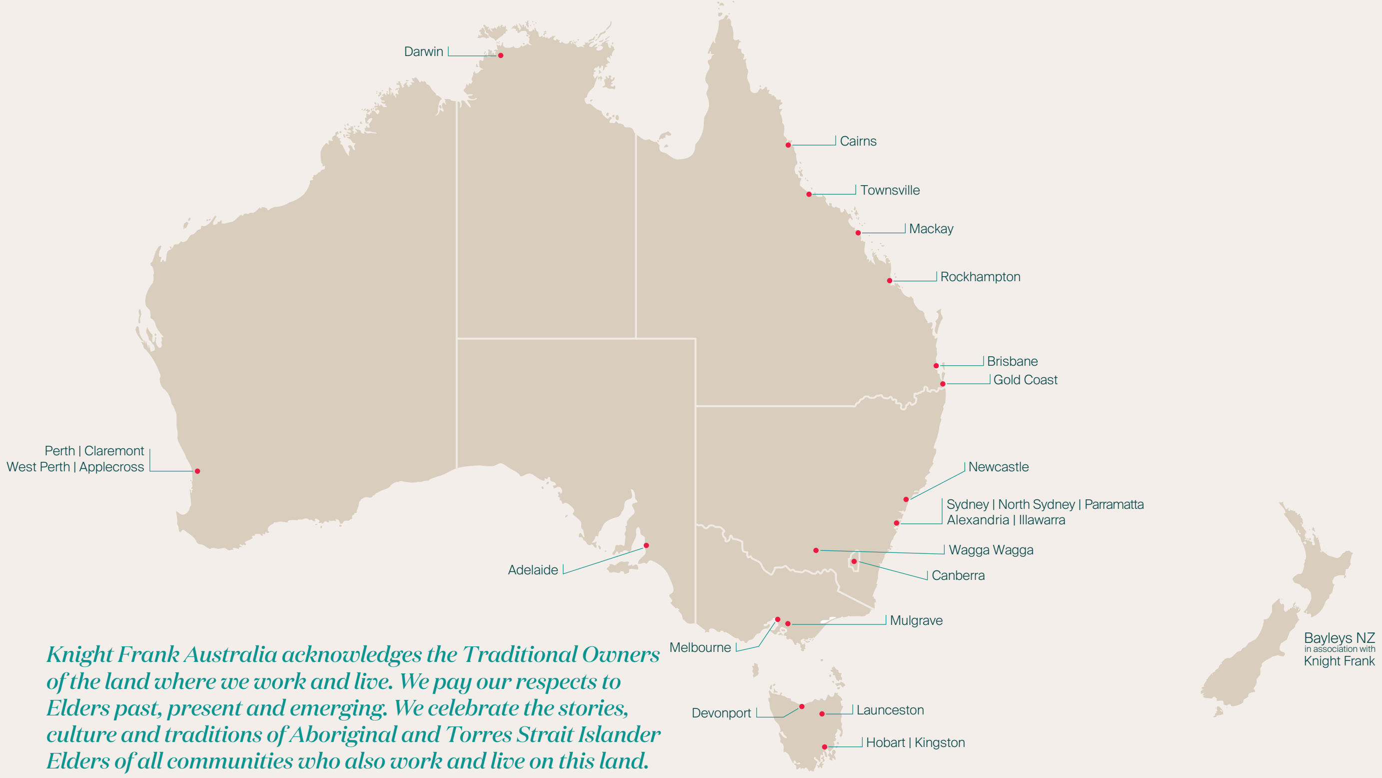
Our Locations.



Knight Frank Australia acknowledges the Traditional Owners of the land where we work and live. We pay our respects to Elders past, present and emerging. We celebrate the stories, culture and traditions of Aboriginal and Torres Strait Islander Elders of all communities who also work and live on this land.

Our Services.

Commercial

Sales, Acquisitions & Investments

Office, Retail, Industrial, Development SItes, Hotels & Hospitality, Health, Agribusiness

Leasing

Office, Retail, Industrial

Asset Management Services

Asset Management Advisory, Sustainability Consulting, Property Management, Flexible Working Operations, Retail & Centre Management, Property Accounting, Facilities Management, Facilities Response Centre

Valuation & Advisory

Advisory, Agribusiness, Childcare, Commerciall Mortgage, Health & Aged Care, Hotels & Hospitality, Industrial, infrastructure, Marinas, Office, Retail, Residential Development, Student Accomodation

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