RESEARCH

MELBOURNE INDUSTRIAL

MARKET OVERVIEW JUNE 2016

HIGHLIGHTS

Total supply in 2016 is forecast to be largely completed within the Western and South Eastern industrial regions which together will account for 75% of the industrial pipeline for the year.

Pre-lease commitments totalled 271,727m² in 2015, 72% above the 10-year average and its second highest level since 2006, largely driven by retail-trade based occupiers.

Unlisted fund and syndicate investment activity reached record high levels and for the third consecutive year, spent more than $400 million, accounting for 64% of all sales in 2016.

KEY FINDINGS

New supply is forecast to total 652,483m² over 2016, its highest annual level since 2008, driven by pre-lease completions

Retail-based occupiers account for 67% of total pre-lease developments currently under construction

Prime yields now stand 123 basis points lower than the historical 15-year average of 8.26%

The transaction of the Woolworths' distribution centre was Melbourne's **highest (single asset) industrial sale on record**

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VACANCY SNAPSHOT

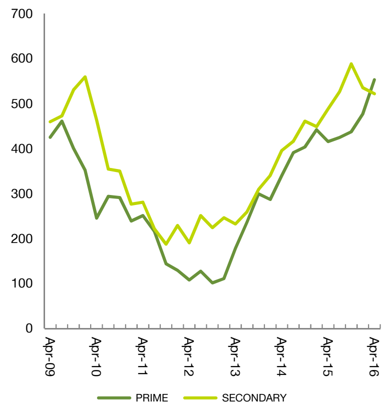
Melbourne industrial available space increased by 62,715m² or 6.2% over the three months to April 2016. Total vacancy now measures 1,074,788m² across 94 buildings, the highest level since the series began in 2009. Current levels of available space across Melbourne now sits 62% above its long term average.

The rise in vacancy has been underpinned by an increase in prime grade backfill options within existing stock. Prime vacancy across Melbourne totalled 553,016m² as at April 2016, up 16% from 476,965m² in January 2016. Prime vacant stock is now at a historical high for the series. In contrast, vacant secondary stock levels declined for a second consecutive quarter. Secondary vacancy fell by 2.5% to 521,772m².

The South East was the only region to record a fall in vacancy over the first quarter. Whereas the Western region recorded the largest increase in available space with vacant stock levels reaching 357,982m², 61% above its quarterly average. For the fifth consecutive quarter the Northern precinct continued to lead overall vacancy with available space measuring 433,546m².

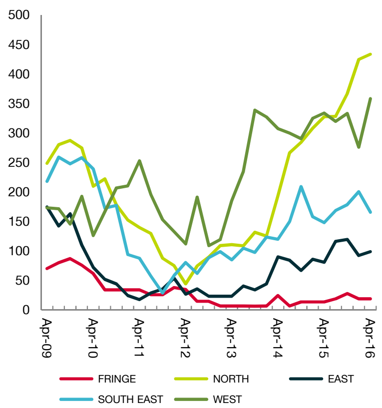
Vacancy rates are anticipated to remain above average in the medium term, albeit with signs that the total vacancy is nearing its peak in the short term, notwithstanding various properties are likely to come on line in late 2016 and 2017 relating to the automotive industry.

FIGURE 1
Melbourne Industrial Market
Available space by quality ('000m²)



Source: Knight Frank Research

FIGURE 2
Location of Vacant Stock
Available space by region ('000m²)



Source: Knight Frank Research

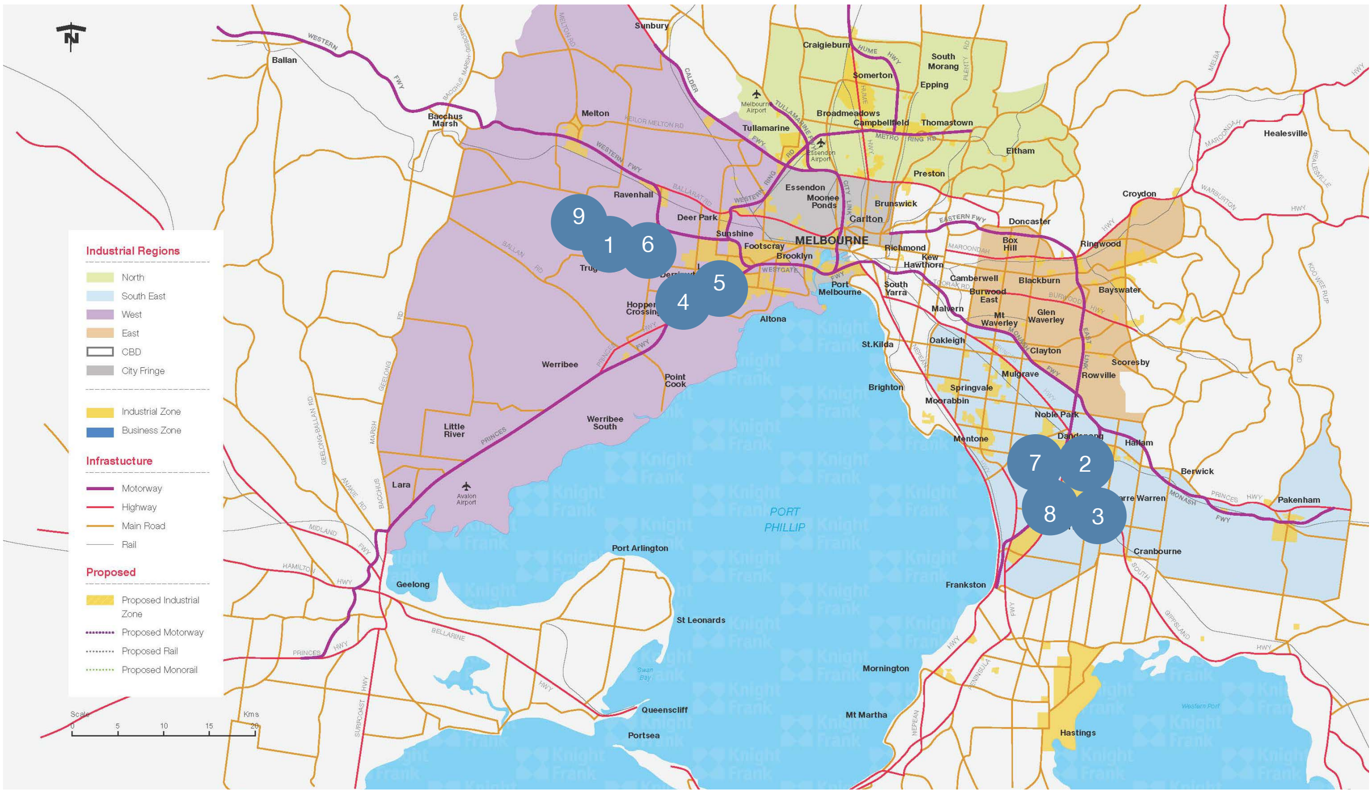
TABLE 1
Melbourne Industrial Market Indicators as at April 2016

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields (%)		Avg Land Values 2,000—5,000m²		Avg Land Values 1—5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(%p.a)	$/m²	(%p.a)
City Fringe	120	-4.0	75	-6.3	6.75—7.50	7.50—8.50	1,500	50.0	N/A	—
North	75	—	58	3.3	7.00—7.50	8.25—9.00	214	-7.0	164	-13.7
East	83	-2.4	63	—	6.75—7.50	8.25—9.25	300	—	230	—
South East	83	-2.4	60	—	6.50—7.25	8.00—9.00	255	2.0	185	2.8
West	75	—	65	—	6.50—7.25	8.00—9.00	185	5.7	145	16.9
Melbourne Average*	**79**	**-1.3**	**62**	**0.0**	**6.70—7.40**	**8.10—9.00**	**239**	**0.0**	**181**	**0.0**

Source: Knight Frank Research

*Excludes City Fringe

INDUSTRIAL PRECINCTS



MAJOR INDUSTRIAL SUPPLY

2016-18 Major Supply

1. West Park Industrial Estate, Truganina— 90,000m² Pre-lease *CEVA Logistics*
2. 6 Oppenheim Drv, Dandenong South— 89,000m² Pre-lease *Ego Pharmaceuticals*
3. 225 Glasscocks Rd, Dandenong South— 68,750m² Turnkey *Woolworths*
4. Drystone Ind. Estate, Laverton North— 63,000m² Pre-lease *Target*
5. Drystone Ind. Estate, Laverton North— 37,700m² Pre-lease *The Reject Shop*
6. DEXUS Ind. Estate, Laverton North— 25,650m² Pre-lease *Kathmandu*
7. 287-293 Greens Rd, Keysborough— 21,500m² Pre-lease *AstralPool*
8. Innovation Park Estate, Dandenong Sth— 16,000m² Pre-lease *Cyclone Tools*
9. Warehouse B, Doriemus Dr, Truganina— 11,934m² Speculative

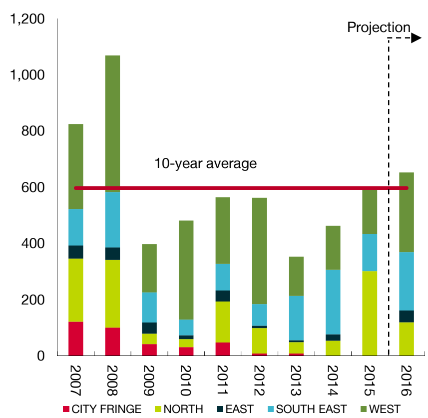
Tenants in Italics

Gross supply (>5,000m²) in Melbourne's industrial market has continued to increase since 2013, and is forecast to reach 652,483m² in 2016, 10.6% above 2015 levels.

In 2015, gross supply was concentrated in the North, where 51% of Melbourne's industrial annual supply was delivered. Major 2015 completions included Toll Transport's 71,000m² and TNT Freight's purpose built facilities both within the Melbourne Airport Business Park in Tullamarine.

New industrial supply scheduled for completion in 2016 is 9.3% higher than the 10-year average and its highest annual level since 2008. Total supply in 2016 is forecast to be largely completed within the Western and South Eastern industrial regions which together are forecast to account for 75% of the industrial pipeline this year. Beyond 2016, new supply levels are forecast to remain relatively healthy with 231,044m² already under construction and scheduled to complete in 2017 and 2018, including Woolworths' and Target's pre-committed facilities.

FIGURE 3
Melbourne Industrial Gross Supply
By region ('000m², >5,000m²)



Source: Knight Frank Research

DEVELOPMENT & LAND VALUES

While new supply is forecast to reach eight-year highs in 2016, speculative construction levels continue to fall. With vacancy levels higher than the long term average, speculative construction levels are forecast to account for 22% of total new supply delivered to Melbourne in 2016, down from the 32% proportion achieved in 2015 and its peak of 48% in 2014. The majority of the industrial speculative development is located within the Western region with Goodman and Frasers Property both expected to complete three speculative developments in the region in 2016.

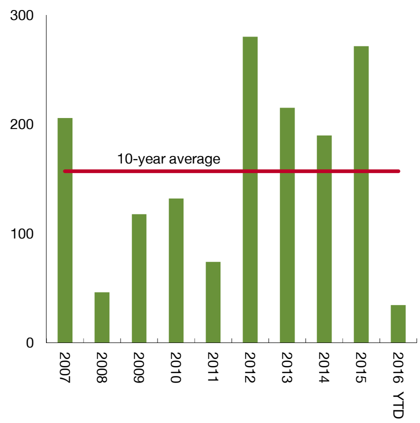
With the pre-commitment market very competitive, smaller developers have turned their attention to strata office-warehouse development typically redeveloping secondary properties on infill sites in established locations. Generally ranging in size from 100m^2 to 313m^2, these smaller units have appealed to SMSF and private investors, along with owner-occupiers. In 2016, multi-warehouse estates are forecast to account for 18% of the Melbourne industrial new supply pipeline.

Overall, new supply levels are forecast to increase across the majority of the industrial sub-regions, with new supply in the Western region forecast to total 283,433m^2, its highest level since 2012.

FIGURE 4

Industrial Pre-lease Activity

('000m^2, >5,000m^2)



Source: Knight Frank Research

D&C Activity

Pre-lease commitments totalled 271,727m^2 in 2015, 72% above the 10-year average and its second highest level since 2006. In 2016 to date, pre-lease activity has totalled 34,625m^2. However, with Isuzu (18,000m^2) and Asahi Group (25,000m^2) amongst a number of larger current tenant requirements, pre-lease activity is once again expected to surpass the 10-year average this year.

Having previously been underpinned by the transport and logistics sector; pre-leased facilities currently under construction have been driven by retail-trade based occupiers. Strong population growth has in turn led to retail spending levels continuing to grow. Retail-based occupiers (both food and non-food) account for 67% of total pre-lease developments currently under construction. Recent major retail-based pre-leased facilities users include: Target (63,000m^2), Kathmandu (25,650m^2), The Reject Shop (37,700m^2) and Cyclone Tools (16,000m^2).

The pipeline of pre-leased developments is focused within the Western and South Eastern regions which account for 53% and 47% respectively of total pre-leased space under construction.

Land Values

According to the Department of Environment, Land, Water and Planning there are 25,712 hectares of industrially zoned land across metropolitan Melbourne with 7,050 hectares of that vacant. Over the 15 year period between 2000 and 2015, there was a net increase of 3,673 hectares of land zoned for industrial use across metropolitan Melbourne.

Over the 12 months to June 2015, 209 hectares of land was zoned for industrial use and 259 hectares of industrial land was rezoned to non-industrial use.

Between 1995 and 2005 industrial land consumption across metropolitan Melbourne averaged around 300 hectares a year. Since the GFC, consumption rates have declined significantly. However, in the 12 months to June 2015, 276 hectares was consumed, the highest level since 2008.

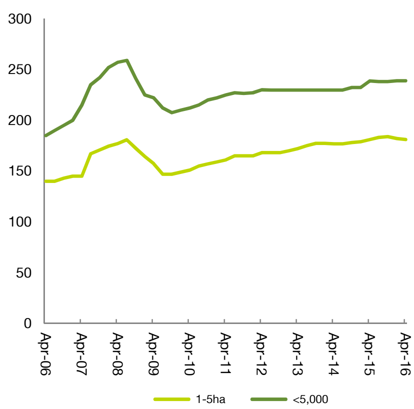
While there have been limited industrial land transactions in Melbourne over the past two years, with diminishing available serviced industrial land, particularly within estates, increasingly developers are seeking englobo sites to restock their industrial pipeline. One example is Frasers Property's purchase of a 15.72 hectare site which adjoined the Frasers-owned 101-hectare The Key Industrial Park in Keysborough which is into its sixth stage. Opportunities within industrial estates in the West are also shrinking with Paramount Industrial Estate, Deer Park and Link360 Industrial Park, Truganina both now sold out.

Excluding the City Fringe, average land values for small sized lots (<5,000m^2) remained stable over the 12 months to April 2016 at $239/m^2. While overall land values remained steady, values grew in the West and South East, whilst values for small sized lots eased in the Northern region. Similar trends were recorded for larger serviced industrial lots (1-5ha) with growth recorded in the West and South East while land values fell in the North.

FIGURE 5

Melbourne Industrial Land Values

Average value serviced lots by size ($/m²)



Source: Knight Frank Research
Note: Excludes City Fringe

OCCUPIER DEMAND & RENTS

Absorption (excluding D&C) levels over the first quarter of 2016 totalled 124,266m^2, slightly below the series quarterly average of 138,042m^2. Nevertheless, year-to-date take-up is tracking 21.6% above levels recorded as at April 2015.

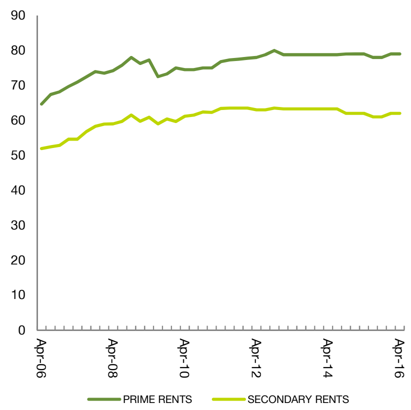
Prime gross take-up slowed over the quarter, measuring 48,028m^2. One notable leasing transaction was Toll leasing a 11,390m^2 facility at Efficient Drive in Westpark Industrial Estate, Truganina. Interestingly, above-average levels of take-up were recorded in the secondary market with 76,238m^2 absorbed across eight buildings. Leasing activity in the secondary market accounted for 62% of total activity over the first quarter, underpinned by five deals in excess of 10,000m^2. By region, the South East recorded the highest level of leasing activity measuring 70,995m^2, the strongest quarterly total of take-up since Q1 2010.

Over the 12 months to April 2016, average prime net face Melbourne industrial rents (excluding City Fringe) decreased by 1.3%, easing to \$79/m^2 impacted by the high levels of prime vacancy. Secondary rental levels remained stable over the 12 months to April 2016. Within the City Fringe precinct, rental levels eased with tenant demand impacted as stock levels continue to diminish as developers redevelop stock into residential uses.

FIGURE 6

Melbourne Industrial Rents

Net face rent by grade (\$/m²)



Source: Knight Frank Research

TABLE 2

Recent Leasing Activity Melbourne

Address	Region	Net Rent \$/m²	Area (m²)	Term (yrs)	Tenant	Date
Drystone Industrial Estate, Laverton North	W	U/D	63,000	10	Target^	Q2-17
Felstead Rd, Truganina	W	75	10,294	10	PGG Wrightson Seeds^	Q1-17
The Key Industrial Park, Keysborough	SE	U/D	10,000	7	Dana Australia^	Q4-16
17-23 Vision St, Dandenong South	SE	80	3,439	5	STR Truck Bodies^	Q4-16
Colemans Rd, Carrum Downs	SE	U/D	4,650	10	Tempur Australia^	Q3-16
Drystone Industrial Estate, Laverton North	W	U/D	37,700	10	The Reject Shop^	Q3-16
11-25 Toll Dr, Altona North	W	75	16,144	10	Seaway Logistics	Q2-16
299 Williamstown Rd, Port Melbourne	CF	80	6,805	5	Mercedes Benz	Q2-16
18 Derrimut Dr, Derrimut	W	70	3,026	5	Multigate Medical Products	Q2-16
27 Transport Dr, Somerton	N	75	2,180	7	Cosentino	Q2-16
56 ParkWest Dr, Derrimut	W	50	16,000	5	Andiamo House	Q1-16
61 Australis Dr, Laverton North	W	U/D	14,000	1	Concept Logistics	Q1-16
Bld B Efficient Dr, Truganina	W	75	11,417	5	Toll Logistics#	Q1-16
81-87 South Park Dr, Dandenong South	SE	U/D	5,000	7	Premium Floors Australia	Q1-16
Bld 2, 187-217 Discovery Rd, Dandenong South	SE	85	8,625	5	Sokol Furniture#	Q1-16
27-45 Fitzgerald Rd, Laverton North	W	75	6,015	10	Maxum Foods#	Q1-16
80-96 South Park Dr, Dandenong South	SE	U/D	10,241	7	Hollier Dicksons	Q4-15
20 Thackray Rd, Port Melbourne	CF	90	9,000	10	Bidwest	Q4-15
96-98 William Angliss Dr, Laverton North	W	75	6,131	3	East Coast Storage	Q4-15
20 Southern Crt, Keysborough	SE	85	11,400	5	Zenexus Transport#	Q4-15

E East, N North, SE South East, W West, CF City Fringe   U/D Undisclosed   ^Pre-commitment   #Speculative

Source: Knight Frank Research

INVESTMENT ACTIVITY & YIELDS

Investment sales activity (above $10 million) in the 12 months to June 2016 within the Melbourne industrial market totalled $1.17 billion from 33 properties. The volume of sales achieved in the 12 months to June 2016 is 20% higher than levels recorded in the preceding 12 months, when $972.6 million was transacted. Indeed, sales transacted in the Melbourne industrial market has totalled $3.28 billion in the past three years to June 2016.

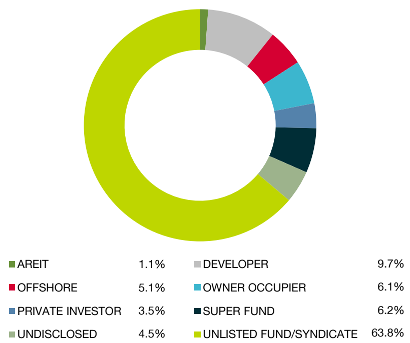
Transactional activity was boosted by a number of significant sales with five transactions above $60 million recorded in the Melbourne industrial market over the past year. In contrast, in the preceding 12 months there were just three transactions above $60 million. In fact, Charter Hall's acquisition of the soon-to-be completed Woolworths distribution centre in Dandenong South was Melbourne's highest industrial (single asset) transaction on record. In addition, LOGOS Property Group's purchase of the Oxford Cold Storage facility in Laverton North for $205.88 million was Melbourne's second highest industrial transaction on record.

Both top two transactions were offered through sale and leaseback arrangements with 20 year lease terms in place.

FIGURE 7

Melbourne Industrial Sales ($10mil+)

By purchaser type - 12 months to June 2016



Source: Knight Frank Research

Unlisted funds and syndicates have continued to lead all purchaser types for Melbourne industrial property, accounting for 64% of sales by value in the 12 months to June 2016. Unlisted fund investment activity reached record high levels and for the third consecutive year, spent more than $400 million annually. Charter Hall, Lend Lease and Propertylink all made multiple acquisitions in the 12 months to June 2016 through unlisted fund vehicles.

While offshore groups only accounted for 5% of sales in the 12 months to June 2016, this amount excludes a number of Victorian assets which were sold within national portfolio sales. A major portfolio transaction that comprised Victorian industrial facilities included Ascendas' purchase of 26 industrial properties from GIC for a value of $1.07 billion, which included nine Victorian assets.

Taking advantage of the historically low interest rate levels, owner occupier investment increased in comparison to the previous 12 months, particularly for

TABLE 3

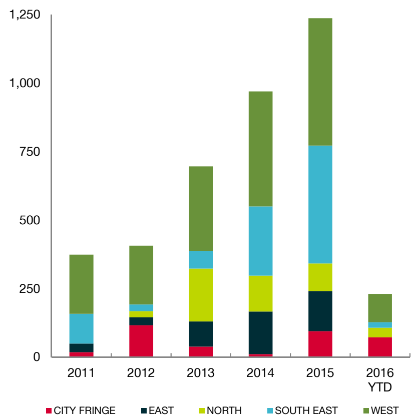
Recent Improved Sales Activity Melbourne

Address	Region	Price $ mil	Bldg Area m²	Initial Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
9 Sutton St, South Kingsville^	W	20.00	8,000	N/A	N/A	Page Properties	Metro Property	May-16
11-13 Chambers Rd, Altona North	W	10.80	10,632	N/A	VP	Private Investor	UA Holdings	May-16
11-19 Whitehall St, Footscray^	W	22.00	13,814	U/D	U/D	Ryco Hydraulics	Banco Group	Feb-16
252 Chesterville Rd, Moorabbin	SE	20.00	50,384	N/A	VP	Philip Morris	Up Property	Jan-16
1 Hume Rd, Laverton North	W	205.88	123,348	6.75	20.0	Oxford Cold Storage	LOGOS Property Group	Dec-15
55-75 Ricketts Rd, Mt Waverley	E	12.60	13,036	8.41	2.3	Private Investor	Private Investor	Nov-15
730-750 Springvale Rd, Mulgrave	E	16.95	17,068	7.80*	3.9	MarksHenderson	GM Property Group	Nov-15
28 Salta Dr, Altona North	W	36.00	23,854	6.85*	12.0	F. Mayer Imports	Lend Lease (APPF)	Oct-15
704-744 Lorimer St, Port Melbourne	CF	36.20	26,252	7.59*	6.0	Centennial Property Group	AMP Capital Wholesale Aust. Property Fund	Oct-15
Scoresby Industrial Park, 804 Stud Road, Scoresby	E	72.95	50,017	6.52*	5.2	Perfection Private Group	ISPT	Sep-15

VP vacant possession U/D undisclosed *core market yield ^ bought for potential residential conversion

Source: Knight Frank Research

FIGURE 8
Melbourne Industrial Sales
$million By region $10million+



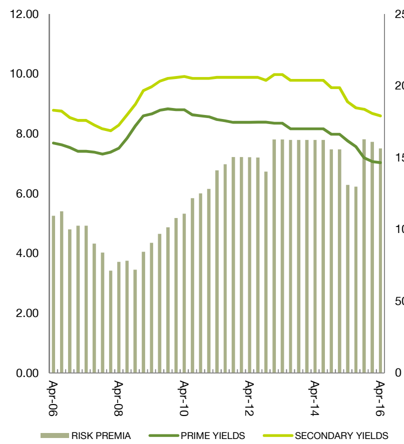
Source: Knight Frank Research

assets below $20 million. Major recent owner occupier purchases included: Chinese cosmetics retailer UA Holdings' acquisition of 11-13 Chambers Road, Altona North for $10.8 million and Bidvest Group's investment of 33-59 Clarinda Road, Oakleigh South for $10.5 million.

Melbourne industrial investment over the 12 months to June 2016 was led by those located in the Western region which accounted for 40% of all industrial transactions (by value) totalling $464.1 million. The South East industrial region followed, with investment totalling $321.9 million from seven assets. All regions recorded increases in investment volume in comparison to the previous 12 months with the exception of the Northern region.

Over the year to April 2016, average prime industrial yields compressed by 72 basis points to 7.03% and ranged between 6.70% and 7.40%. Average prime yields now stand 123 basis points lower than the historical 15-year average of 8.26% and now also lower than the previous benchmark yield lows of 2008. The sales of 28 Salta Drive, Altona North and 1 Hume Rd, Laverton North which transacted on yields of 6.85% (core market) and 6.75% (initial) respectively also demonstrate the strong investor demand for cold and refrigerated logistics assets with long WALEs in place. The yield spread between asset grades has grown with average secondary yields compressing by 47 basis points to 8.60% and now range between 8.10% and 9.00%.

FIGURE 9
Melb Industrial Yields & Risk Spread
% Core market yield & prime vs secondary spread (bps)



Source: Knight Frank Research

Transaction activity was boosted by two significant sales, which included Melbourne's highest industrial (single asset) transaction on record.

Outlook

- The lower Australian dollar and falling interest rates are expected to support retail spending and housing construction levels which are likely to maintain tenant demand for industrial accommodation. The Victorian economy is forecast to grow by 1.7% in 2016 and on average by 2.4% per annum over the next five years.
- After six years of below average levels of new supply, the pipeline of gross industrial supply in 2016 is forecast to be the highest annual total since 2008. Speculative construction levels are expected to remain relatively low, however total new supply levels are anticipated to be relatively healthy in the short term with 231,044m^2 already under construction and scheduled to complete beyond this year.
- As tenants relocate into purpose built facilities, vacancy rates are anticipated to remain above average in the medium term. Albeit with signs that the total vacancy is nearing its peak in the short term, additional properties are likely to come on line in late 2016 and 2017 relating to the demise of the automotive industry.
- Increased pre-lease and owner occupier activity has led to the consumption of land gain momentum in recent years which will likely to maintain growth in land values as developers seek sites to restock their industrial pipeline.
- As a result of the increased D&C construction levels and subsequent backfill vacancies, average prime Melbourne industrial rents are forecast to remain steady. In contrast, rental levels within secondary assets will remain under pressure.
- Whilst 2016 has begun strongly with prime and secondary yields both lower than their 10-year averages, only marginal further compression is anticipated.

Definitions:
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.
Vacancy Methodology:
This analysis collects and tabulates data detailing vacancies (5,000m²+) within industrial properties across all of the Melbourne Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although having reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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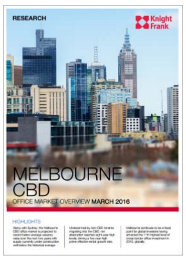

Melbourne CBD Office Overview March 2016

Melbourne Industrial Top Transactions 2015

Australian CBD & Non-CBD Office Top Transactions 2015

The Wealth Report 2016

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