



NOVEMBER 2013

BRISBANE
INDUSTRIAL

Market Brief

HIGHLIGHTS

- Demand from large scale industrial users has continued to dominate the market, re-igniting development within the region and leading to accelerated take-up of industrial land. To date there has been only isolated land price growth in response to this absorption and depletion of existing stock, however a clear trend has begun to emerge, particularly for larger lots.
- At the same time the level of available industrial space has also grown steadily throughout the year, while some contraction activity has been seen, this increase has been dominated by secondary accommodation and backfill left by tenants moving to newly constructed space. As a result there has been little to no upward pressure on rental levels which have remained relatively static.
- The investment market has appreciably improved over the course of 2013 with demand from local listed and unlisted institutional investors now outbidding offshore groups and also private investors. Prime yields have tightened and this is expected to continue into 2014 along with greater transaction activity.

Table 1
Brisbane Industrial Market Indicators as at October 2013

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
	\$/m ² net	(%p.a)	\$/m ² net	(%p.a)	Prime	Secondary	<5,000m ²	(% p.a)	1 – 5 ha	(% p.a)
Trade Coast	116	-	91	-	7.90 – 8.30	9.00 – 9.70	325	3.2%	267	3.5%
North	112	0.9%	88	-1.1%	8.15 – 9.00	9.25 – 10.00	310	3.3%	230	-1.3%
South East	107	1.9%	88	-1.1%	8.00 – 8.90	9.20 – 10.00	238	-2.9%	173	-1.7%
South	110	-2.7%	87	-1.1%	7.90 – 8.55	8.95 – 10.30	305	2.3%	245	6.5%
South West	110	-1.8%	88	-	7.90 – 8.65	9.25 – 10.50	280	-1.8%	230	11.1%
Brisbane Average	111	-0.4%	90	-0.7%	7.97 – 8.68	9.13 – 10.10	291	0.8%	229	3.7%

Source: Knight Frank

Prime: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10%-20%.

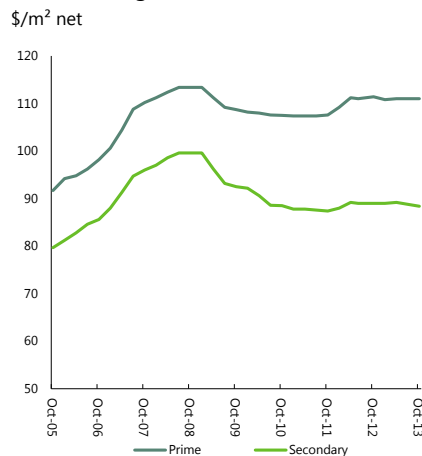
Core Market Yield: The percentage return/yield analysed when the assessed fully leased market income is divided by the adopted value/price which has been adjusted to account for property specific issues (ie rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives etc)

Occupier Demand & Rents

Occupier demand within the Brisbane industrial market has seen divergent fortunes over recent months. There continues to be strong pre-commitment activity from larger tenants and development activity from owner occupiers, while at the other end of the scale the level of secondary vacant space is increasing.

Prime rents have remained relatively stable over the past year with softness in the South and South West regions being balanced by the other precincts. The level of available prime space (over 3,000m²) has increased steadily throughout 2013 from 80,244m² in January to 182,890m² (up 128%) as at October 2013. However this has been concentrated (25 of 32) in properties with less than 5,000m² available and the amount of large scale prime warehouse space has remained relatively scarce.

Figure 1
Brisbane Region Prime Rents



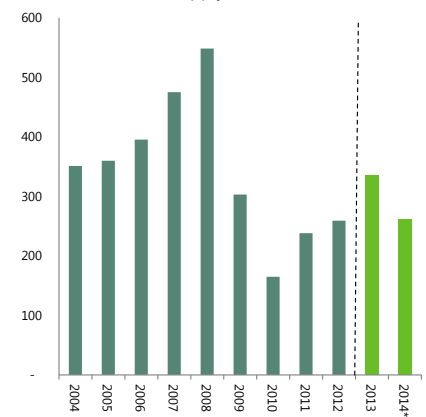
Source: Knight Frank

Secondary rents have softened slightly under the weight of additional vacancy (up 36% over 2013 to be 338,950m²) as improving tenant demand cannot overcome the weight of available space.

Development Activity

Construction activity has been on the increase with 2013 on track to record the strongest level of industrial construction since 2008 at 334,306m². This has been driven by a combination of improving owner occupier construction, some speculative activity at the larger end of the market and also the strong pre-lease activity which emerged during 2012 and has continued through 2013. This pre-lease activity has been greatest for larger tenants of 20,000m²+ with little existing accommodation meeting their needs.

Figure 2
Brisbane Region Industrial Supply



Source: Knight Frank

*2014 supply represents only projects already under construction or with firm plans.

Table 2
Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent (\$/m ²)	Area (m ²)	Term (yrs)	Tenant	Date
Moorshead St, Redbank	SW	95	31,400	10	DB Schenker^	Jul 14
67 Bellrick St, Acacia Ridge	S	112	9,815	12	Blue Star Logistics	Oct 13
130 Macarthur Ave, Hamilton	TC	60	8,013	5	Grays Online	Sep 13
183 Viking Dr, Wacol	SW	110	12,220	10	Cotton On	Sep 13
725 Boundary Rd, Darra	SW	85	7,198	5	Oil Lift Technology	Aug 13
77 Logistics Pl, Larapinta	S	112	14,700	10	McPhee*	Jun 13
30 Peterkin St, Acacia Ridge	S	100	11,935	10	Arrium*	Jun 13

Source: Knight Frank ^ Pre-commitment * vendor leaseback

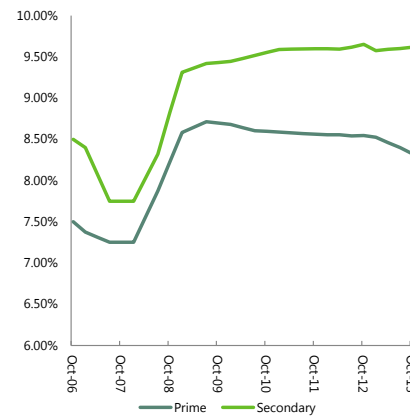
As a result there has been some noticeable appreciation in land values over the year to October 2013, although this has not been evenly spread across all precincts. Demonstrated price appreciation has been limited to locales and size ranges where there is a current shortage of stock. As the stock of development sites begins to run down there has been activity from major institutional developers to control the next wave of land, with a number of new estates ready to launch in coming months, largely on the southern side of Brisbane.

Sales & Investment Activity

The market for Brisbane industrial investments has been characterised by a number of larger transactions bought by mainly local listed and unlisted institutional investors. However the general brokerage market \$5 million - \$10 million has been quite thin over the course of 2013. Transaction activity, over \$5 million, for the year to October 2013 recorded \$481.37 million which is only marginally lower than the \$483.22 million recorded for the previous 12 months. This is despite the inclusion of headline sales such as the \$84.6 million GPT purchase of the Toll NQX facility at Berrinba.

In recent months there has been a noticeable lift in investment demand particularly for the sub \$2 million and the \$10 million + price brackets. With the smaller end of the market driven by private investors seeking greater returns, yields have noticeably sharpened, particularly where the lease term is 5+ years. At the upper end of the price range the investment demand has continued to build, however with relatively limited stock available, opportunities have been limited and this has continued to build downward pressure on yields.

Figure 3
Brisbane Median Yields
Core Market Yield Prime v Secondary



Source: Knight Frank

Over the past 12 months, median prime yields have firmed by 22 basis points across the Brisbane market to be 8.33%. Sub-8% yields remain in play, with a 10 year + WALE required to reach that level. The premium for longer leases of 12-15 years has continued to grow and yields for upper prime assets are soon expected to test new benchmarks. In contrast, secondary yields have been relatively stagnant at a median of 9.62% across the Brisbane precincts. This is slightly higher than six months ago, but relatively stable over the past year. This resistance is due to the more difficult leasing conditions within the secondary market.

Outlook

The Brisbane industrial market is expected to continue to achieve divergent results in the short term. Tenant demand, construction and land take-up will continue to be driven largely by retail and logistics users as the search for efficiency dividends drive demand for larger premises with cutting edge technology. This will provide assets to feed the investment demand emerging from local institutional investors, many of which are also the developers. Secondary assets will face challenges due to the level of vacancy and the risk premium will continue to grow.

Table 3
Major Land / Development Sales Brisbane Region

Address	Region	Price (\$ m)	Area (m ²)	\$/m ² of site area	Zoning	Vendor	Purchaser	Date
Lot 78+79 French Ave, Brendale	N	4.60	21,700	212	GI	Investa Prop Group	ARB#	Nov 13
79 Mica St, Carole Park	SW	3.41	13,000	262	GI	State Govt	Owner occupier	Oct 13
253 Monier Rd, Darra	SW	1.25	3,330	375	GI	Private Investor	Westpoint Autos#	Jul 13
Lot 31 Charles Ulm St, Eagle Farm	TC	10.25	50,160	204	GI	TradeCoast Land	Autonexus#	Jun 13
1 Dixon St, Yatala	SE	2.43	11,000	221	CI	Stockland	Frosty Boy#	Jun 13
Griffin Cres, Brendale	N	17.88	105,200	170	GI	Investa	Soul Pattinson	May 13

Major Improved Sales Activity Brisbane Region

Address	Region	Price (\$ m)	Bldg Area (m ²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
18-28 Quarry Rd, Stapylton	SE	44.50	41,372	9.52	2.4	Insight Logistics	GPT Group	Oct 13
441 Nudgee Rd, Hendra	TC	27.40	15,147	8.54	1.75	Property Solutions	DEXUS Wholesale Prop. Fund	Oct 13
45 Gosport St, Hemmant	TC	14.90	15,034	9.48	2.7	LaSalle Funds Mgt	Syndicator	Aug 13
675 Macarthur Ave, Pinkenba	TC	13.04	8,692	VP	-	Scanport Pty Ltd	Metal Sea Pty Ltd	Jul 13
77 Logistics Pl, Larapinta	S	21.03	14,700	7.83	10.0	McPhee Transport*	GIC/Logos	Jun 13
30 Peterkin St, Acacia Ridge	S	13.75	11,935	8.60	10.0	Arrium*	Fife Capital	Jun 13

Source: Knight Frank N North S South SE South East SW South West TC Trade Coast
CI Commercial Industry GI General Industry # owner occupier * vendor leaseback ^ passing yield

Americas

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Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

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Czech Republic
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Germany
Hungary
Ireland
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Poland
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Ukraine

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