RESEARCH

Knight Frank

MAY 2013

BRISBANE INDUSTRIAL

Market Overview

HIGHLIGHTS

- The recent confirmation of a number of large commitments to space has improved market sentiment within the Brisbane region. However to date the general occupier demand has remained steady. Due to a number of factors including backfill space and some tenant contraction, the amount of available industrial space (over 3,000m²) has more than doubled over the past 12 months.
- As a result of the extremely low vacancy levels of a year ago, there has been a strong supply response with 228,000m² of stock (over 5,000m²) completed during 2012 and 2013 ytd and a further 187,900m² currently under construction. This has boosted the land market with lots in excess of 1ha showing some price appreciation, however the market for smaller lots remains difficult.
- The investment market has been dominated by the wholesale/syndicate buyers (40% of sales over $5 million) followed by AREITs with 20% of sales volume. Prime yields have been gradually firming to range between 8.20% and 8.72%, however there has been a noticeable premium for new assets with WALEs in excess of 12 years.

MAY 2013

BRISBANE INDUSTRIAL

Market Overview

INDUSTRIAL OVERVIEW

Table 1

Brisbane Industrial Market Indicators as at April 2013

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
							<5,000m²		1 – 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(% p.a)	$/m²	(% p.a)
Trade Coast	116	0.9%	92	-	8.00 – 8.30	9.05 – 9.75	325	-	265	-5.4%
North	111	0.9%	89	-	8.45 – 9.00	9.10 – 9.80	300	-0.7%	244	4.7%
South East	106	-1.9%	89	-	8.35 – 8.90	9.25 – 10.00	240	-4.0%	183	1.7%
South	112	-0.9%	89	-	8.00 – 8.50	9.00 – 10.30	306	-0.3%	244	5.2%
South West	110	-	87	-	8.15 – 8.90	9.00 – 10.40	285	-3.4%	230	7.0%
Brisbane Blended	**111**	**-0.2%**	**89**	**-**	**8.20 – 8.72**	**9.13 – 10.05**	**291**	**-1.6%**	**233**	**2.4%**

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)

Economic Snapshot

The stronger economic growth seen across both Queensland and Australia over the 2011/12 financial year is not expected to be repeated in the current financial year. After natural disasters heavily impacted Queensland's economy during 2010/11 (reducing Gross State Product (GSP) to 1.0%), the result for 2011/12 of 4.0% encompassed a degree of catch up. Forecasts currently indicate a more modest result of 2.7% for Queensland for the current financial year, and this appears in line with market activity.

As shown in Figure 1, Deloitte Access Economics expects this softening to be limited to 2012/13, with stronger growth in excess of 4.0% forecast for at least the following three years. This forecast is aligned with the expected increased production from maturing natural resource projects. The level of capital expenditure on mining projects in Queensland grew by 61% between CY2011 and CY2012 (ABS 5625), reflecting the massive increase in construction activity in the sector. The December 2012 quarter resulted in a further new high for the index at $8.7 billion, however future estimates produced by the ABS indicate that construction activity is expected to plateau at near to current levels (no more than 11% higher) over the coming 18 months. Price recovery in commodities, particularly coal, is required to drive investment further, post the completion of current projects.

Figure 1

Economic Growth

Queensland Gross State Product & Australia GDP

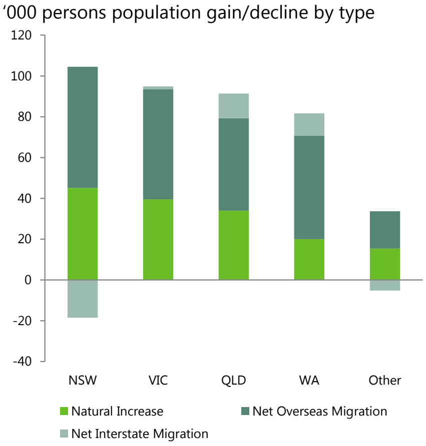
Source: Deloitte Access Economics

Population growth for Queensland was on a recovering trend over 2012, with the most recent ABS data indicating that the QLD population grew by 2.0% in the year to September 2012. These figures represent the highest results seen since late 2008/early 2009. This return to higher population growth tends to have the greatest impact on retailers and also their supply chain management. Much of the major recent occupier demand has come directly from retailers or their logistics partners to upgrade and expand their facilities in South East Queensland. With greater efficiencies available from sophisticated stock control systems, these users are both seeking to expand their capacity and also control costs.

Figure 2

Population Growth – yr to Sept 2012

'000 persons population gain/decline by type



Source: ABS 3101.02 (Other = Tas, SA, NT & ACT)

Industrial Overview

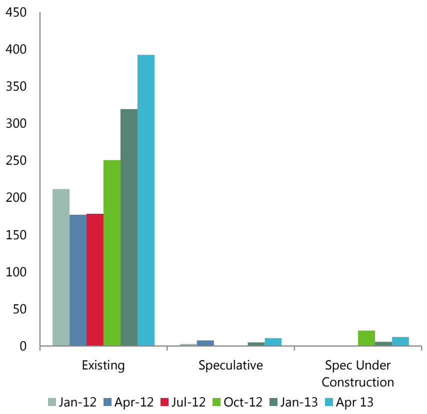
Commitments by tenants to new generation facilities have seen a number of larger occupiers committing to new space over the past six months. However the wider tenant market has remained relatively sluggish with modest demand levels.

The total level of vacancy, as measured by Knight Frank, has more than doubled over the past 12 months. Backfill space has been a factor in this increase, however consolidation and downsizing by companies has also been an influence. In contrast, the land market has shown some increasing activity, buoyed by the recent surge in construction absorbing many lots. To date this has been confined to lots over 1ha, with price growth re-emerging in this category.

Figure 3

Brisbane Region Available Space

'000m² Vacancy 3,000m²+ as at April 2013



Source: Knight Frank

The secondary market has taken the brunt of this increasing vacancy – with 72% of vacancies greater than 3,000m² (298,100m²) within secondary stock. The prime vacancies at 117,302m², in contrast, remain in line with longer term averages.

This relative lack of prime space, particularly larger prime space, is expected to continue to drive further speculative construction starts – to date this is concentrated in the South West and South precincts.

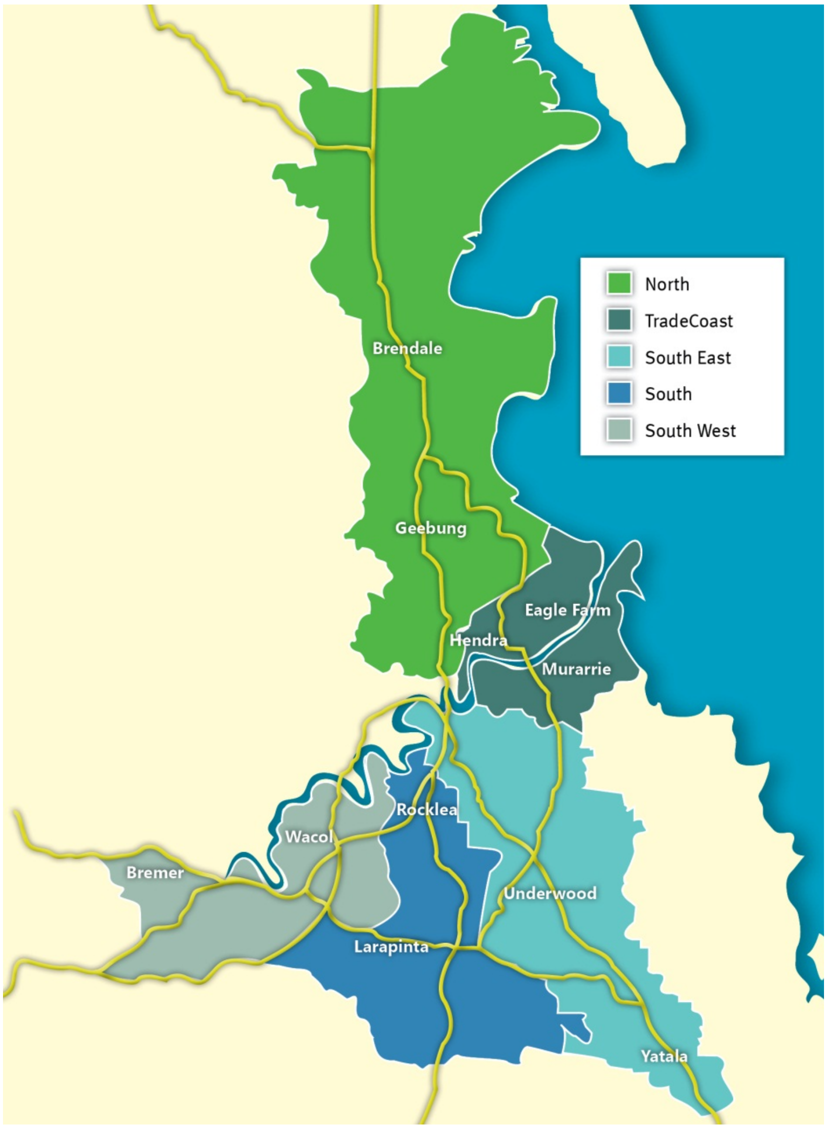
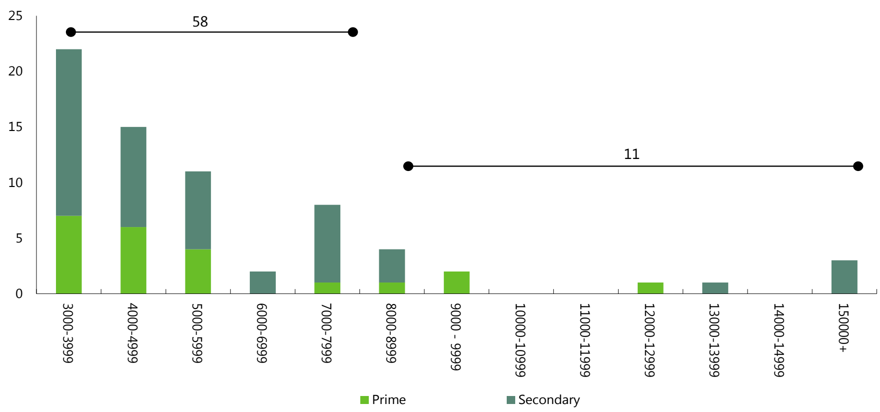


Figure 4

Brisbane Region Available Space

No. available buildings by size range April 2013



Source: Knight Frank

OCCUPIER DEMAND & RENTS

Occupier demand across the Brisbane region market has been dominated by larger, headline grabbing commitments to space. The broader market has been slightly less active in recent months with middle sized tenants remaining relatively cautious.

The well publicised major commitments by occupiers such as Bunnings (30,450m²), Toll NQX (43,633m²), Caterpillar (59,000m²) and Super Retail Group (46,000m²) have boosted the sentiment within the market as well as absorbing several larger tranches of land.

As such the level of construction across the market for these larger facilities is quite high. Knight Frank tracked 163,640m² of industrial buildings (over 5,000m²) completed during 2012, with a further 64,437m² completed in the first four months of 2013. At this time there is a further 187,881m² of space under construction, which doesn't include the soon to commence buildings for Bunnings and Toll NQX.

However recent completions of larger accommodation ie KMart (55,000m²), Hitachi (17,737m²), Stoddard Manufacturing (25,000m²) and the upcoming completions such as CEVA Logistics (40,000m²) are impacting on the secondary market vacancy due to backfill space.

Figure 5
Brisbane Region Available Space
('000m²) Vacancy 3,000m²+ as at April 2013

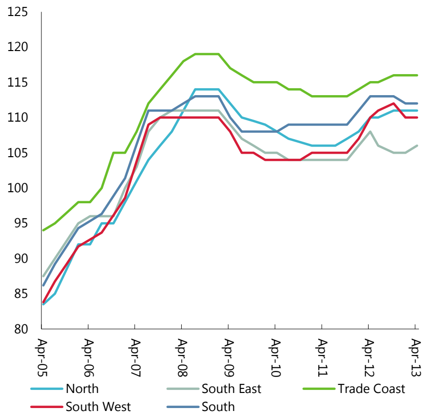
Source: Knight Frank

Market rental levels have remained largely steady with a lack of competitive pressure maintaining relatively static rental levels across the market. Average prime market rental levels across the Brisbane region are currently $111/m² net (reflecting a fall of 0.2% over the past year). At the same time secondary rents are still hovering around the $90/m² mark, with an average across all markets of $89/m² net, stable over the past 12 months.

Despite the recent increases in the level of secondary vacancy, to date the secondary rental levels have held up well. However there have been isolated deals done at relatively low rents and/or short terms as owners move to secure any income stream for their asset.

Although the amount of prime vacant space has increased over the past 12 months, it remains below peak levels, with relatively low availability of prime warehousing accommodation. This however, has not been enough to trigger rental growth, apart from small increases in the Trade Coast and North precincts, to date. Further major commitments are expected to be announced in coming months, with a mixture of logistics and fabrication tenants seeking space within the market. With limited speculative space coming on-line this is expected to continue to fuel the D&C market.

Figure 6
Brisbane Region Prime Rents
$/m² net rent 2005 - 2013



Source: Knight Frank

Table 2
Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Port West Estate, Lytton^	TC	undis	30,450	10	Bunnings Warehouse	Dec 13
Flint St, Richlands	SW	105	15,016	10	Isuzu	Apr 13
50 Telford St, Hillcrest	SE	115	3,000	-	Aerison	Mar 13
60 Enterprise St, Tingalpa	TC	152#	4,913	7	Superior Foods	Mar 13
1C,400 Nudgee Rd, Hendra	TC	105	5,000`	1	DHL	Mar 13
2/739 Boundary Rd, Coopers Plains	S	83	3,001	3	Anixter	Feb 13
125B Kerry Rd, Archerfield	S	109	3,650	5	Western Pet Supplies	Feb 13
24 Industrial Ave, Wacol~	SW	85	9,244	10	PMP Limited	Jan 13
36 McRoyle St, Wacol	SW	99	5,578	5	Mackays Furniture Transport	Jan 13
3 Steel St, Narangba	N	88	3,400	5	Mobile Conveyers	Jan 13
131 Mica St, Carole Park~	SW	122	13,315	15	Blackwood & Son	Jan 13
145-147 Archerfield Rd, Richlands	SW	undis	4,400	5	Global Metals	Jan 13

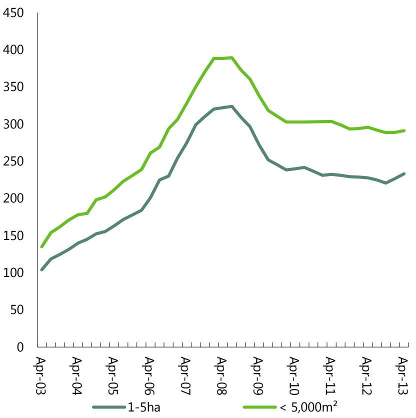
Source: Knight Frank TC Trade Coast SE South East S South SW South West N North
^ D&C/pre-commitment ~ vendor leaseback # cold store & freezer space `warehouse only

DEVELOPMENT & LAND VALUES

The level of development land sale activity has remained surprisingly active over the past few months, compared with the wider market activity. However the prices paid for land continue to cover a wide spectrum. Overall it has been noticeable that the smaller end of the market (sites under 5,000m²) has remained quite stagnant with continuing downward price pressure in the absence of smaller developers and owner occupiers. In contrast the larger sites, between 1 and 5 hectares, have shown some price firming over the past six months as this stock of land has seen greater activity. This has been partially triggered by the increased construction activity, mainly confined at this stage to the larger end of the market.

As noted above the level of construction activity for buildings above 5,000m² has been strong during 2012 and continues to build into 2013. The level of construction completions during 2012 and into 2013 to date has been in excess of 228,000m². This has been weighted towards owner occupier construction with 53% of the space by floor area in contrast to leased accommodation at 47%. Space under construction (187,900m²) and proposed (a further 241,600m²) totals 429,500m² which is bound to absorb more of these larger sized blocks. Under the weight of several pre-lease commitments in excess of 40,000m², the proportion of owner occupier construction to leased space is expected to reverse, with owner occupiers only accounting for 47% of the current construction and proposed space.

Figure 7
Brisbane Region Land Values
$/m² value of land 2003 - 2013

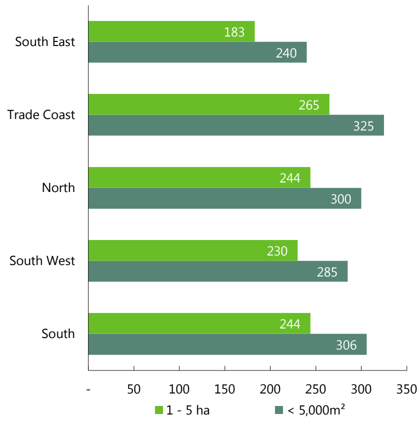


Source: Knight Frank

This increased activity by developers, who are also often the end investors is a welcome boost to the market. This is also reflected in the recent sales evidence which shows a return to purchasing for a number of local developers as well as larger institutional developers such as DEXUS, who are positioning themselves for the next cycle.

This has resulted in some modest price growth for lots 1 - 5ha of 2.4% over the past year as larger lots within quality locations are being absorbed. In contrast, smaller lots, generally the domain of smaller developers and owner operated businesses remain constrained by a lack of confidence.

Figure 8
Brisbane Region Land Values
$/m² value of land by precinct & size – April 2013



Source: Knight Frank

Table 3
Major Land / Development Sales Activity Brisbane Region

Address	Region	Price ($ m)	Area (m²)	$/m² of site area	Vendor	Purchaser	Date
80 Coulson St, Wacol	SW	2.25	16,200	139	Private Investor	Southern Steel^	Feb 13
133 South Pine Rd, Brendale	N	6.29	57,400	110	Mirvac/ICPS	Local Developer	Dec 12
267 Wacol Station Rd, Wacol	SW	5.45	29,750	183	Private Investor	Argyle Holdings ^	Dec 12
65-73 Motorway Cct, Ormeau	SE	4.90	18,491	265	Property Solutions	Geofabrics Australasia^	Dec 12
49 Bellwood St, Darra	SW	1.85	22,900	81	TCM Group	Brava Property	Nov 12
167 Quinns Hill Rd East, Stapylton	SE	2.11	40,400	52	Receivers	Private Investors	Nov 12
75 Stradbroke St, Heathwood	SW	1.12	9,410	120	Southside Power Pole	Mactrans Heavy Haulage^	Nov 12
77 Motorway Cct, Ormeau	SE	1.48	6,425	230	Property Solutions	Trade Tools^	Nov 12
160-168 Bluestone Cct, Seventeen Mile Rocks	SW	2.33	7,737	301	Groupmore Pty Ltd	Local Developer	Nov 12
295 Archerfield Rd, Richlands	SW	8.25	67,000	123	Private Investor	DEXUS Wholesale Property Fund	Nov 12

Source: Knight Frank TC Trade Coast SE South East S South SW South West N North ^ Owner Occupier

SALES & INVESTMENT YIELDS

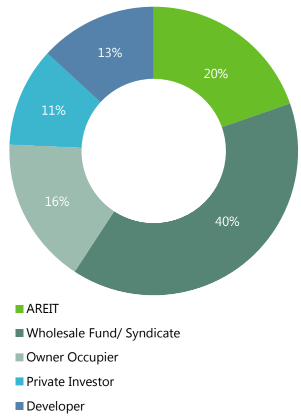
The investment market for industrial property has improved over the past six months with the return of AREITs and presence of major wholesale funds in the market. Over the 12 months to April 2013 the market recorded $537.03 million which is 34% above the $400.25 million recorded in the previous 12 month period.

Purchasing activity has again been dominated by the Wholesale Fund/ Syndicate sector with 40% of the transactions by value, continuing their strong purchasing activity within the market. The most recent example of this has been Goodman Group's GAIF opportunistic purchase of 370 Nudgee Rd, Hendra for $22.83 million. The property is adjacent to the fund's existing Brisbane Gate Industrial Park, giving the fund a landholding of 16.35ha in the tightly held region.

AREITs have also been a stronger influence with 20% of transaction activity by value. This was dominated by GPT's pre-purchase of the Toll NQX facility at Berrinba on a 15 year lease. This fund through arrangement is understood to equate to a purchase of $84.6 million at a new yield benchmark of 7.55%. The other major AREIT return to the market was DEXUS's purchase of the Blackwood & Son facility at Carole Park for $21.0 million, reflecting another solid yield of 7.68% for the 15 year vendor leaseback to the Wesfarmers subsidiary.

Owner occupiers have remained a force in the market with 16% of sales activity; however they are starting to lose the influence they had in the market in previous years. With the recent, and expected continued, trend towards higher vacancy in the market, owner occupiers will remain the dominant purchaser for properties sold with vacant possession or with significant vacancy. Owner occupiers are also still highly active in the development land market.

Figure 9
Brisbane Region Purchaser Profile
Sales over $5 million 12 months to April 2013



Source: Knight Frank

Private investors accounted for 11% of the market by value, with their influence in the market diminished in the face of the recent larger transactions. However private investors are active in the sub-$5 million market, seeking the higher returns available

Table 4
Major Improved Sales Activity Brisbane Region

Address	Region	Price ($ m)	Bldg Area (m^2)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
71 Axis Place, Larapinta	S	4.25	2,904	8.20^	3.0	Spaceframe	Private Investor	Mar 13
246 Lytton Rd, Morningside~	TC	5.60	4,782	VP	-	Private Investor	Private Developer	Jan 13
24 Industrial Ave, Wacol #	SW	8.30	9,244	9.47^	10.0	PMP Property	Private Investor	Jan 13
370 Nudgee Rd, Hendra	TC	22.83	24,000	9.43	2.65	Motor Accident Commission of SA	Goodman (GAIF)	Jan 13
1094 Lytton Rd, Murarrie	TC	9.50	8,352	9.70^	4.0	Eureka Funds Management	Private Investor	Jan 13
131 Mica St, Carole Park #	SW	21.00	13,315	7.68	15.0	Blackwood & Son	DEXUS Industrial Fund	Jan 13
Lot 1 Haitia Way, Berrinba	S	84.60	39,700	7.55	15.0	Toll NQX	GPT	Dec 12
36 Northlink Pl, Virginia	N	11.41	7,800	VP	-	Private Investor	QLD Electricity Transmission Corp	Nov 12
6-8 Radium St, Crestmead	S	4.30	4,325	10.00^	3.0	Private Investor	Private Investor	Nov 12
63 Norbury St, Coopers Plains	S	5.05	3,988	9.00^	9.2	Private Investor	Private Investor	Nov 12
38 Westgate St, Wacol	SW	8.75	9,182	VP	-	360 Capital Industrial Fund	Kent International Movers	Nov 12

Source: Knight Frank TC Trade Coast SE South East S South SW South West N North
^ passing yield # vendor leaseback ~ property included additional development land

within the industrial market. In the $5 million+ category private investors tend to be more active within the secondary market, with the institutional investors starting to outprice them for the prime stock.

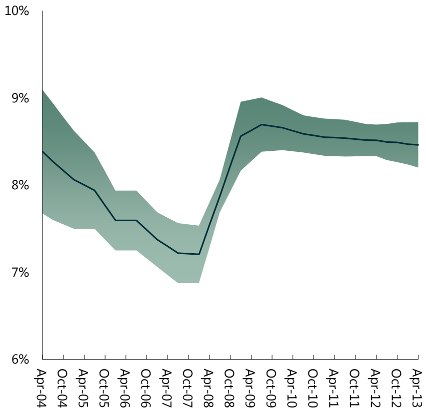
The sub-8% yields achieved by the two 15 year leaseback sales finalised late last year, have to date, remained isolated events and reflective of the premium that is being paid within the market for long leases to established corporates. This demand for prime investments is universal across the property markets, with exposure to market vulnerability still quite harshly priced.

The average prime core market yield is currently 8.46%, a reduction of eight basis points over the past 12 months. This prime yield range applies to standard investment terms, with a noticeable premium for longer terms (ie 12+ yrs). The prime yield range is currently 8.20% - 8.72% and are generally lower in the Trade Coast (8.00% - 8.25%) and South (8.00% – 8.25%) precincts than the other regions.

Figure 10

Brisbane Region Prime Yields

Core Market Yield Range & Median 2004 – 2013



Source: Knight Frank

The secondary yield range has firmed marginally to be 9.13% - 10.05%, stable over the past 12 months, however represents firming over the past six months. As investors move up the risk curve in pursuit of higher returns, well leased secondary properties are attracting interest, however vacant properties face a greater challenge.

OUTLOOK

The industrial market has seen some recovery emerge across disparate parts of the market. The investment market has shown some improvement with the return of AREITs and the increased activity of wholesale funds likely to herald further transactions over the coming months.

Despite firm yields achieved for properties with the longer WALEs, the wider market has seen further slow but steady yield contraction. This is expected to continue over the course of 2013, with the weight of money seeking greater yielding assets and accepting higher risks, given the sustained low cash rate environment. However, given the increasing level of vacancy within the market, properties which have vacancy or significant exposure to short term lease expiries face discounting from the market.

INVESTMENT DEMAND IS IMPROVING

The other area of noticeable improvement has been within the land market, however to date this is confined to lots which are above 1ha. These larger parcels have seen good take-up over the past year, from both developer and owner occupier activity. Thus some price appreciation has re-emerged within the market with the growth over the past 12 months of 2.4% expected to be maintained over the remainder of 2013. Land banking is no longer seen as a futile pastime, with some privates and major investors moving to secure or bring forward the next generation of land.

In contrast the smaller end of the industrial land market is still generally weaker, with a slight reduction in pricing over the past year. This sector remains tied to confidence within the small business community, as owner operated businesses have maintained their cautious approach to sinking large amounts of equity into their premises as well as the business. With relatively high availability of smaller leased accommodation this is not expected to change without major increases to profitability and confidence.

LARGER SITES HAVE SEEN PRICE GROWTH

Despite this gap within the smaller end of the market, the level of construction across properties 5,000m^2+ has steadily grown over the past year. The 187,880m^2 of projects currently under construction is 75% higher than the level under construction as at November 2012 (107,285m^2). This will grow further in the short term with the building start of Bunnings (30,450m^2), Toll NQX (43,633m^2) and Super Retail Group (46,000m^2) projects. Outside of the 'super-users' and their commitments to new buildings, occupier demand has been steady and is expected to remain at similar levels over 2013. Tenants which supply equipment to the mining sector are still a factor in the market, however they do not dominate to the extent that was seen in early 2012.

VACANCY LIKELY TO INCREASE FURTHER

It is currently expected that vacancy is likely to grow further to mid-year in the face of greater backfill space and altered logistics contracts. Thus tenants are expected to have greater choice, which may precipitate relocation activity, over the course of 2013. However there does remain a gap between the demand currently being experienced in the market and existing stock, which is likely to fuel additional construction whether speculative development, pre-leased or owner occupied.

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Knight Frank Newmark Global

Knight Frank Research
Jennelle Wilson
Director – Research QLD
+61 7 3246 8830
Jennelle.Wilson@au.knightfrank.com

Matt Whitby
National Director
Head of Research & Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

Knight Frank Valuations
Ian Gregory
Director – Industrial QLD
+61 7 3246 8864
IanGregory@qld.knightfrankval.com.au

Tim Uhr
Associate Director
+61 7 3246 8816
Tim.Uhr@qld.knightfrankval.com.au

Industrial Agency Contacts
Greg Russell
Managing Director - Industrial
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

Tim Armstrong
Director – Industrial QLD
+61 7 3246 8890
Tim.Armstrong@au.knightfrank.com

Mark Clifford
Director – Industrial QLD
+61 7 3246 8802
Mark.Clifford@au.knightfrank.com

Mark Horgan
Manager, Strathpine Office – Industrial
+61 7 3482 6000
Mark.Horgan@au.knightfrank.com

Chris Wright
Associate Director – Industrial QLD
+61 7 3246 8861
Chris.Wright@au.knightfrank.com

John Slater
Associate Director – Industrial QLD
+61 7 3246 8837
John.Slater@au.knightfrank.com

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