RESEARCH

NOVEMBER 2011

BRISBANE INDUSTRIAL

Market Overview

Knight Frank

HIGHLIGHTS

- The available industrial space recorded in October 2011 was another record low measured by Knight Frank. Only a third of the available space in buildings greater than 3,000m² (77,380m²) is prime stock and only seven prime buildings above 5,000m² are available. Despite this continuing contraction in available space, prime rental levels remained unchanged to average $108/m² net, secondary rents have continued to drift to $88/m² net.
- The land market has been relatively static with no change to average values and purchasing demand has been steady, dominated by companies purchasing to develop their own facilities. The available land stock is gradually being absorbed.
- Owner occupiers have become the most active purchasers over the past 12 months, accounting for 45% of transaction value (above $5 million), private investors were second at 27%. The lack of institutional investors has resulted in no pressure on yields over the past six months and average prime yields remain 8.35% – 8.75%.

INDUSTRIAL OVERVIEW

Table 1
Brisbane Industrial Market Indicators as at October 2011

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value <5,000m²		Avg. Land Value 1 – 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(% p.a)	$/m²	(% p.a)
Gateway Ports	113	-	91	-1.6%	8.20 – 8.35	9.27 – 9.77	327	-0.5%	290	-0.9%
Northern	107	0.5%	89	1.7%	8.55 – 9.00	9.15 – 9.70	308	-	240	-1.2%
Southern Corridor	105	-	85	-1.7%	8.38 – 8.95	9.55 – 10.15	265	-0.8%	182	-0.8%
South West	107	0.9%	86	-1.7%	8.20 – 8.70	9.00 – 10.00	310	-0.2%	222	-3.9%
Brisbane Blended	**108**	**0.3%**	**88**	**-0.8%**	**8.35 – 8.75**	**9.30 – 10.00**	**303**	**-**	**234**	**-1.7%**

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)

Economic Snapshot

The economic context has been clouded by the uncertainty surrounding continued sentiment-impacting events, largely within Europe; but China's economic health and the speed of economic recovery across the USA are also under focus.

Despite this, recent months have seen economic indicators which have generally been on the upside of expectations, even though the consumer and business confidence levels remain lower. Basic indicators such as CPI (3.5% Sept Qtr ABS), Retail Sales (2.4% p.a trend gth as at Sept 2011 ABS), unemployment (relatively stable at 5.2% Oct 2011) and recent sustained improvements in the balance of trade figures (imports +8% exports +3% Aug 2011 ABS) all point to a relatively solid economic base.

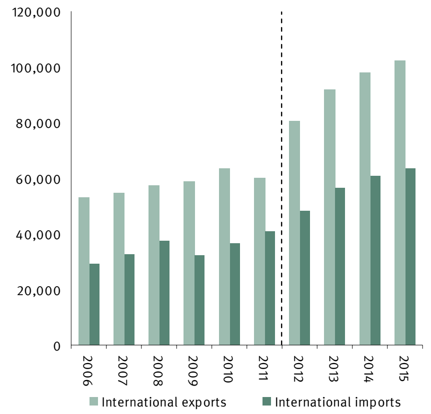
Forecasts released by Deloitte Access Economics in Q3 2011 indicate that a strong rebound is still expected for the Australian and Queensland economies in 2012. Figure 1 shows that from the positive, but relatively modest levels of 1.7% forecast for both Queensland and Australia for 2011, economic growth is forecast to accelerate rapidly to 3.6% for Australia and 6.7% for Queensland. It is therefore expected that Queensland will return to outperforming Australia in terms of economic growth, boosted by a number of coal mines returning to production from the 2010/11 floods and other natural resource projects reaching maturity and production.

Figure 1
Qld & Australia Economic Growth
Qld GSP & Aust GDP p.a forecast growth rates

Source: Deloitte Access Economics - September 2011

Following the 25bps cut in November, the short term money market is still pricing in a decrease in the target cash rate of up to 50bps to early 2012 and 100bps by Q3 2012; based on the interbank cash rate future implied yields. While this quantum of interest rate reduction is not expected to translate to the investment finance market in full, the general expectation remains for relatively steady or softening interest rates.

Figure 2
Qld International Imports & Exports
$ million constant prices



Source: Deloitte Access Economics - September 2011

Forecasts of imports and exports both show a significant rebound into 2012 and beyond, in line with the jump in economic growth. While much of the growth in Queensland exports comes from the natural resources sector and to an extent bypasses the Brisbane logistics hub, the overall benefits to the economy and boosts to the steel fabrication sector have had noticeable impacts on industrial demand within the Brisbane region. Growth in imports is also aligned with greater consumer product consumption and distribution as well as increases to businesses plant & equipment investment.

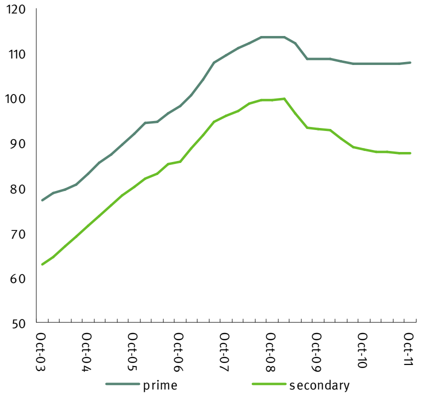
Industrial Overview

Despite relatively robust levels of leasing activity, the rental market has remained flat over the past six months. The vacancy levels have tightened further to be the lowest which has been recorded by Knight Frank (series commenced in 2007).

Figure 3

Brisbane Region Industrial Rents

$/m² average Prime & Secondary market rents



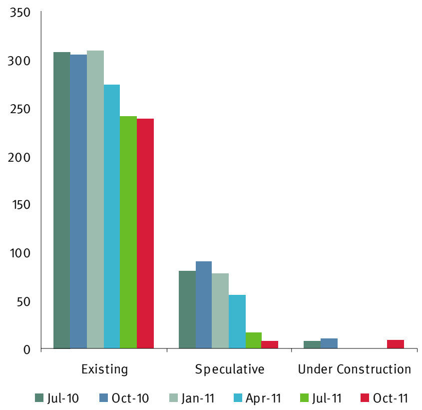
Source: Knight Frank

Notwithstanding this steady decrease in available space, rental rates have remained virtually stable since mid 2009. The average prime net rent for the Brisbane market is currently $108/m². Secondary rental rates have continued to drift, averaging $88/m² net. Given relatively tight supply, sustained improvement in tenant demand is expected to translate quickly into rental growth.

Figure 4

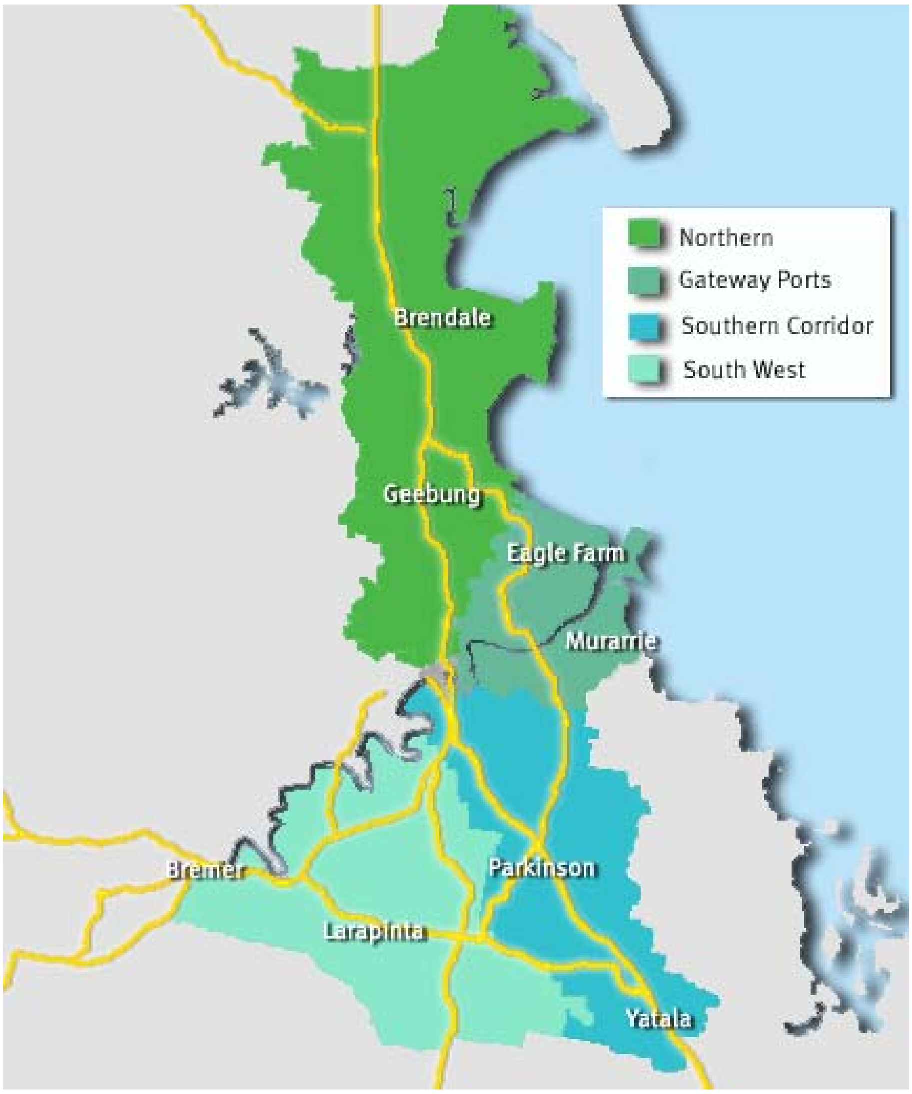
Brisbane Region Available Space

'000 Vacancy 3,000m²+ as at October 2011



Source: Knight Frank

BRISBANE INDUSTRIAL REGIONS



The level of available space within the Brisbane market has continued to fall, with only a slight change over the past quarter following the strong contraction in available space in the first half of 2011. As at October 2011 there was 132,600m² less space available (within buildings greater than 3,000m²) than there was in January 2011.

With the amount of completed, speculative space available now diminished, there has been some tentative return to the market by speculative developers. In terms of new stock there is currently 7,260m² of completed, speculatively constructed space available plus an additional 8,338m² under construction. Further speculative development is expected with projects reaching construction phase, particularly within the South West market. The amount of existing available industrial space has stabilised over the past two quarters in the region of 240,000m².

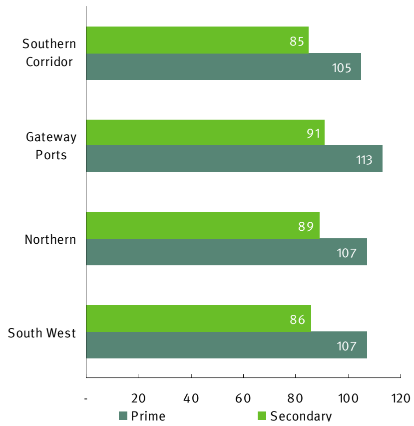
In terms of the distribution of available space, there is very little large stock, with only three buildings above 10,000m², and nine buildings within the 6,000 – 10,000m² size range. The remaining 38 properties available are all within the 3,000 – 5,999m² size range. Of the larger buildings, above 6,000m², only three are classified as prime stock.

OCCUPIER DEMAND & RENTS

The average market rental rates for the Brisbane industrial market have remained unchanged over the past six months, with prime rents averaging $108/m² net as at October 2011. The prime net rent has remained unchanged for the past two years.

Despite some indications of increased competition between tenants, this has not yet translated into rental growth which can be measured across the market. Incentives have begun to reduce, with 3 - 6 months rent free now standard for 5+ year terms. The lack of quality stock and general lack of confidence from tenants continues to be expressed in the market through the relatively large number of shorter lease terms (ie under 3 years). Companies are either more determined than ever to align their lease commitments with major contracts, or having found nothing to suit their long term expansion plans are taking shorter leases in the hope that more appropriate premises can be found in the medium term.

Figure 5
Brisbane Region Industrial Rents
$/m² net market rent by precinct - October 2011



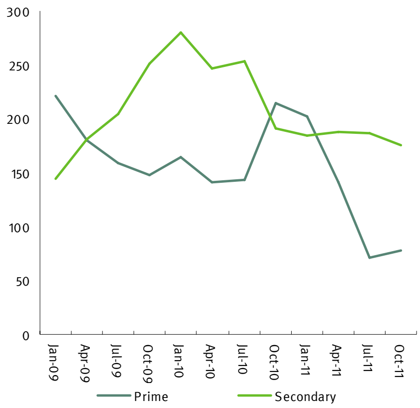
Source: Knight Frank

The precinct with the highest average rents remains the Gateway Ports, with the prime space in the region always tightly held. The average rent remains approx 5% below the market peak, despite being clearly the most expensive precinct for tenants. The South West market, at an average prime net rental of $107/m² is only 2.7% below the market peak and has been the most stable of all the rental markets. The northern market also has an average net rent of $107/m², but the rental remains 6.1% below the market peak. The Southern Corridor market has remained stable at $105/m² and remains the most affordable of the industrial markets across both prime and secondary rental rates.

The introduction of the ability to recover land tax within new leases from 1 July 2009 is no doubt a factor in the static net rental levels. With the vast majority of new leases including a provision to recover land tax, occupancy costs for tenants on new leases have been increasing, however this has not been reflected in net rental growth to date.

As shown in Figure 6, the level of prime accommodation available has diminished significantly during the course of 2011, while secondary space has stabilised. This has continued to impact on secondary rentals, which have drifted and widened the gap between prime and secondary rental levels.

Figure 6
Brisbane Region Available Space
‘000 Vacancy 3,000m²+ as at October 2011



Source: Knight Frank

Table 2
Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
81 Stradbroke St, Heathwood	SW	110	4,499	5	Truckline	Oct 11
33 Iris Place, Acacia Ridge	SW	85	19,500	3	ACI	Oct 11
55 Blanck St, Ormeau	S	115	5,081	5	Beko	Sept 11
103 Brownlee St, Pinkenba	GP	104	4,400	n/a	Peter Johnson	Aug 11
Kellar Dr, Berrinba^	S	112	5,670	8	Langdon Ingredients	Aug 11
1/70A Lavarack Ave, Eagle Farm	GP	44	3,328	5	Tyres Cash & Carry	Aug 11
48 Randolph St, Rocklea	SW	75	8,889	1	Visy Logistics	Jul 11
5 Mackie Way, Brendale	N	81	3,384	2.5	Modern Star International	Jul 11
87 Magnesium Dr, Crestmead	S	102	2,000	5	Tasman Structural Engineering	Jul 11
470 Bradman St, Acacia Ridge	SW	112	7,731	20	National Broadband Network	Jul 11
26 Motorway Cct, Ormeau	S	115	2,177	5	World of Sport Wholesalers	Jul 11
47 Trade St, Lytton	GP	123	4,972	5	ESCO Australia	Jul 11
Bld4 1 Bishop Dr, Lytton	GP	110	11,000	1.5	ACFS	Jul 11
119-131 Rivergate Pl, Murarrie	GP	110	11,839	10	Boating Lifestyle Adventure	Jul 11

Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern
^D&C/pre-commitment

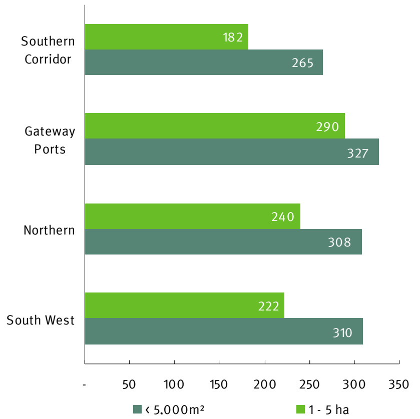
DEVELOPMENT & LAND VALUES

Land sales activity is still at relatively low volumes and dominated by owner occupiers. The average value for a fully serviced lot under 5,000m² has remained static at \$303/m² over the course of 2011. Largely this is reflective of low volumes of sales in a relatively directionless market for bare land. The lack of developer engagement and limited prime supply has diverted owner occupier activity to the land market. This has resulted in diminishing levels of prime, finished allotments, with much of the stock within the larger recognised estates now taken up.

Figure 7

Brisbane Region Land Values

\$/m² value of land by precinct & size - October 2011



Source: Knight Frank

Demand from tenants for new D&C options has remained sporadic with many of the larger requirements remaining unfulfilled for a significant time. Mainfreight (20,000m²) and Bunnings (30,000m²) have been seeking options since early 2011 and may now be close to finalising their deals and absorbing approx 12ha of land. To satisfy their need for additional facilities, Toll NQX has purchased just over 13ha to construct a facility for their own use within the Loganlink Estate. Further requirements with the potential to absorb large tracts of land are Corporate Express (20,000m²) and CEVA Logistics (40,000m²).

Smaller requirements for 5,000 – 10,000m² of building are also circulating within the market, however these tenants are also considering existing properties which, until recently, have had a significant price advantage over D&C product. The ever-reducing options within existing stock is expected to trigger further development – either through pre-commitments or through companies purchasing land to develop their own facilities.

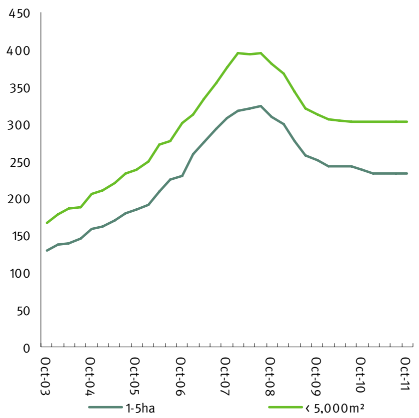
Although the debt market for industrial investments has eased over the course of the year, financing for a development site remains difficult. Even for owner occupiers with a successful business, to obtain funding for the construction of a new facility can still be a difficult task.

As the major developers have land stock available to satisfy the requirements that are in the market, they remain in the best position to put forward competitive pre-commitment offers. With land within estates gradually being absorbed there is some interest by the larger developers in securing the future pipeline of land supply. Distressed sales of future industrial estates may tempt long-term players although holding costs remain a deterrent.

Figure 8

Brisbane Region Land Values

\$/m² avg value serviced lots - 2003 to 2011



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
Hatia Way, Berrinba	S	26.20	134,317	195	Hatia Group	Toll NQX ^	Sept 11
Hatia Way, Berrinba	S	11.00	50,000	220	Hatia Group	Stoddard Steel ^	Sept 11
Swanbank Enterprise Park, Swanbank	SW	undis	200,000	c100	Investa	Holcim ^	Aug 11
776 Boundary Rd, Richlands	SW	6.10	23,100	264	Charter Hall	Redox ^	Jul 11
Mansfield Industrial Estate, Mansfield	GP	0.82	1,745	410	Private Developer	Owner Occupier	Nov 11
11 French Ave, Brendale	N	2.32	9,574	242	Investa	Beilby Holdings ^	Aug 11
7-9 French Ave, Brendale	N	4.00	19,116	210	Investa	Paper Property ^	Jun 11
Guardhouse Rd, Northgate	N	7.00	17,500	400	Australand	Holy Cross Laundry ^	Jul 11
9 Marine Rd, Pinkenba	GP	0.26	2,023	129	Private Investor	Adjoining Owner	May 11
10 Logistics St, Yatala	S	0.725	4,200	173	Cavanagh Bros Pty Ltd	Owner Occupier	Apr 11

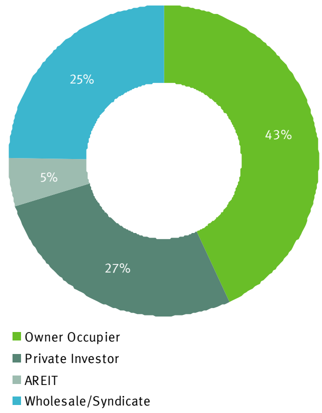
Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern ^Owner Occupier

SALES & INVESTMENT YIELDS

Sales activity has been relatively subdued across the market for 2011 to date. Over the 12 months to November 2011 there were a total of 35 sales in excess of $5 million with a total transaction value of $394 million. Wholesale funds/syndicates continued to purchase the larger investment stock and with $97 million in sales were far more active than the AREIT sector, which has largely remained out of the market.

Owner occupiers were the dominant investment class with $170 million (43%) in sales across 16 transactions. These sales accounted for a mixture of land, new properties and older style but highly useable fabrication facilities. Private investors were next with $106 million across 13 sales. Private investors have continued to be drawn to industrial investments while the yields have remained attractive. Most have sought relatively conservative investments with single tenants and long lease terms, in essence absorbing the stock which would generally be the domain of AREITs.

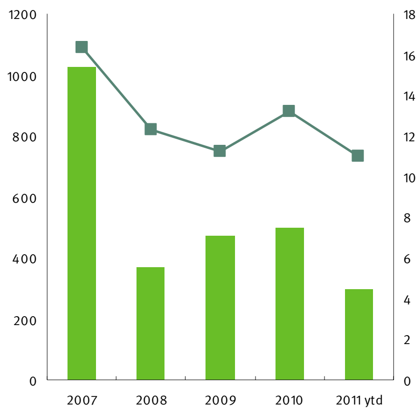
Figure 9
Brisbane Region Purchaser Profile
Sales › $5million 12 months to November 2011



Source: Knight Frank

Dominated by owner occupiers and private investors the average transaction size (for sales over $5 million) has been relatively lower at $10.9 million for 2011 to date, compared to the average of $16.3 million recorded in 2007 when institutional investment and the market were at their peak. This is illustrated in Figure 10 which compares the total turnover and average sale from market peak to 2011 ytd. As long as major investors remain a small proportion of purchasing activity, the market will remain relatively subdued at the top end.

Figure 10
Brisbane Region Turnover
Volume › $5million (LHS) & Av Sale (RHS) $ millions



Source: Knight Frank

Table 4
Major Improved Sales Activity Brisbane Region

Address	Region	Price ($ m)	Bldg Area (m²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
Backhouse Place, Eagle Farm*	GP	27.00	17,200	VP	-	TradeCoast Central	E B Games	Jul 11
20 Radius Dr, Larapinta	SW	11.00	7,000	7.82	10.0	George Group	Private Investor	Jul 11
459 Tufnell Rd, Banyo	N	5.05	2,918	7.18 ^	10.0	Pradella Projects	Private Investor	Jul 11
11 Stradbroke St, Heathwood	SW	7.70	5,650	8.20	7.0	George Group	Private Investor	Jul 11
50 Arc Place, Larapinta	SW	8.60	4,848	8.36	5.3	George Group	Private Investor	Jul 11
73 Industrial Ave, Wacol	SW	7.50	8,619	9.77	10.0	RCR Tomlinson`	Private Investor	Jun 11
26 Manton St, Morningside	GP	6.00	3,980	VP	-	Private Investor	AustWide Meat	Jun 11
4 Radius Dr, Larapinta	SW	20.00	14,543	8.00	6.0	Potter Group	GIC/Logos Property	Jun 11
112 Cullen Ave, Eagle Farm	GP	14.45	11,855	10.50	1.5	Urbex	CBIC	Mar 11
103 Ingram Rd, Acacia Ridge	SW	9.48	8,024	VP	-	AMP Capital	Rolled Steel	Apr 11
1937 Ipswich Rd, Rocklea	SW	12.92	13,103	VP	-	Lend Lease	TyreMax	Apr 11
920 – 928 Nudgee Rd, Banyo	N	25.30	17,000	8.90^	15.0	Bluescope Steel	Sentinel Asset Mgt	Apr 11
21 Metroplex Ave, Murarrie	GP	8.22	6,076	8.66	6.0	Valad Property Gp	Harmony Property Group	Apr 11
84 Lahrs Rd, Ormeau	S	11.75	7,646	VP	-	APGF	Scotts Refrigerated Freightways	Apr 11

Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern
^passing yield * commitment for turnkey facility `vendor leaseback NB: Transactional analysis excludes QLD portion of IIF sale to Goodman Aust Trust (c$80m)

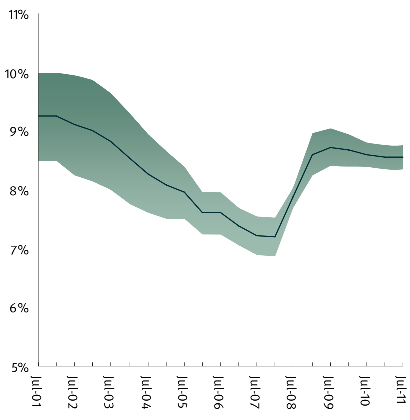
Vacant possession sales to owner occupiers are still achieving higher prices than an equivalent investor purchaser would, due to continued risk aversion. The larger owner occupier sales for prime property represented an improved rate in excess of $1,500/m² of building area.

YIELDS HAVE BEEN STABLE

Investment sales have indicated little change to yields over the course of the year, with a marginal firming trend. Prime industrial yields currently range between 8.35% - 8.75% across the market. Between the sub-sectors the results have been slightly varied with minor tightening in the Gateway Ports and Northern sectors offsetting the minor easing in the South East Corridor and South West, with overall trend stable. As the prime rental market improves there will be downward pressure on yields.

Secondary yields have followed a similar trend with average core market yields within the range of 9.30% - 10.00%, stable from earlier in the year. Across all the precincts secondary yields have remained stable and relatively soft as the leasing risk on secondary stock remains quite high.

Figure 11
Brisbane Region Prime Yields
Core Market Yield Range & Median -2001 to 2011



Source: Knight Frank

OUTLOOK

The Brisbane industrial market was showing positive signs in the first quarter of 2011, however the continued lack of confidence across the broader economy has slowed the expected upside in the market. While analysis of available space across the industrial market shows another record low, this limited supply has not yet translated into measurable increases in average rental levels, although some reduction in incentives has been noticeable in the market.

The average prime net rent across the market has now been stable for more than two years, but Knight Frank remains of the view that the current lack of available prime space across the market will translate into rental growth. To date the element lacking is greater competition between tenants, to spark increases in the prime net face rental rates. Tenants remain relatively slow to make the decision to commit to new accommodation and can be spooked into deferring expansion/relocation plans as major global confidence shocks emerge.

Despite the static rental market, when tenant demand increases, there is the potential for the market to tighten quite rapidly given the lack of recent development. This will be particularly driven by larger tenants, with only seven prime buildings available greater than 5,000m². The first stirrings of a returning speculative development market is targeted to benefit from this upside in tenant mobility.

Secondary rents, however are not expected to show great improvement in the near term, remaining on a stable trend. To date a number of larger tenants that had been seeking a new building have found space to tide-over within the cheaper, secondary market and this may continue to boost take-up, however this is seen as a short term measure only.

The industrial land market has also been quite static over the course of 2011. Steady sales to owner occupiers has absorbed stock from the market, however there remains a lack of developer engagement, particularly for smaller speculative construction. For potential developments the major landholders all have an existing land bank to draw from, and can offer more competitive deals from their existing holdings than through purchasing additional land. As some developers have nearly exhausted their stock within active estates, they are now looking towards the next project, however funding for large englobo land remains difficult and would require a large equity contribution.

While there has been some price upward pressure building in the South West, as available lots within Radius Industrial Estate, Motorway Business Park and Southgate Parkinson all reduce, distressed sales in the south eastern corridor has diverted some purchasing activity to more cost effective options. Thus the market value of land, stable over the past six months, is expected to remain relatively static into the New Year.

Purchasing activity for 2011 to date is approximately 40% lower than the total transaction value recorded for 2010. While the larger investors remain out of the market, or are building their portfolios through development rather than on-market transactions, the level of transaction activity within the market is expected to remain below trend levels. Yields have remained stable, however there has also been a lack of prime property brought to the market to test the yield parameters. It is understood that Goodman has transferred the KMart D&C property in Lytton (50,000m²) internally rather than offering it to the market.

All in all the industrial market fundamentals of supply and demand appear well balanced with diminishing supply and steady but easily spooked, demand. In this environment we expect a relatively rapid recovery in the market as soon as confidence returns in a sustained manner. The recent reduction in the cash rates of 25bps may assist in this boost to business confidence, however at this stage most of the influencing factors remain in Europe, the USA and China.

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