RESEARCH

OCTOBER 2010

# BRISBANE INDUSTRIAL

## Market Overview

Knight Frank

## HIGHLIGHTS

- Prime industrial rents have stabilised across the Brisbane market at $108/m² net, while secondary rental levels have continued to moderate. A recent increase in larger tenant enquiries has combined with solid smaller tenant demand to increase confidence within the market.
- Land prices remained relatively stable over the past six months, however on an annual basis still show falls. The different precincts are now faring quite differently in the market with the Gateway Ports and South Western areas strengthening as the preferred location for many users, however the northern and southern areas still have pockets of weakness in their land markets.
- Prime industrial yields have continued a gradual firming and some institutional interest has returned to the market. Secondary properties however, still face some difficulties in tenant retention, income growth and investment demand.

# BRISBANE INDUSTRIAL OVERVIEW

Table 1
Brisbane Industrial Market Indicators July 2010

| Precinct | Avg Prime Rent | | Avg Secondary Rent | | Core Market Yields | | Avg Land Value <5,000$m^2$ | | Avg Land Value 1 – 5 ha | |
|---|---|---|---|---|---|---|---|---|---|---|
| | $\$/m^2$ net | (%p.a) | $\$/m^2$ net | (%p.a) | Prime (%) | Secondary (%) | $\$/m^2$ | (% p.a) | $\$/m^2$ | (% p.a) |
| Gateway Ports | 113 | -1.7% | 93 | -6.1% | 8.25 – 8.60 | 9.20 – 9.55 | 330 | -5.7% | 295 | -3.3% |
| Northern | 107 | -2.7% | 88 | -2.2% | 8.50 – 9.00 | 9.10 – 9.60 | 307 | -14.0% | 246 | -18.0% |
| Southern Corridor | 105 | - | 87 | -4.4% | 8.40 – 8.85 | 9.50 – 10.15 | 261 | -5.1% | 187 | -6.5% |
| South West | 105 | - | 88 | -5.4% | 8.35 – 8.75 | 9.15 – 10.20 | 311 | 3.7% | 240 | 6.7% |
| **Brisbane** | **108** | **-1.1%** | **89** | **-4.6%** | **8.40 – 8.80** | **9.25 – 9.95** | **302** | **-5.7%** | **242** | **-6.0%** |

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)

The industrial market has performed steadily over the past six months, although the level of activity has remained relatively low in comparison to the underlying enquiry levels.

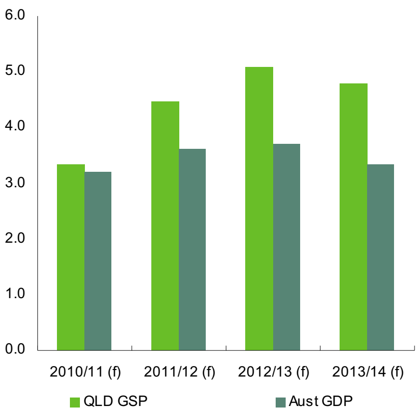
## Economic & Business Climate

Recent economic forecasts have been quite upbeat with growth forecast to return to trend levels over the next financial year for both Queensland and Australia. The Australian economy grew by 3.2% (ABS Trend Data) over the financial year 2009/10. While the state accounts for Queensland have yet to be finalised for the financial year the annual growth in Gross State Product over the 12 months to the March 2010 quarter was 2.6%, again well above previously projected figures.

Going forward Access Economics is projecting GDP of 3.2% for Australia and a slightly higher GSP for Queensland of 3.3% for 2010/11. Over the following four years the Queensland economy is expected to again track well ahead of the national average with forecast growth ranging from 4.5% - 5.1%, in comparison to 3.3% - 3.7% for Australia.

The upside to the Queensland economy is expected to remain tied to the continued growth in the volumes and prices of commodities, particularly the expansion and commissioning of major resource projects, which reached advanced planning stage prior to the GFC.

Figure 1
QLD & Australia Economic Growth
QLD GSP & Aust GDP % p.a growth




Source: Access Economics Q2 2010

Export and import levels are increasing with the balance of payments turning strongly positive since April as exports have recovered. Import levels, particularly for consumer items which dipped during the first months of 2010, have shown recent improvement. Other measures such as business capital investment and business confidence, which were weaker in October, show that the recovery is not linear.

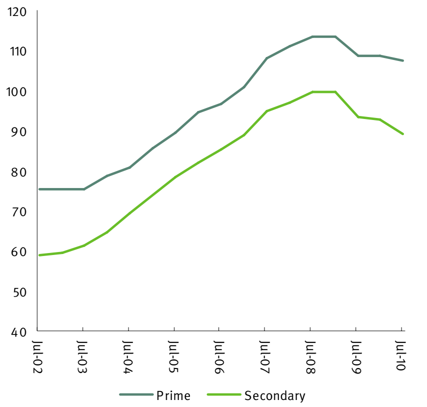
## Industrial Overview

The key industrial market indicators have remained relatively static for the prime market over the past six months, whereas the secondary market has continued to show softening conditions.

The average prime rental level for the whole of Brisbane is currently $\$108/m^2$ net, down only marginally from $\$109/m^2$ net at the start of the year. In contrast, the average secondary rent fell over the six months to July 2010, from $\$93/m^2$ net down to $\$89/m^2$ net as the impact of the quantum of vacant secondary space made its presence felt in the marketplace. The gap between prime and secondary rentals continues to widen as there remains a limited amount of vacant, good quality, industrial accommodation.

THE QUANTUM OF VACANT SECONDARY SPACE MADE ITS PRESENCE FELT

Figure 2
Brisbane Region Industrial Rents
$/m² average Prime & Secondary market rents

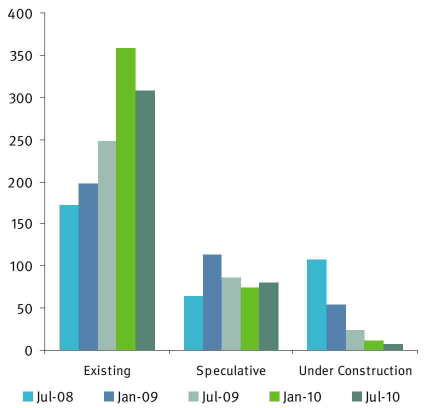



Source: Knight Frank

The level of vacant space within the industrial market has contracted during the first half of 2010, with the total vacancy level reducing from a recently recorded high in January 2010. Increased absorption over the first half of the year took up a good proportion of available space with the most noticeable change within existing stock. However as was seen by the further fall in secondary rental levels, this absorption was done under a climate of high negotiability in secondary rents.

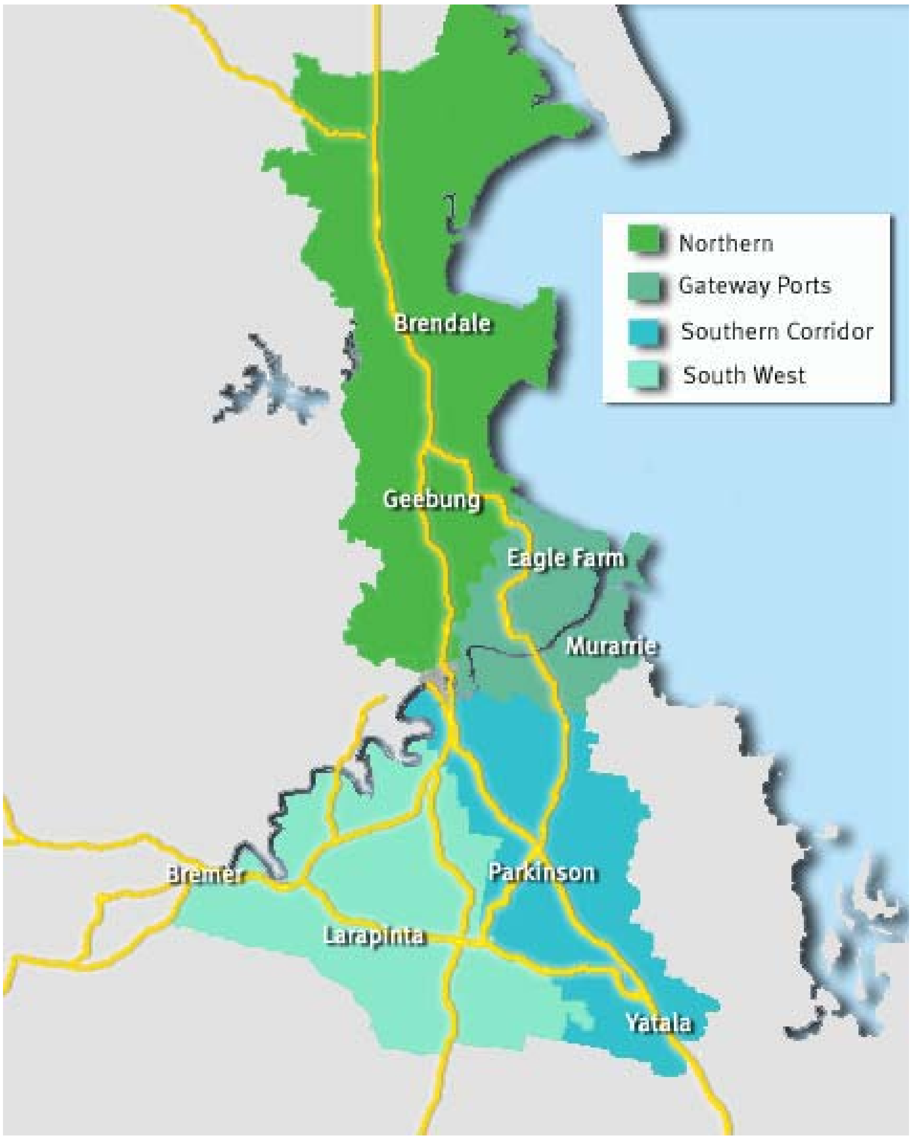
The level of completed speculatively developed stock has remained quite stable with very little speculative stock under construction; but likely to increase in 2011.

Figure 3
Brisbane Region Available Space
'000m² Available Space 3,000m²+




Source: Knight Frank

## Brisbane Industrial Regions




# VACANT SPACE CONTRACTED DURING 2010

As anticipated the level of D&C construction has begun to increase; as tenants finding nothing to suit their needs in existing stock, move to commit to purpose built accommodation. Predominantly developers who already hold the land have been in a stronger position to secure tenant pre-commitment due to the lingering difficulties to finance non-income producing property. As a result the price of land has bottomed out for all but the Southern precinct, with the Brisbane average reflecting only a minor fall from $305/m² to $302/m² for lots ‹5,000m² over the past six months. However each precinct has fared differently with further falls in price for the Southern and Northern markets, relatively stable for Gateway Ports and some price recovery in the South West as the number of available lots diminished.

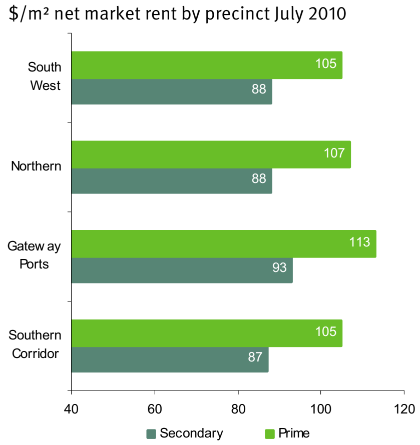
# OCCUPIER DEMAND & RENTS

The average market rental rates for Brisbane have indicated the development of a two tier market with prime market rental levels stable for roughly 12 months, while secondary rents have softened appreciably over the six months to July 2010.

At the upper end of the market, rents have been holding firm, with the current level expected to form the low point for this cycle. Limited prime opportunities are now translating to increased D&C activity as companies are committing to long term lease deals for purpose-built accommodation. This return of long term commitments underlines the solid footing and confidence of many local and national businesses.

Occupiers actively seeking accommodation at the moment include – KMart 50,000m², Nissan 6,000m², Reece Plumbing 25,000m², Schenker 19,000m², Bunnings and Woolworths. In addition there are several more, currently undisclosed, major industrial requirements. In the main these are aligned either to retailers expanding or streamlining their logistics processes, or new/expanding enterprises which are linked to the ramping up of natural resource projects based in Queensland.

Figure 4
Brisbane Region Industrial Rents
$/m² net market rent by precinct July 2010



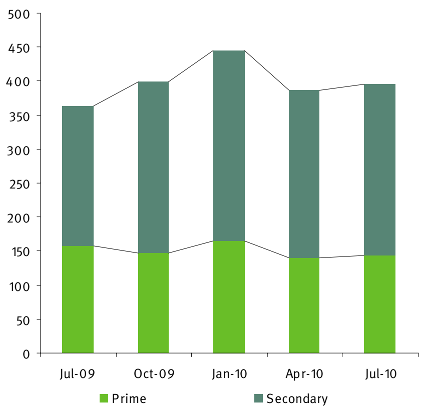

Source: Knight Frank

This D&C activity and upgrading of accommodation by major users has increased the level of secondary stock which has been available to the market. This was particularly the case late 2009 when there were high levels of tenant relocations to long-committed, purpose-built facilities. The result was a peak in total, but more particularly secondary, vacant space within the market in January 2010.

Since then secondary market occupiers have absorbed some of this backfill space, however this has been at the expense of the average rental level, which fell by 4.3% over the six months to July 2010 as landlords recognised the need to be flexible in rental expectations in order to secure a tenant in the current market.

The table below is dominated by D&C agreements which have formed most of the large recent leasing deals. The rental levels for these D&C larger sheds have remained relatively stable over the past year, ranging between $115 - $120/m² net.

Figure 5
Brisbane Region Available Space
'000m² Available Space 3,000m² + as at July 2010




Source: Knight Frank

The swathe of 'super tenants' (ie above 20,000m²) current in the market are likely to be able to drive harder deals with developers, who with the re-invigoration of the investment market are seeking bankable tenants with long leases to re-establish their development pipelines.

Table 2
Major Industrial Leasing Transactions Brisbane Region

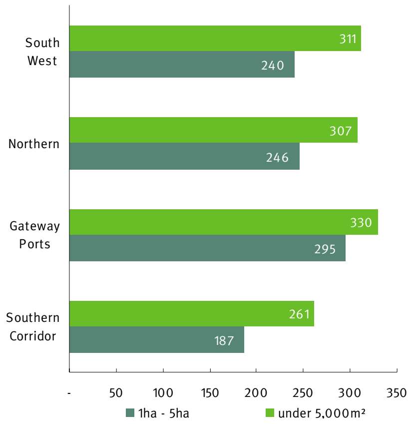
| Address | Region | Net Rent ($/m²) | Area (m²) | Term (yrs) | Tenant | Date |
|---|---|---|---|---|---|---|
| Sandstone Place, Parkinson ^ | SW | undis | 9,223 | 10 | Salmat | Jun 11 |
| Sherbrooke Rd, Willawong ^ | SW | 112 | 22,058 | 12 | Grace Document Storage | Jun 11 |
| Sandstone Place, Parkinson ^ | SW | undis | 8,500 | 16 | Rand | Dec 10 |
| Interchange Industrial Estate, Narangba ^ | N | 115 | 6,530 | 10 | Apex QSteel | Nov 10 |
| Kunava St, Parkinson ^ | SW | 117 | 10,200 | 12 | Target | Oct 10 |
| 2 Weippin St, Cleveland | S | 100 | 13,861 | 10 | Fisher & Paykel~ | Sept 10 |
| Sandstone Place, Parkinson ^ | SW | 116 | 13,738 | 10 | Kimberly Clarke | Jul 10 |
| 514 Boundary Rd, Richlands | SW | 151 * | 14,585 | 15 | Toll Transport | Aug 10 |
| 1-3/116 Magnesium Dr, Crestmead | S | 110 | 6,159 | 10 | Factory Direct Fencing | Jun 10 |
| 1035 Nudgee Rd, Banyo | N | 105 | 5,350 | 5 | CEVA Logistics | Mar 10 |

Source: Knight Frank ^D&C/pre-commitment *rental distorted by 3ha of hardstand at approx $20/m²
GP Gateway Ports, S Southern Corridor, SW South West, N Northern ~vendor leaseback

# DEVELOPMENT & LAND VALUES

The land market has generally remained subdued over the past six months; however allotments have been absorbed for largely D&C activity which is reducing the level of available finished lots on the market. The majority of the deals have been done on land already owned by the developer of the facility. For lots which have changed hands in the open market, the vast majority have been to owner occupiers who will then construct their own facilities. Overall prices have stabilised during 2010, although still showing circa 6% falls on an annual basis the past six months has only fallen by 0.5% - 1.0%.

Figure 6
Brisbane Region Land Values
$/m² average value serviced lots



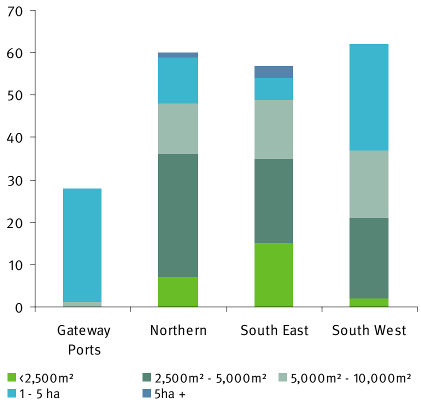

Source: Knight Frank

Figure 7
Brisbane Region Land Values
$/m² average value serviced lots


Source: Knight Frank

The Gateway Ports precinct has retained the mantle of having the highest average land values of the Brisbane region, with $330/m² for smaller lots and $295/m² for lots 1-5ha, although there continued to be slight moderation in average prices. The South West market closed the gap, the only precinct to bounce back from recent lows, as the market had over-corrected. Lots in the two largest estates – Southlink Business Park and Radius Industrial city have continued to be well absorbed by users. The markets in Northern and Southern Corridor continued to lose ground with land prices still drifting.

Figure 8
Brisbane Region Lot Availability
Number & type of serviced lots within major estates




Source: Knight Frank

Knight Frank has tracked the number and size of available allotments within the major industrial estates across the Brisbane market and the distribution is shown above. With land prices expected to be at the bottom for all but fringe locations or forced sellers, steady lot absorption is expected over the next six months. Land supply, particularly of smaller lots, remains scarce within the Gateway Ports area while most other markets have a broad product mix available. Englobo or future industrial sites remain out of favour with most developers having enough land to satisfy their short term requirements.

Table 3
Major Land / Development Sales Activity Brisbane Region

| Address | Region | Price ($ m) | Area (m²) | $/m² of site | Purchaser | Vendor | Date |
|---|---|---|---|---|---|---|---|
| Citiswich Industrial Estate, Bremer | SW | 3.75 | 15,000 | 250 | Hoepners Group* | Walker Corp | Aug 10 |
| Sherbrooke Rd, Willawong | SW | 8.00 | 100,000 | 80 | CIP | BCC | Aug 10 |
| 41 Lavarack Ave, Eagle Farm | GP | 2.50 | 5,253 | 477 | Local Developer | QLD Govt | Jul 10 |
| 160 Bluestone Cct, Seventeen Mile Rocks | SW | 2.36 | 7,737 | 305 | Owner Occupier* | CSR | May 10 |
| 51 Depot St, Banyo | GP | 2.75 | 6,324 | 435 | Health World* | Local Developer | Apr 10 |
| 84-126 Axis Pl, Larapinta | SW | 12.00 | 43,000 | 280 | Energex | George Group | Apr 10 |
| 112 Bluestone Cct, Seventeen Mile Rocks | SW | 1.94 | 6,158 | 315 | Owner Occupier* | CSR | Mar 10 |
| 70 Union Cct, Yatala | S | 1.41 | 5,870 | 241 | Private Investor | Solo Res. Recovery | Feb 10 |

Source: Knight Frank GP Gateway Ports, S Southern Corridor, SW South West, N Northern *owner occupier

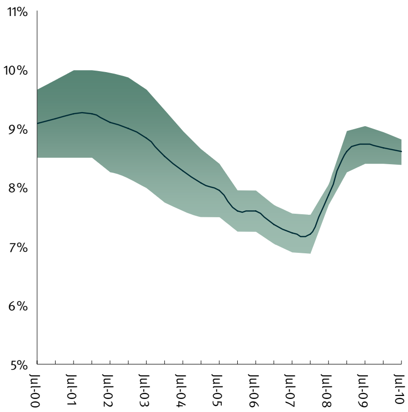
# SALES & INVESTMENT YIELDS

Despite early indications of increased sales enquiry levels at the start of 2010, activity has remained quite low until recent months. A flurry of sales since July 2010 has greatly improved confidence in the local market. Private investors have been replaced as the most active investor type with owner occupiers the dominant purchaser type with 24% of transactions (over $5 million) by value. Private investors have remained active with 22% of transactions by value, joined by unlisted funds (22%) and offshore funds also represent 21%, due to GIC's interest in the portfolio sold by Salta Properties ($79 million in Brisbane). The $374 million recorded in sales greater than $5 million during 2010 to date is still below the $514 million recorded during the calendar year 2009.

The return of institutional buyers to the industrial investment market has so far been largely limited to portfolio acquisitions by Growthpoint and GIC (via a Joint venture body). Along with the recent purchase of 514 Boundary Rd, Richlands by Lend Lease, anecdotal evidence has indicated an increased appetite by mainstream investment houses to acquire industrial investments.

As has been the case for all property classes in the post-GFC adjustment period the parameters for investment remain at a very high level with little to no tolerance for secondary tenants or a WALE of under 10 years for individual assets.

Figure 9
Brisbane Region Prime Yields
Prime Core Market Yield – Range & Median




Source: Knight Frank

Thus with relatively few properties meeting the criteria for 'prime' investments in the current market parlance there has been a measurable tightening of the prime yield over the six months to July 2010 (7 basis points), continuing the gradual tightening theme identified in the six months to January 2010 (6 basis points). The median prime Brisbane yield has fallen from 8.73% to 8.60% over the past 12 months. While the lower yield range remained in the order of 8.4%, the upper yield range has contracted as the market's appetite for normal property investment risk has returned. The upper yield range has fallen from 9.05% to 8.80% (25 basis points).

## INSTITUTIONAL BUYERS ARE BEGINNING TO RETURN

Recent investment sales of single assets have shown yields of 8.0 – 8.2% for 15 year terms anchored by Toll. The portfolio sales have reflected a wider range of yields of 7.68% - 9.75% for the Growthpoint Portfolio and 8.42% - 8.58% for the Ausco (GIC) purchases.

Table 4
Major Improved Sales Activity Brisbane Region

| Address | Region | Price ($ m) | Area (m²) | Core Mkt Yield (%) | WALE (yrs) | Purchaser | Vendor | Date |
|---|---|---|---|---|---|---|---|---|
| 2 Weippin St, Cleveland` | S | 19.70 | 23,318 | n/a | n/a | S.A.M | Fisher & Paykel | Nov 10 |
| 514 Boundary Rd, Richlands | SW | 26.88 | 14,585 | 8.17 | 15.0 | Lend Lease | Private Investor | Sept 10 |
| 10 Gassman Dr, Yatala* | S | 5.00 | 3,188 | 7.65 | 7.3 | Growthpoint | Property Solutions | Sept 10 |
| 29 Business St, Yatala* | S | 10.70 | 8,680 | 8.58 | 6.7 | Growthpoint | Property Solutions | Sept 10 |
| 13 Business St, Yatala* | S | 14.94 | 8,951 | 7.74 | 9.1 | Growthpoint | Property Solutions | Sept 10 |
| 670 Macarthur Ave, Pinkenba* | GP | 8.20 | 5,577 | 9.75 | 4.9 | Growthpoint | Property Solutions | Aug 10 |
| 51 Axis Pl, Larapinta^ | SW | 33.75 | 15,720 | 7.93 | 15.0 | Private Investor | Toll Ipec | Aug 10 |
| Kunava St, Parkinson | SW | 15.00 | 10,200 | 8.30 | 12.0 | Private Investor | Australand | Aug 10 |
| 478 Freeman Rd, Richlands | SW | 12.00 | 9,075 | VP | n/a | ALS Laboratory Gp | Challenger | Aug 10 |
| 62 Stradbroke St, Heathwood* | SW | 28.90 | 24,791 | 8.58 | 5.0 | Ausco Logistics~ | Salta Properties | Jul 10 |
| 82 Noosa St, Heathwood* | SW | 50.15 | 37,980 | 8.42 | 7.1 | Ausco Logistics~ | Salta Properties | Jul 10 |
| 33 Windorah St, Stafford | N | 11.20 | 9,269 | 8.60 | 9.0 | Charter Hall | Abacus Funds Mgt | Jul 10 |
| 218 Fison St, Eagle Farm | GP | 6.175 | 4,350 | 8.00 | 2.8 | Private Investor | Mortgagee | Mar 10 |
| 2828 Ipswich Rd, Darra | SW | 12.10 | 13,928 | Part VP | n/a | Insulect Group | Grosvenor | Mar 10 |

Source: Knight Frank
GP Gateway Ports, S Southern Corridor, SW South West, N Northern * part of a national portfolio sale ^ vendor leaseback `partial vendor leaseback ~Assoc with GIC

Already in evidence in market negotiations and expected to manifest in market indicators by the end of the year, there is now distinct downward pressure on the lower yield range for the prime market (current av.8.4%).

This tightening of yields is so far confined to the prime market, with secondary market yields continuing to drift as the market remains concerned by the level of secondary vacancy and prospects for maintaining property income over the short to medium term.

Average secondary yields increased by 5 basis points over the six months to July 2010 (13 bps over the year) and as such the yields are stabilising, although investor demand for secondary stock remains patchy. For secondary properties the greatest demand appears to lie with a property with a vacancy that can be used for owner occupation, along with an existing tenant to provide potential expansion space and current income to assist with obtaining finance. Owner occupiers have remained active purchasers within the market and with the mainstream investment market still cautious in regard to any vacancy within a building, owner occupiers have been able to purchase vacant, or short lease tail buildings, at a level which would have been unachievable when the market was at its peak.

The largest owner occupier sale was the $12 million purchase of 478 Freeman Rd, Richlands by ALS Laboratory Group. The modern building with ample concrete hardstand areas reflected an improved rate of $1,322/m² over the building area of 9,075m².

# OUTLOOK

Industrial market conditions appear to be improving, however as is the case with all markets, both sentiment and activity remain patchy. A steady stream of occupier enquiry exists across all business sizes, focussed on the leasing market, however also continuing to promote owner occupier purchases.

The limiting factor for purchasers whether owner occupiers, investors or developers remains the issue of obtaining finance with lenders still requiring greater equity contribution and also low risk interest cover for an investment asset.

On a historical level the amount of space leased remains lower than in previous years, however the level of vacant space (greater than 3,000m²) is definitely reducing with January 2010 now expected to form the highpoint for the market.

This increased absorption of existing space during 2010 has come at a continued cost for owners of secondary properties, with rents remaining soft for this category of property. Incentives and discounting of face rents is a part of the secondary market, with tenants driving a hard bargain.

In contrast the prime market rents have stabilised and further reductions in face rents are not expected to feature in the market for prime assets. With several major tenant requirements in the market, D&C deals and construction are expected to increase throughout 2011. This has the flow–on effect of returning the backfill space to the leasing market, and while not all of this space will be secondary this is expected to keep the pressure on lower quality rental buildings through into next year.

51 Axis Place, Larapinta – sold for $33.75 m to private investors on a 15 year vendor leaseback.

## PRIME YIELDS ARE EXPECTED TO FIRM 10-15BPS OVER THE NEXT 6 MONTHS

Investment activity does appear to be increasing, with institutional investors gradually returning to the market. To date the majority of sales have been on a portfolio basis, giving the purchasers economy of scale and a broader income profile.

The tightening of prime yields has been relatively modest totalling 13 basis points from the peak in mid-2009. The tightening trend is expected to continue, however remain in the band of 10 – 15 basis points over the next six months. The market's perception of what encompasses a prime investment is also expected to remain quite narrow.

While the occupancy, rental and yield prospects for prime industrial facilities are all showing a tendency towards improvement the secondary market faces further market adjustment. Vacant space in secondary properties remains relatively high and as a result rental levels are still vulnerable to softening. Often this will be dictated by the relevant characteristics of individual properties ie. access, internal height, span, location and amenity. Properties which fall below market expectations in one or more of these areas can be expected to continue to see softening in key value indicators into 2011.

# RESEARCH

**Americas**
USA
Bermuda
Brazil
Caribbean
Chile

**Australasia**
Australia
New Zealand

**Europe**
UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Russia
Spain
The Netherlands
Ukraine

**Africa**
Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

**Asia**
Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
Thailand
Vietnam

**The Gulf**
Bahrain


Knight Frank Research

**Jennelle Wilson**
Associate Director – Research QLD
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

**Matt Whitby**
National Director – Research
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

**Justin Mahnig**
Research Analyst - Vic
+61 3 9604 4713
Justin.Mahnig@au.knightfrank.com

**Matthew Mason**
Research Analyst –SA
+61 8 8233 5232
Matthew.mason@au.knightfrank.com

**Alison Smith**
Research Analyst - WA
+61 8 9225 2434
Alison.Smith@au.knightfrank.com

Knight Frank Valuations

**Ian Gregory**
Director – Industrial
+61 7 3246 8864
IanGregory@qld.knightfrankval.com.au

Industrial Agency Contacts

**Greg Russell**
National Director – Industrial
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

**Peter Turnbull**
Director Industrial
+61 7 3246 8810
Peter.turnbull@au.knightfrank.com

**Richard Morrison**
Director Industrial
+61 7 3246 8846
Richard.morrison@au.knightfrank.com

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

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


Knight Frank Research provide strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research reports are also available at www.knightfrank.com.



Knight Frank Newmark Global