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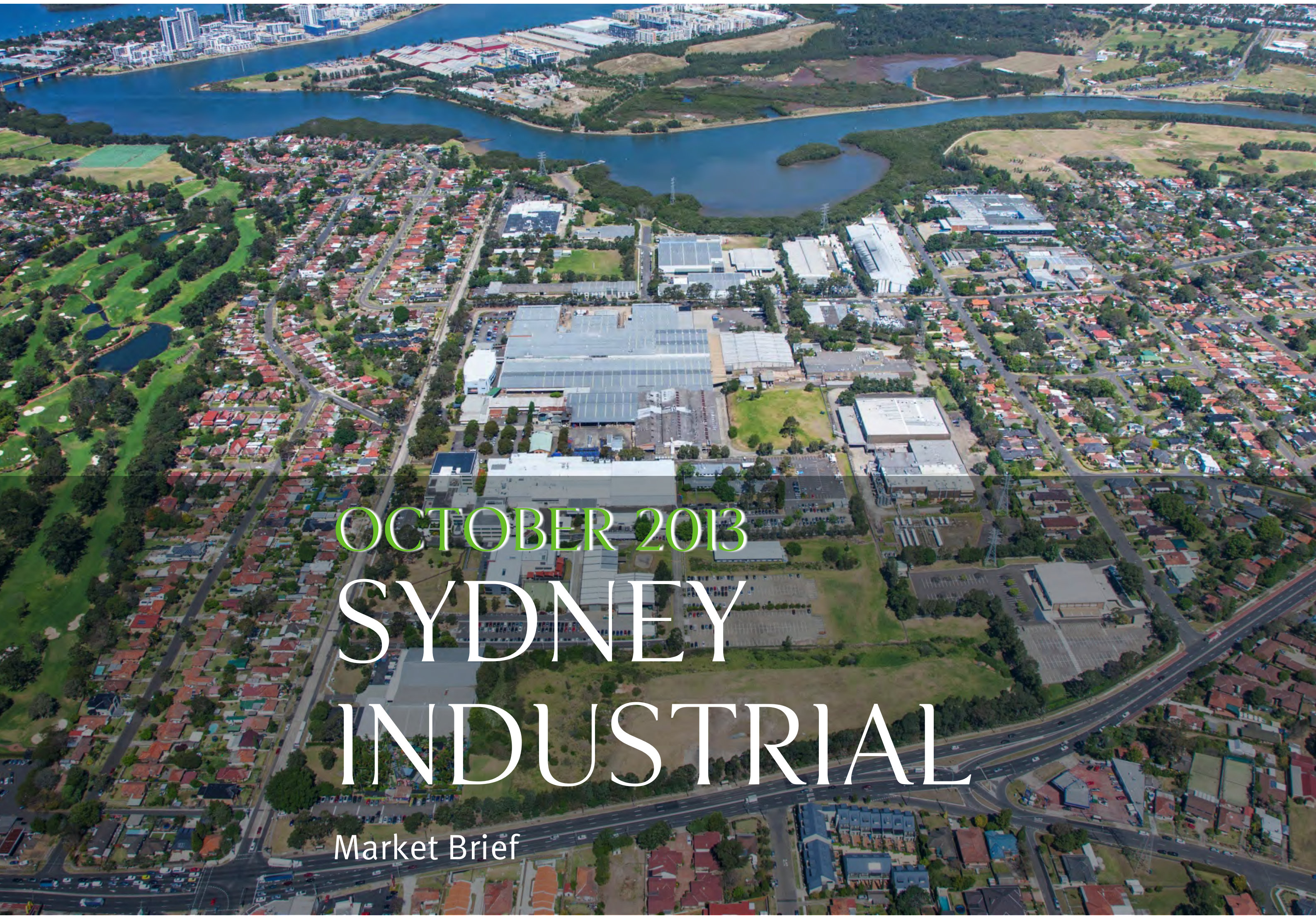

OCTOBER 2013

SYDNEY INDUSTRIAL

Market Brief

HIGHLIGHTS

- Industrial rents have remained largely unchanged in the six months to October 2013 with some moderation in leasing activity evident across the market. The remainder of 2013 is looking positive with a number of leases in negotiation, however an uplift in business conditions will be needed for this to be sustained.
- Gross supply is relatively soft and the 408,138m² forecast to complete in 2013 is 30% below the 10 year average. However with some larger projects set to complete late in 2013 and in early 2014 some resulting backfill will imminently be added to vacancy levels.
- Industrial land sales remain generally inconsistent, however relatively stronger demand for lots of circa 1ha has absorbed the majority of sub-divided stock in Outer West precincts and resulted in a modest uplift in values for small land parcels. Inventory levels for larger developers are starting to reduce, which is expected to improve demand for larger land parcels in 2014.
- There continues to be strong demand in the investment sales market with momentum expected to continue in 2014 given a number of mandates currently looking for industrial opportunities. The bulk of completed sales in the past six months have stemmed from wholesale and smaller listed funds in the $15 million to $35 million price range, while private buyers in the sub $15 million have also been active. The yield tightening that commenced in 2012 for upper prime assets has started to cascade into other asset grades. However the yield cycle for assets on five year WALEs continues to lag the pricing of large modern assets with longer term (10 to 15 years) income profiles.

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Table 1
Sydney Industrial Market Indicators As at October 2013

Precinct	Avg Prime Rent		Avg Secondary Rent		Avg Core Market Yields		Avg Land Value			
					Prime	Secondary	<5,000m²		1 - 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	%	%	$/m²	(%p.a)	$/m²	(%p.a)
Outer West	104	0.3%	94	0.0%	8.00 - 8.50	8.75 - 9.75	350	0.0%	266	6.4%
Inner/Central West	118	0.0%	102	0.0%	8.00 - 8.50	8.75 - 9.75	509	0.0%	296	0.0%
South West	95	0.0%	82	0.0%	8.25 - 8.75	9.00 - 10.00	306	0.0%	215	0.0%
North	162	0.0%	135	0.0%	8.50 - 9.25	9.00 - 10.00	580	0.0%	465	0.0%
South	147	4.1%	124	0.0%	7.50 - 8.25	8.25 - 9.00	1,063	1.2%	813	1.6%
Sydney Average	**124**	**0.9%**	**107**	**0.0%**	**8.00 - 8.75**	**8.75 - 9.75**	**388***	**0.0%***	**259***	**2.1%***

Source: Knight Frank *Average Outer West, Inner/Central West and South West
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)

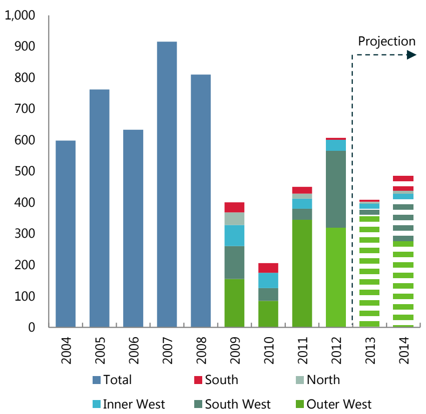
Occupier Demand & Rents

After carrying some solid leasing momentum into the start of 2013, the July and October quarters saw somewhat of a softening in underlying tenant demand. Gross take-up (excl. D&C's) in the October quarter measured only 71,769m², well down on the average rate of circa 120,000m² recorded over the past three years. However, signs of growing confidence levels post the Federal election have seen an improvement in recent enquiry levels, which is starting to translate into stronger activity. While partly driven by the end of year seasonal factor, the final quarter of the year is anticipated to see an improvement in take-up levels due to companies starting to make premises decisions. This is indicated by approximately 60,000m² of vacant stock in negotiation as at the start of October. (For further details on take-up and vacancy, refer Knight Frank Sydney Vacancy Analysis October 2013 report). Prime rental growth is being led by the South region, where a rise in leasing activity has driven solid rental growth. Rental growth has been virtually flat in other regions. Prime incentives, although slightly down on the cyclical high recorded in 2009, have remained broadly stable over the past 24 months and average 11%, albeit with some deals reflecting higher incentives.

Development & Land Values

Gross supply of industrial projects (in excess of 5,000m²) is forecast to measure 408,138m² in 2013. Compared to historical data, this level of supply is relatively modest, being 30% below the 10 year average of 581,000m². As per the projection in Figure 1, supply in 2014 is anticipated to increase modestly with several large pre-leased projects set to reach completion in the first half. There is the potential for the 2014 supply projection to be supplemented further by additional projects given the relatively small lead times in completing a new building. The Outer West continues to facilitate the bulk of new supply, accounting for 71% of 2013 and 2014 supply, including the 13 largest projects.

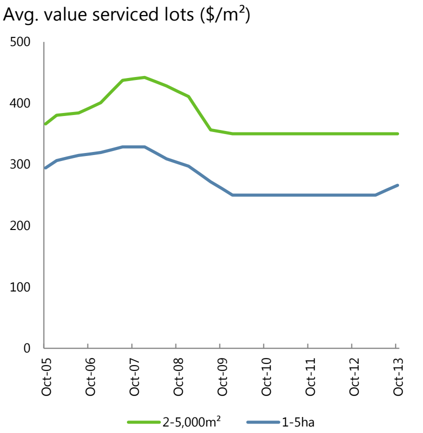
Figure 1
Sydney Industrial Development
Annual Gross Supply* (000s m²)



Source: Cordell Connect/Knight Frank
* includes developments with industrial floor area >5,000m²
and excludes deferred/abandoned projects

There has been relatively strong demand for smaller land parcels, which is being led by a mix of small developers and owner occupiers. For owner occupiers, the cost of a new build is in line with the capital value of existing premises (and in some cases cheaper), however has the added benefit of being purpose built. The majority of sub-divided land in areas such as Eastern Creek has now been absorbed, which has underpinned some improvement in 1ha to 5ha land parcels. This is the first improvement in Outer West land values since the cyclical trough was reached in late 2009. Larger land parcels still remain relatively thinly traded and are yet to show any recent change in value. Although larger developers have been developing from existing inventory, land availability for development is starting to reduce and it is anticipated that demand for larger land parcels will start to pick up in 2014.

Figure 2
Sydney Industrial Land Values*
Avg. value serviced lots ($/m²)



Source: Knight Frank
* Average Outer West, Inner/Central West and South West

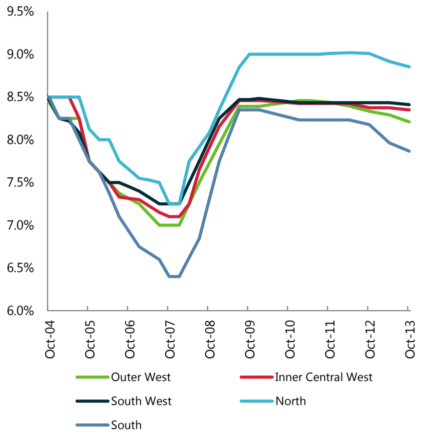
Sales & Investment Activity

Strong investor interest in industrial property has seen a steady flow of sales reach completion over the past six months. Unlisted wholesale funds and smaller listed funds have been notably active, particularly in the $15 million to $35 million price range. Demand from these groups is expected to remain firm given a number of mandates currently in the market seeking opportunities. Demand from private investors for sub $15million dollar product has also been firm, including value add opportunities such as 8-12 Riggs Road, Riverwood which was acquired for $9.7 million with vacant possession. There remains a shortage of large prime assets available for lease, although there has been several off market sales into established wholesale JV's during 2013.

Figure 3

Average Prime Core Market Yields

Sydney Industrial Regions



Source: Knight Frank

With buying activity being strong for lower A-grade and better quality secondary assets, the yield firming that commenced in 2012 for upper prime assets has started to move into other asset grades. Prime core market yields have on average firmed approximately 25bps since mid-2012 and currently range between 8.0% and 8.75% based on a five year WALE. Yield compression has been most pronounced in the South and Outer West regions. Prime logistical assets with longer average lease expiries of between 10 and 15 years lead the compression cycle and will trade well below 8%. However with sales activity expected to remain firm in 2014, further yield firming for shorter WALE assets is anticipated. The secondary market has been slower to record any firming with yields showing some modest tightening over the six months to October 2013 (particularly for larger secondary assets above $30 million) to currently average between 8.75% and 9.75%. Secondary firming has mostly been confined to higher quality secondary assets at this stage of the cycle.

Table 2

Major Industrial Leasing Transactions Sydney Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Pre-lease						
Templar Rd, Erskine Park	OW	Conf.	23,940	20	Rand Transport	P/C
15 Long St, Smithfield	OW	Conf.	16,500	8	Northline	P/C
395 Pembroke Rd, Minto	SW	Conf.	14,900	10	Breville	P/C
1 Coal Pier Rd, Banksmeadow	S	Conf.	6,500≈	10	Visa Global Logistics	P/C
47 Stephen Rd, Banksmeadow	S	Conf.	4,000≈	10	Owens Transport	P/C
Existing & Speculative Leases						
Units 2&3, 33-41 Military Rd, Matraville	S	140	8,830	5	Confidential	Dec-13
13a Stanton Rd, Seven Hills	OW	85	6,534	5	Rema Industries	Sep-13
11B Grand Ave, Camellia	ICW	115	5,382	5	DP Logistics	Sep-13
3 Bassalt Rd, Greystanes	OW	Conf.	3,976‡	5	Wilson and Bradley	Jul-13

Major Land / Development Sales Sydney Region

Address	Region	Price ($ m)	Area (m²)	$/m² of site area	Purchaser	Date
20 Healey Cct, Huntingwood	OW	1.59	4,409	360^	Private Developer	Aug-13
Grevillea Rd, Eastern Creek	OW	2.76	9,205	300	Private Owner Occ.	Jun-13

Major Improved Sales Activity Sydney Region

Address	Region	Price ($m)	Bldg. Area (m²)	Core Mkt. Yield (%)	Purchaser	Date
38 Pine Rd, Yennora	OW	43.60	33,198	9.40†	GPT	Oct-13
74-94 Newton Rd, Wetherill Park	OW	22.00	17,044	9.75#	Aust. Ind. REIT (Fife)	Oct-13
8-12 Wiggs Rd, Riverwood	SW	9.70	8,899	VP	Private	Oct-13
40 Talavera Rd, Macq. Park	N	28.20	13,281	11.20	ALTIS	Aug-13
10-38 Forrester Rd, St Marys (S&L)	OW	21.16	18,363	8.23*	Charter Hall (CHDIF2)	Aug-13
53 Britton St, Smithfield	OW	20.14	13,484	8.80	ALTIS	Jul-13
4 Inglis Rd, Ingleburn	SW	34.35	43,442	9.00#	DEXUS (DWPF)	Jun-13
126-136 Bourke Rd & 38-44 Doody St, Alexandria	S	21.50	8,800	7.75	Private Investor	Jun-13
457 Waterloo Rd, Chullora	OW	17.19	16,051	9.25	360 Capital Industrial Fund	Jun-13
15 Huntingwood Dr, Hungtingwood	OW	16.20	11,737	7.92*	Charter Hall (CPIF)	Jun-13
3 Distillers Pl, Huntingwood	OW	11.10	8,963	8.77	ALTIS	May-13
1-11 Smeaton Grange Rd, Smeaton Grange	SW	27.50	27,286	9.44	Private Invest. Consortium	Mar-13

Source: Knight Frank ‡ spec. development * excludes additional land component # reported cap rate
S&L refers sale and leaseback ^ site includes 457m² office leased for three years
≈ excludes hardstand area † reported initial yield

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