



NOVEMBER 2012
PERTH
INDUSTRIAL

Market Brief
Knight Frank

HIGHLIGHTS

- New industrial development around the Perth metropolitan area has consisted mainly of pre-lease buildings and the speculative development of smaller warehouses.
- Demand for larger industrial lots over 2 hectares in size remains stable, driven by larger tenants with specific operational requirements.
- Space available for lease (for buildings over 2,000m²) has remained steady between July and October 2012. Vacancy levels remain low with good properties leasing quickly.
- Perth is once again becoming a focus for institutional investors who are re-entering the market. Core market yields remain steady, with Prime-grade averages between 8.0% to 8.75% and Secondary-grade properties between 9.0% and 10.5%.

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Table 1
Perth Industrial Market Indicators as at October 2012

Precinct	Avg. Prime Rent	Avg. Secondary Rent	Available Space* (Build. >2,000m ²)	Core Market Yields (%)		Avg. Land Value	
	\$/m ² net	\$/m ² net	m ²	Prime	Secondary	<5,000m ² \$/m ²	1 – 5 ha \$/m ²
North	115	80	24,000	8.0 – 8.75	9.0 – 10.5	408	235
South	110	80	47,822	8.0 – 8.75	9.0 – 10.5	341	228
East	120	85	34,931	8.0 – 8.75	9.0 – 10.5	518	304

Source: Knight Frank * includes premises which are either vacant or currently available for lease greater than 2,000m²
 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 Western Australian economy has performed better than forecast over the 2011/12 financial year, with growth in State Final Demand of 14.7% recorded over the twelve month period, underpinned by mining investment and household spending. However, continued uncertainty in the Euro area and only modest recovery in the US has resulted in a strong USD/AUD exchange rate, impacting on State Government revenue as well as export industries.

With a major focus on iron ore in WA, fluctuations in its commodity price recently (see Figure 1) have had a strong bearing upon future investment decisions by associated companies, as well as general consumer and business confidence.

Figure 1
Iron Ore Spot Prices
November 2002 to November 2012 (\$ '00/tonne)



Source: The Steel Index

Whilst iron ore, as a commodity, has been a major driver of economic growth in the State, other resources in Western Australia, particularly oil and gas, are currently seeing considerable activity.

Development Activity

New development around the Perth metropolitan area has consisted mainly of pre-lease buildings, the majority of which are in excess of 5,000m², and speculative developments of smaller warehouses, which includes strata units of less than 500m².

Medium-sized properties in the 2,000m² – 5,000m² size range have the most occupier demand, and have seen no speculative developments of warehousing, thus creating a shortage of stock.

The majority of tenants in the pre-commitment market are associated with mining related enterprises or in the logistics sector.

Knight Frank estimates that there is over 120,000m² of pre-lease enquiry in the market at present, particularly by logistics companies and those businesses servicing the resource sector.

Land Activity

Land values for smaller sites (under 3,000m²) have come under some downward pressure, but generally remain stable. Owner-occupiers continue to drive the market for smaller lots, in both the northern and southern areas of

Perth. High underlying land values have limited developer activity.

Demand remains stable for larger lots over two hectares in size. This is being driven by larger tenants and owner-occupiers that have specific operational requirements.

The underlying land values in the traditional industrial areas of Kewdale, Welshpool and Canning Vale have been driven upwards by owner-occupiers but have been cost prohibitive to new design and construct development. High land values and a lack of options in traditional industrial areas has led to larger users focusing on northern and southern industrial areas, such as Latitude 32 and Neerabup, due to the availability of larger contiguous land parcels with lower land values.

Vacancy and Tenant Demand

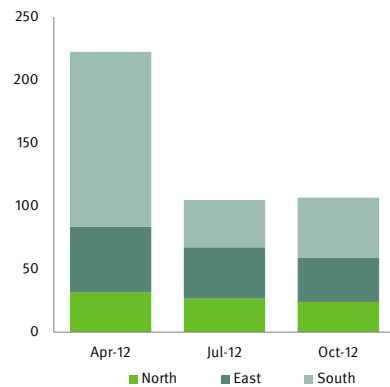
The total warehouse space available for lease (for buildings over 2,000m²) was recorded at 106,753m² in the Perth metropolitan area as at October 2012. This is spread across 33 buildings, mostly older-style, with a shortage of quality high-truss warehouse facilities. The largest building available for lease at present is 16,418m² at 99 Quill Way, Henderson.

The level of space available to lease has remained steady since the second quarter of 2012. Whilst the level is half that recorded at the beginning of the year, that amount did include 103,000m² of warehouse space on the corner of Sudlow and Phoenix Roads in Bibra Lake, which has now been leased to



Leighton Contractors and AWH. In all, levels remain low with good properties being sought after, particularly those with good functionality and circulation.

Figure 2
Perth Industrial Market
'000m² Space Available to Lease (2,000m²+)



Source: Knight Frank

Rental Levels

As at October 2012, market indicators have shown that average net rents have remained stable for the past six months. Leasing incentives remain minimal.

Functional properties, which are available for occupation in the short-term, and have features including good circulation and hardstand, high-truss height and overhead gantry cranes, have attracted good quality tenants and premium rentals.

It is anticipated that as pre-lease buildings currently under construction are completed, backfill space in secondary grade buildings will become available in the next 12-18 months, potentially easing supply pressure in the market.

Sales and Investment Activity

High net worth individuals and private equity syndicates have been the most active investors in the Perth industrial market. The strong performance of good quality properties, coupled with low interest rates, has limited investment opportunities coming to the market. In addition, debt financing continues to remain challenging.

Table 2
Industrial Leasing Transactions Perth Metropolitan Region

Address	Office Rent (\$/m ²)	W/H Rent (\$/m ²)	Total Area (m ²)	Term (yrs)	Tenant	Date
25 Furnace Rd, Welshpool	170	90	1,990	5.0	Undisclosed	Sep 12
310 Spearwood Ave, Bibra Lake	151	61	44,296	7.0	AWH	Aug 12
123 Kewdale Rd, Kewdale	-	90	14,362	5.0	Chevron	Jul 12
50-54 Sparks Rd, Henderson	240	112	3,400	MR	Orontide	Jul 12
Phoenix & Sudlow Rd, Bibra Lake	-	72	62,013	2.5	Leighton	Jun 12

Industrial Land / Development Transactions Perth Metropolitan Region

Address	Price (\$ m)	Land Area (m ²)	\$/m ² of Land Area	Zoning	Purchaser	Date
Lt 399 Kalli St, Malaga	1.01	1,970	515	Ind.	Private Investor	Sep 12
16 Baling St, Cockburn Central	0.65	2,250	289	Mix Bus	Private Investor	Sep 12
13 Mumford Pl, Balcatta	2.64	3,521	750	Ind.	Private Investor	Jul 12
23 Egmont Rd, Henderson	2.24	8,948	250	Ind.	Private Investor	Jun 12

Industrial Improved Sales Transactions Perth Metropolitan Region

Address	Price (\$ m)	Land Area (m ²)	Building Area (m ²)	Initial Yield (%)	Purchaser	Date
13-15 Felspar St, Welshpool	3.05	4,189	1,803	7.54	Private Investor	Aug 12
6 Forge Street, Welshpool	4.375	3,799	2,400	8.00	Private Investor	Aug 12
443 Yangebup Rd, Cockburn	1.45	1,487	1,024	7.60	Private Investor	Aug 12
9 Tidal Way, Bibra Lake	2.00	2,118	1,428	7.90	Private Investor	Jun 12
11 Valentine St, Kewdale	7.50	13,987	8,107	8.28	Amone Nominees	Jun 12

Source: Knight Frank MR Market Review W/H Warehouse

National and international economic conditions have given some larger corporates impetus for the sale and leaseback of industrial property they own in order to free up capital.

There has been renewed interest in the Perth market by institutional investors. For example, Charter Hall purchased a 50% share in the Metcash facility for \$61.5million at the start of the year, and more recently the Goodman Group has 7-11 & 25-27 Gauge Circuit, Canning Vale under contract, which is part of a portfolio of properties DEXUS is disposing.

Average core market yields remain steady, with Prime grade properties between 8.0% and 8.75% and Secondary-grade properties between 9.0% and 10.5%.

Outlook

Economic conditions, commodity prices and the impact on business confidence have the potential to affect the local industrial market. Resource projects will continue to drive growth in the State, particularly in the area of oil and gas production.

Rents are anticipated to remain stable over the next 12 to 18 months. Company consolidation of multiple premises due to higher rents, could potentially lead to the freeing up of smaller sites.

New development is limited as owners are seeking pre-commitment prior to the construction. It is anticipated that capital values will remain relatively stable, with Prime-grade assets remaining the main investment focus, and hence outperforming the broader market.

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