

NOVEMBER 2013

PERTH  
INDUSTRIAL

Market Brief

## HIGHLIGHTS

- There is continued pre-commitment enquiry for larger buildings with fewer developers prepared to build speculatively. Pre-lease supply (buildings  $>3,000\text{m}^2$ ) totalling  $369,538\text{m}^2$  has entered the market since January 2010 to date. A further eight buildings comprising  $86,357\text{m}^2$  are currently in planning or under construction and due for completion by the close of 2014.
- Industrial space available for lease of buildings over  $2,000\text{m}^2$  has increased to  $252,852\text{m}^2$  as at October 2013, up 15.3% from the July 2013 quarter. Occupier demand has softened as businesses continue to act with caution.
- Industrial rents have remained largely unchanged in the six months to October 2013. Prime-grade rents average  $\$112/\text{m}^2$  with secondary grade rents averaging  $\$90/\text{m}^2$  across the Perth metropolitan area.
- Investment activity has been subdued in 2013 due to tightly held stock. The bulk of sales in the past six months stemmed from owner occupiers with continued interest for well-located properties in the sub \$10 million range. Average prime-grade core market yields have stabilised over the past six months, ranging between 7.75% and 8.50%, whilst secondary-grade core market yields range between 8.75% and 10.00%.

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## PERTH INDUSTRIAL

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Table 1  
Perth Industrial Market Indicators as at October 2013

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
	\$/m <sup>2</sup> net	(%p.a)	\$/m <sup>2</sup> net	(%p.a)	Prime	Secondary	<5,000m <sup>2</sup>	(% p.a)	1 – 5 ha	(% p.a)
North	110	-	88	-	7.75 – 8.50	8.75 – 10.00	421*	-0.5%	252	-
South	110	-	88	-	7.75 – 8.50	8.75 – 10.00	327	-	240	3.7%
East	117	-	94	-	7.75 – 8.50	8.75 – 10.00	436	-1.1%	303	1.4%
<b>Blended Average</b>	<b>112</b>	<b>-</b>	<b>90</b>	<b>-</b>	<b>7.75 – 8.50</b>	<b>8.75 – 10.00</b>	<b>395</b>	<b>-0.6%</b>	<b>265</b>	<b>1.6%</b>

Source: Knight Frank

\*Average excludes Osborne Park land values

Prime: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

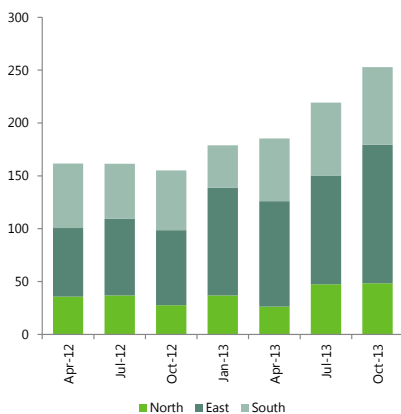
Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10%-20%.

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

Vacancy within the Perth industrial market continued to rise during 2013 as activity in the state's resource sector softened and backfill space entered the market.

Figure 1  
Perth Industrial Market  
(‘000m<sup>2</sup>) Available space 2,000m<sup>2</sup>+



Source: Knight Frank

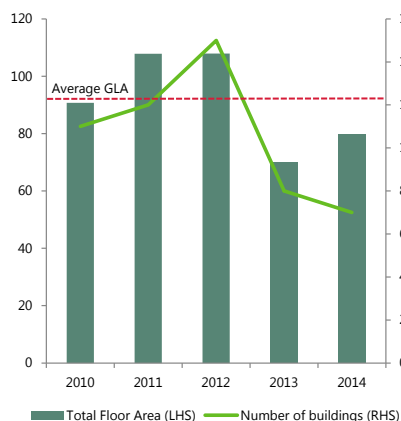
Industrial space that is being actively marketed (in buildings >2,000m<sup>2</sup>) has risen to 252,852m<sup>2</sup> as at October 2013, up 15.3% from the July 2013 quarter. Gross take-up (excl. D&C's) totalling 45,482m<sup>2</sup> was recorded during the quarter, which is a 3.1% reduction from the July 2013 quarter levels. Occupier demand has softened marginally from the levels recorded earlier in the year as businesses continue to act with caution. Demand continues to outstrip supply for large, prime-grade assets (>3,000m<sup>2</sup>) in Perth with tenants needing to enter the pre-lease market to secure properties that cater

for their specific requirements. Additionally, sites in prime locations with good access, functional workshop/warehouse facilities and hard stand areas are in limited supply and are highly sought after. Rents remained steady over the past six months. Prime-grade rents average 112/m<sup>2</sup> while secondary-grade rents average 90/m<sup>2</sup> across the Perth metropolitan area.

### Development Activity

Development is predominantly pre-commitment driven for large buildings (>3,000m<sup>2</sup>) with few developers prepared to build speculatively. There is however a number of smaller speculative builds currently under construction, with activity concentrated in the South and North regions.

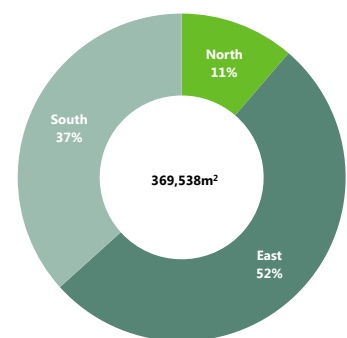
Figure 2  
D&C Supply by Year  
(‘000m<sup>2</sup>) Buildings 3,000m<sup>2</sup>+



Source: Knight Frank

Since January 2010, pre-lease activity (buildings >3,000m<sup>2</sup>) in Perth has accounted for 369,538m<sup>2</sup> across 45 buildings. A further eight properties comprising 86,357m<sup>2</sup> are currently in planning or under construction and due for completion by the close of 2014. On average, 10.6 design and construct (D&C) buildings providing 91,179m<sup>2</sup> of GLA are entering the Perth market each year. Due to this D&C supply pipeline, vacancy will rise as backfill space enters the market.

Figure 3  
D&C Supply by Region  
(‘000m<sup>2</sup>) Buildings 3,000m<sup>2</sup>+ (Jan-10 to Nov-13)



Source: Knight Frank

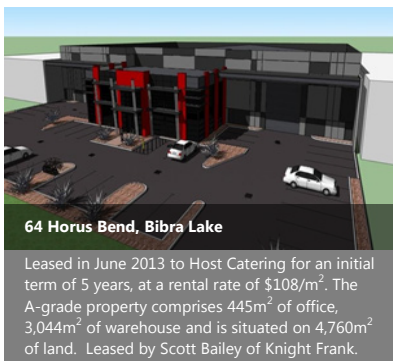
The majority of pre-lease activity has occurred in the eastern suburbs of Kewdale, Welshpool, Forrestfield and Hazelmere, including the development of a 41,378m<sup>2</sup> facility for Coca Cola Amatil (2011), as well as, a 27,000m<sup>2</sup> facility for Linfox Logistics (2012) which are both located in Hazelmere's Stockyards Industrial Estate. The availability of developable land is the key driver of activity in these regions. Jandakot Airport

continues to experience development activity with approximately 37,000m<sup>2</sup> of pre-committed office/warehouse space currently under construction, including the development of a new 8,750m<sup>2</sup> warehouse facility for PFP Australia (2013) and a state of the art purpose built facility for Hydratight & Cortland (2014). Additionally, supermarket chain, Aldi will construct their own 48,000m<sup>2</sup> warehouse and distribution centre on Orion Road in Jandakot. Approximately 70 hectares of land remains and is available for development in the Jandakot Airport precinct. Knight Frank anticipates continuing demand for D&C's through to 2014.

The few remaining lots of land still available in Wangara and Bibra Lake will most likely be sold by late 2014. Future supply is expected to shift to Neerabup in the North and Latitude 32 in the South which are being developed by LandCorp. Land rates at the smaller end of the market (<5,000m<sup>2</sup>) have remained fairly stable over the past twelve months. Larger sites (1-5 ha) have experienced some price firming which is due to limited supply of available land and relatively stronger demand.

## Sales & Investment Activity

Investment activity has been subdued over the past six months with few well-located properties being put on the market. The most significant transaction was the sale of 2 Bannister Road in Canning Vale, which sold to Charter Hall's, Core Plus Industrial Fund (CPIF), for \$70.5 million in October 2013. The 83,136m<sup>2</sup> complex, which is situated on 16.2 hectares of land, is fully leased until October 2016 to Wesfarmers-owned, Coles Group, who use the property as a distribution centre. The sale reflects a core market yield of 9.5% which, with a WALE of



64 Horus Bend, Bibra Lake

Leased in June 2013 to Host Catering for an initial term of 5 years, at a rental rate of \$108/m<sup>2</sup>. The A-grade property comprises 445m<sup>2</sup> of office, 3,044m<sup>2</sup> of warehouse and is situated on 4,760m<sup>2</sup> of land. Leased by Scott Bailey of Knight Frank.

Table 2

### Major Industrial Leasing Transactions Perth Region

Address	Region	Net Rent (\$/m <sup>2</sup> )	Area (m <sup>2</sup> )	Term (yrs)	Tenant	Date
8 Gauge Circuit	Canning Vale	139	6,650	3	Sandvic Mining	Nov-13
27 Quill Way	Henderson	135	3,327	5	UGL	Oct-13
90 Bannister Road	Canning Vale	122	3,932	5	VIP Packaging	Set-13
136 Cockburn Road	North Coogee	81	3,197	5	Undisclosed	Sep-13
26 Callaway Street	Wangara	125	3,334	2	Exclusive Tyre Dis.	Sep-13
24 Glassford Road	Kewdale	119	4,608	5	Total Ind. & Sfty	Aug-13
42 Wildfire Road	Maddington	92	2,200	5	Undisclosed	Aug-13
521 Abernethy Rd	Kewdale	103	2,543	3	Knauf Tyre Dis.	Jun-13
64 Horus Bend	Bibra Lake	108	3,489	5	Host Catering	Jun-13
256 Star Street	Welshpool	136	3,165	10	John Holland	May-13

### Major Land / Development Sales Perth Region

Address	Region	Price (\$ m)	Area (m <sup>2</sup> )	\$/m <sup>2</sup> of site area	Purchaser	Date
1364 Albany Hwy	Maddington	4.200	16,200	259	Undisclosed	Jun-13
454 Briggs Street	Welshpool	2.275	5,604	406	Undisclosed	Jun-13
236 Gngara Road	Landsdale	3.350	8,389	399	Private Investor	Jun-13
44 Hemisphere St	Neerabup	4.000	23,200	172	Private Investor	May-13
70 Horus Bend	Bibra Lake	1.650	4,715	350	Private Investor	Apr-13

### Major Improved Sales Activity Perth Region

Address	Region	Price (\$m)	Bldg. Area (m <sup>2</sup> )	Core Mkt. Yield (%)	Purchaser	Date
2 Bannister Road	Canning Vale	70.50	83,136	9.50	Charter Hall*	Oct-13
1 Howson Way	Bibra Lake	22.59	15,697	8.50	Charter Hall^	Sep-13
13 Vale Street	Malaga	4.045	2,550	7.90	Private Investor	Aug-13
12 Tacoma Circuit	Canning Vale	2.350	1,025	7.45	Private Investor	Jul-13
5 Profit Pass	Wangara	2.025	1,212	7.75	Private Investor	Jul-13
25 Opportunity St	Wangara	2.625	1,665	8.00	Private Investor	Jun-13

Source: Knight Frank

\*Core Plus Industrial Fund (CPIF)

^Direct Industrial Fund No.2 (DIF2)

only three years, is indicative of the risk associated with releasing a building of this scale, as well as, the difficulty involved in partitioning this particular building to accommodate smaller tenants in the event of not securing another large, long term, single tenant. In addition to the Charter Hall transactions, private investors and owner occupiers continue to be the most active purchasers in the market with continued interest for well-located properties in the sub \$10 million range. Strong demand, limited supply and low interest rates provide favourable conditions for vendors and owner occupiers. Core market yields have remained stable over the past six months with average prime-grade yields currently ranging between 7.75% - 8.50%.

## Outlook

Rising vacancy levels are expected to continue through to 2014 as additional backfill space enters the market. Rental rates may experience downward pressure as landlords attempt to secure tenants. Demand for modern, quality buildings, on well-located sites, is expected to remain strong while there is limited supply of these sites. Stronger capital flows coupled with limited investment opportunities will likely see core market yields tighten, particularly for prime assets offering long WALE's as investor groups pursue greater exposure within WA's industrial market.

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Caribbean  
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