

A large, empty industrial warehouse with a high, arched ceiling supported by a grid of steel beams. The floor is a smooth, light-colored concrete. The lighting is bright and even, highlighting the vastness of the space.

MAY 2014

PERTH INDUSTRIAL

Market Brief

HIGHLIGHTS

- There is continued pre-commitment enquiry for larger buildings with few developers prepared to build speculatively. Pre-lease supply (buildings >3,000m²) totalling 417,445m² have entered the market since January 2010 to date.
- Absorption levels increased by 22% in the three months to April 2014 indicating an improvement in confidence.
- Industrial rents remained largely unchanged in the six months to April 2014. Prime-grade rents average \$111/m² net with secondary grade rents averaging \$90/m² net across the Perth metropolitan area.
- Investment activity continues to be constrained by 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 experienced mild firming over the past six months, ranging between 7.75% and 8.25%, whilst secondary-grade core market yields range between 8.50% and 10.00%.

Table 1
Perth Industrial Market Indicators as at April 2014

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
	\$/m ² net	(%p.a.)	\$/m ² net	(%p.a.)	Prime	Secondary	<5,000m ²	(% p.a.)	1 – 5 ha	(% p.a.)
North	109	-0.91	88	-	7.75 – 8.25	8.50 – 10.00	421*	-	252	-
South	108	-1.82	87	-0.57	7.75 – 8.25	8.50 – 10.00	327	-	240	0.60
East	116	-0.98	94	-	7.75 – 8.25	8.50 – 10.00	436	-	303	-
Blended Average	111	-1.23	90	-0.19	7.75 – 8.25	8.50 – 10.00	395	-	265	0.18

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

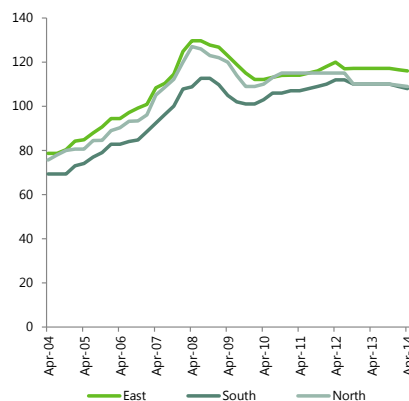
Vacant stock levels in the Perth industrial market were largely unchanged over the first quarter of 2014, recording a modest 3,578m² decline (1.3%). Total available floor space (>2,000m²) now measures 276,572m², representing the first contraction in vacancy since October 2012, however remains 78% higher than the low point of 155,210m² reached 18 months ago.

Gross take-up (excl. D&C's) totalling 85,220m² was recorded during the six months to April 2014, down 7.8% from the previous half year period. On a quarter by quarter basis however absorption levels increased by 22% during the three months to April 2014 indicating that an improvement in confidence and enquiry is beginning to translate into stronger activity. Occupier demand has been dominated by medium sized tenants (2,000m² - 4,000m²), including Ezi-Hose (2,475m²), Tieman Industries (2,333m²) and AHG Holdings (3,390m²). Larger tenants (10,000m²+) remain cautious when deciding on leasing requirements.

Rental growth has been virtually flat with a softening bias across all Perth regions. Asking rents have been slow to adjust to increasing vacancy levels. As a result numerous properties have remained vacant on the market, some for over twelve months. Leasing incentives are creeping into the market in an attempt to maintain face rents. Anecdotal evidence indicates that incentives currently average 5% and are expected to grow in the near term. As a result, any

material reduction in face rents will likely be delayed.

Figure 1
Perth Region Prime Rents
\$/m² net rent 2004 - 2014



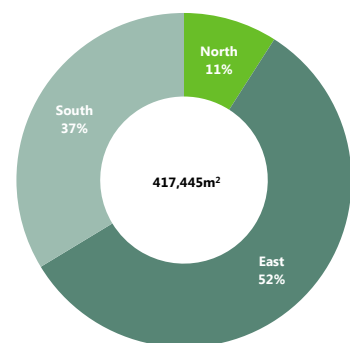
Source: Knight Frank

Development Activity

Development is predominantly pre-commitment driven for large buildings (>3,000m²) with few developers prepared to build speculatively. There is, however, a number of smaller spec builds currently under construction. Activity is concentrated in the South and North regions, including a 2,725m² warehouse at 57 Conquest Way in Wangara. In addition, five 400m² warehouse units are currently under construction and available for lease at 1 Hathor Way in Bibra Lake, which sold in October 2013 to Mustang Property Group. The few remaining lots of land in Wangara and Bibra Lake are expected to be taken up by late 2014. Future small lot supply is then expected to shift to Neerabup

in the North and Latitude 32 in the South, which are being developed by LandCorp. Gross infill supply (in excess of 3,000m²) during 2013 was 69,800m² across eight buildings. This level of supply is relatively modest falling 38,128m² below the 2012 figure and sits 26% below the 4 year average.

Figure 2
Infill Supply by Region
('000m²) Buildings 3,000m²+ (Jan-10 to Apr-14)



Source: Knight Frank

The eastern suburbs of Kewdale, Welshpool, Forrestfield and Hazelmere continue to facilitate the bulk of new D&C's, with land availability the key driver of activity in these regions. Further development is expected within the Jandakot Airport precinct which has seen several major tenants, including Oceaneering, Caffi Logistics and PFP relocate to purpose built facilities.

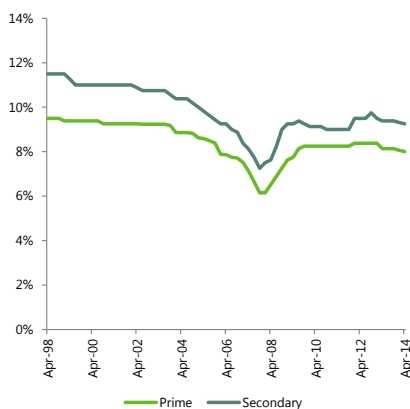
Land rates at the smaller end of the market (<5,000m²) have remained stable over the

past twelve months, being supported by continuing demand from small developers and owner occupiers. Larger sites (1-5 ha) have experienced some mild price firming which is due to limited supply of available land and relatively stronger demand.

Sales & Investment Activity

Investment demand for industrial assets has continued into 2014 with a steady flow of sales reaching completion over the past six months. The bulk of demand has been for medium sized assets (4,000m² to 6,000m²) however a number of larger properties also changed hands, including 305 Spearwood Avenue, Bibra Lake, which sold on a vacant possession basis in December 2013 for \$12.6 million.

Figure 3
Average Core Market Yields
Prime and secondary



Source: Knight Frank

Knight Frank recorded four transactions greater than \$10 million over the past six months, including two properties which were sold by Primewest as part of a national portfolio of six industrial assets valued at \$81 million. The properties, which were purchased by Australian Industrial AREIT (ANI), include 23 Selkis Road, Bibra Lake, (\$15.8 million) which is currently tenanted by Amcor Packaging. Amcor have occupied the premises since 2007 and are now ANI's largest tenant accounting for 14% of net passing income. In addition, 99 Quill Way, Henderson, sold for \$15.5 million and is currently leased to engineering firm CBI

Table 2

Major Industrial Leasing Transactions Perth Region

Address	Region	Net Rent (\$/m ²)	Area (m ²)	Term (yrs)	Tenant	Start Date
41-49 Pilbara St, Welshpool	E	113	10,210	undis	United Equipment	undis
404 Orrong Rd, Welshpool*	E	undis	4,628	10	Neptune Marine	Nov-14
25-31 Kew St, Welshpool	E	113	2,475	3	Ezi-Hose	May-14
25 Quarimore Rd, Bibra Lake	S	110	2,430	5	CTE Group	May-14
111 Division St, Welshpool	E	102	5,130	5	Automotive Parts	Apr-14
18 Hazlehurst St, Kewdale	E	105	3,359	5	Teco Australia	Dec-13

Major Land / Development Sales Perth Region

Address	Region	Price (\$ m)	Area (m ²)	\$/m ² of site area	Purchaser	Date
17 Tayet Link, Bibra Lake	S	0.88	2,619	336	Power Free	Dec-13
35 Briggs St, Welshpool	E	5.25	15,380	341	Airport Property	Nov-13
1 Hathor Way, Bibra Lake	S	1.02	2,910	351	Mustang Group	Oct-13
1 Selkis Rd, Bibra Lake	S	0.92	2,591	355	Yuanzheng Int.	Oct-13

Major Improved Sales Activity Perth Region

Address	Region	Price (\$m)	Bldg. Area (m ²)	Core Mkt. Yield (%)	Purchaser	Date
23 Selkis Rd, Bibra Lake	S	15.80	18,235	9.18	ANI^	Feb-14
99 Quill Way, Henderson	S	15.50	16,419	9.03	ANI^	Feb-14
28 Emerald Rd, Maddington	E	1.15	418	VP	Private	Feb-14
32 Millrose Drv, Malaga	N	10.75	6,371	8.69*	Private	Dec-13
305 Spearwood Ave, Bibra Lake	S	12.60	17,250	VP	ANZ Trading Co.	Dec-13
4 Koojan Ave, Sth Guildford	E	7.10	3,444	8.00*	PFT Corporate	Dec-13
27-29 Glassford Rd, Kewdale	E	4.50	1,321	VP	Gradow Pty Ltd	Dec-13
273 Collier Rd, Bayswater	E	6.10	5,239	VP	AWC Holdings	Nov-13
365 Victoria St, Malaga	N	6.25	2,531	7.21	Goldcom Corp	Nov-13

Source: Knight Frank *Passing Yield ^Australian Industrial AREIT VP-Vacant Possession #D&C
N=North, E=East, S=South, W=West

Construction and engineering specialist Kentz for a term of five years.

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. Enquiry from institutional investors remains strong particularly for larger assets (\$10 million plus) with longer average lease expiries, low capex requirements and secure income streams. However, activity is being constrained by a lack of supply.

Average core market yields have experienced mild firming (13bps) over the past six months and now range between 7.75% - 8.25% for Prime and 8.50% - 10.00% for secondary. Stronger capital flows coupled

with limited investment opportunities will likely see core market yields continue to tighten, particularly for prime assets offering long WALE's as investor groups pursue greater exposure to WA's industrial market

Although mining expenditure has declined over recent months, WA's oil and gas sector continues to prosper and is one of the key drivers of demand for industrial assets in Perth. This, coupled with improving conditions within Perth's population growth driven sectors, such as construction and retail, should see demand for industrial assets be maintained in the near term.

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