

PERTH

INDUSTRIAL MARKET BRIEF NOVEMBER 2014

Key Facts

Vacancy levels continued to rise, recording a 16% increase over the last quarter.

Industrial rents saw a declining trend throughout 2014, with prime-grade rents averaging \$109/m².

Six transactions in excess of \$10 million were recorded in 2014 ytd, with a total value of \$151.68 million.

Core market yields have remained stable, averaging from 7.75% to 8.25% across the prime market.



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Land values in Perth's industrial market remained flat as sales activity has declined. The market continued to see a rise in the level of vacancies as the amount of total available industrial stock continues to rise.

Western Australia's economy will continue to be affected by the slowdown in mining investment in some regions, however this should be offset by a lift in residential building. The low interest rate environment is boosting housing construction, while rising wealth levels are supporting confidence and in turn, spending. In addition, the lowering of the Australian dollar should provide a boost to exports in coming months and help to alleviate the risks surrounding the rebalancing of the economy.

The Perth industrial market continued to see a rise in the level of vacancies recording a 16% increase in the three months to October 2014. Industrial rents recorded a declining trend on an annual basis, with prime grade net rents averaging \$109/m² (-3.0%) and secondary grade net rents averaging \$88/m² (-2.4%) across the Perth metropolitan area as of October 2014. Additionally, there has also been minimal movement recorded in land values despite buoyant development land sales activity.

Occupier Demand & Rents

The Perth industrial market continued to see a rise in the level of vacancies which have increased by 48,691m² (up 16%) over the third quarter of 2014 to currently sit approximately 53% above the historical average. Total available space within manufacturing and warehousing assets (above 2,000m²) now measures 352,253m², representing the highest recorded vacancy and compared to the low point of 155,210m², reached in October 2012.

A flight to quality has been evident with the majority of leases recorded during the six months to October 2014 occurring within prime grade facilities. The resultant backfill has seen an influx of smaller secondary grade properties enter the market resulting in an increase in the proportion of these assets (2,000m²—4,000m²). Growing levels of leasing activity provides a positive sign that confidence is returning to the market.

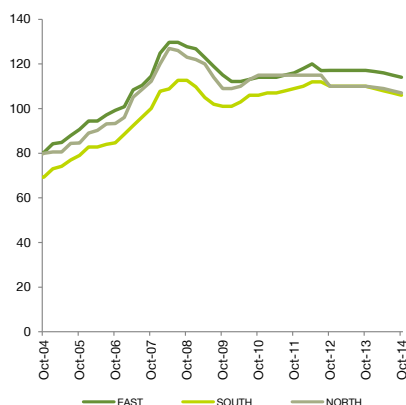
However, several large tenancies remain vacant and the potential exists for several more backfill options to become available during the remainder of 2014 as a result of continued pre-lease activity.

Gross take-up (excl. D&C's) totalling 110,239m² was recorded during the six months to October 2014, up 29% from the six month period prior to this. However, absorption levels declined from the previous quarter with the bulk of activity stemming from medium sized tenants (2,000m² - 5,000m²).

Occupier demand continues to be targeted by medium sized tenants such as ASC Pty Ltd (2,508m²), Captain Choppers Pty Ltd (3,000m²), Winning Appliances Pty Ltd (3,000m²), Aussie Crates WA Pty Ltd (3,641m²) and TEK Ocean Energy Services (5,231m²). Large tenants (10,000m²+) continued to remain cautious when deciding on leasing requirements.

FIGURE 1

Perth Region Prime Rents \$/m² average net rent (2004 – 2014)



Source: Knight Frank

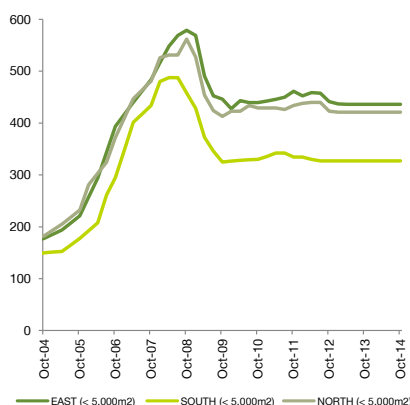
Development Activity

Development land sales activity remains steady, mainly driven by pre-commitment activity. A notable land sale for re-development purpose includes 116 Sultana Road, High Wycombe which was sold for \$2.20 million to AAA Egg Co Pty Ltd. The 9,822m² site has been re-zoned to Industrial Services as part of the Forrestfield/ High Wycombe industrial area. This medium sized parcel which includes a 3 bedroom house, was sold with vacant possession.

The D&C developments continue to be focused in the eastern suburbs with Hazelmere actively securing the bulk of the new D&C's with the presence of major tenants such as Chevron, Reject Shop, Office Max, AHG, Wridgways and Khumo Tyres. Over at the Perth Airport, multinational firm Siemens has recently secured 2,650m² of D&C space.

FIGURE 2

Land Value by Size and Region \$/m² average land value (2004 – 2014)



Source: Knight Frank

Further development within the Jandakot Airport precinct is expected to continue due to the availability of land. Notable tenants such as Super A-Mart (23,500m²) and K-Mart (25,000m²) will be anchoring large spaces within the area, further enhancing the area as a pre-lease location.

Land rates at the smaller end of the market (< 5,000m²) have remained flat over the past twelve months, albeit owner-occupiers are relatively active. Larger sites (1-5 ha) may experience some price firming in the short term due to limited supply of available land and relatively stronger demand.

The forthcoming NorthLink WA currently under planning which includes the Perth-Darwin Highway and the Tonkin Grade Separation will play a significant role in Perth's industrial market. The project will allow improved access to the airport for travellers and freight as well as high-productivity freight vehicles accessing the north-west region of WA, particularly from Kewdale and Forrestfield, Perth's main industrial freight hubs.

Sales & Investment Activity

Year 2014 (ytd.) saw a decline of 41% in the total value of transaction activity in excess of \$10 million comparing to year 2013. The total value of transactions ytd recorded \$151.68 million over six major transactions while 2013 recorded \$258.41 million across nine transactions above \$10 million.

Private investors and owner occupiers remain the most active purchasers in the market. Institutional investors

TABLE 1

Perth Industrial Market Indicators as at October 2014

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields (%)		Avg Land Values			
	\$/m ² net	(%p.a)	\$/m ² net	(%p.a)	Prime	Secondary	< 5,000m ²	(%p.a)	1 – 5 ha	(%p.a)
North	107	-2.7	86	-2.3	7.75 – 8.25	8.50 – 10.00	421*	-	252	-
South	106	-3.6	85	-2.9	7.75 – 8.25	8.50 – 10.00	327	-	240	-
East	114	-2.7	92	-2.1	7.75 – 8.25	8.50 – 10.00	436	-	303	-
Perth Average	109	-3.0	88	-2.4	7.75 – 8.25	8.50 – 10.00	395	-	265	-

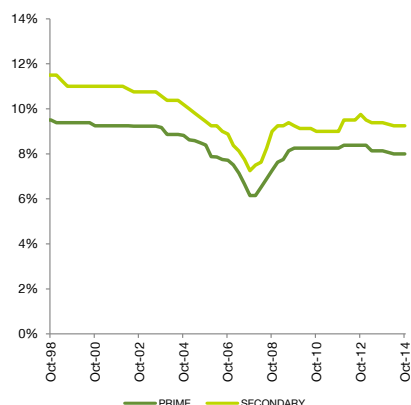
*Average excludes Osborne Park land values

Source: Knight Frank

FIGURE 3

Average Core Market Yields

Prime & secondary (1998–2014)



Source: Knight Frank

continue to be attracted to the sector given relatively high yields compared with other cities and sectors and the longer leases available on prime assets. However with fewer owners looking to divest as yields are expected to compress in the short term, opportunities to invest in the prime market are relatively limited at present.

The most significant sale was the Western Australian-based Brownes Dairy's head office, processing and distribution centre at 22 Geddes Road, Balcatta. The 29,154m² building was purchased by AREIT Stockland, in a deal worth \$53.5 million.

TABLE 2

Recent Leasing Activity Perth

Address	Region	Net Rent \$/m ²	Area	Term (yrs)	Tenant	Date
6 Gauge Circuit, Canning Vale*	South	94	3,000	3+3	Winning Appliances Pty Ltd	Oct-14
17 Casella Place, Kewdale	East	124	5,231	7	TEK Ocean Energy Services	Aug-14
Building A, 77 Kurnall Rd, Welshpool	East	90	3,641	5+5	Aussie Crates WA Pty Ltd	Jul-14
19 Aspiration Circuit, Bibra Lake	South	115	2,508	4+1+1	ASC Pty Ltd	Jun-14
46 Miguel Road, Bibra Lake	South	101	2,070	4+4	Choice Training	May-14

* Sub-lease

Source: Knight Frank

Another notable transaction included the purchase of the former Schweppes site at 363 Scarborough Beach Road, Osborne Park for \$23 million by a Perth developer. The 24,500m² landholding is improved with a warehouse, distribution facility and various office/warehouse facilities providing a total NLA of 14,780m².

Additionally, September saw the acquisition of a 3.81 hectare industrial property at 5-13 Wood St, Bassendean for \$10.88 million by GDI No.38 Diversified Property Trust (DPT) as part of portfolio of seven properties. The 10,857m² property has been fully leased to UGL Rail Services which expires in June 2024.

The former Matilda Brewery at 130 Stirling Highway, North Fremantle was recently sold to 3 Oceans Property Pty Ltd in a deal worth \$39.6 million. The property with an area of 29,172m² was acquired to be potentially redeveloped into a mixed use residential and retail development.

Core market yields have remained stable over the past six months across all industrial regions. Average prime yields range between 7.75% and 8.25% while secondary yields range between 8.50% and 10.00%. Lower interest rates combined with a sustained demand for industrial property will likely see core market yields tighten.

TABLE 3

Recent Land/Development Sales Activity Perth

Address	Region	Price \$ mil	Area m ²	\$/m ² of site area	Zoning	Vendor	Purchaser	Sale Date
4 Brant Road, Kelmscott	East	0.77	2,022	381	General Ind.	Undisclosed	Valdrew Nominees Pty Ltd	Oct-14
116 Sultana Road, High Wycombe	East	2.20	9,822	224	Industrial Services	Faramist Holdings	AAA Egg Co Pty Ltd	Aug-14
38 Sphinx Way, Bibra Lake	South	1.73	4,492	385	Ind.	Primewest	Alcom Properties Pty Ltd	May-14

Recent Improved Sales Activity Perth

Address	Region	Price \$ mil	Bldg Area m ²	Passing Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
5-13 Wood St, Bassendean	East	10.88	10,857	8.50	10	UGL Rail Services	GDI DPT~	Sep-14
363 Scarborough Beach Rd, Osborne Park	North	23.00	14,780	VP	VP	Schweppes Australia	Danzone Pty Ltd & Stockhome Pty Ltd	Aug-14
2 Jones St, O'Connor	South	7.80	3,672	8.20	N/A	Tarwarri Holdings	City of Fremantle	Jul-14
22 Geddes St, Balcatta [#]	North	53.50	29,154	7.86 [^]	20	Brownes Food	Stockland Group	Jun-14
294 Treasure Rd, Welshpool	East	8.50	5,783	8.50	10	Private sellers	Torex Pty Ltd	May-14

[^] Core Market Yield VP – Vacant Possession N/A – Not Available Ind. – Industrial[#] includes surplus land component (3.9ha) ~ to be part of GDI No.38 Diversified Property Trust (DPT)

Source: Knight Frank

Outlook

The outlook for the Perth industrial market in the short to medium term is likely to remain stable. With the lack of expansionary measures being implemented by WA businesses, any further increases in absorption are unlikely and any pre-lease activity would result in increased levels of backfill space becoming available.

Tenants in most market sectors have several choices as supply continues to outstrip demand with landlords offering attractive incentives to retain existing tenants and attract new tenants, in an effort to maintain and improve their level of occupancy. Amid a challenging leasing market environment with a high level of existing supply, several developers have adopted a cautious stance by deferring the construction of projects, with works to

commence only when they have secured a pre-leasing commitment.

Nevertheless, business activity has begun to shift away from mining towards other industries, including retail and construction. An improvement in labour and employment conditions within these market sectors is expected to have positive flow on effects through Perth's industrial market.

On a positive note, WA remains optimistic in the view that it will be a major beneficiary of the rise of emerging Asia once the current transition period passes. High relative investment returns for industrial properties compared to other sectors and cities may lead to a gradual shift in focus of investment preferences towards the Perth industrial market.

Definitions:

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 with 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).

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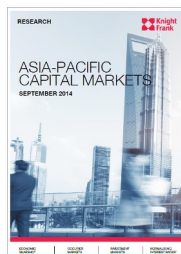
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