RESEARCH

BRISBANE INDUSTRIAL

MARKET OVERVIEW FEBRUARY 2020

CAPITAL DEPLOYMENT CONTINUES TO ACCELERATE

HIGHLIGHTS

Construction is at 10-year highs with investors growing FUM through development while low yields support feasibility; 70% of tenant commitments were to newly built space in 2019.

Land price growth was only moderate in 2019, despite the land bank diminishing. Rental growth is benign and will remain so until a tipping point is reached with tenant demand and land availability.

Investment appetite born of greater capital allocations to the industrial sector boosted investment turnover to a record-breaking $1.83 billion in 2019 with demand flowing through into 2020.

MARKET DRIVERS

Population Growth

Aust: 1.5% QLD: 1.7%

June 2019 y-o-y

Economic Growth

Aust: 2.0% QLD: 1.4%
2.1% 2.8%

CY19 (est) & CY20 (f)

Retail Trade

Aust: 2.8% QLD: 5.0%

Dec19 v Dec 18 (trend)

Exports FOB Value

Aust: 14% QLD: 3%

Yr to Dec 2019 v Dec 18

Major SEQ Projects

Cross River Rail $5.6b

Brisbane Metro c$1.0b

M1 Upgrade $1.0b

Second Runway $1.4b

Queens Wharf c$3.0b

Herston Quarter $1.1b

Logan Enhancement Project $512m

JENNELLE WILSON

Partner—Research & Consulting
QLD

ECONOMY & DEMAND

The weight of funds seeking industrial exposure has taken transaction levels to record highs. Concurrently, the low yield environment and tenant demand for new generation facilities has construction at 10-year highs.

Economic growth moderates but structural changes support industrial development

In line with the wider Australian and global economy the levels of economic growth through 2019 were generally softer than originally forecast. After recording an exceptional level of growth in 2018 of 3.7%, the Queensland Gross State Product (GSP) growth was lower at 1.4% in 2019 (Oxford Economics). The forecast of 2.8% for 2020 represents a good recovery for QLD, however external global factors such as Covid-19 present risks to these forecasts.

Within this low growth environment, however, the combination of low interest rates/yields and structural changes in consumer behaviour is supporting construction in the industrial space. While this is in no way unique to Brisbane the desire for tenants to upgrade their distribution efficiency and investors to increase their weighting in industrial assets has spurred construction activity to ten year highs.

70% of tenant commitments was to new space in 2019

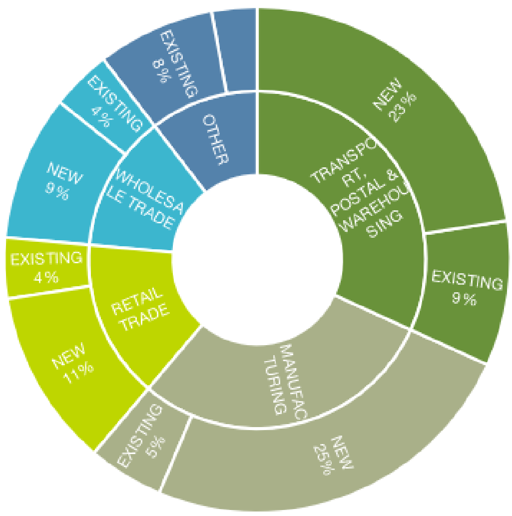
The trend towards new space dominating tenant decisions was growing during 2018 with 40% of all relocation decisions 3,000sqm+ to newly built accommodation either as pre-committed space or speculatively developed accommodation. However in 2019 this phenomenon reached new levels with low yields supporting development feasibility and the rents able to be offered, making new space even more attractive to tenants.

As a result, 70% of commitments was to newly built space in 2020 (Figure 1). The transport and warehouse sector continued to dominate tenant demand with 32% of activity. Manufacturing businesses, while they may no longer manufacture in Australia, accounted for a further 30% of leasing activity, largely via pre-commitments.

FIGURE 1

Tenant Demand by Sector & Accommodation Type

Leases by sector CY2019 3,000sqm+

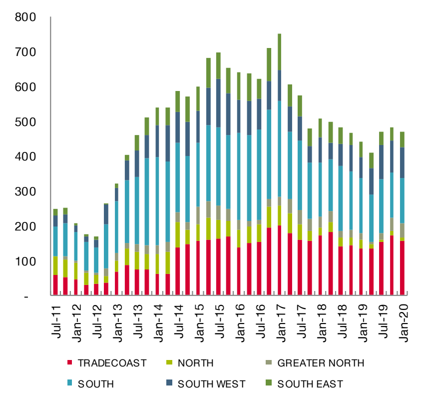


Source: Knight Frank Research NB New encompasses both pre-committed buildings and speculative space

VACANCY & RENTS

Vacancy fell by 2.4% in Q4 2019 as take-up improved

FIGURE 2
Brisbane Industrial Vacancy
'000sqm available space by precinct



Source: Knight Frank Research

Vacant space has fallen by 2.4% over the past quarter but remains 6.9% higher over the past year. While the recent decrease has taken the vacancy back below the 10-year average, total vacancy appeared to stabilise during H2 2019. Prime vacancy is higher over the year (up 2.5%) with the increase driven by continued starts to speculative stock (available spec space is 19% higher than a year ago). In contrast, prime established buildings saw a reduction in vacancy, down by 3.7% in the year. Secondary vacancy has remained largely stable over the past year .

Tenants upgrade while rental growth is benign

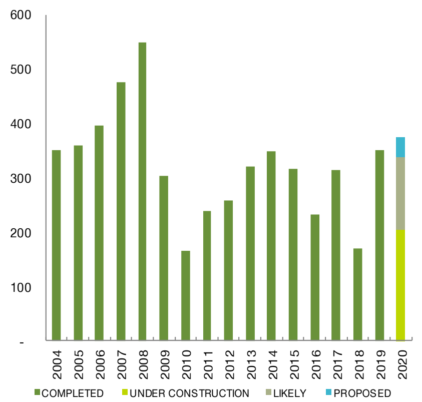
Tenant activity remains focussed on securing greater efficiencies in building fabric and location for logistics users and to maximise the quality of accommodation while rents are plateaued for the other user types.

The continued desire to grow FUM through the development of their own products by institutional investors/ developers means there are still cost-effective newly built options available for tenants either through pre-commitment deals or speculative development.

During 2019 more than 260,900sqm of pre-committed space was completed and occupied. This was a major factor behind construction totals reaching a 10-year high of 350,000sqm. There is a further 267,600sqm pre-committed and under construction or soon to start. When combined with the expected accelerated speculative construction during 2020, construction completions are set to increase further (Figure 3).

One sector experiencing recent accelerated activity is resource recovery and recycling, both of containers and organic product, to date targeting existing secondary stock.

FIGURE 3
Brisbane Region Supply
'000sqm new industrial construction



Source: Knight Frank Research/Cordell Connect

Rents, Incentives & Outlook

Prime	$113/sqm 0.5% y-o-y 11.5% incentive	↗
Secondary	$93/sqm 2.2% y-o-y 12.2% incentive	↗

Rental growth slow but still positive

Rental growth has remained modest at best across the Brisbane market. Incentives have stabilised largely in the 10%-13% range. Continued land value growth and the reduction of land ready for development will keep the overall trend positive, however the patchy nature of demand will keep a lid on competition.

FIGURE 4
Brisbane Prime & Secondary Rents
$/sqm net face rents

Source: Knight Frank Research

TABLE 1
Recent Leasing Activity Brisbane

Address	Region	Net Rent $/m²	Area	Term (yrs)	Tenant	Date
Port West Estate, Lytton	TC	105	19,950	10	Fisher & Paykel^	Mid-20
Gooderham Rd, Willawong	S	105	6,478	5	Medline#	Dec 19
Gooderham Rd, Willawong	S	105	5,250	7	Dotmar#	Nov 19
10 Siltstone Place, Berrinba	S	107	9,797	5	TCK Alliance	Nov 19
278 Orchard Rd, Richlands	SW	90	7,626	10	KOZ Worldwide	Aug 19

Source: Knight Frank Research SW South West S South TC Trade Coast # speculative ^ pre-commitment

DEVELOPMENT & LAND VALUES

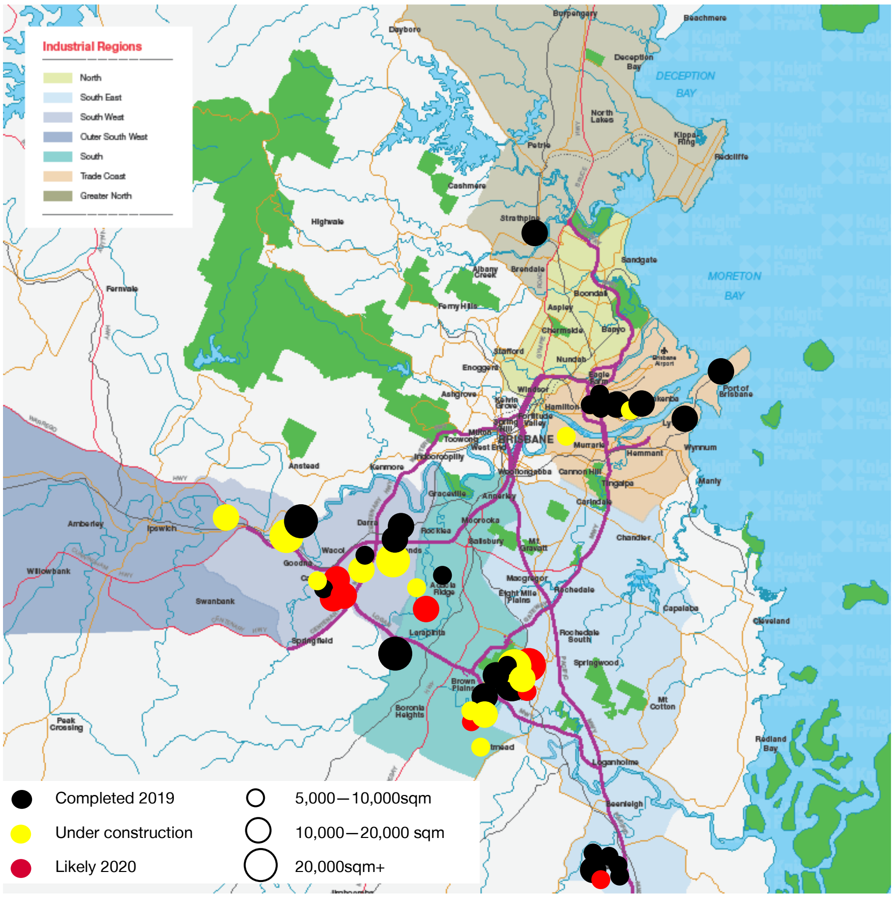
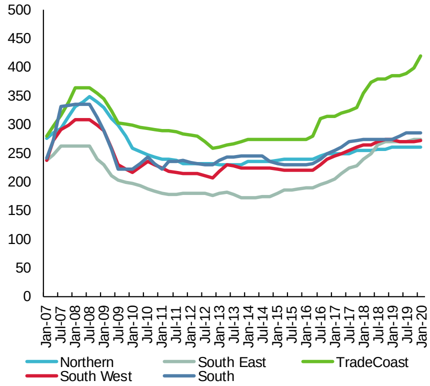


FIGURE 5

Brisbane Land Values

$/sqm on land—parcels 1-5ha



Source: Knight Frank Research

Land Values & Outlook

<5,000sqm	$384/sqm 2.8% y-o-y	↗
1-5ha	$302/sqm 3.2% y-o-y	↗

Available land diminishes as logistics/3PLs upgrade

With more than 350,000sqm of industrial completions during 2019 and c205,000sqm under construction, the absorption of industrial land has continued to accelerate.

The larger developer/institutional investors are purchasing land again as the old landbanks have diminished. They are also moving through the development process of pre-commitment and/or speculative construction much faster than in recent years as opportunities for tenants are becoming more concentrated in fewer locations.

Development has remained concentrated along the Logan Motorway and M1/Gateway motorway corridor with logistics users continuing to place greater import on the road network than air/sea/rail. Large facilities are underway for many logistics firms including Maxitrans (13,000sqm), Linfox (14,039sqm), CEVA (20,800sqm) and DHL (14,349sqm).

Land value growth slower as tight yields support feasibility

The annual rate of land value growth has slowed to 2.8% in the past year for blocks under 5,000sqm and 3.2% for larger lots. The strong growth of late 2018/early 2019 has been followed by a period of stabilisation. As shown in Figure 5 the 1-5ha size range has seen significant appreciation over the past three years, up by almost 20% on average across all precincts. Recently, the southern and northern precincts have stabilised at c$260-$285/sqm while the TradeCoast limited freehold land and proximity to the CBD has seen larger blocks at $420/sqm on average.

TABLE 2

Recent Land/Development Sales Activity Brisbane

Address	Region	Price $ mil	Area m²	$/m² of site area	Purchaser	Sale Date
Lot 3019, Brendale Connect South	GN	0.96	3,058	315	Private Developer	Feb 20
450 Sherbrooke Rd, Willawong	SW	13.79	61,400	225	ESR^	Sep 19
60 Stapylton Jacobs Well Rd, Stapylton~	SE	35.0	642,300	54	Frasers Property Group	Aug 19
55 Barracks Rd, Darra	SW	59.77	229,800	260	ISPT/Aliro#	Jun 19

SW South West SE South East GN Greater North ~raw land #East section of Metroplex at Westgate Estate, further site and road works required ^joint venture partner transfer

INVESTMENT ACTIVITY & YIELDS

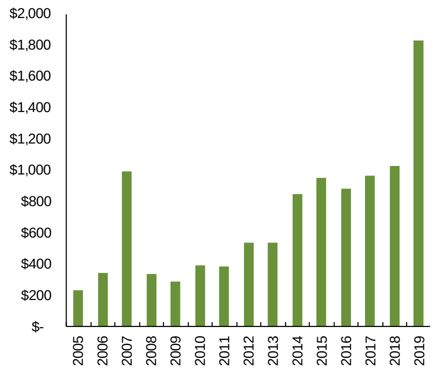
Current Yields & Outlook

Prime	5.75% - 6.60% -27bps y-o-y	
Secondary	6.50% - 7.55% -29bps y-o-y	

FIGURE 6

Brisbane Investment Activity

$million sales $5million+



Source: Knight Frank Research

Super Sales took 2019 into record territory

One sale in excess of $200 million and a further three of $100 million+ took the transaction totals for Brisbane into new territory during 2019. Total transactions reached $1.83 billion in 2019, a significant increase from $1.03 billion in 2018, which itself was a record year.

Unlisted funds have remained the dominant purchaser class during 2019, accounting for 48% of all transactions by value. REITs have increased their purchasing activity, accounting for 35% of transaction value (up from 5% during 2018) as the purchaser class, both local and offshore, returned to being active buyers. Of the local investors, Centuria Industrial REIT was dominant spending c$248.3 million on Brisbane assets during 2019 (aided by the $211.8m Arnott's purchase). Other active listed buyers have been Charter Hall Long WALE REIT, Garda Diversified Fund and Stockland. Major offshore investor, ESR purchased circa $170 million of Brisbane assets from Propertylink.

Interest in Brisbane industrial from offshore buyers has remained steady, however with only one of the "super sales" ($100m+) going to an offshore entity they have largely remained out of the market during 2019, accounting for 19% of total purchasing activity. In contrast, 2018 saw 34% of total sales going to offshore buyers, largely through portfolio activity but also targeted Brisbane sales.

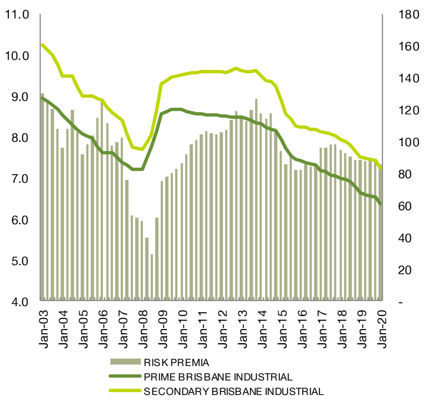
Downward yield pressure remains with the premium for long WALE growing

Mainstream prime yields (defined as assets $10m-25m with WALE 4-7 years) continued to contract in 2019 with

FIGURE 7

Brisbane Region Yields

% Core market yield (LHS) & bps Premia (RHS)



Source: Knight Frank Research

Brisbane prime median yields contracting a further 27 basis points over the year. Structural changes to investment allocations, with industrial now equal to or even ahead of retail property, plus the low interest rate environment have drawn industrial yields to new lows, now 84 basis points below the pre-GFC yield low of 2007.

The recent run of mega-sales has highlighted the premium being paid for long WALE and/or large scale assets. For assets with 12 year+ WALEs, depending on the level of building specialization, yields are 5.00% - 5.75%, a significant premium to corresponding smaller WALE and scale

TABLE 3

Recent Improved Sales Activity Brisbane

Address	Region	Price $ mil	Bldg Area m²	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
58 Precinct St, Parkinson	S	28.0	13,096	5.30	8.0	Beacon Property Gp*	Charter Hall CHDIF4	Dec 19
46 Robinson Rd E, Geebung	N	211.80	46,183	5.76~	30.0	Arnotts*	Centuria Industrial REIT	Dec 19
326-340 Thynne Rd, Morningside	TC	41.00	16,979	5.58	3.5	GJJ Nominees	Garda Diversified Fund	Sep 19
111-137 Magnesium Dr, Crestmead	S	182.50	89,254	5.37	10.0	Blackstone	Charter Hall	Aug 19
99 Sandstone Pl, Parkinson #	S	134.20	55,245	5.60	13.1	Frasers Logistics Trust	DWS	Jun 19
81 Schneider Rd, Eagle Farm	TC	102.50	60,100^	5.20	19.2	Qld Treasury	Charter Hall Long WALE Trust & Education Trust	Jun 19

Source: Knight Frank Research S South TC Trade Coast SW South West N North

~ passing yield   *vendor leaseback   # 50% freehold interest   ^ site area (property is a bus depot)

PRECINCT HIGHLIGHTS

Trade Coast

Vacancy

Prime:	73,368 sqm
Secondary:	83,093 sqm

Land

<5,000 sqm:	$532/sqm
1-5 ha:	$420/sqm

Rents

Prime:	$120/sqm
Secondary:	$102/sqm

Yields

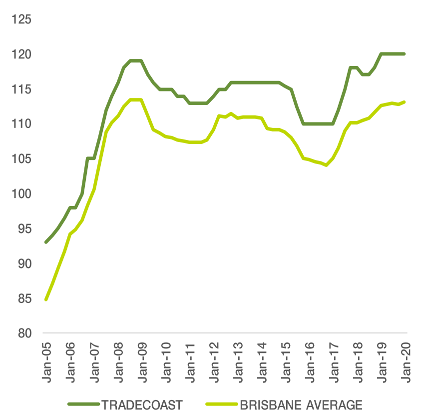
Prime:	5.75% - 6.40%
Secondary:	6.50% - 7.00%

- Precinct still has a significant premium to the wider market for rents and land values. Rents have begun to plateau as there is a natural limit to the premium tenants will pay for the location.
- Land is sought after with limited freehold opportunities.
- Tenants recently committing to space in the precinct include Fisher & Paykel (19,950sqm), Caroma (7,000sqm) and Oceania Glass (6,902sqm).

FIGURE 8

TradeCoast & Brisbane Prime Rents

$/sqm net rent



Source: Knight Frank Research

North

Vacancy

Prime:	3,065 sqm
Secondary:	7,203 sqm

Land

<5,000 sqm:	$420/sqm
1-5 ha:	$275/sqm

Rents

Prime:	$113/sqm
Secondary:	$92/sqm

Yields

Prime:	6.30% - 7.00%
Secondary:	7.00% - 7.35%

- Limited vacant space 3,000sqm+ in the precinct.
- Pressure building for change of use from industrial to mixed use residential/retail, particularly around the train stations.
- While tenants that need to grow are often forced to relocate further north there remains a core of older manufacturing/production tenants in the precinct (ie the Arnotts facility).

Address:	46 Robinson Rd E, Geebung
Price:	$211.80 million
Sale Date:	Dec 2019
Vendor:	Arnotts
Purchaser:	Centuria Industrial REIT
Yield:	Portfolio Sale
Comment:	46,183sqm facility on 7.2ha sold with a 30 year vendor leaseback.

Greater North

Vacancy

Prime:	13,666sqm
Secondary:	24,776 sqm

Land

<5,000 sqm:	$335/sqm
1-5 ha:	$230/sqm

Rents

Prime:	$114/sqm
Secondary:	$91/sqm

Yields

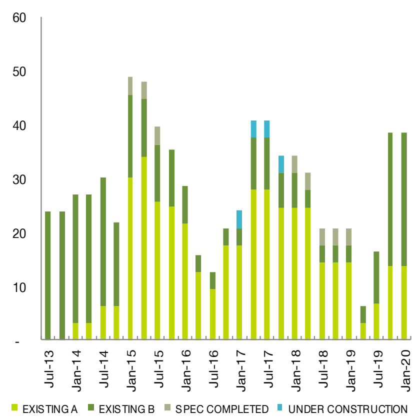
Prime:	6.40% - 7.25%
Secondary:	7.25% - 7.60%

- Land, particularly small lots, have been transacting strongly in the past year at rates of $315—$350/sqm.
- Until recently there has been little prime vacancy available in the precinct, the 15,300sqm ex -Liquid Specialty Beverages facility the largest availability.
- As development opportunities are harder to find in the south, expect greater long term interest in the Greater North.

FIGURE 9

Greater North Available Space

'000sqm space by type



Source: Knight Frank Research

South

Vacancy

Prime:	50,587sqm
Secondary:	80,240 sqm

Land

<5,000 sqm:	$345/sqm
1-5 ha:	$285/sqm

Rents

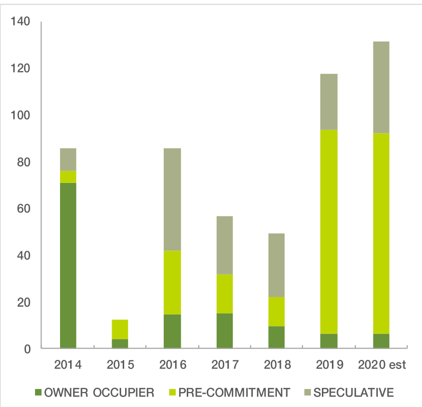
Prime:	$114/sqm
Secondary:	$90/sqm

Yields

Prime:	6.15% - 6.75%
Secondary:	7.00% - 7.75%

- The South accounted for 48% of Brisbane's total take-up during CY2019. A third of this take-up was within speculatively developed space, concentrated in the second half of the year.
- Land values grew by 4.5% for <5,000sqm lots and 3.6% for 1 -5ha lots in the past year.
- A mix of good pre-commitment levels and solid take-up of speculative space continues to trigger construction in the area.

FIGURE 10
South Construction Activity
'000 sqm by category



Source: Knight Frank Research

South West

Vacancy

Prime:	43,660 sqm
Secondary:	43,884 sqm

Land

<5,000 sqm:	$310/sqm
1-5 ha:	$272/sqm

Rents

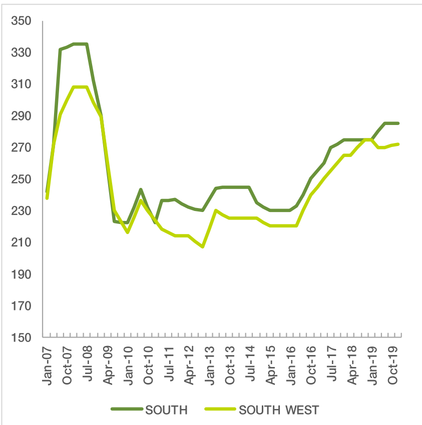
Prime:	$108/sqm
Secondary:	$90/sqm

Yields

Prime:	6.00% - 6.50%
Secondary:	7.00% - 7.50%

- In 2019 limited prime existing or speculatively developed stock meant all take-up was channeled into secondary space.
- 65,000sqm of pre-committed space was delivered in 2019 with a similar amount for completion in 2020. Speculative development is set to increase with Dexus, Stockland and GARDA having significant schemes.
- A value proposition is emerging with rents and land values static in the past year.

FIGURE 11
South West & South Land Values
$/sqm for lots 1-5ha



Source: Knight Frank Research

South East

Vacancy

Prime:	27,315 sqm
Secondary:	18,957 sqm

Land

<5,000 sqm:	$315/sqm
1-5 ha:	$275/sqm

Rents

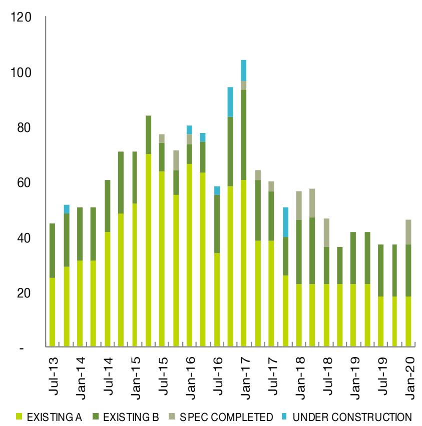
Prime:	$110/sqm
Secondary:	$92/sqm

Yields

Prime:	6.15% - 6.65%
Secondary:	7.00% - 8.00%

- While development and pre-commitment activity in the South East has remained high over the past year, general leasing activity has been more sporadic with limited stock providing relatively scarce opportunities for tenants.
- Speculative space of 9,020sqm has recently been completed by Stockland at Yatala Distribution Centre.

FIGURE 12
South East Available Space
'000sqm space by type



Source: Knight Frank Research

Definitions:
Sources Market Drivers: ABS 3101, Qld & Federal Treasury, ABS 8501, ABS 5368
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.
WALE: Weighted Average Lease Expiry
Vacancy Methodology:
This analysis collects and tabulates data detailing vacancies (3,000m²+) within industrial properties across all of the Brisbane Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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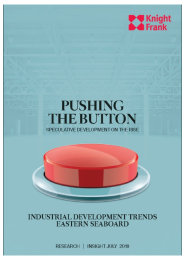

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INDUSTRIAL
Chris Wright
Partner, Joint Head of Industrial QLD
+61 7 3246 8861
Chris.Wright@au.knightfrank.com

Mark Clifford
Partner, Joint Head of Industrial QLD
+61 7 3246 8802
Mark.Clfford@au.knightfrank.com

Greg Russell
Partner, Industrial Investments,
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

Lachlan Hateley
Associate Director
+61 7 3482 8894
Lachlan.Hateley@au.knightfrank.com

Ben Hatch
Associate Director
+61 7 3482 8835
Ben.Hatch@au.knightfrank.com

David Knox
Associate Director
+61 7 3482 8877
David.Knox@au.knightfrank.com

Sam Harper
Associate Director
+61 7 3482 8881
Sam.Harper@au.knightfrank.com

Matthew Williams
Associate Director
+61 7 3482 8888
Matthew.Williams@au.knightfrank.com

Mark Horgan
Manager—Strathpine Office
+61 7 3482 6000
Mark.Horgan@au.knightfrank.com

VALUATIONS
Ian Gregory
Consultant
+61 7 3193 6844
Iangregory@qld.knightfrankval.com.au

Julian Colpitts
Senior Valuer
+61 7 3193 6877
Julian.Colpitts@qld.knightfrankval.com.au

Matthew Cross
Valuer
+61 7 3193 6833
Matthew.Cross@qld.knightfrankval.com.au

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