RESEARCH

BRISBANE INDUSTRIAL

MARKET OVERVIEW JULY 2018

HIGHLIGHTS

Vacancy has continued to trend downwards, particularly for secondary space. Improving economic conditions and major infrastructure projects will boost demand as tenders are awarded.

Land values are growing strongly in selected precincts and this will spread across the market as vacant lots are depleted and yields are low. Further price growth is needed to trigger production of the next wave.

Yields have continued to fall with greatest demand for either long WALE or land rich assets. Prime yields are supported by the weight of funds, whilst secondary yields are supported by land values.

MARKET DRIVERS

Population Growth

Aust: 1.6% QLD: 1.7%

CY2017 y-o-y

Economic Growth

Aust: 2.8% QLD: 2.8%
(f) 3.0% (f) 3.0-3.5%

2017-18 est & 2018-19 (f)

Retail Trade

Aust: 2.5% QLD: 2.0%

May 2018 y-o-y

Exports FOB Value

Aust: 8.6% QLD: 15%

Yr to May 2018 v May 17

Major SEQ Projects

Cross River Rail $5.3b

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

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ECONOMY & DEMAND

Economic conditions have improved markedly over the past year with a return to trend growth expected for 2018-19. Commitments to major private sector developments and infrastructure will generate demand.

Economic conditions being driven by improved exports and population growth

Queensland's economic performance has improved with exports increasing and population growth lifting higher. This has been supported by employment growth of 83,930 (increase of 3.5%) over the year to June 2018, second only to NSW (ABS). This has brought the Queensland unemployment rate down to 5.9%.

More sectoral analysis indicates that much of this employment growth has been within blue collar industries with positive benefit to industrial demand. In the year to May 2018 manufacturing employment increased by 15% (up 22,600 persons) in Queensland while wholesale trade increased 10% (up 6,100 persons) (ABS). Agriculture, mining and utilities increased by a combined 20% (39,800 more jobs). Reflective of the adoption of technology and search for efficiency, Transport and Warehouse employment fell by 10% over the year.

The total value of Queensland exports in the year to May 2018 was $73.7 billion, a 15% increase over the year before (ABS). In part this was due to an increase in coal exports, with the QLD Government royalties from coal doubling in 2016-17 and estimated to grow a further 11% in 2017-18. Additionally, LNG production has continued to ramp up with royalties growing 172% and 92% over the past two financial years. Additional capacity will add a forecast further 138% in royalties in 2018-19 before levelling as capacity for the current trains is reached.

Further adding to the positive sentiment is population growth, which for 2017 was 1.7% y-o-y, at 81,461 persons the highest gross increase in five years (ABS). Underpinned by net interstate migration at 10 year highs, population growth supports further organic growth of construction and retail demand.

Major construction & infrastructure to accelerate demand

Larger tenant activity has recently been concentrated in food, building products and retailers or associated logistics with examples including:

- Food—Hilton Foods (39,454sqm), Inghams (14,497sqm), Quality Food Services (11,260sqm),
- Building Products— Ballieu Carpets (23,051sqm), National Tiles (13,159sqm), Queensland Glass (7,600sqm), Steelforce (16,000sqm), Nikpol (7,200sqm),
- Retail/Consumer Goods Logistics—Aust Post Parcel (48,748sqm), Comfort Group (39,186sqm), Metcash Hardware (31,000sqm), Quatius (15,562sqm) and QLS (12,300sqm).

However with indications that residential building starts and approvals have peaked, attention is turning towards demand arising from the major commercial and infrastructure construction pipeline, now established for Brisbane. The largest of these is the Cross River Rail, a $5.3 billion project for completion in 2024.

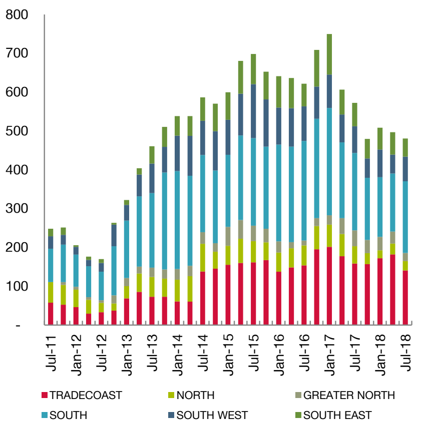
Across the general leasing market, the rolling annual take-up at 364,373 sqm is 10% above the long term average. Demand can be characterised as steady but lacking urgency to finalise decisions.

Excluding D&C commitments, analysis of absorption over the past 12 months indicates that 38% of leasing activity was within spaces of 3,000—6,000 sqm, There has been a welcome return of activity from medium sized businesses with 21% arising from 6,000—9,000sqm users and a further 15% from 9,000—12,000sqm. Despite competition from D&C developments, 26% of take-up came from existing or speculative product of 12,000+ sqm.

VACANCY & RENTS

Vacancy showing steady improvement, particularly for secondary stock

FIGURE 1
Brisbane Industrial Vacancy
'000sqm available space by precinct



Source: Knight Frank Research

Vacant space reduced by 3.3% over the quarter to July 2018 to be 480,529 sqm, and is down by 16% over the past year. The bulk of this improvement has come from the secondary market, falling by 39% in the past year. In contrast, prime vacancy has increased by 15% over the same period.

This improvement in secondary vacancy has been aligned with rental discounts over the past 18 months. As stock on the market reduces, particularly in some southern precincts, there are now signs of secondary rental growth.

Spec construction accounts for 35% of prime vacancy

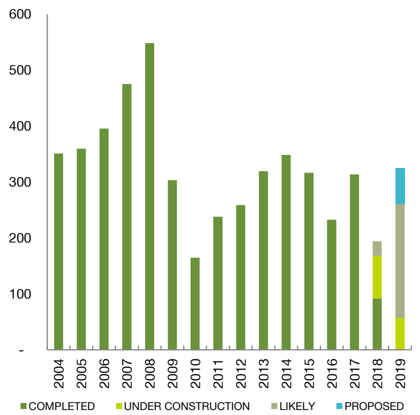
Available speculative space increased from 60,795 sqm to 97,533 sqm over the past year as build starts have continued, but only 16,428 sqm has been absorbed. However take-up is set to increase with significant deals understood to be pending as tenants continue to show a clear preference for new space. Major spec developments currently include the Goodman development of 16,218 sqm at Lytton and a 17,880 sqm building pre-purchased by Ascendas at Berrinba.

Supply lower in 2018

With low speculative starts during 2018 and no large-scale D&C completions due, total supply for 2018 is estimated to be lower at 195,000 sqm. The largest completion for 2018 is the 30,594 sqm warehouse constructed by Coca Cola for their own use at 260 Orchard Rd, Richlands. This facility was pre-sold on a 20 year vendor leaseback to the Charter Hall Prime Industrial Fund.

Construction is expected to accelerate in 2019 with 325,000 sqm of new supply currently slated. As shown in the map on page 4, the majority of supply remains in the southern precincts.

FIGURE 2
Brisbane Region Supply
'000sqm new industrial construction



Source: Knight Frank Research/Cordell Connect

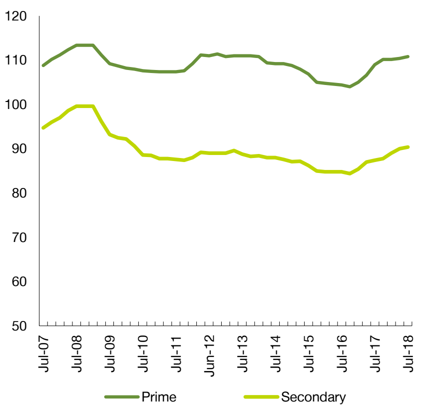
Rents, Incentives & Outlook

Prime	$110/sqm 1.7% y-o-y 12.2% incentive	↗
Secondary	$90/sqm 3.4% y-o-y 12.8% incentive	↗

Limited rental growth

While absorption is steady and vacancy is falling, there has not been enough competition to trigger significant rental growth. Recovery in the secondary sector has resulted in higher growth than for prime, however tenants remain cost sensitive. The institutional developers with remaining land can still offer attractive deals on D&C options, keeping a lid on prime rental growth.

FIGURE 3
Brisbane Prime & Secondary Rents
$/sqm net face rents



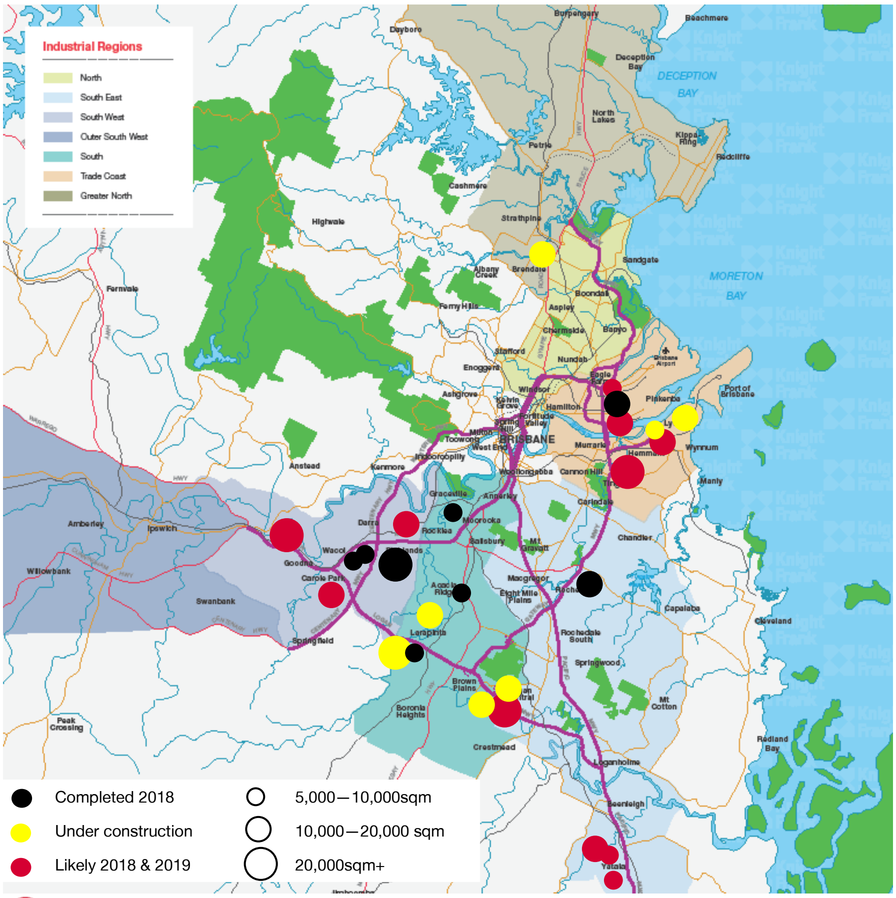
Source: Knight Frank Research

TABLE 1
Recent Leasing Activity Brisbane

Address	Region	Net Rent $/m²	Area	Term (yrs)	Tenant	Date
5a Viola Pl, Eagle Farm	TC	120	12,971	2	CEVA Logistics	May 18
50—70 Radius Dr, Larapinta	S	108	12,104	5	Mainfreight	May 18
70 Fulcrum St, Richlands	SW	90	15,562	6	Quatius	Apr 18
102 Trade St, Lytton^	TC	230	14,497	15	Inghams	Mar 18
1B, 400 Nudgee Rd, Hendra	TC	95	14,810	7	Easy Auto 123	Feb 18

SE South East SW South West S South TC Trade Coast ^cold storage
Source: Knight Frank Research

DEVELOPMENT & LAND VALUES



Land Values & Outlook

<5,000sqm	$336/sqm 5.5% y-o-y	↗
1-5ha	$265/sqm 8.6% y-o-y	↑

Land values increasing as available lots reduce

While rental growth remains modest, the value of land is appreciating in response to reducing availability and sustained low yields. A number of estates still have land available, however only 2-3 lots are remaining and ownership is largely held within a small pool of institutional investors.

Price appreciation has been most evident in the TradeCoast region where smaller lots have increased by 23.5% in the past year to $525/sqm. This has been most evident in the long-awaited “Mobil Site” now Colmslie Business Park, Morningside which is achieving $575-600/sqm for 2,000—4,000sqm blocks and $465/sqm for 1.5ha lots.

Equally a perceived lack of larger sites and continued demand from sizeable users has resulted in 8.6% annual growth in 1-5ha lots across Brisbane. Leading this is the South East where 1-5ha lots appreciated by 17% in the past year to $265/sqm as development momentum is now established in Yatala.

D&C activity accelerating land take-up

Recent confirmation of Australia Post’s pre-commitment to a 48,748 sqm parcel facility at Redbank is the largest in a recent flurry of D&C deals. In the south, Metcash Hardware (31,000 sqm) and QLS (12,300sqm) committed in Berrinba and Reward Hospitality has signed up for 13,527 sqm at Yatala.

While 2018 will be a relatively slow year for D&C completions at 64,000 sqm confirmed pre-commitments for 2019 & 2020 completions total 207,000 sqm. During 2016 & 2017 D&C construction directly accounted for the take-up of 79ha of land with a further 57ha to be absorbed from known projects 2018+.

Reflective of growth industries, D&C take-up 2017-2019 is dominated by Food production/warehousing (21%), Logistics (19%), Retailers/consumer goods (17%), Packaging suppliers (12%) and Building Products (10%).

Search turning to infill/new greenfield opportunities

Large institutional investors and developers are examining opportunities for the next wave of industrial land production, however there has been limited movement in bringing new estates to the market to date. With values just returning to the prior peak levels of 2008/9 further price growth is required to trigger development.

TABLE 2

Recent Land/Development Sales Activity Brisbane

Address	Region	Price $ mil	Area m²	$/m² of site area	Purchaser	Sale Date
1188 Boundary Rd, Wacol	SW	8.38	38,140	220	Komatsu Australia	Mar 18
10-22 Jalrock Pl, Carole Park	SW	5.80	32,300	180	Local Developer	Sep 17
166 Pearson Rd, Yatala	SE	12.81	48,800	263	FLT	Aug 17
42-52 Export St, Lytton	TC	8.20	26,459	310	Goodman Group	Aug 17
16 Crockford St, Northgate	N	7.20	16,218	444	Butterfield Projects	Jul 17

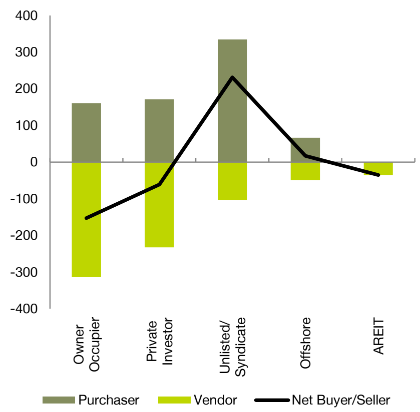
SW South West TC Trade Coast N North SE South East
Source: Knight Frank Research

INVESTMENT ACTIVITY & YIELDS

Current Yields & Outlook

Prime	6.50% - 7.33% -17bps y-o-y	
Secondary	7.38% - 8.25% -26bps y-o-y	

FIGURE 4
Brisbane Vendor/Purchaser
$million sales $5million+ 12 mths to July 2018



Source: Knight Frank Research

Vendor leasebacks increase to both private and unlisted buyers

Investment demand has remained elevated, however a lack of assets available has muted the level of turnover to $733.6 million during 2017-18. The demand for core assets with long WALEs has remained largely unfulfilled with few of these assets made available to the market. Instead we have seen the continued increase of vendor leaseback sales with corporates taking advantage of the strong investment environment to sell while yields are low. Recent examples have included Vermeer ($15.4 million), Kent International ($13.5 million), Sime Darby ($74.8 million), Ethical Nutrients ($28.25 million) and Scotts Refrigerated Freightways ($22 million) with the purchasers a range of unlisted entities and one private investor.

This has contributed to owner occupiers being the largest net sellers over the past year, as shown in Figure 4. At the same time there has been strong owner occupier purchasing activity totaling $161 million, representing a mix of corporate transactions (ie Swire Cold Storage being purchased by Emergent Cold) and also improving confidence from a number of local businesses.

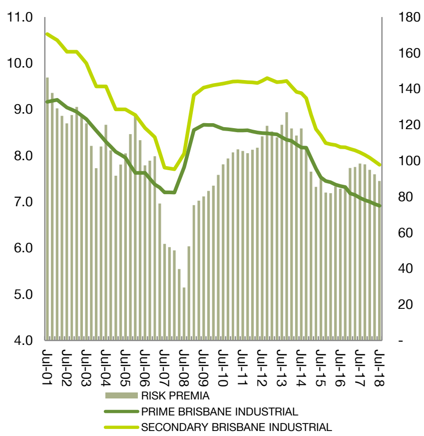
Private investors remain active, taking advantage of the low interest rate environment, accounting for 19 of the 49 sales during the year. Clearly however, unlisted funds and syndicates are the dominant net purchasers with AREITs largely priced out of the market and offshore groups struggling to find the requisite scale within Brisbane.

Yields still firming, albeit at a slower pace than before

Both prime and secondary yields have continued to firm over the past year with falls of 17 and 26 basis points respectively. For prime yields this annual rate of decline peaked in late 2017 at 28 basis points and has since begun to slow. In contrast, the secondary market, buoyed by improved vacancy, localised rental increases and the underlying value of land has seen yields maintain a strong tightening trajectory.

While the prime yield range is based on an assumed WALE of 5-7 years, there remains stronger appetite in the market for longer WALEs. The recent purchase of the Vermeer site, at core market yield of 6.15% is reflective of the premium paid for longer WALEs. Assets of scale ($30million+) and with core investment attributes will continue to test new lows.

FIGURE 5
Brisbane Region Yields
% Core market yield (LHS) & bps Premia (RHS)



Source: Knight Frank Research

TABLE 3
Recent Improved Sales Activity Brisbane

Address	Region	Price $ mil	Bldg Area m²	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
31-41 Inghams Pl, Hemmant	TC	26.12	20,176	6.68	0.7	DAK Foundation	Fife Capital	Jun 18
147 Archerfield Rd, Richlands #	SW	15.40	8,492	6.15	10.0	Vermeer Australia	Fife Capital	Apr 18
1-7 Wayne Goss Dr. Berrinba	S	30.00	17,880	6.70^	n/a	Goodman Group	Ascendas REIT	Apr 18
196 Viking Dr, Wacol+	SW	15.00	5,720	6.52	4.6	Blackstone Investments	Cache Logistics Trust	Feb 18
46 Industrial Ave, Wacol	SW	15.95	n/a	VP	VP	Steggles Pty Ltd	Inghams Enterprises	Feb 18

Source: Knight Frank Research S South SW South West TC Trade Coast # vendor leaseback ^ reported passing yield inc rental gtee + portfolio sale

PRECINCT HIGHLIGHTS

Trade Coast

Vacancy

Prime: 83,603 sqm
Secondary: 56,892 sqm

Land

<5,000 sqm: $525/sqm
1-5 ha: $380/sqm

Rents:

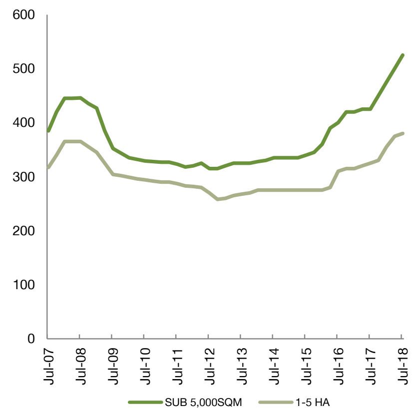
Prime: $117/sqm
Secondary: $98/sqm

Yields:

Prime: 6.40% - 7.15%
Secondary: 7.15% - 7.75%

- Land prices, particularly for smaller lots have surged over the past year—up by 23% for >5,000sqm lots and 17% for 1-5 ha lots. Land rich properties are highly sought.
- Is the precinct with highest average rents, although there is price sensitivity. Recent improvement in take-up and reduction in vacancy was assisted by softer metrics.
- Investment stock is tightly held.

FIGURE 6
TradeCoast Land Values
$/sqm by lot size range



Source: Knight Frank Research

North

Vacancy

Prime: 10,964 sqm
Secondary: 13,467 sqm

Land

<5,000 sqm: $380/sqm
1-5 ha: $275/sqm

Rents:

Prime: $108/sqm
Secondary: $88/sqm

Yields:

Prime: 6.75% - 7.50%
Secondary: 7.50% - 8.25%

- Limited vacant space in the precinct along with little to no developable land.
- Underlying land values have yet to trigger significant recycling and redevelopment of sites, however precinct is well placed to benefit from overflow demand from the TradeCoast
- Largely exposed to SME which have been less active than larger companies in absorbing space in recent years.

Address: 920-928 Nudgee Rd, Banyo

Price: $36.775 million

Sale Date: Oct 17

Vendor: Sentinel Asset Mgt

Purchaser: Fife Capital

Yield: 5.80% CMY (6.84% IY)

Comment: Metal fabrication facility leased by Bluescope, WALE of 8.5 years.

Greater North

Vacancy

Prime: 17,561 sqm
Secondary: 3,200 sqm

Land

<5,000 sqm: $350/sqm
1-5 ha: $250/sqm

Rents:

Prime: $105/sqm
Secondary: $85/sqm

Yields:

Prime: 6.75% - 7.50%
Secondary: 7.50% - 8.25%

- Greater North provides opportunities for occupiers outgrowing space in TradeCoast or North to expand in a cost effective manner.
- Land remains available in the Brendale region, however attention is turning to the next wave with the number of improved lots running down.
- Despite limited vacancy, the leasing market has lacked traction in the past 2 years.

Address: 155 South Pine Rd, Brendale

Price: $10.0 million

Sale Date: June 18

Vendor: Private Investor

Purchaser: CIP Brendale Trust

Yield: 6.50% Initial

Comment: Land rich site of 5.7ha leased to Timbertruss until Nov 2025.

South

Vacancy

Prime: 79,637 sqm
Secondary: 105,132 sqm

Land

<5,000 sqm: $330/sqm
1-5 ha: $275/sqm

Rents:

Prime: $110/sqm
Secondary: $90/sqm

Yields:

Prime: 6.45% - 7.50%
Secondary: 7.45% - 8.50%

- The established suburbs of the South account for 52% of the Brisbane secondary vacancy.
- The commencement of roadworks to fix a bottleneck at Berrinba has triggered additional commitments to new supply—ie QLS, Metcash, Ascendas spec.
- Land values have been stable with <2% growth across small and larger lots as land prices in South East and South West bridge the gap to the South.

Pre-commitment

Address:	Motorway Industrial Park, Berrinba
Rent:	Undisclosed
Tenant:	Metcash Independent Hardware
Start Date:	Late 2019
Area	31,000 sqm
Landlord:	Charter Hall—CPIF
Term:	10 years from completion
Comment:	Pre-commitment to a new distribution facility to service the Mitre10, Home timber & Hardware, Hardings, Thrifty Link and True Value hardware brands.

South West

Vacancy

Prime: 53,151 sqm
Secondary: 10,432 sqm

Land

<5,000 sqm: $310/sqm
1-5 ha: $270/sqm

Rents:

Prime: $109/sqm
Secondary: $91/sqm

Yields:

Prime: 6.45% - 7.20%
Secondary: 7.45% - 8.40%

- With only 10,432 sqm of secondary vacancy remaining, secondary rents have increased by 5.8% over the past year, ending a two year cycle of discounting.
- Functional existing space has been well absorbed with Mainfreight taking the prime 12,104 sqm at 50-70 Radius Dr, Larapinta for $108/sqm and Quatius leasing 15,562 sqm at the secondary 70 Fulcrum St, Richlands for $90/sqm net.

"Driven to expand as e-commerce has boosted parcel freight up 11% y-o-y, Australia Post has committed to a new 48,748 sqm facility at Redbank Motorway Estate. The facility will be open for Christmas 2019 and will process up to 40,000 parcels per hour."

South East

Vacancy

Prime: 33,168 sqm
Secondary: 13,592 sqm

Land

<5,000 sqm: $295/sqm
1-5 ha: $265/sqm

Rents:

Prime: $110/sqm
Secondary: $86/sqm

Yields:

Prime: 6.45% - 7.30%
Secondary: 7.35% - 8.25%

- While the total vacancy in the South East has been relatively low, the precinct had been somewhat stagnant post-GFC. However positive sentiment has recently returned with rental growth of 4.8% and 7.5% y-o-y for prime and secondary respectively.
- Sustained take-up of land within the major estates has kick-started land values with 1-5ha lots increasing by 18% in the past year.

Pre-commitment

Address:	Yatala Central Estate
Rent:	Undisclosed
Tenant:	Reward Hospitality
Start Date:	cApril 2019
Area	13,527 sqm
Landlord:	Frasers Australia
Term:	7 years from completion
Comment:	Pre-commitment to a new distribution facility which will include 1,800sqm of office, meeting and show-room space. Relocating from a 8,951sqm building in Yatala.

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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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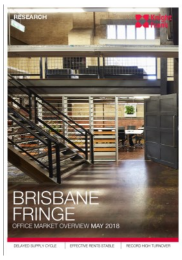
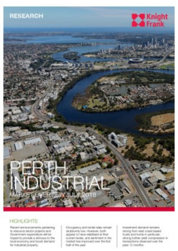


Brisbane Fringe Office Market Report May 2018



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