RESEARCH

BRISBANE

INDUSTRIAL MARKET BRIEF NOVEMBER 2014

Key Facts

Retailers and logistics providers dominate larger demand; demand from building & construction tenants is expected to build

Delivery of new stock at cost effective rents will continue to draw users to new product

Rents for existing assets subdued with relatively high vacancy

Investment demand is high; average prime yields fell by 18bps over the past year

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Both occupier and investment demand has improved over the course of 2014 for the Brisbane market. This has been concentrated in newly constructed/prime space; resulting in continued challenges for existing accommodation.

Occupier Demand & Rents

Occupier demand has improved, although at the larger end remains dominated by tenants choosing to relocate into newly developed properties, rather than existing assets. Retailers and their supply chain managers remain the dominant tenants in the market, with the upswing in residential demand now also beginning to broaden demand towards more construction related tenants.

Across the Brisbane region there has been very little rental movement and average prime rents are \$110/m² net as at October 2014, a fall of 1.1% over the past year. Essentially Brisbane prime net rents have vacillated between \$109/m² and \$111/m² over the past three years.

While tenant demand has improved on the whole, it has remained sporadic and competitive deals being offered on newly built accommodation (either D&C or speculatively developed) has kept a lid on achievable rents for existing buildings.

Due to a number of competing, largely institutional developers, the average market pre-commitment rental is currently sitting at \$117/m² net which is a 2.5% reduction from the levels being achieved two years ago. Incentives have also increased in larger pre-commitments, reaching a reported high of 15% on selected deals. In contrast, while existing stock has also seen an increase in incentives, these appear to have plateaued at just under 8%, on average.

Secondary market conditions have remained relatively difficult as, despite recent improvements, the total level of vacant secondary space (above 3,000m²) remains historically high at 324,720m². Average secondary rents have continued to drift, falling by 0.9% to \$88/m² net as at October 2014.

FIGURE 1

Brisbane Region Rents

$/m² net rent prime v secondary

Source: Knight Frank

Development Activity

Construction and development activity for 2014 is expected to show a modest increase over the 2013 levels. With 244,872m² of industrial space completed, and a further 90,000m² under construction and expected to complete prior to year's end this shows an increase of 4.7% over 2013 levels.

Looking forward into 2015, with space already under construction of 182,000m², there is the potential for further growth in construction and supply levels. Construction during 2014 has been dominated by larger distribution facilities such as Toll NQX at Loganlink 43,663m², 62 Smith St, Redbank 46,000m² (31,200m² committed to DB Schenker) and Super Retail Group's 50,300m² warehouse which is in the final stages of construction. Significant completions for 2015 are expected to include the 55,000m² Aldi warehouse at Brendale and Building 5, Drive Industrial Estate, Richlands, committed by Target for 35,000m².

As the development pipeline continues to rebuild there has been a corresponding increase in interest for development land. This is particularly the case for the larger institutional developers which are now almost exclusively developing their own investment product. Englobo land parcels which form the next wave of development are subject to notably greater interest and activity than was the case a year ago.

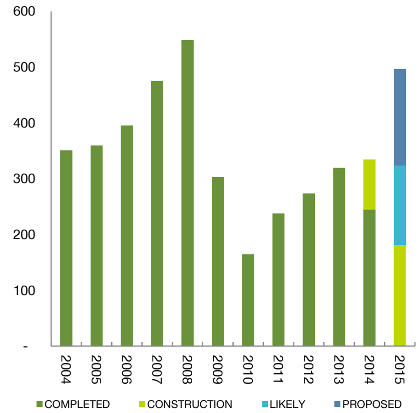
While development activity has increased, this has predominantly been at the larger end of the market and properties 8,000m² plus. In contrast the smaller speculative and owner occupier activity in the 3,000—8,000m² category has remained relatively weaker. Therefore land values for the smaller lots (under 5,000m²) have remained static, averaging $285/m² across the regions.

In contrast there has been some price appreciation across larger land holdings, with the Trade Coast recording the greatest appreciation, boosted by the recent unlocking of freehold development land in the region. The South and South West have seen greater land purchasing activity and development activity led by major institutional investors such as Goodman, DEXUS and Australand. However to date this increased activity has not yet translated into any significant land value appreciation.

FIGURE 2

Brisbane Region Supply

'000m² new industrial construction



Source: Knight Frank/Cordell Connect

Sales & Investment Activity

Investment demand and purchasing activity across the Brisbane industrial market has increased in line with the wider appetite for investments across the Australian property market. Under the growing investment market competition there have been steady decreases of both prime and secondary yields over the past 12 months.

Across Brisbane the average prime yield is 8.17% (range of 7.86%- 8.48%) on a blended basis across the regions, representing a tightening of 18 basis points (bps) over the past year and 50bps over the cycle. The lower yield range is being tested by exceptional assets

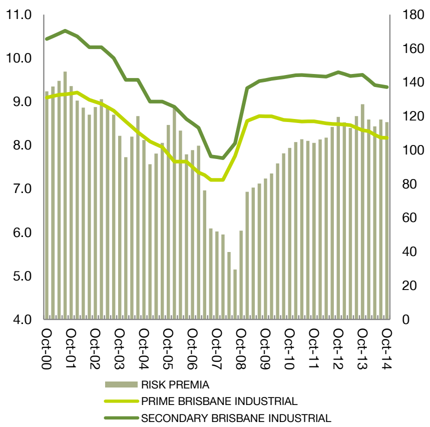
TABLE 1

Brisbane Industrial Market Indicators as at October 2014

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields		Avg Land Values <5,000m²		Avg Land Values 1—5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(%p.a)	$/m²	(%p.a)
Trade Coast	116	-	96	5.5	7.75—8.35	8.85—9.50	335	3.1	285	5.6
North	109	-2.7	85	-3.4	7.90—8.70	8.95—9.70	310	-	235	2.2
South East	105	-1.9	85	-3.5	8.15—8.65	9.00—10.00	235	-1.3	175	1.2
South	111	0.9	86	-1.1	7.75—8.35	8.90—9.75	275	-1.8	245	-
South West	108	-1.8	86	-2.3	7.75– 8.35	8.90—9.80	270	-1.8	225	-
Brisbane Average	**110**	**-1.1**	**88**	**-0.9**	**7.86—8.48**	**8.92—9.75**	**285**	**-0.2**	**233**	**1.9**

Source: Knight Frank

FIGURE 3
Brisbane Region Yields
% Core market yield (LHS) & bps Premia (RHS)



Source: Knight Frank

TABLE 2
Recent Leasing Activity Brisbane

Address	Region	Net Rent $/m²	Area	Term (yrs)	Tenant	Date
Rochedale Motorway Estate	SE	115	13,164	12	Beaumont Tiles^	Dec 15
Redbank Motorway Estate	SW	u/d	27,775	15	TNT Australia^	Aug 15
Howard Smith Dr, Lytton	TC	u/d	10,000	10	Owens Transport^	Jul 15
Drive Business Park, Richlands	SW	109	35,000	5	Target#	Jul 15
1A 37 Freight St, Lytton	TC	116	8,950	5	Yusen Logistics#	May 15
6/836 Boundary Rd, Coopers Plains	S	105	5,245	3	Bevchain	Nov 14
Australand Dr, Berrinba	S	100	9,773	5	Hanna Express#	Oct 14
163 Viking Dr, Wacol	SW	115	5,799	5	Lawrence & Hanson#	Jul 14

Source: Knight Frank SE South East SW South West TC Trade Coast S South ^pre-commitment #Spec

brought to the market such as the reported 6.5% core market yield paid for the new Super Retail Group premises at Brendale on a new lease of 15 years. This asset was purchased in tandem with another new 47,702m² facility also leased by Super Retail Group on a 15 year term in Erskine Park, Sydney.

Overall the Brisbane market has relatively little new, prime stock available for purchase with much of the newly constructed pre-leased or speculatively leased facilities tending to be held by the developers. The DEXUS sale of 183 Viking Drive, Wacol in February 2014 for $38 million was one of the few divestments of new stock this year, outside of the SRG asset at Brendale.

This has led to relatively greater market attention spilling over to value add or secondary assets which may have additional development potential or a relatively short WALE. As a result the secondary yields have also seen contraction over the past year with the median yield of 9.34% representing a fall of 28bps over the past 12 months.

TABLE 3
Recent Land/Development Sales Activity Brisbane

Address	Region	Price $ mil	Area m²	$/m² of site area	Zoning	Vendor	Purchaser	Sale Date
Lot 1, Anton Rd, Hemmant	TC	26.00	122,000	213	GI	Marine Holdings	DEXUS Property Group/ Future fund	Nov 14
66 Cullen Ave, Eagle Farm	TC	14.00*	75,000	187	II/EC	QLD Rail	Northshore Group	Jul 14
Boundary Rd & Rudd St, Richlands	SW	15.15	70,440	215	GI	CSR Group	Automotive Holdings Group	Jul 14

Recent Improved Sales Activity Brisbane

Address	Region	Price $ mil	Bldg Area m²	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
470 Lytton Rd, Morningside	TC	31.00	34,053	c10.0^	n/a	Private Investor	Private Investor	Nov 14
Weedman St, Redbank~	SW	74.00	c90,000	u/d	10.0	Aurizon	Goodman Group	Nov 14
1 Griffin Cres, Brendale	N	c76.00	50,300	c6.50	15.0	W. H Soul Pattinson	Logos Property (for KWAP)	Oct 14
149 Kerry Rd, Archerfield	SW	22.17	12,701	7.80	10.3	Sentinel Property Group	Centuria Funds Management	Sep 14
70 Fulcrum St, Richlands	SW	15.60	17,455	8.45	1.5	Hills Industries #	Australian Prime Property Fund Industrial	Aug 14
33-37 Mica St, Carole Park	SW	23.87	17,916	8.00	15.0	Greens Foods#	360 Capital Industrial Fund (Metrop REIT)	Jul 14

*reported price, medium term mixed use development site GI General Industry II –Industry investigation EC Emerging Community ^passing yield # vendor leaseback

Source: Knight Frank TC Trade Coast SW South West N North ~ 87hectare site with rail access, medium term development site KWAP Malaysian pension fund

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Transaction activity over the year to October 2014 has totalled $606.96 million in sales ($5 million+), an increase of 13% over the corresponding period a year earlier of $535.35 million.

This purchasing activity was dominated by Wholesale/unlisted funds and AREITs which have accounted for 36% and 23% of purchasing activity respectively. Aligned with activity within the commercial market there has also been an increase in offshore investment which accounted for 17% of transaction activity over the past year, frequently via JV arrangements.

Vendors were dominated by Private Investors accounting for 24% of sales. There was also an increase in the proportion of owner occupiers selling significant assets, accounting for 17% of sales transactions as corporates cashed in on the lower yields on offer to undertake vendor leasebacks.

Outlook

Pre-commitment driven construction and speculative development will remain supported by the combination of the tightening yield environment (which enables these projects to be delivered at attractive rents) and stronger tenant demand. This will support continued recovery in supply levels, however there remains a deflationary influence on rents within existing buildings.

Investment demand will remain strong, however the limited number of prime investments on offer is expected to curb the number of sales and continue to divert demand further up the risk curve. With offshore interest in investment product growing, a greater number of portfolio sales is expected to occur which broadens the Brisbane market's potential buyer pool as the market is frequently hampered by a lack of scale.

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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