



MAY 2013

PERTH INDUSTRIAL

Market Brief

HIGHLIGHTS

- Development activity in the Perth metropolitan area is predominantly pre-commitment driven, particularly for larger buildings, with few developers prepared to build speculatively.
- Industrial space that is being actively marketed (for warehouse buildings over 2,000m²) has increased by 8.6% to 135,490m² since the beginning of 2013.
- Rents have remained strong, yet steady. Prime-grade rents are on average \$115/m² with Secondary-grade rents on average \$82/m² across the metropolitan area.
- Average Prime-grade core market yields have tightened by around 25 basis points over the past year and now range between 7.75% and 8.50%. Secondary-grade core market yields are on average between 8.75% and 10.00%

Table 1
Perth Industrial Market Indicators April 2013

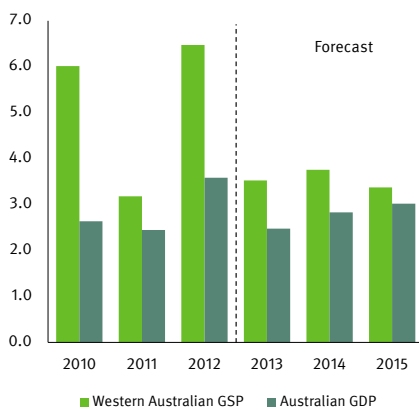
Precinct	Avg Prime Rent	Avg Secondary Rent	Vacant Space (Build. >2,000m ²)*	Core Market Yields (%)		Avg Land Value	
	\$/m ² net	\$/m ² net		Prime	Secondary	<5,000m ² \$/m ²	1 – 5 ha \$/m ²
North	115	80	22,382	7.75 – 8.50	8.75 – 10.00	416	242
South	110	80	44,739	7.75 – 8.50	8.75 – 10.00	346	232
East	120	85	68,369	7.75 – 8.50	8.75 – 10.00	521	309

Source: Knight Frank *as at April 2013 - includes premises which are either vacant or currently available for lease greater than 2,000m²
 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)

Economic Snapshot

Western Australia has seen very high economic growth over the past few years, with Gross State Product growing by 6.5% during the 2012 year. This growth has underpinned the State's low unemployment levels, strong population growth and retail trade figures during this time.

Figure 1
Economic Growth
WA GSP vs. Australia GDP – 2010 to 2015



Source: Deloitte Access Economics

The Western Australian economy is tied closely to Asian growth, with China being our largest trading partner. With exports mostly being resources based, commodity fortunes are linked to drivers within this region.

However, dynamics within the resources industry have changed in the past nine months, with the biggest impact on

confidence being the fall in the spot price for iron ore, due to a fall in demand world-wide. Whilst this has recovered since September 2012, the market has remained cautious. The other major industry in the State, oil and gas, continues to develop and mature, however, the economic viability of some projects (such as the James Price Point development) have been scrutinised by associated companies.

Development Activity

Development activity in the Perth metropolitan area is predominantly pre-commitment driven, particularly for larger buildings, with few developers prepared to build speculatively.

Speculative office/warehouse developments of 1,500m² - 3,000m² in size are generally achieving a tenant commitment prior to their completion.

One area seeing increased development is in Jandakot, where around 44,000m² of pre-committed office/warehouse space is currently under construction. The majority of this space is due for completion in the next 12 to 18 months.

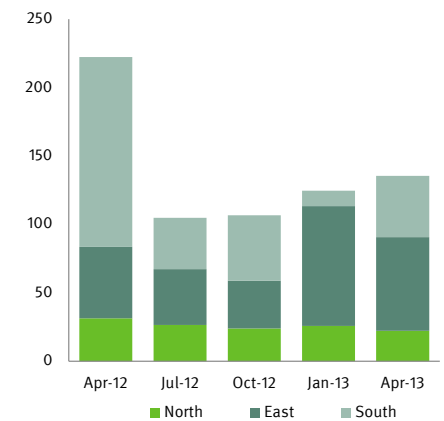
Pre-lease enquiry has generally been project driven by the resources sector and by logistics companies.

The current high prices of land in the Perth metropolitan area will continue to impact on pre-lease and speculative development.

Vacancy & Tenant Demand

Industrial space that is being actively marketed (for warehouse buildings over 2,000m²) has increased by 8.6% since the start of 2013 – from 124,708m² to 135,490m². However, over this period around 87,513m² has been absorbed.

Figure 2
Perth Industrial Market
(‘000m²) Space being actively marketed 2,000m²+



Source: Knight Frank

It is anticipated that over the next 12 to 18 months backfill space will become available due to tenants relocating to newly constructed developments they have pre-committed to.

The level of tenant demand will correspond to the level of activity in the resources sector and whether projects will proceed.

Rental Levels

Rental levels have held up over the past year due to the continued demand for, and limited supply of, buildings available to lease.

Prime-grade rents are on average \$115/m² with Secondary-grade rents on average \$82/m² across the metropolitan area.

Knight Frank anticipate that rents for Prime-grade buildings and those that are operational-specific will continue to hold up at current levels, but the upward pressure on Secondary-grade rents will ease. Leasing incentives are likely to remain minimal.

Sales & Investment Activity

Sales activity remains subdued with fewer properties coming to the market.

Strong rental returns, lower cost of debt and a lack of other opportunities in the market are behind a limited incentive for owners to sell.

Lower interest rates combined with a sustained demand for industrial property has seen core market yields tighten. Prime-grade core market yields are on average between 7.75% and 8.50%. Secondary-grade core market yields are on average between 8.75% and 10.00%.



382 – 404 Orrong Rd, Welshpool

Sold for \$22.3 million. Situated on 5.57 hectares of land, the A-Grade property comprises three industrial warehouses totalling 7,752m² and a petrol station.

Table 2

Industrial Leasing Transactions Perth Region

Address	Office Rent (\$/m ²)	W/H Rent (\$/m ²)	Building Area (m ²)	Term (yrs)	Tenant	Date
6 Miles Rd, Kewdale	185	95	8,697	5.0	Niche Logistics	Jul 13
505 Abernethy Rd, Kewdale	170	80	4,572	3.0	Tailored Packaging	Jul 13
100 Russell Rd, Henderson	-	74	38,397	5.0	Patrick BWL	Apr 13
627 Bickley Rd, Maddington	200	100	1,001	1.0	Grove Transport	Feb 13
99 Quill Way, Henderson	200	80	16,419	5.0	CBI & Kentz JV	Mar 13
16 Hodgson Way, Kewdale	190	95	2,676	5.0	Thermacon Insulat.	Mar 13
146 Carrington St, O'Connor	163	65	2,878	n/a	Sontax	Feb 13
64 Solomon Rd, Jandakot	175	95	1,549	4.0	Undisclosed	Feb 13
165 Kewdale Rd, Kewdale	-	100	3,370	1.0	McPhees	Jan 13
76 Grey St, Bassendean	190	100	2,106	5.0	Undisclosed	Dec 12

Land / Development Sales Activity Perth Region

Address	Price (\$ m)	Area (m ²)	\$/m ² of site area	Zoning	Purchaser	Date
176 Beringarra Ave, Malaga	2.8045	5,609	500	Ind	Private Investor	Mar 13
45 Welshpool Rd, Welshpool	2.20	3,422	643	Gen Ind	Private Investor	Jan 13
14 Cartwright Dve, Forrestdale	1.106	4,194	264	Gen Ind	Private Investor	Dec 12
54 Mordaunt Cct, Canning Vale	0.5275	1,001	527	Gen Ind	Private Investor	Nov 12

Improved Sales Activity Perth Region

Address	Price (\$m)	Land Area (m ²)	Bldg. Area (m ²)	Core Mkt. Yield (%)	Purchaser	Date
431 Victoria Rd, Malaga	8.00 *	15,099	4,882	8.10 [^]	Private Syndicate	Mar 13
51 Miguel Rd, Bibra Lake	8.80 *	24,470	8,576	9.30	Private Investor	Feb 13
25 - 31 Casino St, Welshpool	17.625	42,524	7,658	8.41 [^]	Private Investor	Dec 12
16 Alacrity Cl, Henderson	3.71	9,073	721	7.29	Private Investor	Dec 12
32 Gauge Cct, Canning Vale	7.60	13,331	5,650	8.67	Private Syndicate	Dec 12
15 & 17 Davison St,	7.25	13,901	3,615	VP	Private Investor	Nov 12
7-11 & 25-27 Gauge Cct, Canning Vale	22.00	41,366	21,506	8.21	Goodman	Nov 12
11 Excellence Dve, Wangara	4.85	7,341	3,168	8.45 [^]	Private Investor	Sep 12

Source: Knight Frank ^ Passing Yield * Under Contract

Land Activity

There has been minimal movement in land values over the past six months, with development feasibility a major consideration.

The opportunity to secure larger lots in prime areas is limited; however, options are available further afield for larger sites. Nonetheless, the focus remains on access to infrastructure and transport and the underlying land value for purchasers of larger lots.

Outlook

The Perth industrial market is underpinned by the continuation of activity in the resources sector.

The high underlying land values in the market will continue to impact on development and occupancy costs.

It is anticipated the pressure on the leasing market will ease as the pre-commitments to new supply will bring about backfill space in the market.

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Chile

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