

PERTH

INDUSTRIAL MARKET BRIEF NOVEMBER 2017

Key Facts

Limited **supply** of large vacant industrial land for owner occupiers or developers.

Rents and incentives have stabilised.

Strong **yield** compression in all price segments.

Limited speculative construction across all building sizes.



DAVID LANG
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The Perth industrial market has experienced strong demand for investment properties from local buyers, syndicators and a return of activity from East Coast REITs.

Occupier Demand & Rents

The leasing market remains competitive, as landlords renegotiate lease terms and reset rents in order to retain sitting tenants. Owners with vacant buildings are competitively pricing their rents and offering incentives. The availability of modern industrial buildings above 3,000m² remains limited in most industrial precincts.

The supply of older secondary industrial facilities remains steady with limited demand. This resulted in longer letting up periods and a continuing reduction in rents and increase in incentives.

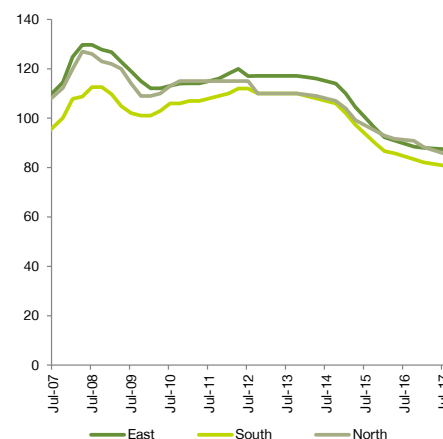
The limited speculative construction of buildings above 3,000m² is restricting supply and with ongoing absorption of existing facilities there is likely to be a recovery in rents.

Design and Construct (D&C) enquiries continue to be present, but at lower levels, with developers competitively pricing facilities.

The take-up of vacant industrial buildings by owner occupiers has been limited and buildings need to be competitively priced.

Currently, rents for existing large prime grade facilities are on par with D&C rents in the emerging industrial hubs such as Hazelmere, Maddington and Jandakot.

FIGURE 1
Perth Region Prime Rents
\$/m² average net rent



Source: Knight Frank Research

Occupiers continue to seek modern industrial buildings with limited demand for older, secondary facilities despite their lower pricing. Prime grade industrial rents have stabilised with modest incentives (5%-10%). A key feature has been the high rate of lease renewals, as landlords reset rents and upgrade properties to retain tenants.

The requirement for efficiencies and cost savings will continue to drive D&C interest for large national companies, albeit at modest levels.

The majority of the vacant secondary industrial stock remains in the eastern and southern industrial precincts. The supply of large, prime grade facilities in the eastern industrial corridor, which is the preferred industrial precinct for logistics companies, remains limited. As supply continues to diminish, this will place upward pressure on rents.

The second half of 2017 and early 2018 should see a recovery in rents and reduced incentives as the market starts to recover.

Development & Land Activity

Post the mining construction boom and with a general softening in the Western Australian economy, there has been a resetting of industrial rents and land values.

Owner occupier activity for vacant land has remained soft through 2017. Developers continue to be active but their requirement to competitively price facilities is influencing lower land values.

The supply of small industrial lots within Perth's inner metropolitan industrial precincts continues to reduce, with limited new supply.

Linc Property has undertaken a range of infill industrial developments in Canning

TABLE 2

Recent Industrial Leasing Activity Perth

Address	Region	Net Rent (\$/m ²)	Area (m ²)	Term (yrs)	Date
535 Abernethy Road, Kewdale	East	86	6,300	7	2018
5 Hazelhurst Street, Kewdale	East	#	#	3	2017
215 Balcatta Road, Balcatta	North	111	6,400	10	Jun-17
270 Beringarra Avenue, Malaga	North	#	5,800	5	Late 2017
Part 8 Success Way, Henderson	South	84	3,900	5	Oct-17
7 Modal Crescent, Canning Vale	South	85	8,100	3	2017

Source: Knight Frank Research

#Undisclosed

Vale, Gnangara and Bassendean that has met existing demand. The Gnangara and Canning Vale developments are now in their final stages. The new development in Bassendean has experienced a strong take-up of land and demonstrates the demand for inner metropolitan industrial land. The Swan Brewery development in Canning Vale has attracted a number of large owner occupiers, as well as a mix of investors.

Demand for industrial land in peripheral locations such as Neerabup, Forrestdale and Hope Valley remains significantly weaker, despite a lower price point. The additional transport costs incurred from operating from these locations is considered to be a significant factor in their lack of development.

As the urban population surrounding these peripheral industrial precincts establishes, there may be greater demand from commercial industrial businesses, servicing the surrounding population.

The take-up of large industrial lots in Perth's eastern corridor continues. The supply of land in Hazelmere, Forrestfield and High Wycombe is reducing, which is

limiting options for owner occupiers and developers. In some areas servicing costs and the fractured ownership of land in small rural landholdings is restricting progress.

FIGURE 2

Land Value by Region

\$/m² average land value, <5,000m²



Source: Knight Frank Research

TABLE 1

Perth Industrial Market Indicators as at October 2017

Precinct	Avg Prime Rent	Avg Secondary Rent	Core Market Yields (%)		Avg Land Values < 5,000m ² 1-5 ha	
	\$/m ² net	\$/m ² net	Prime	Secondary	\$/m ²	\$/m ²
North	86	67	6.75 – 7.50	8.00 – 9.00	373*	213
South	81	62	6.75 – 7.50	8.00 – 9.00	284	227
East	88	66	6.75 – 7.50	8.00 – 9.00	363	258
Perth Average	85	65	6.75 – 7.50	8.00 – 9.00	340	233

Source: Knight Frank Research

*Average excludes Osborne Park land values

The Kenwick/Maddington Strategic Employment Area is likely to provide the bulk of new industrial land for the Perth market for the next five years. The area is well located, approximately 1.5 km south west of the Kewdale/Welshpool industrial precincts, and has excellent transport access.

A number of large developers have already secured large landholdings within Kenwick/Maddington for industrial estates for new D&C facilities. There is a gap in this precinct for a new industrial estate to supply a range of industrial lots for sale to owner occupiers and investors given its location.

Land values for small industrial lots of 2,000m² to 4,000m² has remained steady across Perth's main industrial precincts, with limited transactions through 2016 and 2017.

The main constraint for a recovery in industrial land values is the supply of existing vacant buildings. We expect that through 2017 and 2018, with the absorption of vacant industrial premises, there will be an improvement.

There continues to be limited demand for older secondary industrial properties. Those on large land areas are likely to be well suited to redevelopment, particularly in Perth's prime industrial precincts, albeit at lower land values.

Significant projects that will be delivered in 2017/2018 include the new Bunnings Distribution Centre and Yusen logistics facilities in Maddington.

The Perth industrial market is yet to see any inner city industrial precincts transition to alternative residential use, however locations such as O'Connor, Belmont, Bayswater and South Guildford are potential areas that could be considered, should government commit to appropriate planning for these areas.

Sales & Investment Activity

Investment demand remained strong through 2017 across all price segments. The limited availability of modern facilities for sale on an investment basis was the main reason for limited transactions. Owners are reluctant to sell quality assets due to capital gains tax implications and limited alternative investment options.

The Perth industrial market has seen strong compression in yields across all price segments. There is strong demand for assets under \$2 million from private investors, with increased use of self-managed superannuation funds for investment purchases.

For higher value industrial assets, the market has seen an increase in enquiry from East Coast parties including syndicators and trusts. They are looking at the Perth market given the favourable yields in comparison to the capital cities

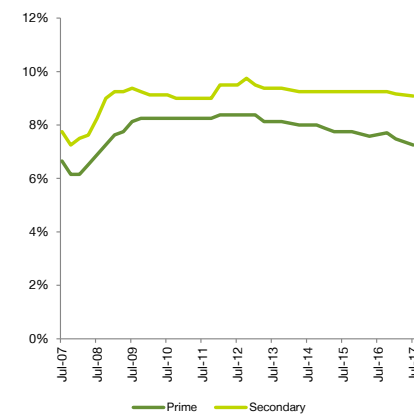
“Reducing supply and continued positive absorption will result in rent stabilising and improving for the more desirable, well located properties. Rents for secondary properties continue to fall.

“Eastern States based investors continue to see “good value” in Perth’s industrial market, as evidenced by several recent transactions.”

Jarrad Grierson
Head of Division, Industrial WA

FIGURE 3

Average Core Market Yields Prime & Secondary



Source: Knight Frank Research

on the East Coast, with recent purchases by Property 151, Charter Hall, Growthpoint and Centuria.

During 2017 the Perth market has also seen a number of portfolio sales, with owner occupiers and investors combining multiple assets to achieve a higher capital value to attract greater interest on a national basis.

The Perth industrial market has always been dominated by several large private developers. They continue to hold their industrial assets, which restricts the supply of large industrial investment stock.

The resetting of industrial rents and incentives over the last 18 months, and a stabilisation in the economy, provide sound fundamentals for investment into the Perth industrial market.

TABLE 3

Recent Investment Sales Activity Perth

Address	Region	Price \$ mil	Bldg Area (m ²)	Passing Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
92 Robinson Ave, Belmont	East	11.20	7,124	11.01	3.9	Warrington	Centuria	Aug-17
14 Sudlow Rd, Bibra Lake	South	28.00	39,485	#	#	Aspen	Centuria	Aug-17
Perth Airport	East	46.00	31,896	8.14	5.9	Private	Growthpoint	Aug-17
192 Mills St Welshpool	East	52.02	31,602	8.76	9.0	Private	Charter Hall	Jul-17

Source: Knight Frank Research

#Undisclosed

Outlook

With the limited supply of modern industrial stock, and the lack of new speculative development, its likely there will be a recovery in industrial rents and a reduction in incentives for quality facilities in 2018.

The Perth market has a large supply of older secondary industrial facilities. This will present opportunities for owner occupiers and developers to refurbish or redevelop, particularly in Perth's prime industrial precincts where there is a shortage of industrial land.

There will continue to be limited demand

for industrial land in Perth's outer northern and southern industrial precincts, as these mainly service the local surrounding populations. Whilst logistics and resource activities centred in Perth's eastern corridor will remain active.

Over the next five years there is likely to be strong demand for industrial land within Forrestfield and High Wycombe and the Kenwick and Maddington precincts.

Industrial yields will continue to remain at current rates below long term historical averages, due to the strong demand for quality investments, continued low borrowing costs and strong fundamentals of 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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