RESEARCH

JUNE 2014

BRISBANE INDUSTRIAL

Market Overview

HIGHLIGHTS

- Occupier demand in the Brisbane industrial market continues to be skewed towards larger, new construction with a steady stream of major commitments to either D&C or speculatively developed space already announced or imminent. In contrast the general leasing market is patchy with notably less demand for existing accommodation. Market rental levels have remained soft across the majority of precincts.
- The supply of new industrial accommodation has been boosted by these larger commitments and also the return of some speculative development activity, often undertaken in tandem with a pre-commitment. Total supply (over 3,000m²) increased to 320,000m² for 2013, the highest result since 2008; and 2014 is expected to deliver similar levels at 307,000m².
- Investment demand has steadily been building over the past year with unlisted domestic funds and syndicates the dominant net buyers of Brisbane industrial assets over the past 12 months, accounting for 41% of all purchases above $5 million by value. This building investment demand, also triggered by the search for higher returns has seen both prime and secondary average yields firm over the past year, with secondary tightening by 27 basis points firming more than prime with 19 basis points.

INDUSTRIAL OVERVIEW

Table 1
Brisbane Industrial Market Indicators as at April 2014

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
							<5,000m²		1 – 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(% p.a)	$/m²	(% p.a)
Trade Coast	116	-	92	-1.1%	7.75 – 8.40	8.75 – 9.50	330	1.5%	280	5.7%
North	108	-2.7%	85	-4.5%	8.10 – 8.95	9.05 – 9.70	310	3.3%	240	4.3%
South East	107	0.9%	85	-4.5%	8.20 - 8.70	9.00 – 10.00	235	-2.1%	173	-5.5%
South	110	-1.8%	88	-1.1%	7.80 – 8.40	8.85 – 9.70	280	-6.7%	245	0.4%
South West	106	-3.6%	88	1.1%	7.75 – 8.60	8.85 – 9.80	270	-5.3%	225	-2.2%
Brisbane Blended	**109**	**-1.4%**	**88**	**-2.0%**	**7.92 – 8.61**	**8.90 – 9.74**	**285**	**-1.7%**	**233**	**1.0%**

Source: Knight Frank
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)

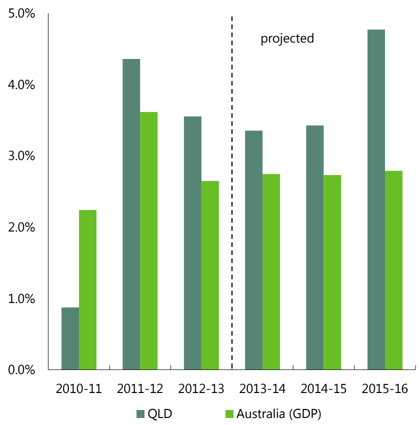
Economic Snapshot

Economic growth for Queensland over the 2013/14 financial year is currently forecast by Deloitte Access Economics to be 3.35%, which is a moderation from the 3.55% Gross State Product (GSP) recorded in the year before. Although remaining higher than the average national growth, this slow down is in contrast to the wider Australian economy which is forecast to achieve 2.74% over the current financial year, slightly ahead of the 2.65% recorded in 2012/13.

Forecasts of economic growth, as shown in Figure 1, indicate no or minimal acceleration of growth across both Queensland and Australia for the 2014/15 financial year. Queensland is forecast to record 3.43% and Australia 2.73%.

However in 2015/16 Queensland's fortunes are expected to change, with 4.77% GSP growth, underpinned by a number of major resources projects entering production phase. This is projected to be the first of three consecutive years of growth in excess of 4.0% per annum for Queensland.

Figure 1
Economic Growth
Queensland Gross State Product & Australia GDP

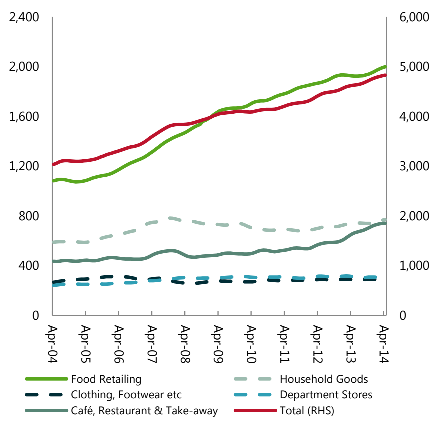


Source: Deloitte Access Economics

As resource–related construction levels across Queensland have moderated, the demand for industrial facilities for metal fabrication and storage of resource related equipment has also fallen. With the quarterly expenditure for mining investment in Queensland falling to $6,426 million over the March 2014 quarter, this takes construction back to 2011 levels and is expected to remain in the $5-6 billion per quarter expenditure in the short term. This is some 64% below the highs recorded in late 2013.

The majority of large scale industrial demand has come from either retailers or third-party logistics providers and this is expected to continue in the medium term. Retailers have been seeking improved efficiencies in their operations because, as shown below, there have been mixed fortunes over the past 10 years with discretionary retail spending relatively flat. Household goods trade tends to follow both consumer confidence and the residential market, with initial signs of a pick-up emerging in early 2014.

Figure 2
Queensland Retail Trade
$ million monthly turnover total & selected sectors



Source: ABS 8501

Industrial Overview

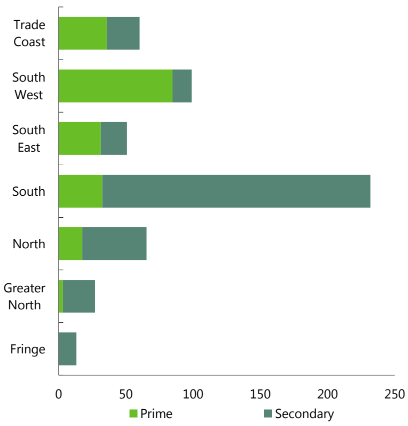
The Brisbane industrial market has been dominated by large commitments to design and construct (D&C) or speculatively developed facilities and more recently by a resurgence in investment market demand. Outside of these two factors, the market has been relatively quiet with rental levels soft. Demand for land remains patchy with domestic funds keen to build their development pipeline.

There has been a noticeable shift in the volume of activity towards the South West precinct as land availability and keen pricing have seen a number of major commitments to new accommodation in that region. In turn the investment demand has also followed these major commitments and strengthened tenant base. This has recently been to the detriment of the TradeCoast region, with the level of availability and competitive rental levels being offered in the South & South West drawing a number of tenants from the precinct.

Figure 3

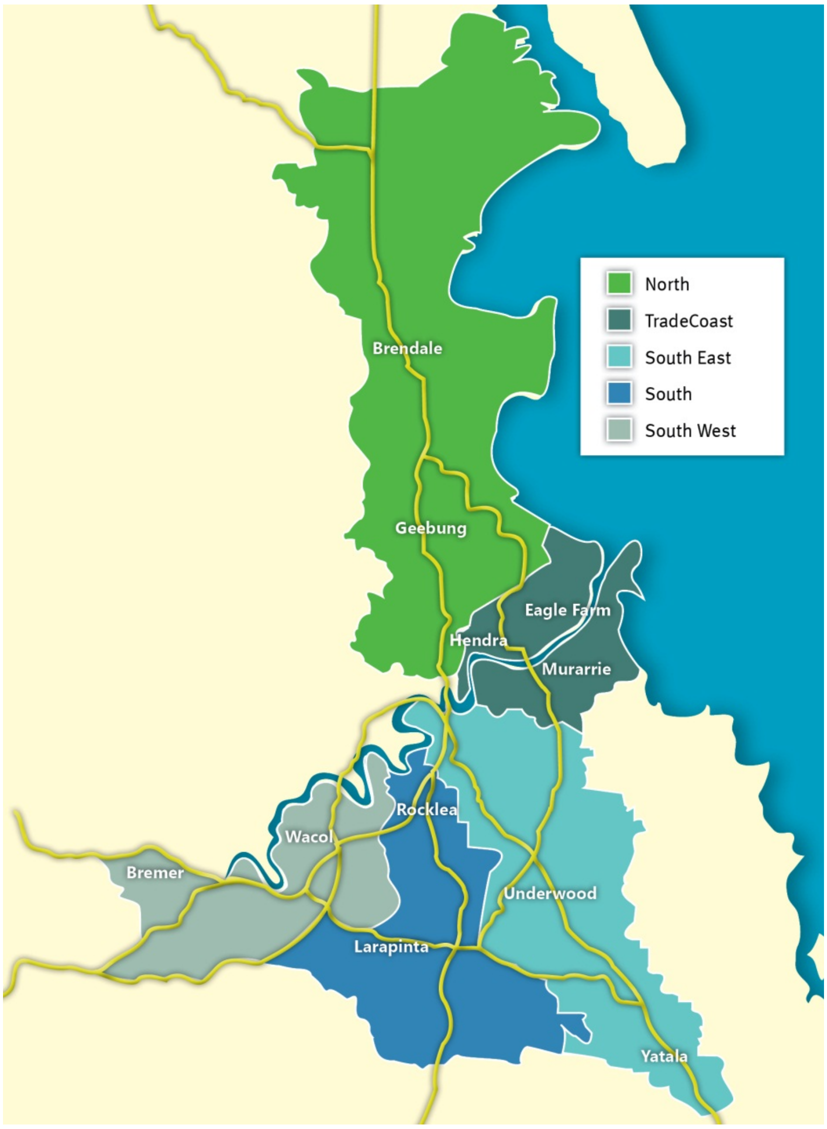
Brisbane Region Available Space

‘000m² Vacancy 3,000m²+ as at April 2014



Source: Knight Frank

The level of available space, as measured by Knight Frank, showed a slight decrease over the first quarter of 2014, the first fall since mid-2012. However at 547,134m² it remains 51% above the long term level. After reaching record highs in late 2013, secondary vacancy has started to fall, however prime space continued to increase.



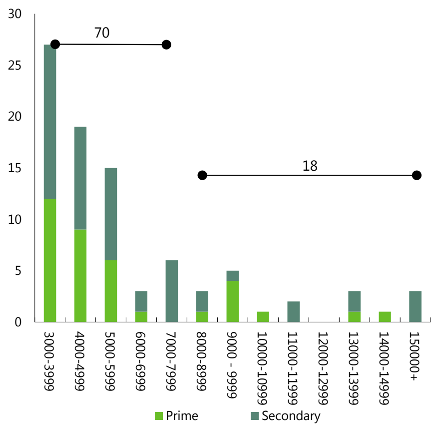
Overall secondary accommodation accounts for 63% of the total available space and this has contributed to the relatively weaker performance of the secondary market rental levels.

Despite the sustained high vacancy levels there has remained good demand from larger tenants for new premises, as much of the larger space on the market remains unsuitable for upgraded freight handling technologies. As prime backfill space becomes available and with the level of speculative space under construction, larger tenants now have greater choice than has recently been the case.

Figure 4

Brisbane Region Available Space

No. available buildings by size range April 2014



Source: Knight Frank

OCCUPIER DEMAND & RENTS

Occupier demand across the Brisbane region has remained dominated by larger commitments to new accommodation, with the general leasing market remaining somewhat patchy. Recently announced major commitments to new accommodation have included DB Schenker (31,400m²), Silk Logistics (19,900m²) and Northline (12,479m²) with a number of other 10,000m²+ commitments to new builds in the final stages of negotiation.

For existing accommodation, the stubbornly high vacancy levels are providing challenges to landlords, despite the improvement seen in the April 2014 quarter. The sustained high levels of competition for tenants has engendered some further discounting to rental levels with incentives featuring more in some sub-markets.

Figure 5

Brisbane Region Available Space

('000m²) Vacancy 3,000m²+ as at April 2014

Source: Knight Frank

Average prime market rents have fallen by 1.4% across the Brisbane region to be $109/m² net. Market rental falls in the South West, South and North regions was balanced by stable or slight increases in the Trade Coast and South East Markets. Incentives for prime accommodation averages 7-8%, with the highest being currently recorded in the South West market with 9.3%. These softer leasing parameters have been rewarded with improving activity within the southern areas, and this may trigger re-pricing in the other precincts. The TradeCoast has recently seen a number of high profile tenants leave the precinct, drawn to cost effective new accommodation in other areas. Recent or announced relocations from the TradeCoast to the South or South West include Northline (12,479m²), DB Schenker (31,400m²), Toll NQX (43,663m²). and Mainfreight (20,000m²) – with additional relocations expected.

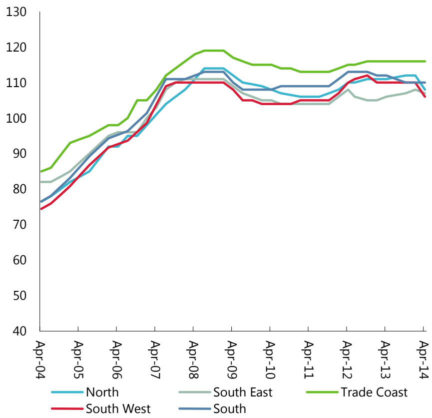
As shown in Figure 3 above, the South West precinct has the largest amount of available prime space, which has contributed to the more competitive rental conditions in this precinct. However, 39,000m² of this space is speculative space under construction (46% of prime space in the precinct), which is subject to strong demand. The reportedly relatively low pre-lease deals which have recently been agreed in the precinct are also part of the pressure which is coming to bear on the existing market.

The secondary market has also shown slight softening of 2.0% over the past year to be $88/m² net across the precincts. Most precincts average $85-88/m² with relative weakness in demand across the North, South East and to some extent South and Trade Coast precincts for secondary space being balanced by the South. In contrast to the prime market, there is relatively little secondary space available within the South West market and this has helped to support rents within this region. Within the Trade Coast much of the secondary accommodation, although older style, is underpinned by a strong location which has seen the region retain a premium for secondary space at an average of $92/m² net. Secondary incentives have also shown some growth over the past year to currently range from 8.5% - 10.5% across the regions.

Figure 6

Brisbane Region Prime Rents

$/m² net rent 2004 - 2014



Source: Knight Frank

Table 2

Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Freight St, Lytton	TC	122	19,900	10	Silk Logistics^	Dec 14
Smith St, Redbank	SW	undis	12,479	8	Northline^	Aug 14
125 Axis Pl, Larapinta	S	124	5,086	10	Kurtz Transport^	Mar 14
45 Argon St, Carole Park	SW	91	4,400	7	Multiform Australia#	Mar 14
26 Industrial Cres, Acacia Ridge	S	110	9,712	5	Automotive Brands	Feb 14
62 Stradbroke St, Heathwood	S	97	24,751	16 mths	Silk Logistics	Feb 14
117-123 Beatty Rd, Archerfield	S	97	5,139	5	Porter Group	Jan 14

Source: Knight Frank TC Trade Coast S South SW South West

^ D&C/pre-commitment #speculatively developed space

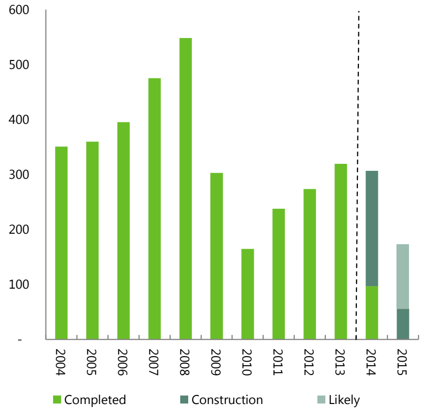
DEVELOPMENT & LAND VALUES

The level of development land sales activity has remained quite strong, however over the past six months there has been a noticeable increase in purchasing activity from institutional investors, adding to the owner occupier and local developer purchases.

Recent major transactions have included ISPT's purchase of a partially developed industrial sub-division, Interchange Industrial Estate at Narangba in the city's north. The sale included three completed buildings leased to Apex, ABRA Aluminium and Bunnings Trade along with 7.6ha of formed, vacant lots. The other major land sale was the purchase by GPT of a 50% share in the 60ha Metroplex at Westgate project, Wacol. The purchase is expected to trigger construction of the first stage of the development which is a 16ha parcel for industrial development.

After recovering during 2013 to the highest levels seen since 2009, total industrial supply of buildings 3,000m²+ is expected to remain at similar total levels for 2014 with approximately 307,000m² of industrial space expected to be added to the market. In 2014 to date completions have mostly been smaller owner occupied facilities, with the two significant completions being the Mainfreight facility, Larapinta (23,550m²) and the Toll NQX Facility, Berrinba (43,663m²).

Figure 7
Brisbane Region Industrial Supply
'000m² Supply greater than 3,000m²



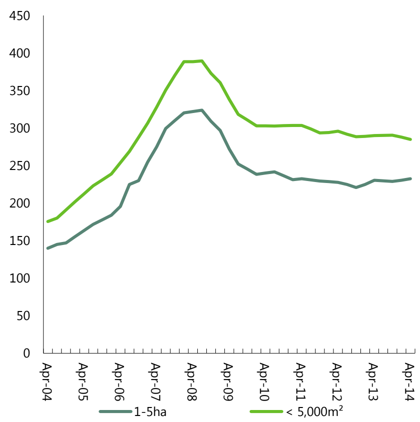
Source: Knight Frank

At this time there is a further 210,000m² of industrial space under construction with an expected completion during 2014. The largest of these are facilities for Super Retail Group (46,933m²), DB Schenker (31,200m²) and ACFS (15,000m²). There is also some 49,350m² of speculatively developed space currently under construction for completion this year.

Within the smaller lot land market, the continued absence of smaller developers has meant that average market value has remained soft, falling by 1.7% to $285/m² over the past year on average across the Brisbane markets. This was led by falls in the South, South West and South East, despite relatively little available land.

In contrast the larger sites (1-5ha) have continued to show gradual price appreciation, up by an average of 1.0% over the past year to $233/m². It is also noticeable that demand for larger englobo lots has continued to firm as the stock of existing formed lots gradually depletes. However pricing activity in this sector remains highly variable to location and the degree of works which are needed to bring the land online.

Figure 8
Brisbane Region Land Values
$/m² value of land 2004 - 2014



Source: Knight Frank

Table 3
Major Land / Development Sales Activity Brisbane Region

Address	Region	Price ($ m)	Area (m²)	$/m² of site area	Vendor	Purchaser	Date
Metroplex at Westgate, Wacol	SW	36.00~	600,000	120	Metroplex	GPT Group	Apr 14
270 Lahrs Rd & 29 Eggersdorf Rd, Ormeau	SE	8.32*	73,270	114	Receivers	Zupp Property Group	Apr 14
32 Export St, Lytton	TC	3.90	12,000	325	State Government	Lanskey Constructions/ Rampage Properties Group	Apr 14
Dohles Rocks Rd, Brendale	N	15.00	100,000	150	Walker Corp	Mitchells Fine Foods^	Apr 14
Interchange Industrial Estate, Narangba	N	18.06#	104,000	174	Private Developer	ISPT	Dec 13

Source: Knight Frank TC Trade Coast SE South East SW South West N North ~50% interest in the broadacre development with 60ha of developable area to JV with the vendor. *includes a partially completed office warehouse facility on part of the site ^ Owner Occupier. # Completed subdivision sold with three recently developed office warehouse buildings leased to Apex, ABRA Aluminium and Bunnings Trade along with 7.6ha of vacant lots

SALES & INVESTMENT YIELDS

Sales activity has continued to build within the Brisbane industrial market, with the increasing activity largely being fuelled by domestic institutional investors. Over the 12 months to June 2014, a total of $650.55 million in transaction activity was recorded in the market, for sales over $5 million. This was 16% higher than the $561.69 million recorded in the previous 12 month period.

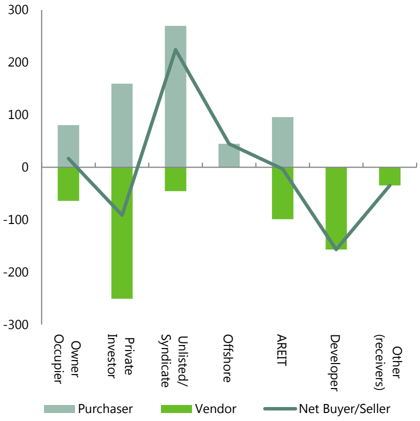
Unlisted Funds & Syndicates have again been the dominant purchasers, accounting for 41% of transactions by value. With few divestments this has resulted in unlisted funds/syndicates being net buyers of Brisbane industrial assets to the tune of $224 million over the past 12 months. PropertyLink, Charter Hall's Core Plus Industrial Fund, DEXUS Wholesale Property Fund, Lend Lease's APPF Industrial and ISPT have all made recent significant acquisitions.

AREITs have continued to grow their activity in the market, accounting for 15% of purchases by value. This was dominated by GPT's purchase of 18-28 Quarry Street, Stapylton in November 2013 for $44.5 million and their $36 million acquisition of a 50% interest in the Metroplex at Westgate development.

Offshore investors are also increasing their presence in the industrial market, following on from obtaining greater exposure to the commercial markets. Accounting for 7% of total transaction activity offshore purchases over the past 12 months have come from GIC/Logos (77 Logistics Place, Larapinta) or more recently from New Zealand based syndicator KCL Property which have purchased 15/243 Bradman Street, Acacia Ridge and 20 Peterkin Street, Acacia Ridge for single property syndicates.

Reflecting the increasing demand for higher yielding investments, given the lengthy period of low cash rates, private investors have been a growing influence in the market. Private Investors accounted for 25% of the total transactions by value, but with the majority of these sales in the $5 -$10 million price bracket, private investors accounted for 44% of the transactions by number. However private investors have also taken advantage of the increased institutional interest in the sector, selling the greatest value of property.

Figure 9
Brisbane Industrial Purchaser/Vendor
$ million sales $5 million+ 12 months to June 2014



Source: Knight Frank

Owner occupiers have also been net buyers of industrial property over the past 12 months. With the majority of these purchases of functional, but secondary grade assets, businesses are taking advantage of the relatively higher vacancy in secondary stock to secure their premises at a reasonable cost.

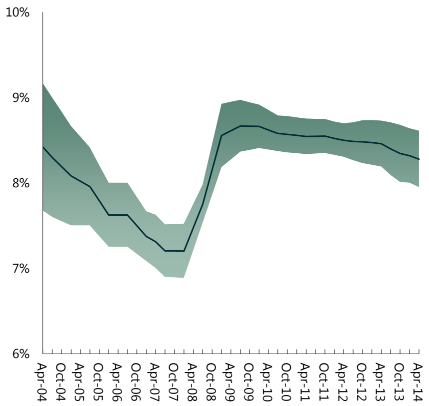
Table 4
Major Improved Sales Activity Brisbane Region

Address	Region	Price ($ m)	Bldg Area (m^2)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
2828 Ipswich Rd, Darra#	SW	16.70	13,928	8.70^	3.4	Action Property	APPF Industrial	May 14
731 Boundary Rd, Richlands	SW	15.45	9,884	8.09^	4.7	Private Investor	undisclosed	Apr 14
57-101 Balham Rd, Archerfield	S	24.50	24,462	9.30	2.0	DEXUS Property Group	PropertyLink	Mar 14
163-183 Viking Drive, Wacol	SW	38.00	25,869	7.75	8.5	DEXUS Property Group	PropertyLink	Mar 14
20 Peterkin St, Acacia Ridge	S	12.50	11,581	9.20^	6.8	Private Syndicate	KCL Property	Mar 14
60 Fulcrum St, Richlands	SW	10.20	7,847	VP	VP	McPhee Transport	Owner occupier	Feb 14
180 Holt St, Pinkenba	TC	25.00	18,728	9.16	2.0	Cromwell Property Group	Charter Hall Core Plus Industrial Fund	Jan 14
1439 Lytton Rd, Hemmant	TC	39.63	25,304	8.25	3.8	Private Investor	DEXUS Wholesale Property Fund	Dec 13
17 Boniface St, Archerfield~	S	11.00	9,471	10.33	2.0	Receivers	Private Investor	Dec 13
15/243 Bradman St, Acacia Ridge	S	11.25	9,256	9.56	7.1	IOOF	KCL Property	Nov 13

Source: Knight Frank TC Trade Coast S South SW South West
^ passing yield # partial vendor leaseback ~ property was fully inundated by flooding in January 2011

The average prime core market yield is currently 8.27% (over a range of 7.92% - 8.61%), a reduction of 19 basis points over the past 12 months. This represents a steady firming to the prime yield, however to date the firming in the Brisbane industrial market is less than that which has been seen in the commercial market. This prime yield range applies to standard investment terms, with longer term WALEs (12yrs +) having not been tested since late 2012/early 2013 when facilities for Blackwoods (7.68%) and NQX (7.55%) were sold with 15 year terms. It is expected that a tightening exceeding the wider market would be achieved for assets of this type given the current demand from both domestic and offshore funds for these longer WALE holdings.

Figure 10
Brisbane Region Prime Yields
Core Market Yield Range & Median 2004 – 2014



Source: Knight Frank

The secondary yield range has firmed by 27 basis points over the past 12 months to currently sit at 9.32% (over a range of 8.90% - 9.74%). This has occurred as a result of increasing investment interest in secondary assets, particularly for investors willing to move up the risk curve in pursuit of higher returns. This has particularly been the case for assets which feature a variety of stable tenants and/or a large land component.

The level of demand for investment stock has steadily built over 2014 and yields are expected to remain subject to downward pressure over the remainder of the year.

OUTLOOK

The market is currently dominated by investment demand with the recent uptick in industrial investment outside of the prime market expected to continue in the medium term. Entities searching for income return have broadened their search to encompass secondary assets and as a result the firming in yields has been stronger in this sector than the prime market over the past 12 months.

Further yield compression across both prime and secondary assets is expected over the remainder of the year. However the relatively high vacancy in secondary space has meant that properties with high exposure to current or imminent vacancy may continue to be harshly judged by the market.

INVESTMENT DEMAND CONTINUES TO BUILD

The land market has continued to show divergent fortunes, with the prices for smaller lots remaining relatively weak, despite the stock of lots steadily declining. This has been due to the absence of smaller developers and investors from the market, with an overhang of new stock in the smaller unit markets still in force. In contrast, however, larger lots and englobo land has seen more activity and price appreciation over the past year, although this remains modest to date.

LARGER LAND SITES PERFORMING BETTER THAN SMALLER LOTS

Over the past 18 months there has been significant absorption of larger sites for the bulky pre-commitments that have been signed and this has swung focus to the next phase of developments. Particularly in the South West this has been achieved on infill sites such as Drive Business Park, Richlands and the proposed Brickworx Estate, Darra. In the TradeCoast the focus is expected to shift to the South of the River in the short term.

LITTLE IMMEDIATE PROSPECT OF MATERIAL RENTAL GROWTH

The rental market has remained constrained by modest levels of tenant demand across the board and sustained high vacancy levels in existing buildings. Although there have been a number of larger leases signed, there has been a clear preference for new space. The general market has been sluggish with longer negotiation time frames and tenants tending to take the conservative option to remain in their current accommodation. The calendar year 2014 began with distinctly stronger demand levels and improved sentiment from tenants, however in the second quarter some of this confidence appeared to drain away.

This may be attributed to a reaction to the Federal Budget and associated consumer confidence dip, and the general leasing market has the potential to recover ground in the second half of 2014. The Q1 2014 take-up of vacant space, recorded by Knight Frank, showed a welcome return to above average levels with 98,845m^2 of space absorbed, 44% above the long term average. Overall market rental levels are not expected to change greatly over the medium term with competition between landlords of existing accommodation and developers remaining fierce.

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