RESEARCH

MARCH 2010

BRISBANE INDUSTRIAL

Market Overview

Knight Frank

HIGHLIGHTS

- After deferring decisions during 2009 many industrial occupiers are now acting to secure their industrial accommodation and this is translated into greater leasing and owner occupier activity in the first months of 2010. Prime rents have now stabilised and are not expected to fall further while secondary rents remain vulnerable to increasing levels of vacant stock.
- Industrial land is also benefiting from this greater activity and prices, while 20-25% down from peak levels, have also bottomed out for lots under 1ha. Speculative development remains on the back-burner, but D&C activity is building and is expected to accelerate through the year.
- The level of investment stock on the market has dramatically reduced over recent months and coupled with a broadening of investor interest from private investors only, is expected to continue the firming trend for prime yields.

BRISBANE INDUSTRIAL OVERVIEW

Table 1
Brisbane Industrial Market Indicators January 2010

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields		Avg Land Value <5,000m²		Avg Land Value 1 – 5 ha	
	$/m² net	%p.a	$/m² net	%p.a	Prime %	Secondary %	$/m²	% p.a	$/m²	% p.a
Gateway Ports	115	-3.4%	99	-4.8%	8.25 – 8.80	9.05 – 9.60	335	-21.5%	300	-13.0%
Northern	110	-3.5%	90	-7.2%	8.50 – 9.08	9.10 – 9.60	315	-21.3%	258	-21.8%
Southern Corridor	105	-5.4%	91	-9.0%	8.45 – 9.00	9.25 – 10.00	277	-10.6%	195	-13.3%
South West	105	-4.5%	91	-7.1%	8.40 – 8.90	9.15 – 10.20	295	-11.9%	220	-25.4%
Brisbane	**109**	**-4.2%**	**93**	**-7.0%**	**8.40 – 8.95**	**9.15 – 9.95**	**305**	**-17.0%**	**243**	**-18.6%**

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)

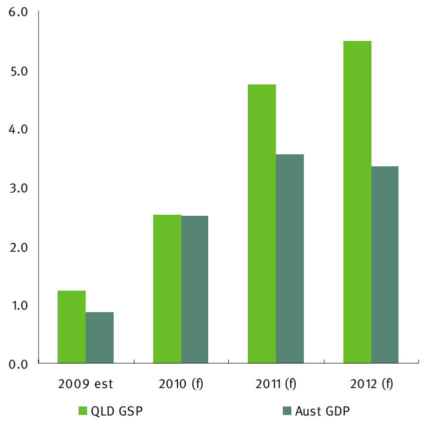
Industrial market activity has noticeably increased over the first months of 2010, as companies that deferred decisions during the uncertainty of 2009 are now acting to secure their future business premises. In addition, investors are actively searching the market for prime investments with minimal leasing risk.

Economic & Business Climate

Despite lingering concerns regarding the international capital markets due to sovereign debt issues in the Middle East and parts of Europe, the general business sentiment and activity has been steadily improving since the third quarter of 2009. Surveys of business sentiment have been showing consistently high results since mid-2009 with the NAB Business confidence index well above average, despite business conditions from the same survey remaining only modestly above the long term average.

The resurgence in mining and energy projects since the New Year is also a major positive for the QLD industrial market. After several projects were put on the back-burner during 2008 & 2009, there have been commitments to projects in the Galilee Basin and the continued rollout of coal seam gas projects and associated major pipelines and infrastructure. This has added to the ever increasing number of metal fabrication, boring & drilling and heavy machinery operations which service the mining industry from a base in Brisbane.

Figure 1
QLD & Australia Economic Growth
QLD GSP & Aust GDP % p.a growth



Source: Access Economics Q4 2009

COMPANIES THAT DEFERRED DECISIONS ARE NOW ACTING

Industrial Overview

Industrial market rents have remained stable over the past six months to average at $109/m² for prime and $93/m² for secondary space across the Brisbane region. On an annual basis this does show a continued reduction in the average rental rates, however further decreases in prime rents are not expected.

Incentives have continued to return to the market, particularly for larger tenants and secondary stock. Rental abatements or fitout allowances have increased to average 6-9 months for a prime property and may be considerably higher for long term vacancies or secondary space.

After being quite closely aligned from 2004 to 2008 (with a gap of $11- 13/m²) the difference between prime and secondary rentals has once again begun to increase. With the current gap between average prime and secondary rents $16/m², this is expected to increase as tenants clearly favour prime buildings and discounting is required for lower utility space. As the available prime stock is absorbed, and within a climate of only limited larger speculative developments, this is also translating to an increase of D&C rental agreements.

Figure 2

Brisbane Region Industrial Rents

$/m² average Prime & Secondary market rents

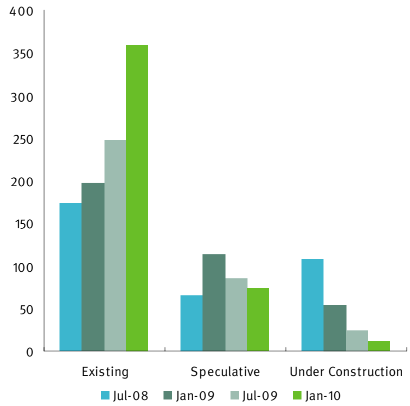
Source: Knight Frank

The level of available industrial space in the Brisbane market has been increasing over the past year. Analysis undertaken by Knight Frank shows total available space of 444,660m² as at January 2010, representing an increase of approx 20% above the same time last year. As shown in Figure 3, the increased availability of space is within existing accommodation, with some speculative completed stock remaining on the market, and extremely limited speculative construction. The greatest concentration of vacant space is located within the south west precinct with approx 184,000m² of space; however this is also by far the largest of the industrial regions.

Figure 3

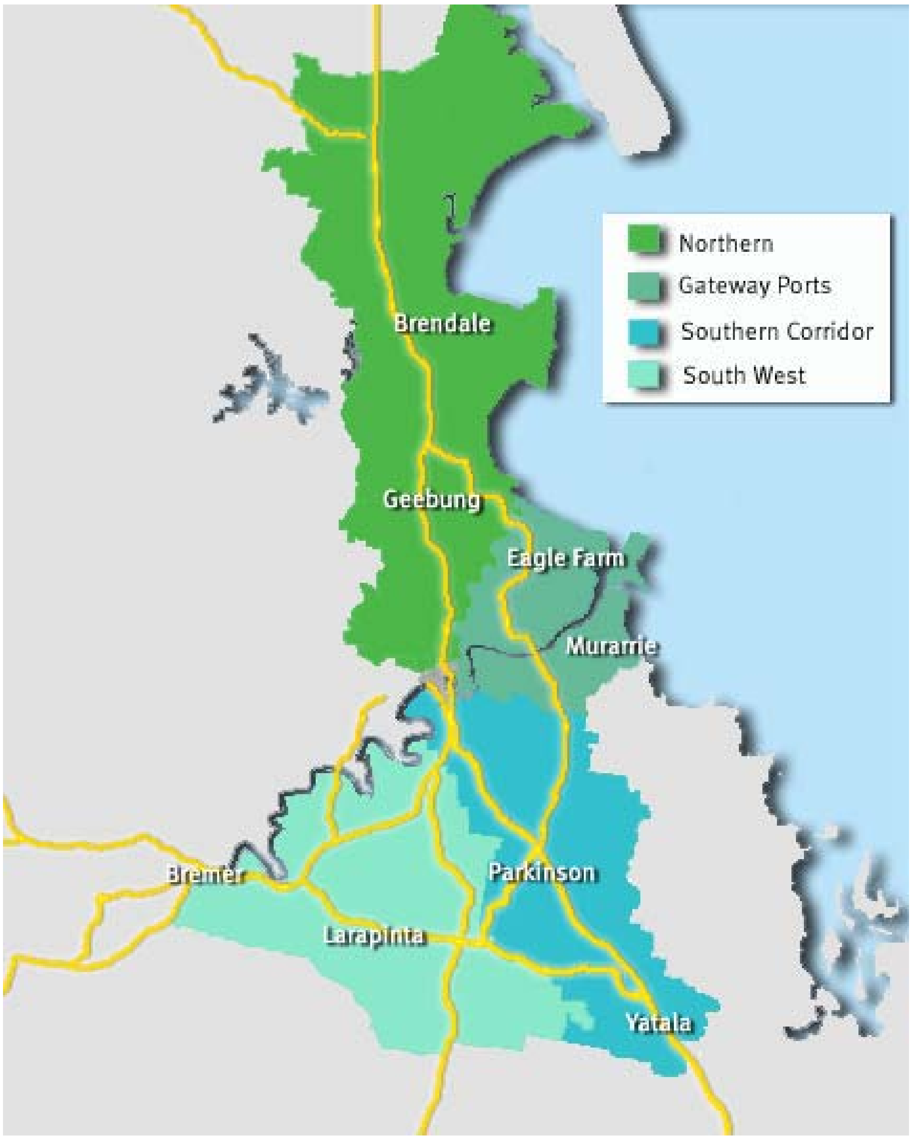
Brisbane Region Available Space

'000m² Available Space 3,000m²+



Source: Knight Frank

Brisbane Industrial Regions



INCENTIVES ARE GROWING AS VACANT SPACE INCREASES

The market value of finished industrial land lots has now bottomed out, with greater purchasing activity emerging in the first months of 2010. The reduction in list prices of many estates of approx 25% in mid-09 put them back into the range where owner occupiers, in particular, have moved back into the market.

In a similar manner prime yields have been seen to reach their peak in the second half of 2009, with purchasing activity and investor interest in the New Year reflective of stabilising or a slight firming in investment yields.

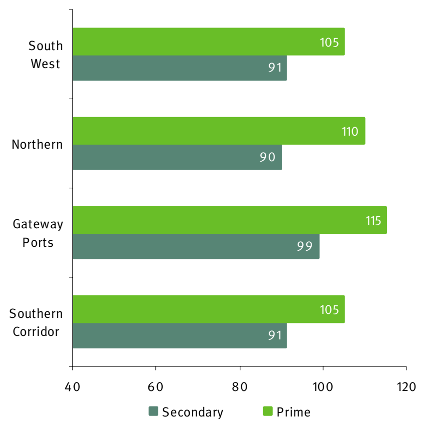
OCCUPIER DEMAND & RENTS

Rental rates across the Brisbane industrial market remained largely static over the past six months, although down on an annual basis, as tenant activity was subdued during 2009. While underlying demand for space did not diminish, the economic and capital market conditions meant that businesses were highly cautious to commit to new/additional space.

Positive signs have begun to emerge in the market since the New Year with a pick up in leasing enquiry and quicker decisions from tenants. Following 18 months of subdued activity, many companies have been delaying relocation decisions which are necessary to grow/enhance their business. As the uncertainty unwinds, a raft of companies, which have done their homework, are seeking to make immediate decisions on their future accommodation.

These tenants can take advantage of higher vacancies across the region. These vacancies have been mainly created by larger tenants relocating into D&C facilities arising from commitments made 12-18 months ago. Some 65,682m² of the vacancy recorded by Knight Frank in the January vacancy survey was backfill space created by tenants moving into purpose built accommodation.

Figure 4
Brisbane Region Industrial Rents
$/m² net market rent by precinct January 2010



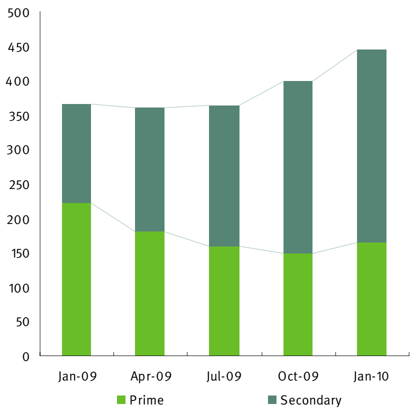
Source: Knight Frank

Prime rents were stable in the six months to January 2010 at $109/m² net and all precincts fall within a close range of $105 - $115/m² net, led by the Gateway Ports. Prime rents for existing buildings are expected to remain relatively stable in the short term, with enough competition for tenants to keep incentives in the market and a lid on rents.

As tenants relocate to D&C accommodation or absorb the remaining speculatively developed stock, the vacant space remaining on the market is increasingly the older-style, secondary accommodation. Secondary rents have remained stable over the past six months in all except the South West market where average rents fell slightly from $93/m² net to $91/m² net under the weight of growing levels of secondary stock with 80% of the available space in the area classed as secondary accommodation.

D&C activity has already begun to pick up particularly for tenants requiring specialised facilities (Tyco 4,925m²) or unable to be housed in existing available stock (The Reject Shop 25,000m²). More recently this activity has broadened to more generic facilities such as QSteel (4,000m²), Target (10,200m²) and Kimberly Clark (13,700m²). With a further three requirements of 15,000m² – 25,000m² also in the market, D&C activity will dominate development activity as higher rents, firming yields, lower land prices and slightly easier financing conditions allow for the market to rejuvenate. However, the existing land owners/developers are likely to retain the advantage in pricing to attract tenants.

Figure 5
Brisbane Region Available Space
Available space 3,000m² +



Source: Knight Frank

Table 2
Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Earnshaw Rd, Northgate^	N	120*	30,000	10	Heinz	Nov 09
Citiswich Industrial Estate, Bremer ^	SW	110	25,000	10+5	The Reject Shop	Jul 10
Osprey Dr, Lytton ^	GP	125	14,000	10	Steel Force	Dec 09
49 Distribution St, Larapinta	SW	115	6,090	7+5+5	CT Enclosures	Sep 09
836 Boundary Rd, Coopers Plains	SW	110	5,187	3+3	All Purpose Transport	Nov 09
151 Wayne Goss Dr, Berrinba ^	S	199#	4,925	8	Tyco	Aug 10
494 Nudgee Rd, Hendra	GP	110	4,900	5	Andrew's Airport Parking	Nov 09
501 Bilsen Rd, Geebung	N	91	4,700	5	Byrne Ford	Feb 10
17 Sugarmill Rd, Eagle Farm	GP	105	4,561	5	Aircraft Loaders & Packers	Sep 09

Source: Knight Frank ^D&C/pre-commitment *approx #large office area
GP Gateway Ports, S Southern Corridor, SW South West, N Northern

DEVELOPMENT & LAND VALUES

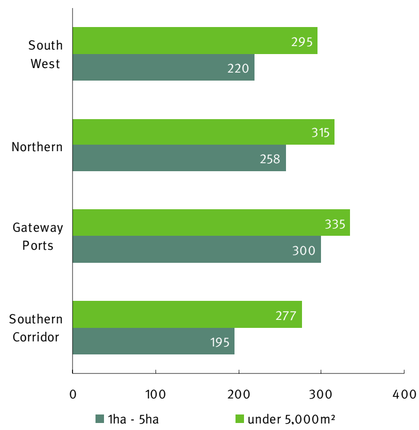
The market price for land continued to fall over the six months to January 2010 as non-income producing assets remained out of favour. The exceptions were companies who purchased land to develop premises for their own occupation and all but two of the sales listed in Table 3 were for owner occupation.

With the amount of speculatively constructed stock running down, and very little in the pipeline, industrial users will increasingly need to turn to new construction to find suitable accommodation. As discussed above the D&C market is expected to rebound strongly during the year, absorbing many of the larger requirements and improving take-up across the active industrial estates.

Smaller industrial lots presently range between \$277 – \$335/m² across the Brisbane region, with Gateway Ports remaining the most expensive location. These rates have fallen in the order of 20% - 28% since the market peak in mid-2008. Larger sites between one and five hectares have fallen by a greater amount (25% – 30%) over most precincts. The exception was Gateway Ports where the underlying lack of broad-hectare land kept the fall to 18%; from \$365/m² in July 2008 to \$300/m² at the current time.

Within the active industrial estates across all precincts there has been a recent increase in both the level of marketing and sales rates from late 2009. While many estates lowered their prices around mid-year, this did not immediately translate into sales. Dominated by owner occupiers, the increasing activity would appear to mark the bottom for prices of smaller lots with estates such as Southlink Business Park, M1Yatala, Citiswich and North Lakes Business Park the major beneficiaries.

Figure 6
Brisbane Region Land Values
\$/m² average value serviced lots



Source: Knight Frank

Figure 7
Brisbane Region Land Values
\$/m² average value serviced lots

Source: Knight Frank

As shown in the graph above, the recent correction in land prices has returned the market to early 2007 price levels. This has now translated into increased take-up of the quite significant (200+) completed, available lots across the Brisbane region, concentrated in the Northern and South West precincts. However, the demand for medium to larger sites is likely to remain soft until these estates are largely exhausted.

Table 3
Major Land / Development Sales Activity Brisbane Region

Address	Region	Price (\$ m)	Area (m²)	\$/m² of site	Purchaser	Vendor	Date
44 Freight St, Lytton	GP	6.90	23,800	290	Undisclosed	Australand	Jan 10
Citiswich Industrial Estate, Bremer	SW	Undis	7,791	-	KSB	Walker Corp	Jan 10
Citiswich Industrial Estate, Bremer	SW	Undis	3,000	-	Caltex	Walker Corp	Jan 10
Lot 22 NewBase Industrial Estate, Brendale	N	2.30	10,130	261*	Owner occupier	Investa	Oct 09 u/c
496 Sherwood Rd, Rocklea	SW	16.50	78,700	210	BCC	Private Investor	Oct 09
Lot 22 Southlink Business Park, Parkinson	S	6.88	27,000	255	undisclosed	Australand/ Doyle Group	Sept 09
10 Axis Place, Larapinta	SW	3.00	9,101	329	Magree Investments	Radius Industrial	Aug 09
36 Axis Place, Larapinta	SW	5.56	21,373	260	Hobson Engineering	Radius Industrial	Aug 09
Southlink Business Park, 68 Precinct St, Parkinson	S	1.34	3,817	352	Queensland Diesel	Australand/ Doyle Group	Sept 09

Source: Knight Frank GP Gateway Ports, S Southern Corridor, SW South West, N Northern *based on useable area

SALES & INVESTMENT YIELDS

Total sales activity across the industrial market increased in the calendar year of 2009. Knight Frank recorded 44 transactions above $5 million for a total value of $498.61 million, an increase of 32% on the $376.03 million recorded during 2008. However these improved transaction levels are still less than half of the transaction activity recorded at the peak of the market with total sales (over $5 million) of $1,106 million in 2007.

The majority of purchasers remain private investors who have been active in the market ever since yields increased from the cyclical lows of 2007. Single property trusts or syndicates operated sporadically through the first half of 2009, with two purchases in the south western precinct.

THE MAJORITY OF PURCHASERS REMAIN PRIVATE INVESTORS

In the final quarter of 2009 Sentinel Property Partners also entered the market with two purchases. Both sales featured long term tenant leasebacks with the 15 year initial term leaseback to Bluesope Steel at Archerfield achieving a yield of 8.50%, and the property to Mrs Crocketts Kitchen's for 20 years recorded a yield of 10.0%, representing the market's perception of the more highly specialised improvements.

Real estate trusts have to date remained out of the market, although larger corporates such as Australand and Walker Corp have effectively added to their portfolios through D&C activities.

Companies purchasing for their own occupation continued to be active, however in the second half of the year was dominated by smaller assets $1.0 – $5.0 million with only five of the 26 vacant possession sales above $5 million. Vacant possession activity was dominated by the Wildmar Gavilon purchase of the waterfront bulk handling facility at 156 Colmslie Rd for $37.62million in July 2009. Since that time the largest two vacant possession sales have been a transport facility at 59 Ebbern Street, Darra for $8.125 million ($1,170/m² of bld) and an engineering facility at 50 River Road, Redbank for $5.48 million ($827/m² of bld) bought by Tranzblast.

Yields for industrial properties have stabilised over the past six months with more yields recording 8.50%, or just under, for long WALE, good covenant, single tenant properties. As at January 2010 the average yield range across the Brisbane market was 8.40% - 8.95% for prime assets and 9.15% - 9.95% for secondary stock.

Yields for prime properties have tightened marginally as the upper yield range has moved in by 10 basis points. However to be considered as a prime investment the WALE needs to be 8 years plus, with little tolerance in the investment marketplace for shorter yield terms or lesser tenant covenants. Most of the institutional owners have either completed their divestment program or withdrawn stock for sale. As a result the pool of assets available to the market has reduced dramatically over recent months.

Table 4
Major Improved Sales Activity Brisbane Region

Address	Region	Price ($ m)	Area (m²)	Core Mkt Yield (%)	WALE (yrs)	Purchaser	Vendor	Date
Radius Dr, Larapinta	SW	15.30	10,081	8.22*	12.0	Private Investor	George Group	Jan 10
149 Kerry Rd, Archerfield	SW	17.60	13,774	8.50	15.0	Sentinel Property Partners	Bluescope Steel ^	Oct 09
325 Thynne Rd, Morningside	GP	8.50	7,000	10.00	20.0	Sentinel Property Partners	Mrs Crocketts Kitchen ^	Jan 10
28 Chapman Pl, Eagle Farm	GP	18.00	9,115	8.33	10.2	Private Investor	Reliance Worldwide ^	Nov 09
59 Ebbern St, Darra	SW	8.13	6,946	VP	n/a	WM George Pty Ltd	Direct Freight Express	Oct 09
8 Terrace Pl, Murarrie	GP	10.90	8,852	Undis.	4.75	Private Investor	Valad Property Group	Oct 09
509 Boundary Rd, Richlands	SW	17.88	16,440	9.48	6.67	Private Investor	Stockland	Aug 09
735 Boundary Rd, Richlands	SW	11.20	9,884	9.91	3.50	Private Investor	Stockland	Jul 09
156 Colmsle Rd, Murarrie	GP	37.62	11,000	VP	n/a	Wildmar Gavilon	Sugar Terminals	Jul 09

Source: Knight Frank GP Gateway Ports, S Southern Corridor, SW South West, N Northern * land tax is fully recoverable from the tenant ^ sale and leaseback

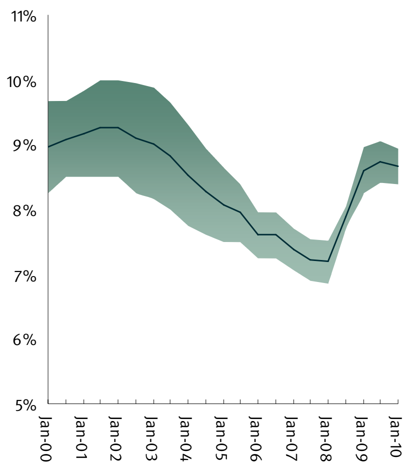
Following on from the three recent vendor leaseback sales (Bluescope Steel, Mrs Crokett's's & Reliance Worldwide), further vendor leaseback activity is likely as companies big and small continue to refine their balance sheets.

Demand for prime investments has increased into the New Year and this has the potential to translate into further marginal yield tightening over the next six months. This will be accelerated if institutional investors re-enter the market, however their attention is likely to remain focussed on acquisition via development for the short term, particularly those with existing land banks.

Figure 8

Brisbane Region Prime Yields

Prime Core Market Yield - Range & Median



Source: Knight Frank

PRIME YIELDS TIGHTENED MARGINALLY AS THE UPPER RANGE HAS FALLEN BY 10 BASIS POINTS.

OUTLOOK

The prospects for the Brisbane region industrial market are now far brighter than a year ago, with increasing occupier demand and investor appetite now clearly demonstrated within the market.

Solid business and consumer activity has supported the warehouse and transport operators. New premises are generally driven by new contracts/clients, but the overall demand for space has remained at high levels. After a small hiatus the activity in the mining sector has also returned with the active development of the Galilee Basin and Central Queensland coal seam gas resources underpinned by continued high exploration activity. This has supported a growing number of tenants who supply metal fabrication and other services to the mining industry from a base in Brisbane.

The cessation of speculative development activity early into the downturn has limited the level of development overhang or oversupply of new stock. The Knight Frank survey of available industrial space has indicated there was approximately 85,000m² of speculative stock greater than 3,000m² within the market. This represents approximately 6-9 months of the recent gross take-up of leased space across the Brisbane region. This is likely to continue to divert tenant and owner occupier attention from existing stock during 2010 with the level of vacant space in existing buildings expected to continue to grow.

Thus vacant secondary space is likely to continue to be difficult to lease without incentives and, for larger space, some rental discounting. The prime available stock is likely to be easier to lease, although rental growth is not expected in the short term while there is significant good quality space available. Nevertheless activity is expected to increase as companies now have the confidence to act to secure accommodation to underpin their business growth.

Rents which do have the potential for growth through the course of the year are pre-commitments. With the feasibility still held back by higher yields and financing conditions, the tenants that do require newly built space are likely to have to pay a greater premium. This higher cost to develop will be at least partially balanced by high availability of land and competition between major investors seeking to add to their portfolios via development, especially where they own the underlying land.

WITH A BROADENING PURCHASER PROFILE BEGINNING TO EMERGE, YIELDS ARE EXPECTED TO REMAIN ON A FIRMING TREND

Investment demand has improved, but purchasers remain demanding of the quality of the property and tenant covenant. With forced asset disposals now largely gone from the marketplace, REITs are yet to return to net acquisition, although many have over recapitalised and have cash to spend. In the short term private investors are expected to dominate, with simple syndicates or single property trusts also competing for assets.

With the amount of stock for sale reducing and with a broadening purchaser profile beginning to emerge, yields are expected to remain on a firming trend. Recently completed assets, or assets with recently negotiated leases, particularly those which expressly allow for the recovery of land tax from the tenant appear to be finding greater favour with potential purchasers.

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