RESEARCH

NOVEMBER 2012

BRISBANE INDUSTRIAL

Market Overview

Knight Frank

HIGHLIGHTS

- The Brisbane industrial market has continued to battle the headwinds of slow decision-making from both tenants and purchasers. Following improved rental conditions in the early part of 2012, there has been little to no further growth in the second half of the year. Despite this the annual figures still show rental growth of 3.0% for prime and 1.7% for secondary over the year to October 2012. Several major tenant commitments have recently buoyed the market sentiment.
- The amount of available industrial space has increased over the course of the year, up from the historic lows recorded in July 2012, but this remains almost 20% below the average. The land market has seen some further price softening with lower purchaser demand in the latter half of 2012. Owner occupiers continue to be active purchasers of land and the stock of available lots is now 30% lower than it was two years ago.
- The investment market has been dominated by the wholesale/syndicate buyers (38% of sales over $5 million) which have continued to fill the gap of the largely absent AREITs (19% of sales over $5 million from land sales only). Under the current environment there has been little yield pressure for general industrial stock, however the prime, new builds with long lease terms do appear to be attracting yields sub-8%, but these deals remain to be finalised.

INDUSTRIAL OVERVIEW

Table 1
Brisbane Industrial Market Indicators as at October 2012

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)
Gateway Ports	115	1.8%	91	-	8.00 – 8.27	9.15 – 10.00	300	-8.3%	260	-10.3%
Northern	111	3.7%	89	-	8.45 – 9.00	9.15 – 9.80	300	-1.6%	233	-2.9%
Southern Corridor	106	1.0%	89	4.7%	8.45 – 9.10	9.50 – 10.30	245	-5.8%	177	-2.7%
South West	113	5.6%	88	2.3%	8.15 – 8.50	9.00 – 10.40	292	-5.8%	213	-4.1%
Brisbane Blended	**111**	**3.0%**	**89**	**1.7%**	**8.30 – 8.70**	**9.20 – 10.10**	**284**	**-5.4%**	**221**	**-5.5%**

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

The Queensland economy rebounded strongly over the 2011/12 financial year, after natural disasters heavily impacted the result of the year before. However the sentiment on the ground has not reflected the full impact of this estimated 4.8% growth in Gross State Product, with caution remaining a factor for both tenants and purchasers.

As shown in Figure 1, Deloitte Access Economics expects this rebound of economic activity across the state is largely to be maintained over the coming four years. The exception is 2012/13, where moderation to 4.0% is currently expected, however this remains significantly above the 2.98% which is forecast for the whole of Australia over the same period.

Recent softer pricing levels for the resources sector, particularly coal, has resulted in some slowing in property market activity within the commercial market, as feasibility analysis and design work for new and expanding mining operations has slowed. However as the industrial market users tend to service the resources sector after the investment decision to proceed has already been taken, industrial occupier activity aligned with the resources sector has continued to grow over the course of 2012.

Figure 1
Economic Growth
Queensland Gross State Product & Australia GDP

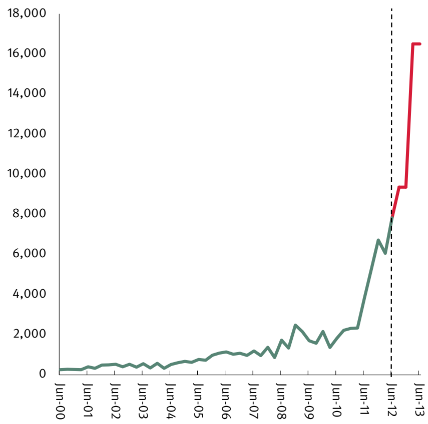
Source: Deloitte Access Economics

In Queensland, the level of capital investment activity within the resources sector has grown from $2.3 billion in the December 2010 quarter to the most recent figure of $7.83 billion in the June 2012 quarter (an increase of 3.4 times over the 18 month period). This analysis excludes any public sector expenditure, tracking only the private sector investment in capital. Short term expectations are for this expenditure to continue to grow at a rapid rate and any slowdown in actual construction due to the recent weaker resources conditions is not expected to emerge until 2014.

This has been reflected in the industrial market with steady expansion from tenants in the metal fabrication, hydraulic, pipework and heavy equipment sales and service industries which have exposure to current projects.

At the same time, however there has been steady demand from logistics users and major retail groups upgrading and expanding their warehouse and distribution facilities. This is also due to major corporates seeking improved efficiencies as part of wider cost-control initiatives.

Figure 2
QLD Capital Expenditure – Mining
$ million Private Sector qtrly expenditure & expected



Source: ABS 5625.008b

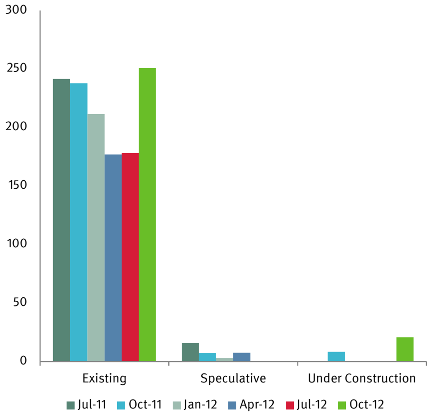
Industrial Overview

The tenant market has remained relatively strong, although deals continue to take longer than usual to finalise. The total level of vacancy, as measured by Knight Frank, has increased from the record lows in the first half of 2012. Some increased urgency from tenants has begun to emerge in the final quarter of 2012, with greater propensity by larger tenants to commit to space. At the same time the level of transactions in the land market has slowed over the course of the year and investment sales activity remains relatively thin.

Figure 3

Brisbane Region Available Space

'000m² Vacancy 3,000m²+ as at October 2012



Source: Knight Frank

For the first time in two years there is now speculative space under construction with both Australand and DEXUS undertaking speculative developments in the South West. This is in response to continued demand for larger, prime space within a climate where this has been rarely available. The recent increase in vacant space has largely occurred through additional secondary space coming to the market (growing by 63%) over the past quarter.

Despite these increases there are only three buildings of greater than 8,000m² recorded as available as at 1 October, with the largest of these a speculative project which will be completed late 2012. Interest in these properties has been high, with offers over at least two of the properties.

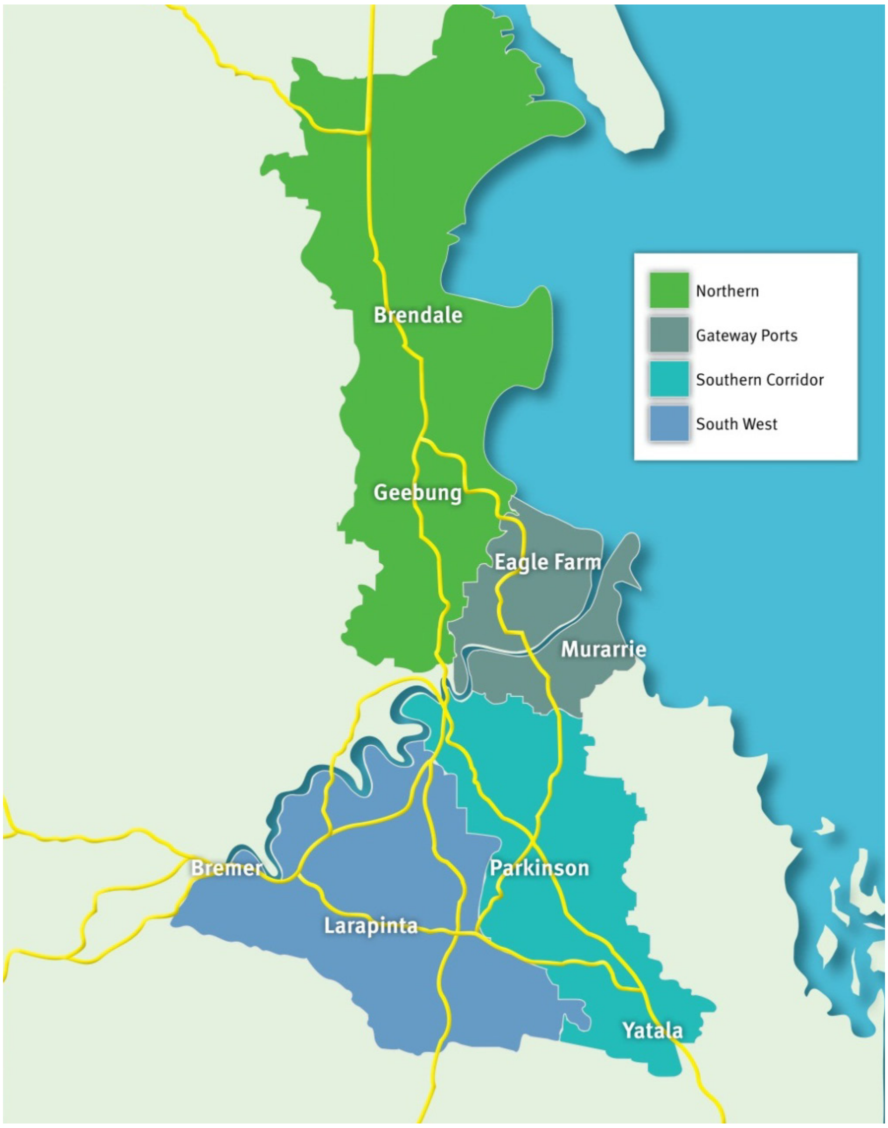
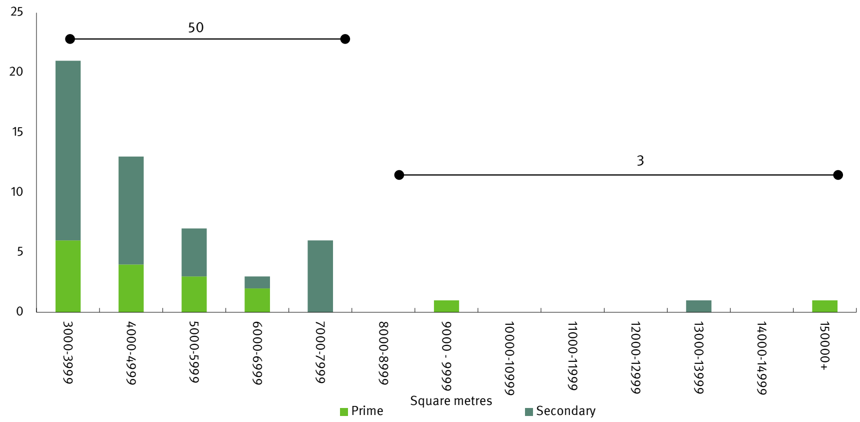


Figure 4

Brisbane Region Available Space

Number of available buildings by size range



Source: Knight Frank

OCCUPIER DEMAND & RENTS

The demand for industrial premises has remained steady throughout the course of 2012, however the impetus to make decisions quickly remains absent from the market. Despite these slow decisions there are a number of larger facilities which are either under construction or committed to commence shortly. For industrial buildings over 5,000m², Knight Frank has tracked 148,624m² of newly constructed buildings completed during the course of 2012, a further 92,468m² are under construction and 366,517m² committed by occupiers for construction within the short term. With only a small proportion of this construction on a speculative basis (5.6%), most of this construction was triggered directly by occupier demand.

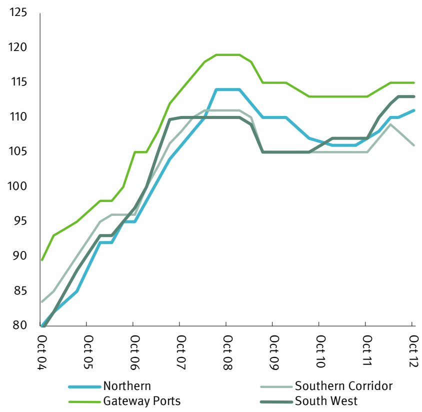
Despite this steady demand the lack of urgency to act within the market has seen little pressure on market rental growth. As shown in Figures 4 and 5, there remains a relatively low level of available space, particularly for larger prime accommodation. However there has not been the level of competition between tenants required to fuel significant rental growth over the course of 2012 within established industrial accommodation.

Figure 5
Brisbane Region Available Space
('000m²) Vacancy 3,000m²+ as at October 2012

Source: Knight Frank

Market rental levels for both prime and secondary accommodation have been relatively stable over the course of 2012, off the back of better growth during late 2011. Thus the annual growth rates reflect 3.0% (to $111/m² net) for prime and 1.7% (to $89/m² net) for secondary over the year to October 2012. Over the past year prime rental growth has been strongest in the South West and northern markets, as prime opportunities were limited. Over the past year we have seen an increasing convergence of pricing across the different precincts with the more expensive precincts struggling to hold onto a pricing premium. The secondary rental rates have also converged with a range of $89 - $91/m² across the precincts.

Figure 6
Brisbane Region Prime Rents
$/m² net rent



Source: Knight Frank

Table 2
Major Industrial Leasing Transactions Brisbane Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Osprey St, Port of Brisbane	GP	130	6,128	5	Schenker	Jan 13
198 Paradise Rd, Willawong	SW	102	5,459	7	Tailored Packaging	Jan 13
TradeCoast Central, Eagle Farm ^	GP	undis	7,000	10	Metcash Campbells Cash & Carry	Dec 12
67 Trade St, Lytton	GP	132	5,000	1.5	Kagan Logistics	Nov 12
1979 Ipswich Rd, Rocklea	SW	75	10,324	6	Coca Cola	Sept 12
42 Colebard St E, Acacia Ridge	SW	85	6,902	Undis	National Tiles	Sept 12
250 Woogaroo St, Heathwood	SW	c170*	4,960	10	Onsite Rental Group	Sep 12
Export Business Park, Eagle Farm ^	GP	Undis	4,276	10	DHL	Sep 12
338 Bradman St, Acacia Ridge	SW	90	14,894	5	M J Logistics	Sep 12
24 Westlink Pl, Richlands	SW	118	5,061	5	Spectrum Transport	Sep 12
124 Viking Rd, Wacol	SW	60	7,661	5	One Steel	Aug 12
13-23 Badu Ct, Meadowbrook	S	134	4,562	3	Aust. Portable Buildings	Aug 12
17 Sugarmill Rd, Eagle Farm	GP	148~	5,087	8	Thales Australia	Jul 12
Trio Business Park, Berrinba^	S	112	40,000	12	CEVA Logistics	Jul 12
Potassium St, Narangba	N	113	6,971	6	Mills Tui	Jul 12
39 McRoyale St, Wacol	SW	125	4,275	10	Brisbane Tray Bodies	Jul 12

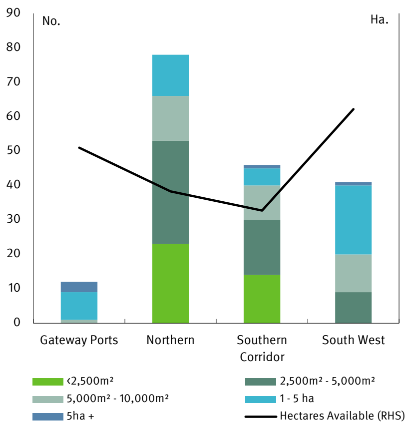
Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern
* 2.5ha of hardstand skews the rent ~extensive hardstand on site ^ D&C/pre-commitment

DEVELOPMENT & LAND VALUES

The level of development land sale activity has decreased over the second half of 2012, after significant levels of purchasing activity during late 2011 and the first quarter of 2012. This, plus some stressed re-sales of land, has seen the market value for industrial land ease once again. The average value for lots under 5,000m² has fallen by 5.4% over the past 12 months to $284/m², the greatest fall is within the Gateway Ports region which has lost its price premium over the North and South West markets. Larger land lots of 1-5 ha also fell by 5.5% over the past year under the weight of limited purchasing activity.

However this is contrasted by a considerable amount of development activity over the course of 2012, with in excess of 240,000m² of accommodation added to the market or under construction. There has also been an increase in the number of larger facilities either leased or being constructed for owner occupation. The larger recent completions are KMart (51,725m²) and Primo (40,000m²) plus there are major facilities proposed for Bunnings (30,500m²), CEVA Logistics (40,000m²), Toll NQX (43,633m²), Caterpillar (59,000m²), Super Retail Group (46,000m²) and Aldi (56,000m²) over the next 12-18 months. In line with recent market trends, the construction activity over 2012 has been dominated by owner occupiers – with 56% of the building area completed during 2012 for owner occupation, as is a further 51% of the space currently under construction. In addition many of these recently announced major occupier commitments have been in planning stage for a significant amount of time, which indicates a continued lack of motivation to act quickly to secure sites.

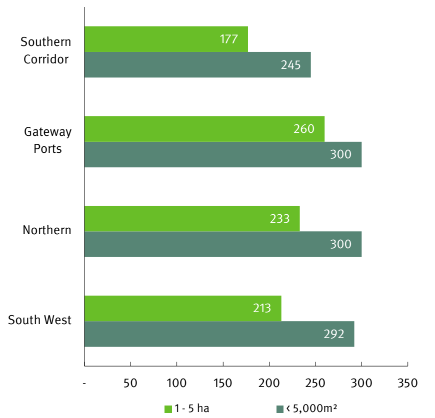
Figure 7
Brisbane Region Available Lots
Number of available industrial lots within estates



Source: Knight Frank

However this may be a dangerous mind-set, particularly for larger users, as the stock of vacant industrial allotments within recognised industrial estates has steadily fallen over the past two years, with few estate projects advancing to provide the next wave of supply. Knight Frank analysed that as at September 2012 there were 177 lots available within industrial estates across the Brisbane region. This covers some 184 hectares, which is a 30% decline on the 207 hectares available two years earlier. The greatest fall has come at the larger end of the scale with 50 lots available above 1 hectare, as opposed to the 72 two years earlier. In contrast smaller lots of under one hectare have remained relatively stable at 127 lots, largely due to further releases within estates in the Northern precinct (New Base and North Lakes Business Park) offsetting take-up over the period.

Figure 8
Brisbane Region Land Values
$/m² value of land by precinct & size – October 2012



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
1 Eastern Service Rd, Yatala	S	1.90	38,800	50	Private Investor	Private Investor	Nov 12
Ellderslie Rd, Yatala	S	Undis	209,200	-	Private Investor	CAT^	Oct 12
Lot 900 Darlington Dr, Yatala	S	2.10	80,000*	26	Receiver (Buildev)	Telford Building Systems	Oct 12
Augustine Heights, Springfield	SW	2.90	7,000	414	Springfield Land Corp	SRS Qld^	Aug 12
379 Sherbrooke Rd, Willawong	SW	1.34	33,600	40	Brisbane City Council	CIP	Jul 12
51 Freight St, Lytton	GP	29.50	115,900	255	State Government	Goodman Group	Jun 12
238-260 Gilmore Rd, Berrinba	S	8.21	80,600	102	Sth West QLD Invest.	Charter Hall	Jun 12
450 Sherbrooke Rd, Willawong	S	10.07	61,400	164	CIP	Charter Hall	Jun 12
7-9 Bailey Ct, Brendale	N	1.85	6,706	276	Runby Pty Ltd	T Peacock Holdings^	May 12

Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern * 8ha useable, 13.83 ha total ^ Owner Occupier

SALES & INVESTMENT YIELDS

The investment market for industrial property has remained relatively lacklustre over the year, although a number of significant sales are currently under negotiation and may be finalised in 2012. However over 2012 to date the market recorded $266.8 million from sales above $5 million, remaining below the $386.7 million recorded during 2011 as the transaction market remained quite subdued.

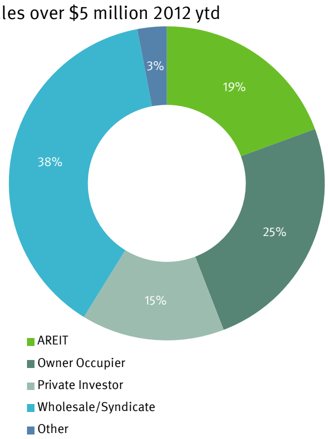
Purchasing activity during 2012 has been dominated by Wholesale/Syndicate buyers with 38% of the transactions by value. This has been represented by Wholesale Funds within the major fund managers ie the $20.85 million purchase by Charter Hall Direct Industrial Fund No 1 in Kingston or 50 Raubers Rd, Banyo purchased by GAIF for $10.65 million. In addition smaller unlisted entities or syndicators such as Fidelis Investment, Benlee Property Trusts and Sentinel Property Group have been active. These investors have continued to take the place of AREITs, and despite chalking up 19% of transactions, AREITs remained out of the improved market.

The recent ARIET purchases were land for current or future major D&C developments, continuing to fuel their development pipeline to build assets for their portfolios.

The second most active purchaser category was the owner occupiers with 25% of the transactions by value. However with $57.9 million of the $66.1 million in owner occupier transactions purchases of development land, this has added little to the demand for improved stock. While some of these land purchases may be on-sold as a leaseback following finalisation of construction plans (ie Toll NQX) this does represent many businesses taking their accommodation needs into their own hands, finding nothing in the current stock to fulfil their needs.

Private Investors have remained a steady portion of the market, accounting for 15% of total sales transaction value over the course of 2012. This has been consistent when compared with their 16% market share for both 2010 and 2011.

Figure 9
Brisbane Region Purchaser Profile
Sales over $5 million 2012 ytd



Source: Knight Frank

Thus the market for improved industrial properties has remained largely unchanged over the course of the year. However demand for high quality, newly built or fund-though opportunities to good tenants on long leases has been high, but largely unfulfilled in the market. Approaching the end of the year there

Table 4
Major Improved Sales Activity Brisbane Region

Address	Region	Price ($ m)	Bldg Area (m²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
931 Nudgee Rd, Banyo	GP	5.75	6,229	VP	-	Aust. Stationery Distributers	Chemist Warehouse	Sept 12
147 Archerfield Rd, Richlands	SW	18.50	20,895	12.52^	2.0	360 Capital	Sentinel Industrial Trust 6	Sept 12
29-47 Mudgee St, Kingston	S	20.85	9.6 ha land	7.8#	20.0	Watpac	Charter Hall Direct Industrial Fund No 1	Aug 12
50 Raubers Rd, Banyo`	N	10.65	13,084	undis	undis	Blackrock	Goodman Group (GAIF)	Aug 12
37 Eagleview St, Eagle Farm	GP	7.20	3,917	9.0^	10.0	Private Investor	Fidelis Investment	Aug 12
71 Stradbroke St, Heathwood	SW	7.00	5,520	9.76	2.1	360 Capital	Benlee Prop. Trust 5	Jul 12
30 Canberra St, Hemmant	GP	13.25	48,100 *	9.92	4.0	Vanguard Properties	Charter Hall Core Plus Industrial	Jul 12
58 Brickyard Rd, Geebung	N	9.40	9,452	9.86^	3.6	RACQ	Lusch Properties	Jul 12
12 Commerce Pl, Larapinta	SW	8.15	5,648	VP	-	Private Investor	RUD Chains	Jun 12
46-58 Gosport St, Hemmant	GP	16.00	11,785	9.75	5.0	One Steel	Sentinel Industrial Trust 5	Jun 12

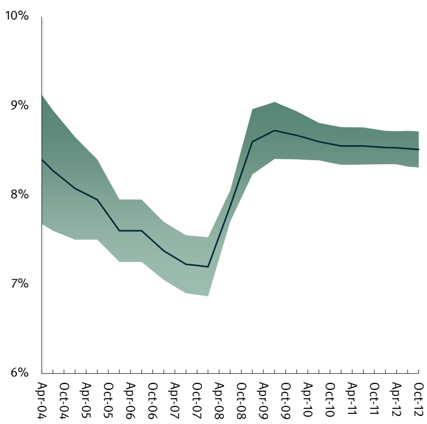
Source: Knight Frank GP Gateway Ports S Southern Corridor SW South West N Northern
^ passing yield # fund through development * land area (the property is largely hardstand) ` transaction is part of a portfolio sale

are sales of this type which are close to completion and are expected to show strong yields of under 8% and also the return of AREITS to the industrial investment market.

However it should be stressed that at this stage this tightening of yields has not transferred to the wider investment market. With purchasers still largely risk averse these long WALE assets with good covenants have been highly sought, but seldom offered to the market over the course of 2012 as the developers of D&C product were largely also the end investors. Exceptions such as the Toll NQX facility at Berrinba and the Blackwoods vendor leaseback at Carole Park are the only opportunities. Both Toll NQX ($84.5 million circa 7.5%) and Blackwoods (c$20 million, suggesting sub 8.0%) are close to concluding deals, however are not yet confirmed.

Across the general investment market for existing product the yields have shown continued stability, with only a hint of tightening in the yield environment. The average prime core market yield is currently 8.50%, lower by only four basis points from the median of 8.54% 12 months earlier.

Figure 10
Brisbane Region Prime Yields
Core Market Yield Range & Median 2004 – 2012



Source: Knight Frank

The secondary yield range has remained relatively soft at 9.20% - 10.10%, representing an easing of 5 basis points over the past 12 months. Properties with risk attached to their income stream continue to be discounted, if not by purchasers, by funding entities.

OUTLOOK

The industrial market has continued to provide contrasting fortunes over the course of 2012. While the overall market conditions have appeared generally stagnant throughout the year, with decisions taking a long time to crystallise, there have been a number of headline deals announced with potentially more to come before the end of the year.

A slew of larger occupier commitments of over 30,000m² has breathed life into the market and potentially there will be associated larger capital transactions to be finalised in the short term. This will rejuvenate the upper levels of the market and continue the relatively strong level of construction into 2013. However the bulk of the market has steady, but not substantial activity, and this is likely to continue in the short term.

HEADLINE DEALS HAVE BUOYED THE MARKET

The land market, once again, appears poised to see improving conditions with relatively low stock levels across medium and larger block sizes. The Gateway Ports has had its price premium of $15-20/m² eroded over the past two years. This is despite the continued popularity of the region with occupiers and a relative lack of available lots. Outside of TradeCoast Central, however there have been limited quality lots available and this has dampened the market, with buyers strongly price sensitive. Additional quality land in the region is expected to come to the market with Port West, Lytton to be progressively released off the back of the Bunnings pre-commitment in 2013. However whether or not the precinct regains its premium against the South West and Northern markets, which are facing their own supply horizons, is yet to be determined.

There is also a supply response emerging to bring additional larger lots to the market, given the recent increase in 'super users' committing to new space within the Brisbane market. Apart from Port West mentioned above there are a number of sites in the Southern Corridor such as Lot 900 Darlington Drive, Yatala, where larger allotments are being planned, rather than smaller lots.

Occupier demand has remained steady and many industrial users have underlying demand, but not the impetus to act on it in the short term. At the larger end of the market both expansion and the desire to upgrade efficiencies have driven the recent major commitments to new industrial space. In general, tenants are expected to have more choice in the market in the medium term, which may in itself drive further activity, as many occupiers testing the market are not finding an absolute case to relocate. As at the October 2012 survey the level of available space was higher than the historic lows recorded in early 2012, but still is 20% below the average recorded since early 2007. The level of available space is expected to continue to increase in the medium term as tenants such as KMart and Campbells Cash & Carry relinquish their existing space.

In the absence of existing leasing stock which fits the needs of occupiers, the level of owner occupier activity has remained a significant portion of the market. Subject to funding requirements, owner occupiers are finding they have less competition across the middle-tier of the market and are moving to secure their premises in a favourable pricing environment. In addition over the course of 2012 these owner occupiers have moved further into the land market, purchasing sites to construct purpose built facilities – a further indication that the currently available stock is not meeting the needs of occupiers.

Given the relatively low level of available prime improved stock, diminishing finished industrial lots and steady demand from the market, it appears that the market is poised to grow quickly once sustained improvement in sentiment of tenants, purchasers and financiers emerges. Much of this remains tied to both local and international economic factors, however the general expectation is that 2013 will be better than 2012.

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