m3commentary
BRISBANE INDUSTRIAL

Winter | 2017

Key Research Contacts:

Casey Robinson
Research Manager | QLD
(07) 3620 7906

Jennifer Williams
National Director | NSW
(02)8234 8116

Zoe Haskett
Research Manager | SA
(08) 7099 1807

CONTENTS

DEFINITIONS

Compound Annual Growth Rate (CAGR): The annual growth rate over a period of year, calculated on the basis that each year's growth is compounded.

GLA: Gross Lettable Area

Initial Yield (IY): The percentage return on value or price derived from the current net passing income. No allowance is made for any future rent growth.

Internal Rate of Retail (IRR); The discount rate that equates the present value of the net cash flows of a project with the present value of the capital investment. It is the rate at which the Net Present Value equals zero. The Internal Rate of Return reflects both the return on the invested capital and the return of the original investment, which are basic considerations of potential investors.

Reversionary Yield (RY): The return or value derived from the net market income. No allowance is made for any future rent growth.

Equated Market Yield (EMY): An annualised yield that is derived from the current net income and future changes to the net income over time with specific consideration of future rental growth. It is the rate of return over a specific time period that has been adjusted for rental growth.

Pre-commitment: contract signed to occupy space in new or refurbished space prior to construction commencing.

WALE: Weighted Average Lease Expiry.

Brisbane Industrial Precincts: Australia TradeCoast (ATC) - Lytton, Murarrie, Morningside, Hemmant, Eagle Farm, Pinkenba, Meeandah, Myrtletown, Hendra, Brisbane Airport. **East** - Cannon Hill, Carindale, Belmont, Cleveland, Capalaba, Chandler, Manly, Manly West, Wakerley, Tingalpa, Thorneside, Wellington Point, Birkdale, Alexandra Hills, Thornlands, Mansfield, Tingalpa. **Inner City -** Albion, Bowen Hills, Fortitude Valley, New Farm, Newstead, Coorparoo, West End, South Brisbane, Woolloongabba, East Brisbane, Kelvin Grove, Herston. **Ipswich -** Ipswich, West Ipswich, North Ipswich, Newtown, Eastern Heights, Churchill, Silkstone, Booval, North Booval, Blackstone, Tivoli, Moores Pocket, One Mile, Yamanto, Raceview, Flinders View, Woodend, Brassall, Black Soil. **Logan Motorway Corridor (LMC)** - Berrinba, Carole Park, Heathwood, Larapinta, Browns Plains, Crestmead, Parkinson. **M1 Corridor** - Slacks Creek, Underwood, Woodridge, Logan, Loganholme, Beenleigh, Yatala, Stapylton, Ormeau, Meadowbrook, Springwood, Kingston, Shailer Park, Underwood, Logan Central. **Northern Corridor** - Stafford, Stafford Heights, Kedron, Nundah, Northgate, Banyo, Virginia, Geebung, Zillmere, Brendale, Bray Park, Kallangur, Narangba, Strathpine, Petrie, Bald Hills, Warner, Lawnton, Bracken Ridge, Clontarf, Rothwell, Redcliffe, Mango Hill, Deagon, Burpengary, Sandgate, Murrumba Downs. **Western Corridor** - Wacol, Rocklea, Coopers Plains, Acacia Ridge, Darra, Seventeen Mile Rocks, Richlands, Willawong, Salisbury, Moorooka, Sherwood, Corinda, Oxley, Sumner Park, Archerfield, Fairfield, Tennyson, Sherwood, Yeerongpilly.

STRONG FUNDAMENTALS FOR THE BRISBANE INDUSTRIAL MARKET

- Rents and incentives remain stable.
- Occupier demand continues to be predominantly for modern, efficient buildings. This is demonstrated by strong pre-commitment activity. Whilst lease-up periods for secondary-grade assets have declined, they remain lengthy.
- Vacancy across the core industrial precincts (as defined by the Property Council of Australia) declined from 5.0% as at March 2016 to 3.2% as at March 2017.
- Despite the reduced supply of stock for sale on the market, investors have continued to pursue investment opportunities. An estimated $821 million of sales occurred in 2016 and $413 million of sales have been recorded during 2017 at the time of writing this report).
- Yields for prime and secondary assets continued to tighten over the year to March 2017. Yields currently range between 6.00% and 7.00% for prime assets and 7.50% and 8.75% for secondary assets.

MARKET OVERVIEW

Occupier demand for industrial properties strengthened during the past year and this resulted in the amount of stock available for lease declining. Despite the decline in vacancy, rents are stable and incentives remain at a historically high level. Purchaser activity has been strong and yields have continued to tighten.

There are a number of factors driving the Brisbane industrial market at present. Driving the investment market are the historically low cash and 10-year government bond rates, demand from offshore investors and strong business confidence (which has been a key factor behind demand from private investors).

There were 54 industrial sales, totaling $821 million, across the Greater Brisbane Region during 2016. The number and value of sales declined from 2015 due to a reduced number of assets being brought to the market.

Whilst the leasing market has strengthened during the past year, conditions remain favourable to tenants. Prime and secondary net face rents have been relatively stable across most precincts and attractive incentives continue to be negotiated in lease deals. This has been particularly evident for larger secondary properties which have struggled to lease during recent years as occupiers have increasingly sought modern premises that provide operational efficiencies.

Driving the occupier market have been several key factors.

Firstly, the residential construction market has been a dominant source of demand from companies servicing this market during the past two years. Secondly, logistics and transport operators have been very active, taking new space and expanding their operations to cater for rising demand to distribute goods from the e-commerce sector. Finally, there has been some increased demand from manufacturing firms.

Owner occupiers have remained active in the market, given the low cash rate. This is highlighted by a number of sales in the sub-$5 million market, as well as some larger sales.

m3 Valuations (clockwise from top left):
Lot 2001, Metroplex Westgate, Wacol.
69-79 Diesel Drive, Paget.
52 Moreton Street, Heathwood.
670 Macarthur Avenue, Pinkenba.

KEY INFLUENCES

ECONOMY

During the March quarter 2017, the economy grew by a weak 0.3% (bringing annual growth to 1.7%). Measures of business sentiment remain above average and business investment has increased during the past two quarters (the first time there has been back-to-back gains since 2012). Public investment is in an upswing, due to large-scale transport projects. Conditions in the labour market continue to be mixed and inflation is low. While a low official interest rate is supporting domestic demand, rising rates from the major banks and a fluctuating exchange rate continue to reduce its effectiveness. According to BIS Oxford Economics, Gross Domestic Product growth is forecast to average 2.6% per annum over the five years to June 2021.

INTEREST RATES

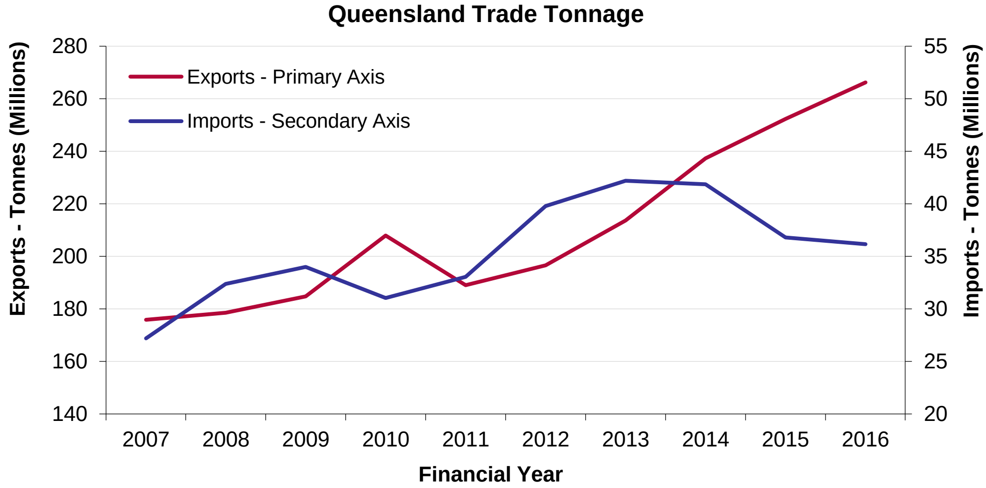
Changes to interest rates have a dual impact on the industrial sector. The RBA lowered the official cash rate to 1.50% in August 2016 and this has had a positive effect on the industrial sector both directly and indirectly. Firstly, the low cost of capital has encouraged increased activity in the investment market because of the appealing arbitrage between borrowing costs and investment yields (direct impact). Secondly, it has had a positive effect on retail trade and the residential market, which has flowed-on to various industrial sectors (indirect impact). BIS Oxford Economics forecasts the official cash rate to remain stable until the 2021 financial year when it is forecast to increase.

FREIGHT ACTIVITY

Container trade is a leading indicator of demand for the logistics sector. During the 2016 financial year, the gross weight of goods exported from Queensland ports increased 5.5%. Strongest growth was seen for ‘Chemicals and Related Products’ (up 41.5%) and ‘Beverages and Tobacco’ (up 27.4%). Exports to China accounted for 23.4% of total exports. The gross weight of goods imported to Queensland decreased by 1.7% over the year. This was following a decline of 12.1% during the 2015 financial year.

ort of Brisbane saw an overall decline in the gross weight of goods traded during the 2016 financial year. The decline was reportedly influenced by the closure of the BP Oil Refinery at Bulwer Island.

In the company’s 2016 Business Review, Port of Brisbane noted that the recently completed expansion of the Panama Canal has resulted in an increased number of larger vessels (which require specific infrastructure requirements to berth safely) being planned for Australia. As a result, Port of Brisbane has initiated a review into the technology that is required to allow access for deeper draught and longer vessels to access the port’s channel and berth.

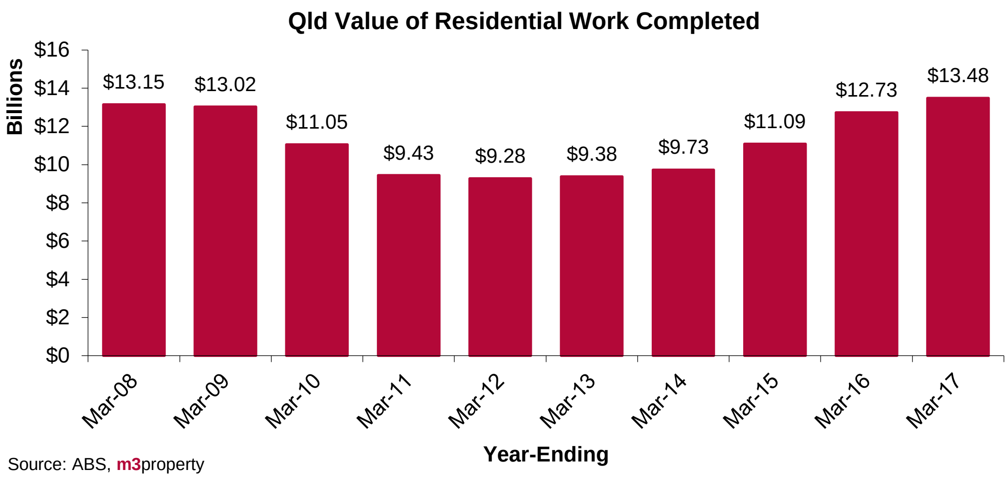


Source: Government Statistician's Office, m3property

KEY INFLUENCES

RESIDENTIAL CONSTRUCTION

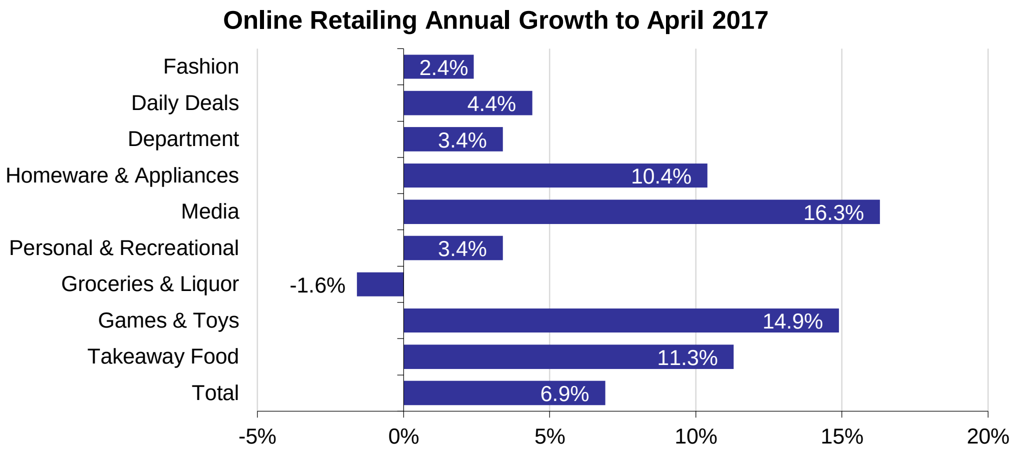
Residential construction is an important driver of demand for industrial space, through the stimulation of consumer spending on furniture, fittings, building materials etcetera, all of which need to be manufactured, stored and transported. Despite declining during the March quarter 2017, over the year, the value of residential work completed in Queensland increased 5.9%. Strong residential construction during 2015 and 2016 was accompanied by increased demand from associated users (such as G James Glass, National Glass, Beaumont Tiles, Big Ass Fans, Kitchen Connection, Nick Scali, Franklyn Blinds and Winning Group). With residential construction now showing signs of peaking, demand from companies associated with this sector may soften.



Source: ABS, **m3**property

RETAIL TRADE

Retail trade is a key driver of warehousing and logistics. With the ‘bricks and clicks’ approach becoming more prevalent amongst retailers, the establishment of large, decentralised warehouses, capable of distributing goods directly to the consumer, has become more common. Growth in online retailing and container trade has driven demand for warehousing, transport and logistics facilities during recent years. Examples of transport and logistics operators that have recently signed new leases in Brisbane include Deliver Group, Simon National Carriers, Couriers Please, MJ Logistics, Dutt Transport and Transport Management Solutions. Amazon announced earlier this year that the company will expand its operations in Australia over coming years.



Source: NAB, **m3**property

According to BIS Oxford Economics, national retail turnover growth is forecast to average 2.3% over the five years to June 2021. This is below the average growth of 2.9% seen over the five years to June 2016.

FOCUS: INLAND RAIL PROJECT

Key Points

- 1,700 km freight link between Melbourne and Brisbane
- Support 16,000 jobs at the peak of construction
- Long-term economic benefit cost ratio of 2.62:1
- Increase GDP by $16 billion during construction and the first 50 years of operation
- Construction timeline of 10 years
- Reduction in the cost of freight travel between Melbourne and Sydney of $10 per tonne

Port of Bne Connection

- Brisbane is expected to become constrained by the lack of a dedicated rail freight connection due to increasing freight volumes.
- Investigations are being made into a 24/7 rail link between the Brisbane-end of the Inland Rail link and the Port of Brisbane.
- This project is separate from, and not as advanced as, the Inland Rail Project.
- The link will be a dedicated freight rail corridor from the Western Corridor industrial precinct to the Port of Brisbane, also providing the potential to accommodate import/export shuttle trips by rail.

"Australia is heavily reliant on efficient supply chains to provide competitive domestic freight links and gateways for international trade. Freight transport services between major population centres, particularly our capital cities, deliver millions of tonnes of freight each year and provide for the distribution of goods throughout the country. Efficient and effective domestic supply chains that are internationally competitive against import chains support economic growth and help keep down the cost of the products we buy. Efficient transport of Australian exports to world markets maximises the economic returns to the Australian economy. Productive ports, freight networks and other critical infrastructure are the key to efficient supply chains and to Australia's competitiveness."

Source: Inland Rail Business Case

The Federal Government has recently committed to finance the Inland Rail Project through the combination of an $8.4 billion equity investment and a public-private partnership. The public-private partnership will be for the most complex elements of the project. The Federal Government had previously committed $900 million towards the project for planning and land acquisition. The Inland Rail Project will be the largest Commonwealth rail construction project since the transcontinental rail link was completed 100 years ago.

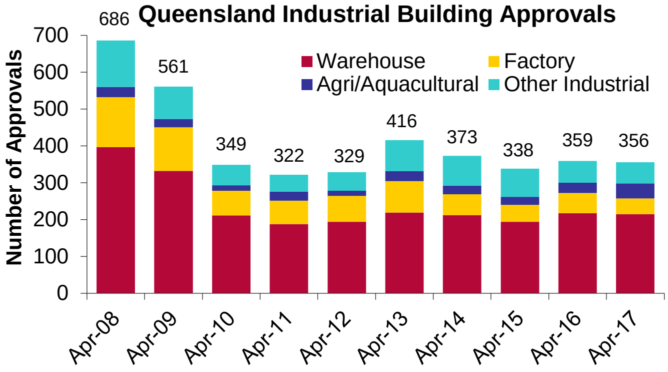
The Inland Rail will be a 1,700 kilometre freight link between Melbourne and Brisbane, running through regional Victoria, New South Wales and Queensland. The project will include metropolitan and regional intermodal terminals, which are critical elements of the freight supply chain network. The Queensland section of the Inland Rail project is shown on the map below.

The forecast key benefits of the Inland Rail Project are as follows.

- Development of freight precincts around Inland Rail terminals.
- Improved access to and from regional markets, opening up new and international markets to agricultural regions.
- The project is expected to be a catalyst for complementary private sector investments (such as fleet upgrades, regional terminals and freight precincts).
- Inter-capital, coastal, agricultural and coal freight (currently travelling by road) would benefit from reduced operating costs and improved reliability, resulting in:
  - lower prices for consumers (particularly for manufactured goods);
  - improved competitiveness of key markets and increased economic activity, particularly in the agricultural and coal sectors;
  - the viability of some mines being improved given reduced operating costs; and
  - increased exports and freight volumes.

Source: ARTC

MARKET INDICATORS



Source: ABS, m3property

INDUSTRIAL BUILDING APPROVALS

There were 356 industrial buildings approved in Queensland during the year-ending April 2017. Warehouse approvals accounted for the largest proportion (60.4%), followed by 'other industrial' approvals (16.3%), factory approvals (11.8%) and agri/aquacultural approvals (11.5%).

From the year-ending April 2016, the total number of approvals remained relatively stable.

The number of agri/aquacultural building approvals has increased during recent years alongside growth in Australia's agricultural exports. Growth in agricultural, fisheries and forestry exports has been driven by the introduction of Free Trade Agreements with China (effective December 2015), Japan (effective January 2015) and the Republic of Korea (effective December 2014), as well as the more favourable value of the Australian dollar.

Brisbane Industrial Supply Additions

Address	GLA m²
Australia TradeCoast	
96-106 Export Street, Lytton.	30,265
19 Orient Avenue, Pinkenba.	3,300
26 Qantas Drive, Eagle Farm.	2,280
175 Eagle Farm Road, Pinkenba.	5,930
83 Fison Avenue, Eagle Farm.	6,000
164 Main Beach Road, Pinkenba.	3,600
Australia TradeCoast Total	***51,375***
Logan Motorway Corridor	
69 Corymbia Place, Parkinson.	4,773
29 Forest Way, Berrinba.	19,822
29-51 Wayne Goss Drive, Berrinba.	15,441
53-71 Wayne Goss Drive, Berrinba.	14,990
68-74 Badu Court, Meadowbrook.	4,260
36-54 Badu Court, Meadowbrook.	4,873
2-12 Sirett Street, Berrinba.	5,180
15 Seeana Place, Heathwood.	7,800
15 Radius Drive, Larapinta.	6,000
Logan Motorway Corridor Total	***83,139***
Brisbane North	
174 Zillmere Road, Geebung.	5,371
Brisbane North Total	***5,371***
Brisbane South West	
35 Evans Road, Salisbury.	4,920
Brisbane South West Total	***4,920***
Property Council of Australia Defined Brisbane Industrial Market Total	***144,805***

Source: Property Council of Australia, m3property

BRISBANE INDUSTRIAL SUPPLY

According to the Property Council of Australia, there was 17,526,184 square metres of industrial floor space across 5,199 properties in the core industrial precincts of Brisbane (includes Australia TradeCoast, Logan Motorway Corridor, Brisbane North and Brisbane South West) as at March 2017. An estimated 77.9% of space is contained within properties that are 3,000 square metres or larger.

It is important to note that this estimate of supply excludes a considerable amount of supply in the wider Brisbane market, including but not limited to, the suburbs of Brendale, North Lakes, Narangba, Rochedale, Redbank Plains, Swanbank, Stapylton, Yatala and Ormeau.

During the year-ending March 2017, there was 144,805 square metres of new supply added to the Property Council of Australia defined market. Additions are shown on the table to the left. By precinct, the Logan Motorway Corridor accounted for the largest amount of new supply (57.4% or 83,139 square metres) followed by the Australia TradeCoast (35.5% or 51,375 square metres).

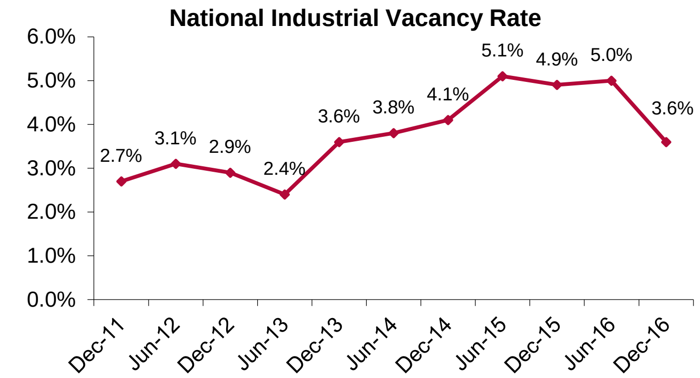
Outside of this defined market, other notable recent supply additions include the OI Glass Factory at Yatala (35,400 square metres), the Franklyn Blinds facility at Rochedale (8,042 square metres), 54 Monash Road at Redbank (24,490 square metres speculative development) and Beaulieu Australia's facility at Yatala (23,015 square metres).

MARKET INDICATORS

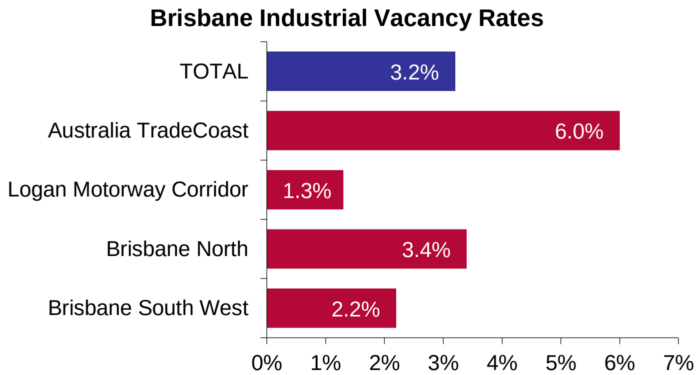
Selection of Recent Owner Occupier Sales

Address	Date	Sale $	m² GLA	$/m²	RY
7 Flinders Parade, North Lakes.	Apr-17	$3.10m	1,900	$1,632	7.66%
320 Fison Avenue, Eagle Farm.	Mar-17	$3.07m	1,910	$1,605	7.17%
59 Bancroft Drive, Pinkenba. (Lycon Cosmetics)	Feb-17	$9.15m	7,361	$1,243	9.50%
61 Bernoulli Street, Darra.	Nov-16	$2.70m	2,771	$974	9.24%
97 Trade Street, Lytton. (Kitchen Connection)	Oct-16	$8.00m	6,600	$1,212	8.66%
32 Murdoch Circuit, Acacia Ridge. (Prime Creations)	Sep-16	$6.45m	5,164	$1,249	9.21%
21 Babdoyle Street, Loganholme.	Sep-16	$3.66m	3,070	$1,192	8.39%
73 Toombul Road, Northgate.	Aug-16	$3.28m	2,485	$1,318	7.97%

Source: m3property



Source: Various Industrial A-REIT Reports, m3property



Source: Property Council of Australia, m3property

OCCUPIER DEMAND

Occupier demand has strengthened during the past year. The trend of tenants upgrading to modern buildings with operational efficiencies remains a key feature of the market and has been made possible by the competitive effective rentals being offered. As a result, activity has remained strong in the pre-commitment market and speculative developments have typically been leasing in reasonable time-frames. Whilst these conditions had resulted in a large amount of vacant secondary space on the market, some of this stock is now starting to be absorbed (however, lease-up periods remain long).

Demand from owner occupiers has strengthened and there have been a number of sales during the past year. Whilst owner occupiers are predominantly active in the sub-$5 million market, there have been a number of sales to larger occupiers including Kitchen Connection at Lytton, Lycon Cosmetics at Pinkenba and Prime Creations at Acacia Ridge (see table to the left). Small owner occupiers have also been active in the growing 'work store unit' market. Work store units are typically priced below $300,000.

By sector, demand from manufacturing firms has shown some improvement, as seen by a number of recent leases and owner occupier sales (including Oji Fibre Solutions – paper and packaging; Greenfield Mowers – outdoor equipment; and Beaulieu Australia - carpet). Furthermore, demand from firms servicing the residential sector and logistics and transport companies has been strong.

VACANCY

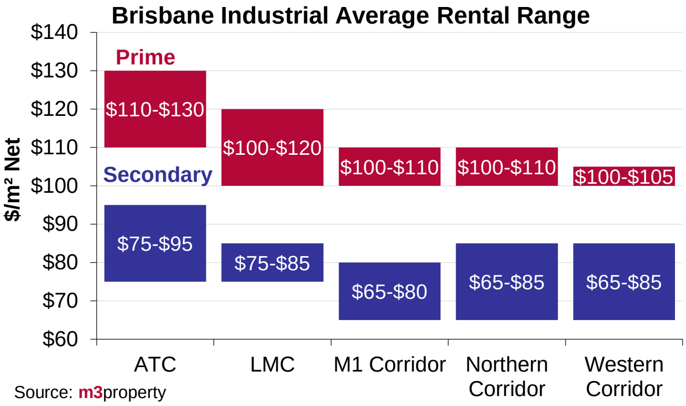
Based on our sample of prime properties in Australia's major industrial A-REITs, the national vacancy rate was 3.6% in December 2016. It is likely that overall vacancy is higher in the wider industrial market.

According to the Property Council of Australia, the vacancy rate across Brisbane's major industrial precincts decreased from 5.0% to 3.2% over the year to March 2017 (includes properties with GLAs of 3,000 square metres plus). A vacancy rate of 3.2% represents 430,758 square metres of vacant stock. Vacancy decreased despite the addition of 144,805 square metres of new stock to the market.

The Australia TradeCoast had the highest vacancy (6.0% or 212,159 square metres), followed by the Brisbane North precinct (3.4% or 94,455 square metres), the Brisbane South West precinct (2.2% or 75,295 square metres) and the Logan Motorway Corridor (1.3% or 48,849 square metres).

As at March 2017, there were 61 vacant properties (3,000 square metres and above) across the monitored precincts, of which 30 were in the Australia TradeCoast, 17 were in the Brisbane North precinct, 8 were in the Brisbane South West precinct and 6 were in the Logan Motorway Corridor.

RENTAL MARKET



Source: m3property

RENTS AND INCENTIVES

Rents have remained fairly stable over the past year. Net rents currently average between $100 and $130 per square metre (prime) and $65 and $95 per square metre (secondary).

Landlords and developers have continued to offer large incentives in order to avoid lowering face rents. Prime incentives typically range between 10% and 15% and secondary incentives typically range between 5% and 15%.

Our 10-year average forecasts for rental growth are 2.6% per annum for prime assets and 2.3% per annum for secondary assets.

SELECTION OF RECENT MAJOR LEASES

Address	Tenant	Date	m² GLA	$/m² Net	Term (Years)
Australia TradeCoast					
Port West Industrial Estate, Lytton.	Stora Enzo*	Aug-17	5,950	$134	8
Unit 3, 96 Export Street, Lytton.	Deliver Group	Apr-17	6,438	$120	5
148 Hedley Avenue, Hendra.	CV Services Group	Feb-17	7,840	$96	10
W2 Osprey Drive, Port of Brisbane.	The Smiths Snackfood Company^	Aug-16	12,108	$124	2
Logan Motorway Corridor					
46-48 Mica Street, Carole Park.	Dutt Transport*	Apr-17	3,200	$120	12
Warehouse B, 50-70 Radius Drive, Larapinta.	Green Foods	Jan-17	12,065	$107	7
11-19 Kellar Drive, Berrinba.	DHL Excel Supply Chain	Dec-16	7,412	$115	N/A
Lot 102, Wayne Goss Drive, Berrinba.	National Tiles*	Nov-16	13,162	$109	5
Warehouse A, 50-70 Radius Drive, Larapinta.	MJ Logistics	Sep-16	11,048	$112	7
M1 Corridor					
Brickworks Place, Rochedale.	Franklyn Blinds*	Feb-17	8,042	$115	10
Lot 22, 146 Pearson Road, Yatala.	Beaulieu Tiles*	Nov-16	23,015	$90	15
99-103 Lahrs Road, Ormeau.	PWR Performance Products	Aug-16	5,335	$118	10
Northern Corridor					
741 Nudgee Road, Northgate.	Health World Limited	Jul-16	8,764	$220	7.5
Western Corridor					
Building B, 30 Bellrick Street, Acacia Ridge.	Rocket Logistics	Mar-17	8,494	$95	3
18 Paradise Road, Acacia Ridge.	Santa Fe Wridgeways	Jan-17	5,071	$99	6
509 Boundary Road, Darra.	Citi-Steel*	Aug-16	9,477	$80	10

Source: m3property
Note: * pre-commitment; N/A – Not available; ^ Sublease

Lease Analysis – Units 1 and 2, 96 Export Street, Lytton.

Commencement Date: Dec-2017

GLA: 19,783 m²

Tenant: PepsiCo (Smiths Snackfoods)

Rent: $120/m² Net

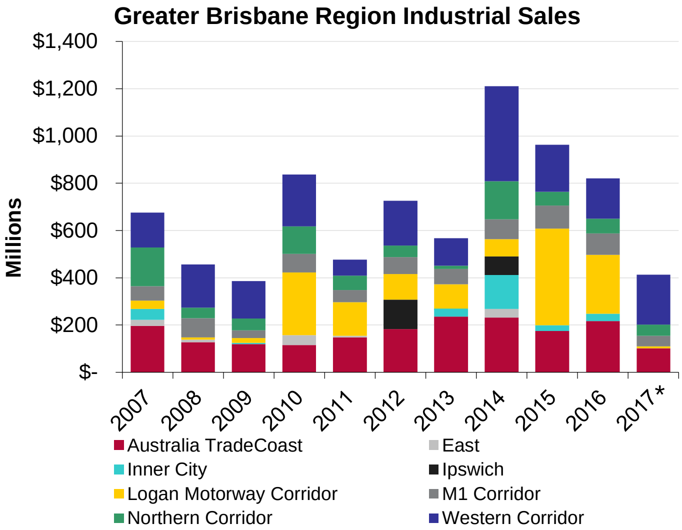
Reviews: Fixed 3.0%

Term: 3 years

Option: 3 years

The property is located within the established industrial suburb of Lytton, approximately 13 radial kilometres east of Brisbane's CBD. It is situated within the Export Motorway Estate, a newly constructed industrial development within the TradeCoast Precinct.
The property is improved with four modern units comprising office/warehouse accommodation of dado construction. Units 1 and 2 provide warehouse accommodation with multiple rows of columns, accessible via multiple container height roller doors and four recessed loading docks per unit with all-weather awnings attached. It has a minimum internal clearance height of 10.2 metres and is fitted with ESFR sprinklers. The office accommodation is over two levels and presents to an above-average standard. The property has an office ratio of 5.1%.

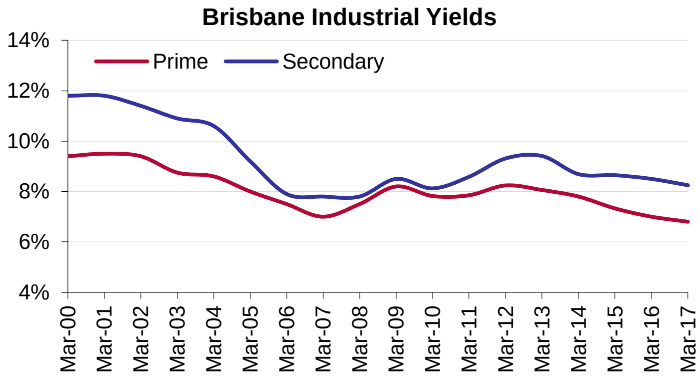
INVESTMENT MARKET



Source: m3property
Note: To 27 June 2017; Sales over $5 million

Precinct	Prime	Secondary
Australia TradeCoast	6.00% - 6.50%	7.50% - 8.00%
Logan Motorway Corridor	6.25% - 7.00%	7.50% - 8.25%
M1 Corridor	6.50% - 7.00%	8.25% - 8.75%
Northern Corridor	6.25% - 6.75%	8.25% - 8.75%
Western Corridor	6.50% - 7.00%	8.00% - 8.50%

Source: m3property



Source: m3property

SALES ACTIVITY

m3property recorded $821 million of sales in the Greater Brisbane Region (GBR) during 2016 (includes sales over $5 million). Whilst the value of sales declined 14.7% from $963 million during 2015, it was above the 10-year average of $712 million. The median capital value during 2016 was $1,580 per square metre. The largest sale of the year was 137 Magnesium Drive in Crestmead which sold as part of the Goodman / Blackstone portfolio for $126 million. During 2017 to date, there has been an estimated $413 million of industrial property sold, including the circa-$156 million sale of Coca Cola Amatil's facility at Richlands.

INVESTMENT MARKET TRENDS AND YIELDS

Investment demand for industrial assets remains strong. While there was a reduced number of transactions during 2016 compared with 2015, this was a result of lower numbers of investment stock being brought to the market, with some investors displaying a preference to retain assets.

Yields currently average between 6.00% and 7.00% for prime assets and 7.50% and 8.75% for secondary assets. While yields compressed slightly over the past year, compression slowed compared with the previous year. This was on the back of banks not passing on the full interest rate cut to customers, increases in bond rates and tighter restrictions on lending to investors.

Due to the scarcity of prime assets being brought to the market, investors have been showing a willingness to purchase secondary assets or properties with leasing risk (i.e. vacant possession or short WALEs), particularly in instances where they see a value-add opportunity.

Portfolio sales have become a key feature of the industrial investment market, stemming from offshore investors willing to pay a premium for these assets. There were numerous national portfolio sales during 2016, typically achieving yields of between 6.00% and 7.25%.

Sale and leaseback transactions have increased in prevalence during the past 18 months as some corporate occupiers have assessed the costs of renting as more favourable than the costs of owner occupying, particularly given rising incentives. Some recent examples of sale and leaseback deals include Coca Cola Amatil, SUEZ Recycling and Waste, Veolia and Trio Trading.

Private investors continue to be active in the lower price range. Private investors are typically attracted to industrial property due to the comparatively high investment yields and simple investment parameters (such as the longevity of a single tenant and relatively low investment requirements). Private investors accounted for an estimated $136 million of sales in the GBR over $5 million during 2016.

SELECTION OF RECENT SALES >$5 MILLION

Address	Date	Sale $	m² GLA	$/m²	IY
Australia TradeCoast					
70 Main Beach Road, Pinkenba.	Jun-17	$19.00m	2,592	$7,330	7.37%
43 Holt Street, Pinkenba.	May-17	$6.30m	3,882	$1,623	8.22%
48 Alexandra Place, Murarrie.	Apr-17	$12.21m	8,626	$1,416	8.12%
45 Alexandra Place, Murarrie.	Dec-16	$10.30m	6,185	$1,665	7.52%
494 Nudgee Road, Hendra.	Dec-16	$9.85m	6,125	$1,608	7.90%
Logan Motorway Corridor					
9-13 Titanium Court, Crestmead.	Dec-16	$7.50m	6,472	$1,159	7.46%
52 Moreton Street, Heathwood.	Sep-16	$7.55m	5,005	$1,507	7.64%
41-55 Platinum Street, Crestmead.	Jul-16	$15.92m	11,214	$1,420	7.54%
M1 Corridor					
99-103 Lahrs Road, Ormeau.	Jun-16	$11.12m	6,855	$1,623	7.30%
Northern Corridor					
461-473 Newman Road and 166 Granite Street, Geebung.	Oct-16	$24.54m	14,518	$1,690	6.93%
Western Corridor					
166 Boundary Road, Rocklea.	Nov-16	$6.00m	2,323	$2,583	8.50%
1801 Ipswich Road, Rocklea.	Oct-16	$18.65m	9,344	$1,996	9.10%

Source: **m3**property

Sale Analysis – Lot 2001, Metroplex Westgate, Wacol.

DETAILS OF SALE

Sale Price	$35,250,000
Sale Date	May 2017
Vendor	GPT/Pradella
Purchaser	Garda Capital Group

LOCATION AND DESCRIPTION

The property is situated within the Metroplex Westgate Industrial Business Park, located approximately 20 kilometres by road west of the Brisbane CBD.

The site is proposed to be improved with a purpose-built modern showroom/warehouse facility with ancillary office accommodation. The warehouse accommodation comprises 6,057 square metres for truck workshop and servicing requirements. The showroom and office accommodation will be arranged over multiple levels and provide a high standard of accommodation. The low site cover provides additional hardstand/yard area.

COMMENTS

- The property was purchased on a fund-through basis.
- The property is proposed to be leased to Volvo Group Australia, an above-average calibre of tenant, for an initial ten-year term with two further five-year options.
- The net passing rent was considered to be within market parameters.
- The above analysis does not take into account stamp duty savings associated with the transaction.

TENANCY AND INCOME DETAILS

Net Passing Income (/annum)	$2,200,000
Net Passing Income (/m²)	$220
Vacancy	Nil
WALE (by income)	10.00 years

ANALYSIS

$/m² GLA	$3,527
Initial Yield	6.24%
Equated Market Yield	6.24%
Reversionary Yield	6.24%
Internal Rate of Return (10 year)	7.70%
Terminal Yield	6.50%

OUTLOOK
BRISBANE INDUSTRIAL

The outlook for industrial property in Brisbane is positive.

The **cash rate** is forecast to remain at a historically low level over the medium-term. While the 10-year government bond rate is forecast to increase over the coming five years, it is expected to remain lower than property yields and should continue to encourage investment in property.

Despite some appreciation over the past 18 months, the value of the **Australian dollar** remains considerably lower than it was between mid-2009 and mid-2015. The value of the Australian dollar is forecast to remain in the low US$0.70/AU$1.00 vicinity over the medium-term, which will benefit domestic manufacturing and continue to encourage foreign investment into Australia.

Merchandise trade is forecast to grow steadily as a result of growth in both exports and imports. Australia is likely to benefit from Free Trade Agreements signed with the Republic of Korea, Japan and China, which have eliminated, or are expected to gradually reduce, tariffs on exports. The agreements are expected to help the agricultural and food processing industries, and are also likely to increase demand for some advanced products manufactured in Australia. Negotiations are also mooted to occur for Free Trade Agreements with the EU and UK.

The industrial sector is forecast to benefit from rising **business inventories** over the coming five years. Alongside population and economic growth, as well as growth in the e-commerce sector, wholesalers and retailers are expected to continue to import merchandise from overseas producers and increase their storage of goods to be readily available for distribution to consumers.

Business confidence is forecast to remain positive over the medium term. Business confidence is a driving force behind tenant decisions to relocate, expand or contract.

There are a number of **major projects** planned and underway in Queensland which will boost industrial warehousing and manufacturing demand. Projects include the Inland Rail Project, upgrades to the M1 and Bruce Highways, the Toowoomba Second Range Crossing, upgrades and expansions of the SEQ airport network, the Brisbane Cruise Terminal, the Queen's Wharf Development and Brisbane Live Entertainment Precinct, the Cross River Rail and Brisbane Metro, Howard Smith Wharves and the recently approved Logan Enhancement Project.

We expect that demand for industrial space will continue to strengthen over the short- to medium-term. As vacancy declines, growth in effective rents is expected to occur. It is expected that owners will have to continue to meet the market for larger secondary tenancies which will remain more difficult to lease as a result of the general drive towards efficiency and upgrading.

Investment demand is expected to remain strong, being driven by the yield differential between property and bond rates, the low cash rate, the value of the Australian dollar and strong buying activity from foreign investors.

KEY INDUSTRIAL VALUATION CONTACTS

Ross Perkins
Director | QLD
(07) 3620 7901

Mitchell Enright
Valuer | QLD
(07) 3620 7919

James Farrugia
Director | NSW
(02) 8234 8104

Gary Longden
Director | VIC
(03) 9605 1040

Neil Bradford
Director | SA
(08) 7099 1809