

Brisbane Industrial Leasing **ViewPoint**

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Leasing, the likely market driver in 2009?

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SUMMARY Leasing activity is likely to be the market driver in 2009 as businesses turn towards leasing over owner occupation.

Industrial property market conditions easing

Industrial property market growth conditions are easing amid the global economic downturn. Demand for industrial properties continues to shrink in line with the contraction in the economy. The effects of reduced consumer spending and an increasingly volatile market are forcing businesses to hold back expansion and relocation plans, impacting negatively on rental enquiry levels. A lack of liquidity in the financial market has halved investment activity.

In normal circumstances, falling interest rates would be expected to encourage owner-occupation, either directly or through personal superannuation funds. This is not supported in the current economic downturn. As a result, leasing activity is likely to be the key market driver in 2009.

With the tight leasing market experienced over the last few years now over, there is a growing supply of sub-lease space as well as opportunities for tenants to be more selective with their requirements.

Rental enquiries have dropped off

Rental enquiries are slower than previous years; although interest still exists. The average size of tenant requirements is decreasing, with current enquiries largely for properties under 3,000 sq m. Enquiries for large requirements of 5,000 sq m plus are tending to be put on hold at present. Enquiry numbers are expected to pick up once confidence returns to the market.

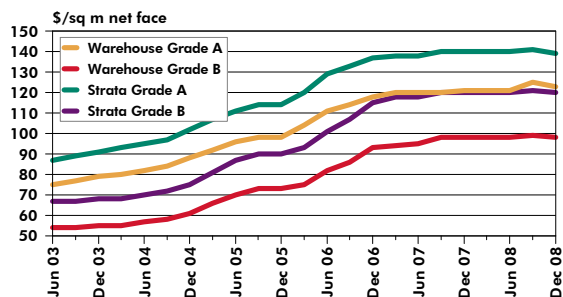
Retail development, rising economic standards and growth in industrial production had been the main drivers of warehouse sector growth over the past five years. Retail spending is now under pressure, however, and the retail industry is expected to suffer further from rising unemployment and weak consumer confidence. This is likely to feed through to reduced demand from retailers for new warehouse space and as a result, the warehouse sector is expected to feel the pinch.

Demand coming from service industries involved with infrastructure development

Transport/logistics companies have experienced the first signs of contraction, driven by reduced demand for materials due to lower household consumption. As a result freight/logistics operators are largely out of the market currently for new rental requirements.

The upgrading and development of new infrastructure in South East Queensland, however, is creating demand for warehouse space from service industries involved with infrastructure building, such as civil construction and engineering.

Indicative Industrial Rents



Source : CBRE Research & Consulting
Note: Mid-point of range

Some pockets of downward rent pressure

While increasing over the first half of 2008, rents fell in most precincts in the second half as consumer and business sentiment started to plummet and tenant demand eased. Over the year to December 2008, performance varied by precinct. The Northern precinct recorded growth of 3.9% (warehouse, A grade), with rises also recorded in Gateway North and the Western Corridor (3.4% each). A marginal rise was generated in the Southern precinct while Gateway South (negative 4.3%) and the M1 corridor (negative 4.2%) retreated.

Brisbane metropolitan prime warehouse and distribution centre rents as at December 2008 ranged from \$110/sq m to \$140/sq m while secondary rents ranged from \$85/sq m to \$120/sq m. Strata unit rents ranged from \$105/sq m to \$180/sq m for prime units. There is little prospect of any rental growth in the short to medium term. Some areas will likely be forced to make negative adjustments to net face rents.

New trends emerging

For developers, limited access to funds and increased vacancy is resulting in many projects not moving forward until they have significant pre-leasing in place. For existing tenants, re-location has emerged as a key trend. Some businesses are seeking to cut costs by rethinking their locational and space requirements. For landlords, increased vacancy is making it difficult to increase rents. The major issue this year will be closing of the gap between lessee and lessor expectations.

Tenants are also looking to find quality premises at affordable rental rates with short-term leases. This offering is becoming more common as a result of tenant demand but is also driven by landlords seeking to generate cash flow as bank liquidity and funding issues continue. Three to five year lease terms are becoming common for properties in the 1,000 sq m to 5,000 sq m size range. Larger tenants are happy to secure a long-term lease given the cost involved with fit-out and moving.

Some tenants are now discovering they have more bargaining power, and are seeking reduced rental levels, with many demanding incentives such as break options, rent free periods or fit-out contributions.

At present, incentives are in the order of 5% to 10% in most precincts. They could reach up to 15% in the short-term.

Rising incentives and declining face rentals will see effective rents drop. Effective rents are expected to decline by around 5% to 10% during the course of 2009. This trend is already being observed as landlords compete against each other to secure tenants.

Rent review options tend to be CPI based or at around 4% fixed. Market reviews are generally undertaken mid-term as well as at the beginning of an option period. Landlords are more inclined to push for the greater of 4% or CPI in this market, with tenants generally favouring a fixed 3.5% structure.

Many companies scaling back expansion plans

Even in this market, there are some businesses that are looking to expand, such as service industries involved in infrastructure. Many companies however, are scaling back expansion plans with some forced to downsize. The industrial market is experiencing higher vacancies as tenants hurt by the economic downturn either downsize or sublease space. The decision making process for tenants has slowed with lease negotiations becoming noticeably protracted. Leasing periods for vacant stock of six to twelve months are now common compared to three to six months in early 2008.

Significant take-up in 2008

Significant take-up still occurred in 2008. This included Pacific Brands occupying a 25,860 sq m warehouse and Schneider Electric an 18,600 sq m facility; both at TradeCoast Central, Chrisco committing to 17,500 sq m of office and warehouse space at the ex-Woolworths distribution centre at 338 Bradman Street, Acacia Ridge and Farragher Transport taking 15,390 sq m in the same complex. SCA Hygiene Australasia, a major manufacturer and distributor of hygiene solution leased a 15,000 sq m warehouse at Radius Industrial City while Super Cheap-BCF took up 13,699 sq m of warehouse space at 628 Kingston Road, Loganlea.

Significant take-up in 2008

Size (Sq m)	Tenant
25,860	Pacific Brand, Eagle Farm
18,600	Schneider Electric, Eagle Farm
17,500	Chrisco, Acacia Ridge
15,390	Farragher, Acacia Ridge
15,000	SCA Hygiene Australasia, Larapinta
13,699	Super Cheap- BCF, Loganlea

In a major pre-commitment, The Reject Shop signed a 10-year lease with a five-year option for a 25,000 sq m purpose-built distribution centre in Citiswich Industrial Estate, expected to complete in mid 2010.

Proximity to motorway network remains key

The highest share of incoming trade reaches the Brisbane metropolitan area by road. With infrastructure development highly correlated with market growth, better accessibility and transport connections are imperative. Proximity to the motorway network remains key, but tenants are also increasingly on the look out for areas with good access to the rail network and port connectivity.

Leasing the more viable option in 2009

Over 2009, the economic downturn and its impacts including increasing unemployment and falling consumer and business confidence, are expected to put more space on the industrial property market. This is likely to increase vacancy which will impose downward pressure on rents as leasing volumes fall.

Although the industrial leasing market is softening, given the significant money involved in purchasing, leasing is likely to be a more viable option in 2009 in terms of cash flow.

Queensland- Freight Carried By;

Road (05/06)	511,170,000 tonnes
Rail (07/08)	244,488,000 tonnes
Port (07/08)	239,637,008 tonnes
Air (international) (07/08)	95,610 tonnes

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