Where is the Brisbane industrial transactions market at?

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SUMMARY Business Sentiment is beginning to gain confidence and as such, purchaser demand has increased relative to the lows seen in the first quarter of 2009.

Brisbane's industrial sector has, in recent years, proved an attractive market for buyers. Over $2.4 billion worth of improved industrial sales (over $5 mill.) were recorded over the five years to June 2009.

The Western Corridor saw $641 mill. worth of industrial assets change hands over the same five years, with the sub-$10 mill. market most active. Outer South accounted for $550 mill. worth of activity over the same period, with increasing demand from large industrial users seeking easy access to major arterial roads. In the Australia TradeCoast, over $521 mill. worth of sales in the Gateway North precinct and $353 mill. in the Gateway South precinct were recorded. North generated $204 mill. worth of activity while the M1 Corridor accounted for another $147 mill. Over the five year period.

The 2008-09 financial year, however, was a year of two halves. The weakening economic conditions and the repercussions of the global financial crisis began to impact on occupier demand in the second half of 2008. That saw a marked deterioration in transactional activity. Sales activity improved marginally in the first half of 2009. Of the total sales value for 2008-09 of just $350 mill. , 58% occurred over the six months to June 2009.

The 2008-09 sales volume aggregate was a significant drop from the activity seen in the buoyant years of 2007-08 ($711 mill.) and 2006-07 ($465 mill.). It was also 31% below the five-year average.

In terms of geography, activity was well spread over 2008-09, with the Outer South accounting for the highest proportion of sales (26%). Gateway South (22%), Western Corridor (21%) and Gateway North (20%) followed.

With institutional investment in the warehouse and logistics sector impacted by the economic downturn, the current market fundamentals have moved in favour of cashed up private investors and some owner-occupiers. Some owner-occupiers are seeing the financial benefit of buying quality premises at affordable prices. These have largely been in the sub $10 mill. range. A long term secure income has been the key focus for investors. Many investors have been attracted by the relatively quick re-pricing which has occurred. Large institutions on the other hand have been rebalancing their portfolios by disposing of non-core assets.

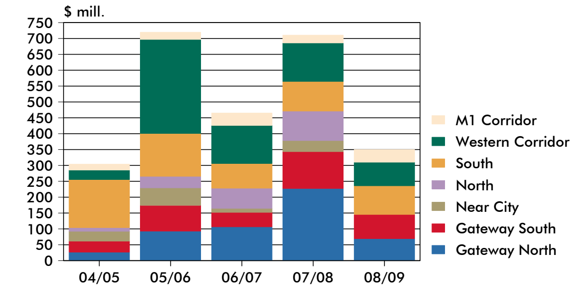
Industrial property is seen as a reasonably stable and secure asset. A number of new buyers are coming into the market at present, some of whom are moving out of the more volatile equities market. With bank deposit rates not achieving the same return as industrial yields, some smaller investors are also taking the opportunity to move money out of banks and into investment property which are yielding at levels not since 2003.

The average value of transactions has reduced. In 2008-09, there was little activity in the higher priced bracket, where institutions have been most active in recent years. Large deals above $30 mill. are rare and account for, on average, one sale per annum. There were no sales in this bracket during 2008-09.

Buyers were most active in the $5 mill. to $10 mill. range while some were also circling for quality, well let assets between $10 mill. and $20 mill. driving the 2008/2009 financial year.

The last five years have seen properties in $5-$10 mill. range account for 41% of total sales, followed by the $10-$20 mill. range (34%). Larger properties of between $20 and $30 mill. have accounted for 15% of total sales. Sales of $30 mill and over have accounted for just 10% of total sales value. The largest transaction in this period was the purchase of the Woolworths Distribution Centre by Australian Prime Property Fund and SAI Teys McMahon for around $180 mill. (part of a national portfolio acquisition of $846 mill.).

Major Industrial Sales
Brisbane Metropolitan



Source : CB Richard Ellis
Note : Sales of $5 mill. plus only. Excludes related party transactions and site sales.

There are buyers with equity waiting for the right time and asset to enter the market. Some investors, however, are being attracted by the relative discount in yields. Yields have softened by 100 to 250 basis points as investors seek higher returns for perceived risk. Cashed up buyers are well placed in the current market with limited competition as traditional LVR's of 70% for completed buildings have changed to between 60% and 65%. Banks are demanding tighter credit controls with interest cover generally set at a minimum of 1.5 times. Based on current yields, this interest cover covenant fits well with the more conservative LVR's.

Well located prime properties are holding better, with a yield softening of between 100 and 150 basis points recorded. Secondary properties are being hit harder, having softened by 175 to 250 basis points.

Overall, prime yields as at September 2009 ranged between 8.25% and 9.50% while secondary yields ranged between 8.5% and 10.5%. They appear to be approaching their softest point as the gap between vendor and purchaser expectations narrows.

While softening pressure is likely to remain in some precincts, movement is unlikely to be of the extent already witnessed. Yields are generally expected to hold for the remainder of 2009 and into 2010.

Properties in demand from investors are those with the attributes of good-quality; good location (close to major infrastructure); long, unexpired income; and a strong covenant.

Prime properties are not only attractive due to quality but also the length of income streams they produce. Generally, private investors are in search of a 7 to 10 year lease. Owner occupiers, however, are returning to the market, particularly searching for modern facilities of concrete construction. Freestanding building with additional hardstand (40% site cover) are also highly sought after.

Generally, quality investment property continues to be tightly held with few assets brought to market in recent months. Secondary properties had been suffering until recently. While there was no market at all for secondary industrial property three to six months ago, the lack of quality investment grade assets is now forcing investors to consider the market due to the marked discounts available. In some cases secondary assets have been re-priced to levels experienced four to five years ago. The shortage of investment opportunities has resulted in yields softening less than has been experienced in the past 18 months.

Overall, business sentiment is beginning to gain confidence and as such, purchaser demand has increased in the third quarter relative to the lows seen in the first quarter of 2009. This is particularly the case for cashed-up private investors (wealthy individuals) who are able to side-step tight bank credit requirements to acquire assets they consider as 'bargains'.

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