

Briefing Brisbane Industrial

January 2017



Highlights

- Queensland's first market-led proposal, Transurban's *Logan Enhancement Project* to begin mid-2017
- Savills identified 626,273 square metres of industrial accommodation leased in the Brisbane metropolitan region for the 12 months to December 2016
- Pre-committed activity accounted for 133,836 square metres of reported leasing
- Industrial rents generally ranged from \$95 to \$150 a square metre for prime industrial space across the precincts
- Savills recorded approximately \$969 million of transactions in the 12 months to December 2016
- Land values range from \$175 to \$450 a square metre for land between 3,000 and 5,000 square metres
- Investment yields for prime industrial property remain unchanged ranging between 6.50% to 7.50% across the precincts
- The start of major projects set to further strengthen tenant and investor demand in Queensland during 2017

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Tenant demand
in the Southside
precinct remains
strong...

Savills Research
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Introduction

Brisbane's metropolitan industrial market is driven mainly by distribution (transport and logistics), construction and service industries. While manufacturing has historically made up a small proportion of the market, the sector is starting to record an increase in leasing activity.

Access to major arterial roads is typically a key contributor to industrial demand for both leasing and sales volumes. While the Southside precinct has traditionally been the dominant region for leasing and sales activity other precincts are beginning to emerge as a result of improved access to major roads such as the Logan Motorway corridor and Northside precinct.

Recent increased demand for high quality, well-located facilities, is seeing the return of speculative built developments led by institutional industrial land owners, as opposed to the historical trend of smaller privately owned developments.

Industrial property is spread through many suburbs in the greater Brisbane area, but there is a concentration of property in five main precincts. The suburbs that typically lie within these precincts are tabled below.

Precincts	Suburbs
Trade Coast	Hendra, Eagle Farm, Pinkenba, Morningside, Murarrie, Hemmant, Lytton, Fisherman Island, Tingalpa, Wakerley and Cannon Hill
Southside	Yeerongpilly, Salisbury, Rocklea, Archerfield, Willawong, Acacia Ridge, Coopers Plains, Eight Mile Plains, Rochedale, Seventeen Mile Rocks, Sumner, Darra, Oxley, Wacol, Carole Park, Richlands, Shailer Park, Slacks Creek, Springwood and Woodridge
Gold Coast / Logan Motorway Corridor	Crestmead, Marsden, Browns Plains, Meadowbrook, Berrinba, Loganlea, Loganholme, Heathwood, Larapinta, Parkinson, Underwood, Springwood, Yatala, Stapyhton, Kingston, Beenleigh, Eagleby, Hillcrest and Ormeau
Northside	Zillmere, Geebung, Northgate, Banyo, Virginia, Morayfield, Caboolture, Brendale, Strathpine, Petrie, North Lakes, Burpengary, Deception Bay and Narangba
Ipswich	Goodna, Springfield, Redbank, Bremer, Ebenezer, Willowbank, Mutdapilly, Purga, Swanbank, Ipswich, New Chum, Wulkuraka, Amberley, Bundamba, Raceview and West Ipswich

Source: Savills Research

Infrastructure

The \$5.4bn Cross River Rail project has taken one step further with the Federal Government committing \$10 million, which fund the Cross River Rail Delivery Authority.

The Authority will be responsible for overseeing the project such as finalising funding models, leading procurement and project delivery. A start date on the project however is yet to be announced.

In addition to this, the Federal Government in November announced a \$50bn commitment to priority infrastructure projects through to 2020 across the country.

Of this, \$13.7 billion has been allocated to upgrades to the M1 and Bruce Highway, Toowoomba second range crossing and the Gold Coast Light Rail.

The Federal Government's Infrastructure Australia strategy also includes the inland rail from Brisbane to Melbourne, with recent announcements that phase two of market testing for private sector

involvement will begin in early 2017. Further funding from the Federal Government however is yet to be announced.

The much anticipated \$3bn Queens Wharf integrated resort development will be underway this year with site preparations including the demolition of the non-heritage buildings within the precinct and underground works beginning in January 2017.

Construction on \$512m Transurban Queensland's Logan Enhancement Project is to begin in mid-2017 following the State Government's approval in November 2016. The project is the first of a number of market-led proposals to be approved by the Queensland Government.

The \$100 million mega cruise ship terminal has achieved 80 percent of its approvals and is now awaiting final approval from Queensland Cabinet.

The market-led-proposal by the Port of Brisbane if approved will be operational by 2019 and will be able

to berth the world's largest cruise ships.

The project will also involve road infrastructure to connect the terminal to the Brisbane Airport and Brisbane CBD.

Upgrades to Kingsford Smith Drive are now underway, which will further enhance accessibility to the Trade Coast precinct and Brisbane Airport.

These are just a handful of a number of major projects underway or in the pipeline that will provide a significant boost to the Queensland industrial sector. Demand for industrial facilities will likely increase as production and employment increases in coming years.

According to Deloitte Access Economics, Queensland's industrial production is forecast to grow by around \$11.6 billion over the next five years, compared to \$0.6 billion in Victoria and a fall of \$1.2 billion in New South Wales.

Leasing Activity

Savills identified approximately 626,273 square metres of industrial accommodation (>1,000 sqm) leased in the metropolitan Brisbane area in the 12 months to December 2016. This is down on the year prior (756,522 square metres) and down on the five year average (642,259 square metres).

The number of leases transacted in the 12 months to December 2016 totalled 172. By comparison the 12 months to December 2015 recorded a total of 172 reported leases.

The Transport & Logistics category leased the most industrial accommodation, taking 163,691 square metres or 26 percent of reported leasing activity.

Leases in the Southside accounted for the majority of industrial stock in the 12 months to December 2016 which recorded total leasing activity of 224,891 sq m or 39 percent. The Southside also reported the most number of leasing deals totalling 70 and was the only precinct to record an increase in leasing activity, up 5 percent on the year prior.

A selection of leases across the precincts is shown in the table below:

Select Brisbane Industrial Leases to December 2016

Date	Property	GLA (sq m)	Rent (\$/sq m)	Tenant
Aug-16	99-103 Lahrs Rd, Ormeau	5,335	118	PWR Performance Products
Aug-16	509 Boundary Rd, Darra	9,477	80	Citi-Steel Pty Ltd
Aug-16	W2, Osprey Dr, Port of Brisbane	12,108	124*	The Smiths Snackfood Company
Sep-16	35 French St, Eagle Farm	2,658	140	Big Ass Fans
Sep-16	50-70 Radius Dr, Larapinta	11,048	112	MJ Logistics
Sep-16	50-70 Radius Dr, Larapinta	12,065	107	Green Foods
Oct-16	39 Resource St, Parkinson	4,810	105	Transport Management Solutions
Dec-16	11-19 Kellar Dr, Berrinba	7,412	115"	DHL Excel Supply Chain
Dec-16	63 Burnside Rd, Stapylton	3,780	NA	Knotwood
Dec-16	63 Burnside Rd, Stapylton	3,075	95	Pearl Global

Select Brisbane Industrial Pre-commitment Leases to December 2016

Date	Property	GLA (sq m)	Rent (\$/sq m)	Tenant
Jan-16	Wayne Goss Dr, Berrinba	4,986	~105	Avery Dennison
Jan-16	Lot 2 Pearson Rd, Yatala	23,051	88	Beaulieu Carpets
Feb-16	Lomandra Dve, Brisbane Airport	13,244	121	HMG Hardchrome
Jun-16	Air Freight Centre Stage 2, Brisbane Airport	2,130	~180	JR / Duty Free
Jun-16	175 Eagle Farm Rd, Pinkenba	11,152	NA	Agility Project Logistics
Jul-16	Brickworks Pl, Rochedale	5,700	NA	JFC Australia
Aug-16	Brickworks Pl, Rochedale	42,180	NA	Super Amart
Sep-16	Brickworks Pl, Rochedale	8,042	115	Franklyn
Oct-16	15 Seeana Pl, Heathwood	7,625	~105	Whites Group
Nov-16	Lot 102 Wayne Goss Dr, Berrinba	13,162	109	National Tiles

Source: Savills Research. NA – not available, ~ circa, * sublease, " renewal

'Direct' leases accounted for the majority of industrial stock leased in the 12 months to December 2016; 419,636 square metres or 67 percent. Similarly the most number of leasing deals made were Direct in nature (142).

Of the 626,273 square metres stock that was reported leased in the 12 months to December 2016, 133,836 square metres was pre-committed to new buildings.

The most significant of these was Super Amart who have pre-committed to approximately 42,000 square metres within Goodman's Rochedale Motorway Estate.

Other companies to pre-commit within the estate during 2016 include JFC and Franklyn, while the Brisbane Airport also secured three tenants totalling about 17,650 square metres including Direct Couriers, HMG Hardchrome and JR/Duty Free.

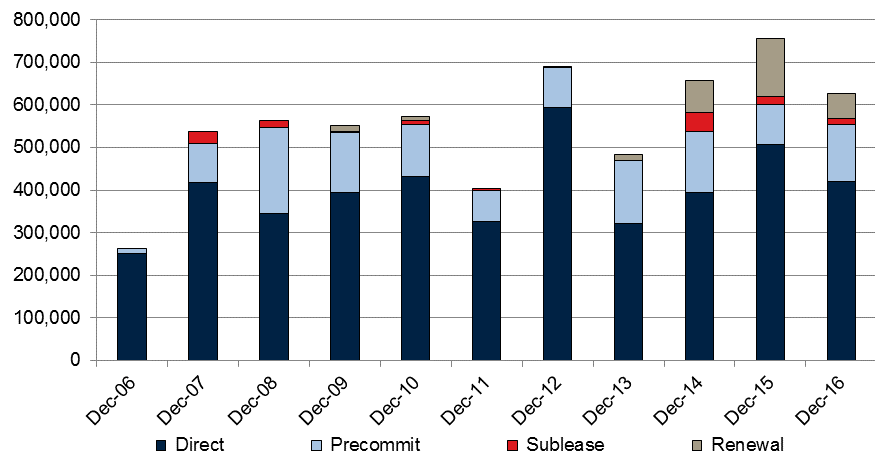
Leases in the size range 2,000 - 5,000 square metres accounted for the majority of industrial stock reported leased in the 12 months to December 2016; 176,897 square metres or 28 percent.

However leasing transactions in the range sub 2,000 square metre range recorded the most number of leasing transactions, with 81 reported.

Prime industrial net face rents as at December 2016 remained unchanged since the previous quarter, seeing the Trade Coast precinct remain the most expensive, typically ranging from \$115 to \$150 per square metre per annum, or an average \$133 per square metre, net face.

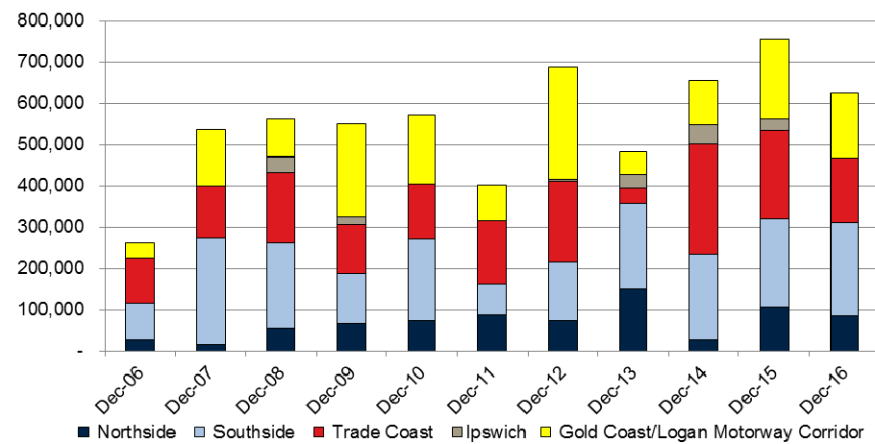
In comparison the average rate for the Southside and Northside precincts remain at \$118 and \$120 respectively. While Ipswich and the Gold Coast / Logan Motorway recorded average rates of \$105 and \$113.

**Brisbane Metro Industrial
Metropolitan Leases by Lease Type (sq m)
Dec-06 to Dec-16**



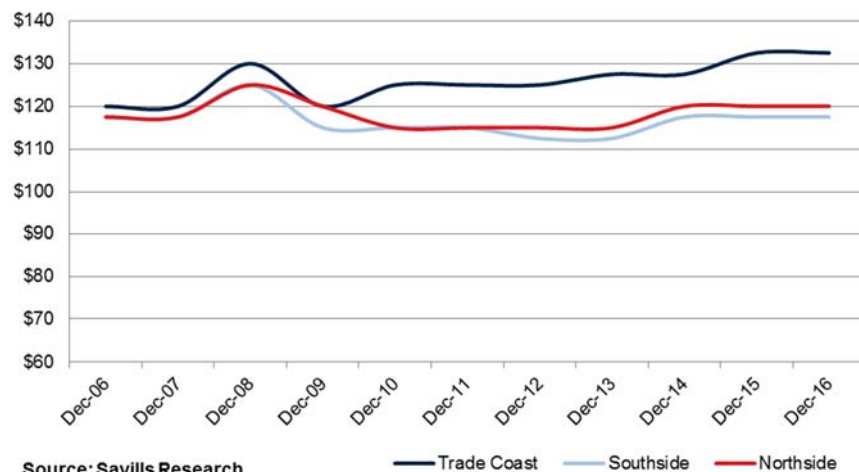
Source: Savills Research

**Brisbane Metro Industrial
Leasing Activity by Precinct (sq m)
Dec-06 to Dec-16**



Source: Savills Research

**Brisbane Industrial
Average Prime Net Face Rents by Precinct (\$/sq m)
Dec-06 to Dec-16**



Source: Savills Research

Sales Activity

Savills recorded approximately \$969 million worth of reported industrial property transactions (>\$2 million) in the 12 months to December 2016, down from \$1.3 billion in the previous year, and up on the five year average \$894 million.

In the 12 months to December 2016, 121 properties were sold, down from the previous 12 months total of 156, and up on the five year average of 107.

The 'Foreign Investor' purchaser category was the most active in the investment market for the year ended December 2016, purchasing 44 percent of stock reported sold.

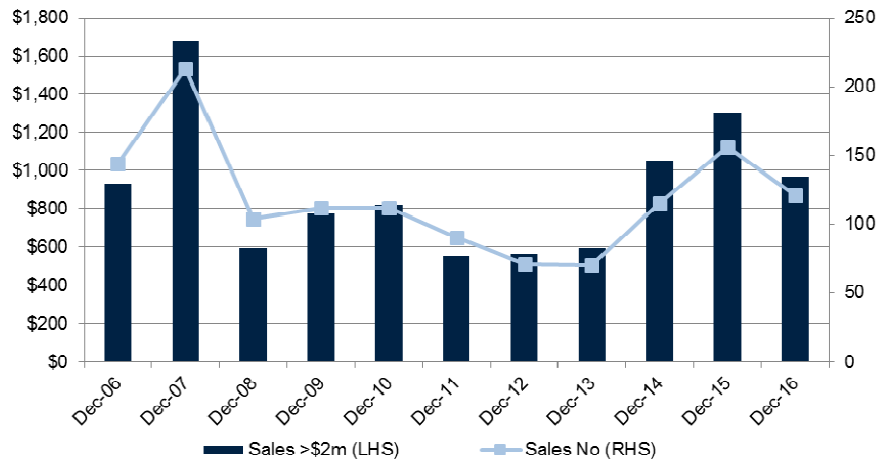
However, the Private Investor category recorded the most transactions (51).

The most significant transaction for the year would be the sale of two Goodman portfolios purchased by US-based Blackstone Group. The first tranche included 14 industrial properties across Australia and sold for \$640 million, while the second tranche consisting of 20 industrial properties sold for \$645 million.

Of the total \$1.285 billion sold, approximately \$167.2 million was reported across various Queensland assets, including 105-139 Magnesium Dr, Crestmead for \$126 million.

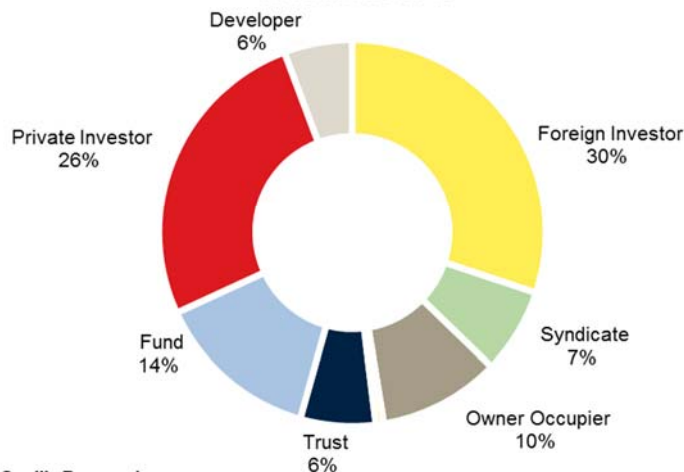
This was one of a number of portfolio sales during the 12 months to December 2016. Other portfolios sold included PropertyLink's acquisition of Charter Hall's CPIF portfolio, which included two Queensland assets totalling about \$35 million and Denison Diversified Property Fund's mixed asset portfolio sale to JV PropertyLink and Goldman Sach, with one Queensland industrial property. Charter Hall's acquired Suez Recycling portfolio, also with one Queensland industrial property, while Altis bought a portfolio of 14 B-grade industrial assets.

Brisbane Industrial Metropolitan Industrial Sales (\$m and number) Dec-06 to Dec-16



Source: Savills Research

Brisbane Industrial Metropolitan Industrial Sales Buyer Profile (%) 12 months to Dec-16



Source: Savills Research

Brisbane Industrial Land Values (\$/sq m) to December 2016

Precinct	3,000 – 5,000 sq m	10,000 – 20,000 sq m	10ha +
Northside	275 – 350	200-275	na
Trade Coast	400 – 450	300-375	na
Southside	250 – 315	200-250	na
Gold Coast / Logan Mwy Corridor	225 – 300	200-250	150-210
Ipswich	175 – 230	150-225	120-190

Source: Savills Research. na – not available

Savills recorded approximately \$66 million worth of reported industrial land sales (>\$2 million) for the 12 months ending December. While this is down on the previous year, the total number of sales (17) was up compared to that reported for 2015 (11). Speculative developments have re-emerged on the back of increased demand for well-located prime facilities. Institutional owners such as Frasers, Goodman, GPT and Dexu however have taken the place of private developers.

The following tables highlight a selection of industrial sales for the year to December 2016.

Select Brisbane Industrial Investment Sales to December 2016

Date	Property	Price (\$m)	GLA (sq m)	\$/sq m	Yield (%)
May-16	17 Sugarmill Rd, Pinkenba #	28.25	14,244	1,983	7.66
Jun-16	99-103 Lahrs Rd, Ormeau	11.12	6,855	1,623	7.30
Jun-16	105-139 Magnesium Dr, Crestmead #	126.00	89,254	1,412	NA
Jul-16	41-55 Platinum St, Crestmead	15.92	11,214	1,420	7.54
Aug-16	52 Moreton St, Heathwood	7.54	4,839	1,559	7.58
Aug-16	41-47 Alexandra Place, Murarrie	10.30	6,327	1,628	7.78
Oct-16	1801 Ipswich Rd & 35 Suscatand St, Rocklea	18.65	9,344	1,996	9.90
Oct-16	461-473 Newman Rd & 166 Granite St, Geebung	24.54	14,518	1,690	7.02
Dec-16	28 Weyba St, Banyo #	3.90	1,760	2,216	6.00 ^
Dec-16	36 Fulcrum St, Richlands	18.00	8,217	2,191	7.50

Select Brisbane Industrial Vacant Possession Sales to December 2016

Date	Property	Price (\$m)	GLA (sq m)	\$/sq m
May-16	68 Bellrick St, Acacia Ridge	4.85	3,674	1,320
Jun-16	45 Ellerslie Rd, Meadowbrook	4.65	3,892	1,195
Jul-16	61 Bernoulli St, Darra	2.70	2,771	974
Aug-16	73 Toombul Rd, Northgate	3.28	2,485	1,318
Aug-16	21-23 Babdoyle St, Loganholme	3.66	3,064	1,195
Sep-16	133 South Pine Rd, Brendale	4.10	1,716	2,389
Sep-16	14 Kenworth Pl, Brendale	4.70	5,000	940
Oct-16	35 Alexandra Pl, Murarrie	4.50	3,300	1,364
Nov-16	4 & 6 Quindus St, Beenleigh	3.90	4,218	925
Nov-16	32 Murdoch Cct, Acacia Ridge	6.50	5,164	1,259

Select Brisbane Industrial Land Sales to December 2016

Date	Property	Price (\$m)	Area (sq m)	\$/sq m
Apr-16	2 Access Ave, Yatala	3.38	11,960	283
May-16	537 Boundary Rd, Darra	2.30	9,068	254
May-16	Dohles Rocks Rd, Murrumba Downs	3.60	28,000	129
May-16	192 Lavarack Ave, Eagle Farm	3.85	7,246	531
May-16	42 Ashover Rd, Rocklea	5.72	22,400	255
Jun-16	Lot 2 Ashard Dr, Berrinba	2.34	10,840	216
Jun-16	37-77 Bandara St, Richlands	6.04	50,600	119
Jul-16	18 Cutler Ct, Brendale	2.25	13,400	168
Aug-16	Mica St - sale of 4 lots, Carole Park	6.10	32,300	189
Sep-16	181-191 South Pine Rd, Brendale	7.20	57,190	126

Source: Savills Research. # portfolio sale, NA – not available, ^ portfolio weighted average yield

Prime industrial yields as at December 2016 are estimated to range between 6.75% and 7.50% in the Southside, and between 6.75% and 7.50% in the Northside.

The average yield for investment properties in the Southside in the quarter to December 2016 is 7.13%, with no change over the year.

The Trade Coast continues to hold the tightest yield at an average 7.00%, also with no change over the year.

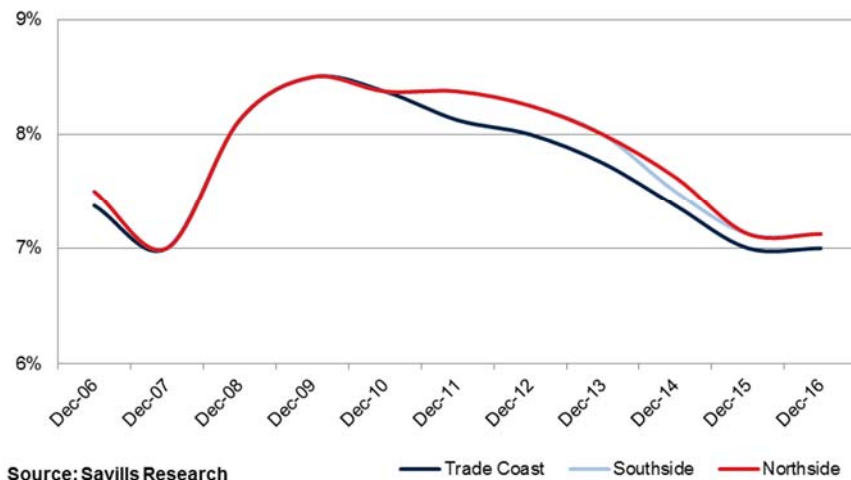
Prime industrial capital values as at December 2016 are estimated to range from \$1400 to \$1,926 per square metre for buildings in the Southside, and between \$1467 and \$1926 per square metre for buildings in the Northside.

Average capital values for properties in the Southside are \$1,663 per square metre, with no increase over the year.

Similarly average capital values across all precincts remained unchanged compared to the December quarter 2015.

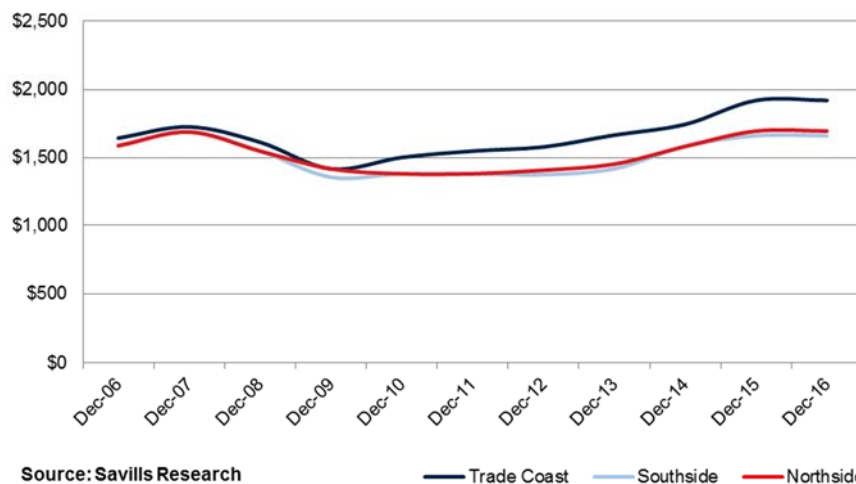
The Trade Coast continues to record the highest average capital value, with \$1,921 per square metre as at December 2016.

**Brisbane Industrial
Average Prime Market Yields by Precinct (%)
Dec-06 to Dec-16**



Source: Savills Research

**Brisbane Industrial
Average Prime Capital Values by Precinct (\$)
Dec-06 to Dec-16**



Source: Savills Research

Key Market Indicators – December 2016

Northside	Prime		Secondary	
	Low	High	Low	High
Rental Net Face (\$/sq m)	110	130	65	100
Yield - Market (%)	6.75	7.50	8.25	9.75
IRR (%)	8.50	9.00	9.25	10.00
Outgoings - Total (\$/sq m)	20	25	15	20
Capital Values (\$/sq m)	1,450	1,950	750	1,250

Trade Coast	Prime		Secondary	
	Low	High	Low	High
Rental Net Face (\$/sq m)	115	150	90	110
Yield - Market (%)	6.50	7.50	8.00	9.25
IRR (%)	8.25	8.75	9.00	9.75
Outgoings - Total (\$/sq m)	22	28	17	23
Capital Values (\$/sq m)	1,500	2,250	975	1,400

Southside	Prime		Secondary	
	Low	High	Low	High
Rental Net Face (\$/sq m)	105	130	65	90
Yield - Market (%)	6.75	7.50	8.50	9.50
IRR (%)	8.50	9.00	9.25	10.00
Outgoings - Total (\$/sq m)	20	25	15	20
Capital Values (\$/sq m)	1,400	1,950	700	1,250

Gold Coast/Logan Corridor	Prime		Secondary	
	Low	High	Low	High
Rental Net Face (\$/sq m)	100	125	70	95
Yield Market (%)	6.75	7.50	8.75	9.50
IRR (%)	8.50	9.25	9.50	10.00
Outgoings - Total (\$/sq m)	15	25	15	20
Capital Value (\$/sq m)	1,400	1,900	750	1,250

Ipswich	Prime		Secondary	
	Low	High	Low	High
Rental Net Face (\$/sq m)	95	115	50	85
Yield - Market (%)	6.75	7.75	9.25	10.00
IRR (%)	8.75	9.50	10.00	11.00
Outgoings - Total (\$/sq m)	15	20	15	20
Capital Values (\$/sq m)	1,250	1,700	550	1,000

Source: Savills Research.

Outlook

While infrastructure projects have remained in the planning stage for some time now, 2017 will see the start of some significant projects get underway – creating employment opportunities and increased demand on the construction and industrial sector.

The approval of the Logan Enhancement Project will mean safer and greater efficiency of one of Southeast Queensland's major arterial road networks; and the beginning of the Queens Wharf project is set to provide a much needed boost to both business and consumer confidence.

The approaching Gold Coast Commonwealth Games and the strengthening construction sector on the back of both residential and infrastructure projects, is set to provide continued uplift to the industrial property market. Major infrastructure projects will also benefit industrial precincts, such as the duplication of Kingsford Smith Drive which will greatly improve traffic flow, providing more efficient access to the Brisbane Airport and Trade Coast industrial precinct.

Institutional industrial land owners are recognising the recent lift in leasing demand – particularly in well located locations close to major arterial roads, which is seeing speculative developments coming back to the forefront. Demand for such developments is evident from the low leasing periods being seen – 7 months average time on market, with 30 percent fully leased prior to completion.

While both leasing and sales activity was down compared to the previous year it is expected that 2017 will continue on the trend of strengthening tenant and buyer demand.

Savills Queensland Team

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