

Market Commentary PERTH INDUSTRIAL

Executive Summary

- Whilst this recession has just begun in Australia, it is not expected to last as long as what has been experienced in the US.
- All remaining supply for the year and proposed projects for 2010 will come from the eastern precinct.
- Gross take up has been in a downward trend since 2007 when it reached 194,100sqm and is expected to soften further throughout 2009.
- Rents in Perth's industrial market fell for the second consecutive quarter.
- Investors took advantage of lower asset values in the March quarter with five major transactions being recorded totalling \$44.7 million.
- The yield gap between prime and secondary assets widened to 1.00%.

Perth Industrial: Key Indicators

	End-March 2009	12-Month Outlook
New Supply (sqm) (last 12 months)	326,654	⬇️
Gross Take-up* (sqm) (last 12 months)	98,246	⬇️
Average Prime Rents (per sqm)		
North	118	⬇️
South	109	⬇️
East	120	⬇️
Prime Yields	7.50%-8.25%	⬆️

* Includes New supply and Take-up of 3,000sqm and above

Source: Jones Lang LaSalle



Economic Overview

There is no escaping the fact that Australia is in a recession, the first time since 1991. Whilst Western Australia has yet to record a quarter of negative growth, recent findings from the states Chamber of Commerce and Industry suggests that it is only a matter of time before the WA economy follows suit. Whilst this recession has just begun in Australia, it is not expected to last as long as what has been experienced in the US, which has now exceeded the long term average length.

The state government has made its stance quite clear that it wants to protect Western Australian jobs as the employment rate reached 4.9% in March. The Government's main priority is to borrow money and invest in infrastructure to provide the stepping stones for the private sector to retain staff thereby positioning the state for a quick recovery.

Whilst resource exports have declined since June 2008, there are indications that demand may already be on the increase. BHP Billiton and Fortescue Metals exported a combined 13.1 million tonnes of iron ore from Western Australia to China in March, up from 12.2 million tonnes in February.

A lower than expected March CPI figure has resulted in the RBA hinting it has scope to cut interest rates further. The CPI increased by 0.1% nationally for the quarter, resulting in an increase of 2.5% in the 12 months to March 2009, compared with annualised 3.7% in the December 2008 quarter.

Supply

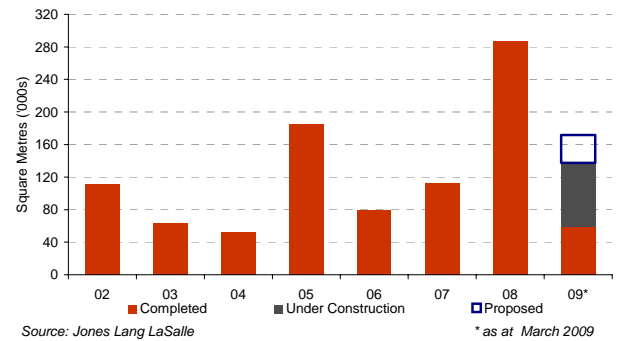
With 2008 being a record year for supply for Perth's industrial market, the change in market dynamics has affected future accommodation delivery. Despite higher than average supply expected in 2009, it is a direct result of project completions being pushed beyond their expected 2008 delivery dates evidenced by 43.0% of the years additions to stock already delivered.

Five major projects totalling 59,400sqm reached completion in the March quarter. The two major contributors to stock were 18 Hudswell Road at Perth Airport (19,000sqm) completed with 50% pre-committed to Electrolux and the Regal Cement plant extension which reached practical completion (18,000sqm) at Lot 259 Victoria Road, Malaga.

There is a further 78,000sqm currently under construction and due to complete by the end of the year, of which 85.9% is currently committed. The only speculative development going ahead among these is 6 Colquhoun Road, Perth Airport (11,000sqm). Supply of large quality warehouses readily available remains limited.

All remaining supply for the year and proposed projects for 2010 will come from the eastern precinct. This area has dominated supply as it remains the preferred option due to its proximity to the rail and airport. There are however new land sub-divisions in the north and south that should add to supply in the medium term.

Supply: Perth Industrial



Demand

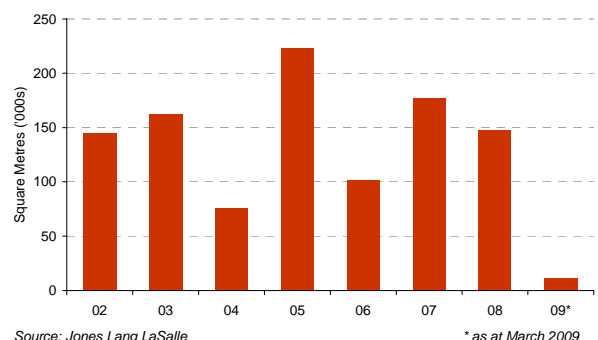
With the mining and manufacturing sector starting to feel the effects of the global economic downturn demand for industrial property has been heavily affected in most cases. In contrast, demand for large quality warehouses remains strong, a result of such a product not being readily available.

The fall in business confidence has transpired into subdued levels of gross take up which totalled a meagre 11,500sqm for the March quarter which was 81.1% lower than the same period 12 months earlier. Just one major leasing deal (> 3,000sqm) was recorded over the quarter. Detroit Diesel pre-committed to 11,500sqm at Goodman's Stockyards Industrial Estate.

Gross take up has been in a downward trend since 2007 when it reached 194,100sqm and is expected to soften further throughout 2009 as demand slows in all industrial sectors.

Since 2003, the mining and manufacturing industry has dominated take-up accounting for 36.7%. Retail and wholesale trade contributed 23.4%, whilst 21.9% has come from the Transport and Storage.

Gross Take-Up: Perth Industrial



Rents

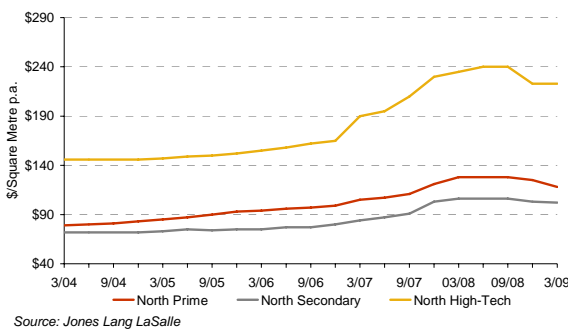
Rents in Perth’s industrial market fell for the second consecutive quarter. After strong growth through 2007 and staying relatively stable in 2008, the effects of falling demand and increased competition have placed further downward pressure on rents.

Prime rents in the north declined by 5.9% to \$118/sqm on average, whilst the eastern precinct saw rents fall by 4.2% to \$120/sqm on average. Rents in the south were not immune to this trend, falling by 4.6% to \$109/sqm on average.

Average net rents across the Perth industrial market declined 4.7% and 0.7% in prime and secondary assets respectively in the first quarter of 2009. On an annualised basis prime net rents fell by 7.2% and secondary net rents dropped 1.8%. This is well below the five year average which shows annual growth of 7.6%.

Rents are likely to continue to decline throughout the year to more sustainable levels as all costs come under scrutiny by occupiers to maintain profits.

Prime Net Rents: Perth Industrial



Land Values

As rents continue to soften, and access to finance remains difficult to obtain, land sales remain heavily affected and as a result land values have suffered. In some cases the value of land has reverted back to mid 2007 figures. This is the second quarter where values have come back, with some areas recording falls of more than 20%.

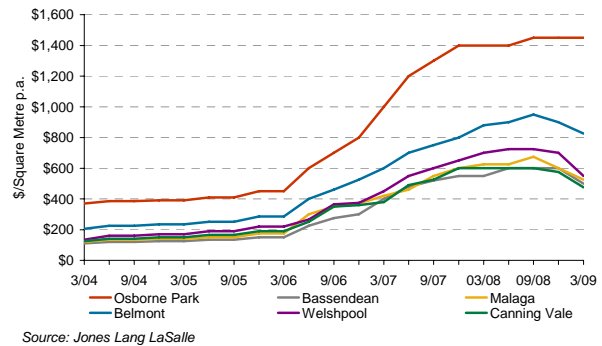
In the three months to March industrial land values declined substantially across Perth by an average of 14.1%, compared with -3.8% experienced in the December quarter of 2008.

The east precinct recorded the greatest decline on average declining by -17.1% with Kewdale/Welshpool falling -21.4%. Other suburbs to record large drops included Wangara (-20.8%), Bibra Lake (17.6%) and Canning Vale (17.4%).

Land Values for lots greater than 1 hectare experienced even greater falls, declining by 16.8% on average in areas such as Bibra Lake (-28.6), Canning Vale (-22.2%) and Forrestfield (-31.85).

A shortage of industrial land in Perth should see land values hold up in the medium to long term as the supply demand balance remains relatively stable compared to other industrial markets around the country.

Land Values: Perth Industrial



Investment Activity

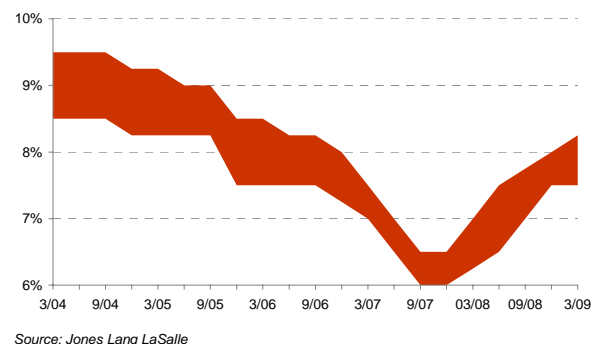
Investors took advantage of lower asset values in the March quarter with five major transactions being recorded totalling \$44.7 million. Investment in Perth industrial assets increased substantially from the same period last year when just one property changed hands for \$8.53 million.

The largest sale for the quarter was 45-55 Baile Road in Canning Vale, transacting for \$13.2 million. Other major sales included 19-21 Sheffield Road Welshpool (\$10.3 million) and 163 Balcatta Road, Balcatta (\$7.7 million).

Nationally, investment in industrial assets declined in value terms by 67% during the March quarter. The investor market will be relying on acquisitions being made by private investors and syndicates as the property trusts continue to sell assets.

Both prime and secondary yields softened just 25 basis points at the lower end of the range. Prime yields now range from 7.50% to 8.25% while secondary yields are 8.25-9.25%. The yield gap between prime and secondary assets widened to 1.00% as investors continue to focus on prime assets with quality tenants. Conversely high tech yields softened 25 basis points at the upper end to range between 7.25-8.00%.

Prime Yields: Perth Industrial



Selected Transactions: Major Perth Industrial 2009

Address	Suburb	Site Area (sqm)	Bldg Area (sqm)	Sale Date	Sale Price (AUD million)
45-55 Baile Road	Canning Vale	35,057	11,699	Mar-09	13.20
19-21 Sheffield Road	Welshpool	33,090	6,791	Mar-09	10.75
163 Balcatta Road	Balcatta	13,294	3,310	Mar-09	7.65
23-29 Fargo Way	Welshpool	16,000	7,500	May-09	7.00
429 Patterson Road	Kwinana	26,305	2,239	Mar-09	6.60

Source: Jones Lang LaSalle

Outlook

With uncertainty surrounding the global economy, developers will continue to take a cautious approach throughout 2009. As a result the level of supply will be subdued as new construction will require a pre-commitment before commencing.

The lack of demand for industrial space will place further downward pressure on land values in the short term. With a number of smaller lots currently available falls of a further 10-15% can be expected.

Whilst rents will fall to a more sustainable level, high grade assets are still hard to find and will have a relatively stable outlook.

Despite sales being down nationally, the tight nature of Perth's industrial market continues to hold firm.

High quality assets with a guaranteed income stream are still attractive to local syndicates and private investors looking to enter the market which has been dominated by LPT's in recent times.

8 Babel Road, Welshpool

For Sale: Expressions of Interest

Closing: Thursday 11th June 2009



An irregular shaped lot with a total site area of approximately 12,274m², with a frontage of 126.6m to Babel Road.

The property comprises an office / warehouse facility with truss heights ranging between 6-7 metres. Total improvements are approximately 3,368m².

The property provides a substantial land holding with development potential in an area which has shown strong growth over the past 3-5 years.

Suitable for owner occupation.



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