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Logistics sector thrives as corporates outsource

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Tougher economic conditions have been a fillip for the third-party logistics sector, which has emerged as the main driver of industrial leasing activity across the country according to a new market analysis from CB Richard Ellis.

With corporates increasingly seeking to cut costs by outsourcing their logistics requirements, the 3PL sector has been experiencing rapid growth, which has in turn fuelled demand for logistics facilities.

CBRE Director, Industrial & Logistics Services, Andrew Maher said the majority of the major recent industrial lease deals in Sydney had involved 3PL providers, looking to expand their existing footprint. A similar trend is being evidenced in other states, as corporates turn to outsourcing to save on property and staff costs.

"The 3PL sector has experienced an increased level of activity in recent months and in many respects this can be attributed to the downturn in the economy and the cost management initiatives being introduced by many corporate occupiers," Mr Maher.

"Businesses are reviewing all operating costs from the warehouse floor to the shelves and, in doing so, are reverting to 3PL as a means of saving in the storage and distribution of their products. The payment on a per pallet basis compares favorably to running a warehouse and incurring the on-costs of wages, payroll taxes and insurances".

In recent weeks, CBRE has negotiated two significant transactions involving logistics businesses.

- 1) 23 Factory Street, Granville. This 8,780sqm facility was leased to QLS (Quality Logistics Services) for a term of seven years at a commencing rental of \$85psm. QLS provide storage and distribution services to the Bulky Goods retail sector and was attracted to the property as a result of its proximity to Parramatta Road - one of the main bulky goods trading zones in Australia.
- 2) 53 Britton Street, Smithfield. This 13,102sqm facility was leased to ECA (Express Couriers Australia - a subsidiary of New Zealand Post) for a term of five years at a commencing rental of \$107psm. ECA provide a national courier distribution service through Couriers Please, Parcel Overnight Direct, Hills Transport and Vic Fast Couriers.

Other recent deals involving 3PL providers include the \$25.5 million sale of John Morphett Place - a 24,750 square metre facility at Erskine Park. Linfox has taken an option over an additional nine hectares of adjoining land with the future intention of developing the site as a logistics campus to house multiple clients' products on the one site. In doing so efficiencies will be achieved - providing further cost savings to clients.

Mr Maher said the pick up in 3PL activity was a reversal on the trend in recent years for corporates to bring logistics functions back in house.

"The argument corporates used was that stock control could be closely monitored and the handling of goods undertaken in a more secure fashion," Mr Maher said.

"This led to a rise in the pre-lease sector and drove the speculative construction of warehouse facilities on major motorways across the country. However, with the pre-lease market now reeling as a result of the turmoil in capital markets, and with speculative activity now virtually non-existent, corporate occupiers are finding that their options are limited. Coupled with the cost savings that can be achieved via using a 3PL provider, we expect that logistics businesses will continue to dominate industrial leasing activity in the short to medium term."

CBRE Senior Director, Industrial & Logistics Services, Shane Robb said the rise in 3PL leasing activity was also being evidenced in Melbourne. A number of major logistics facilities are already under construction at Tullamarine for DHL Danzas and Schenker, with Startrack Express also in the process of expanding its existing Tullamarine premises

"The most active 3PL's are Toll and Linfox who are actively negotiating a number of 3PL contracts and facility leases," Mr Robb said.

"A number of small to medium-sized 3PL's are also proposing similar concepts to Linfox's Erskine Park campus in Sydney. This would involve purchasing land which can be developed as multi client sites, although in a reduced format compared to Erskine Park."

Mr Robb said Melbourne's west remained the preferred location for this style of development, with that sector of the market providing the cheapest land within 15 minutes of Melbourne's Port.

"Overall, industrial leasing enquiry in Melbourne is reasonably strong with second tier corporates, 3PL's and transport companies looking to secure more budget style accommodation under shorter lease terms," Mr Robb said.

"There are a number of parties seeking 12 to 18 month terms and vendors are now more open to these discussions to secure cashflow on vacant assets. Irrespective of the deal, however, all negotiations are more protracted and reflective of the cautious approach most businesses are adopting."

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