

BRISBANE

INDUSTRIAL VACANCY JULY 2017

Key Facts

Total vacant space has **fallen by 6%** over the past quarter to **565,905m²**.

This improvement was driven by the **prime market (down 19%)**, while **secondary increased by 6%**.

Total **speculative space** available **decreased** by 40% to 54,505m² with absorption of 36,700m² and no new starts in the quarter.

Take-up remained high in Q2 at 116,123m², consolidating the record Q1 result. **Prime dominated with 71%** of take-up.



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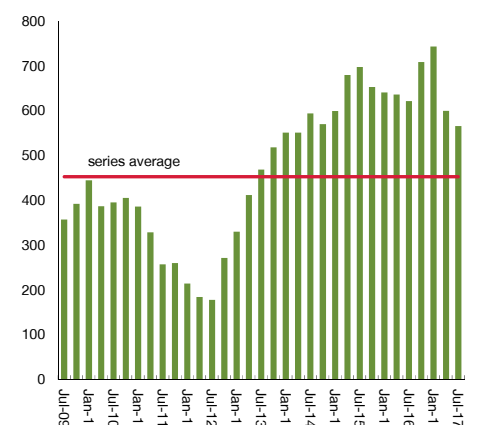
The significant improvement experienced in Q1 has continued into the second quarter with total vacancy now 24% lower over the course of 2017. Market focus has appeared to shift to prime space with upgrading key.

The Brisbane industrial vacancy fell by 6% in the second quarter of 2017 to 565,905m² as at July 2017, when combined with the strong result in Q1 this has resulted in a 24% fall during 2017 to date. Take-up remained at above average levels totalling 116,123m² and the additions to vacancy were steady at 77,797m². Improvement in vacancy has come from the prime market, which fell by 19% in the quarter, on the flip side the secondary market vacancy increased by 6%.

Prime space dominated take-up with 71% of the space absorbed, as the improved tenant demand became more focussed on prime space and upgrading accommodation while rental metrics remain weak. The stock of quality larger buildings has diminished with only six prime options above 10,000m² currently available across Brisbane. While low yields are continuing to support tenant-friendly rents in D&C product the availability of land "ready to go" has diminished, reducing competition in that space and bringing existing assets back into focus.

Completed speculative space accounts for 10% (51,265m²) of total vacancy with speculative space under construction accounting for 1% (3,240m²) with no new starts in the past six months.

FIGURE 1
Brisbane Industrial Market
'000m² available space



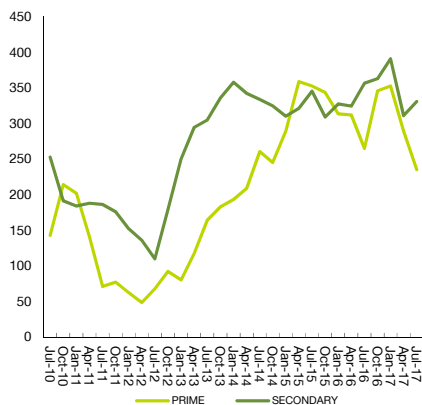
Source: Knight Frank Research

Quality of Stock

Prime grade assets were responsible for the improvement in the total vacancy during Q2 2017, decreasing by 19% to total 235,082m². Prime space dominated take-up during the quarter led by the 25,860m² absorption of 41 Trade Coast Dr, Eagle Farm by Chemist Warehouse. Additionally there were only two new prime vacancies added to the analysis, bringing the total prime vacancy to a three year low.

In contrast, the secondary market could not sustain the 21% fall of Q1, increasing by 6% in the second quarter to 330,823m². Although take-up was substantial at 33,600m², this was outweighed by 58,542m² of new vacancy to the market as the trend to upgrading becomes entrenched.

FIGURE 2
July 2017 Available Space
'000m² prime versus secondary space



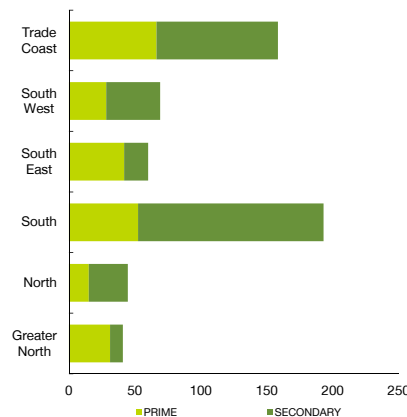
Source: Knight Frank Research

Distribution by Precinct

All precincts, except for the Greater North and the South, recorded falls in available space over the past quarter. The most significant falls were in the TradeCoast (down 10.6% to 158,285m²) due to some good take-up levels and the North (falling by 22.5% to 44,584m²) falling to its lowest level in almost three years.

The South West and South East recorded more modest falls of 3.5% and 6.4% respectively, with the South West only having seven available properties, four of which are 10,000m²+. The South East has continued to show steady improvement with the majority of available stock prime grade. The South recorded a small rise of 2.3% while the Greater North was stable over the quarter.

FIGURE 3
July 2017 Available Space
'000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

As shown in Figure 4, there are 22 buildings available which are larger than 8,000m², down from 23 in the previous quarter as the demand for larger properties has been sustained. Larger prime options are beginning to diminish with only nine prime options of 8,000m²+ compared with 13 larger secondary vacancies. The average size of vacancies was 6,391m² as at July 2017, down by 8.5% from the past quarter, as the bulk of larger stock diminishes.

Warehouse space dominates the market and this is reflected in available stock, which is 82% warehouse with 18% manufacturing space. The precinct with the largest proportion of manufacturing space is TradeCoast with 30%, followed by the North and South West both at 17%. There was good take-up of manufacturing/fabrication space of 14,112m² in the quarter, but this was matched by new additions, predominantly in Pinkenba within the TradeCoast.

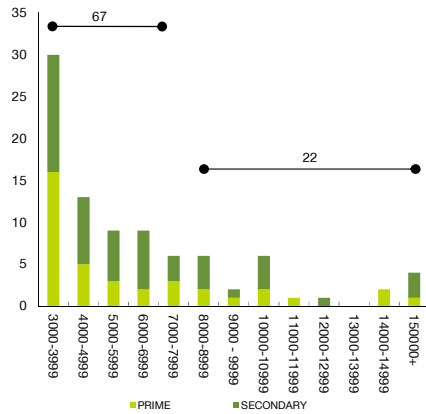
Speculative stock available in the Brisbane market fell by 40% in the past quarter to 54,505m² with strong take-up and no new starts recorded. There is 51,265m² of completed speculative stock available with one small development of 3,240m² under construction. Take-up of speculative space was dominated by PepsiCo's three year lease over 19,718m² at Freight St, Lytton and Detmold leasing 9,510m² for a seven year term at 29 Forest Way, Berrinba. While there are a number of proposed speculative developments, particularly in the South and South West, none have moved into construction during the quarter.

TABLE 1
Brisbane Industrial Available Space 3,000m²+ as at July 2017

Precinct	Available Space m ²	No. of Buildings	Av Asking Rent \$/m ² net	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality	
						Prime %	Secondary %
TradeCoast	158,285	26	110	-18,816	4,806	42	58
North	44,584	8	112	-12,966	-6,787	34	66
Greater North	40,904	9	107	-	28,369	76	24
South	193,018	29	97	4,254	-63,808	27	73
South West	69,134	7	105	-2,480	-19,903	41	59
South East	59,980	10	108	-4,080	1,612	70	30
Total	565,905	89	105	-34,088	-55,711	41	59

Source: Knight Frank Research

FIGURE 4
July 2017 Available Space
No of buildings by size and quality

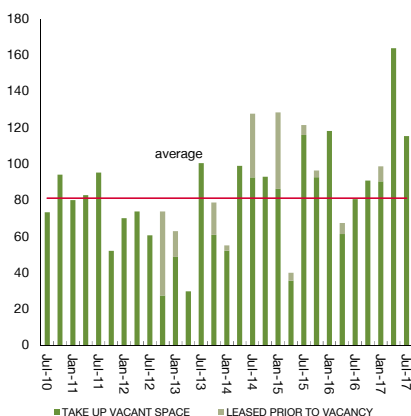


Source: Knight Frank Research

Building Take-up

Following the record level of take-up in the first quarter of the year of 163,790m² the second quarter also produced above average take-up of 116,123m², consolidating the improvement in the market. Take-up was dominated by prime space (71%) boosted by the 36,700m² of speculative absorption along with other prime facilities such as 41 TradeCoast Drive (25,860m²). Food providers PepsiCo (19,718m²) and Ingham's (14,497m²) both took up significant space as did retailer Chemist Warehouse (25,860m²), however the remainder of the take-up was for buildings sub-10,000m². With the three

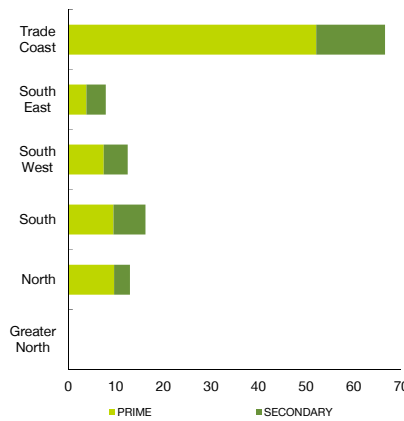
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

largest deals TradeCoast dominated take-up with 66,575m², representing 57% of total take-up for the quarter. Beyond the TradeCoast there was relatively even take-up across the remaining precincts except for the Greater North, with the preference for prime stock in clear evidence. The average time on the market for space absorbed was 17.7 months with prime at 15.2 months and secondary 20.6 months.

FIGURE 6
Take-up 3 months to July 2017
'000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

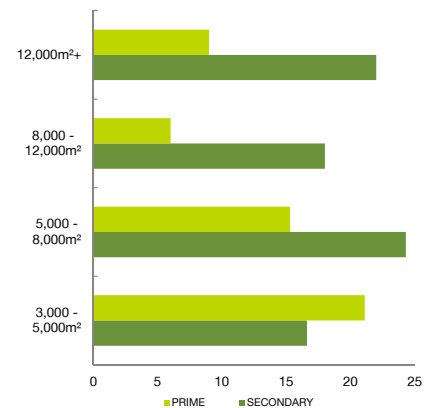
Outlook

The break-out absorption across the Brisbane industrial market recorded in the first quarter of 2017 has been consolidated by another encouraging result in Q2, bringing total space absorbed during 2017 to an impressive 279,025m², or a 24% reduction in total vacancy over the six months. Should this take-up rate be maintained for the remainder of the year for existing and speculative stock, in the absence of additional speculative completions, the total vacancy could return to 2013 levels of sub-300,000m². However this would require continued activity from larger tenants abandoning the D&C process to focus on existing stock.

The strong prime take-up in the quarter is illustrative of the desire for tenants to upgrade while rental conditions remain in their favour and this is expected to continue for the remainder of the year.

“There has been a 24% reduction in total vacancy over the past six months.”

FIGURE 7
Brisbane Industrial Time on Market
Av months by size bracket and grade—Jul 2017



Source: Knight Frank Research

While the recent activity has created some long-awaited confidence in the market, the average time on the market has continued to increase, currently averaging 18.4 months (median of 15 months) across the whole market. The time on the market for prime increased to 18.1 months (median 9 months) while the secondary fell to 18.7 months (median 15 months). There remains 182,152m² in vacancies which have been available for more than 24 months and tenants retain the upper hand for this space, 36% of which is prime and 64% secondary. However the recent uplift in demand will give some owners of long term vacancies the confidence to spend funds for necessary upgrades to bring these properties in line with market expectations.



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Methodology:

This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Brisbane Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 3,000m². 2. Buildings are categorized into the below three types of leasing options. A) Existing Buildings – existing buildings for lease. B) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. C) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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