RESEARCH

BRISBANE INDUSTRIAL VACANCY JULY 2014

Key Facts

Total vacant space rose by 7.8% over the quarter, taking the level to new historical highs

Prime vacancies increased by 27%, and now account for 44% of the total

The greatest increase was in the TradeCoast precinct while the South and South West fell

Take-up was at above average levels, but was outweighed by newly vacated space

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Total vacancy in the Brisbane Industrial market has increased over the second quarter, following a fall in Q1. As construction levels rise, the major influence on vacant space is backfill from tenants relocating to new builds.

The level of available space within the Brisbane Industrial market has increased by 7.8% over the past quarter to sit at 594,191m² as at July 2014. This is a record high since the series began in 2007 and is some 60% above the long term average level.

Despite this increase in total vacant space, three precincts recorded reductions with the greatest impacts in the South (down 13.0%) and South West (down 16.9%). The Fringe market also recorded a small decline.

The North (up 10.1%), Greater North (up 12.2%) and South East (up 19.2%) all recorded increases over the quarter. The growth in available space came from increases to existing stock, with no speculative construction added.

The greatest increase came from the TradeCoast precinct which saw the level of available space increase from 60,208m² to 137,960m² (up 128%) over the quarter. Much of this increase has arisen from backfill accommodation from tenants relocating to newly built facilities. Coupled with relatively lower absorption this has seen the level of vacancy increase markedly in the precinct.

The market remains dominated by existing space which at 540,084m² accounts for 91% of all space on the market at this time. The level of speculative space has fallen over the past quarter due to leasing activity. The level of completed speculative space has fallen to 12,472m² or 2% of available accommodation, following the lease of space in the South West.

Speculative space under construction has also fallen slightly to 41,635m², accounting for 7% of available stock. The only new speculative construction start was absorbed soon after commencement. Further speculative starts are expected to continue to come to the market over the medium term concentrated in the South, South West and TradeCoast markets.

Quality

The level of prime available stock has continued to increase, largely as a result of a number of existing prime buildings coming on to the market. Backfill for tenants moving to new accommodation has been the major impact over the past quarter.

Prime vacancy has increased by 27% over the past quarter to be 260,584m² (or 44% of available stock). In contrast, the amount of secondary space appears to have stabilised with levels falling for two consecutive quarters to be 336,889m², down 5.9% from the record highs of early 2014. The 56% of available stock which is secondary, has an average time on the market of 14.4 months (as opposed to prime at 7.3 months).

FIGURE 1

July 2014 Available Space

'000m² prime versus secondary space

Source: Knight Frank

Precincts

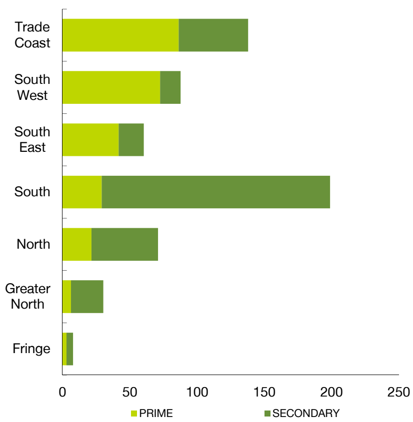
The TradeCoast has seen the greatest increase in available space over the past quarter (up by 139%) becoming the precinct with the second largest area of available space. TradeCoast additions were headlined by the return of 448 Nudgee Road (29,045m² - former Kmart), 180 Holt Street (18,778m² - former NQX) and 9 Anton Road (18,289m² - former Bunnings) and largely due to backfill.

The South, however, remains the precinct with the greatest level of stock, and the greatest proportion of secondary space at 85%. In contrast the nearby South West is dominated by prime stock at 83%, much of which is speculative space under construction. Following recent successes, speculative construction is expected to continue.

FIGURE 2

July 2014 Available Space

'000m² by quality & precinct



Source: Knight Frank

Type of Stock

There are currently 20 buildings available which cater for users of 8,000m² plus. Nine of these larger options are within prime accommodation with three of these being speculative developments under construction. All three are expected to be completed prior to the end of 2014. Six of the prime options are available for immediate occupation, with three of these sub-leases newly available this quarter. Four of the prime options are more suited to manufacturing, rather than warehouse uses.

Of the eleven larger secondary facilities (8,000m²+) four of these are manufacturing with the remaining seven offering warehouse accommodation. Much of this larger secondary accommodation is located within the South precinct across five properties with the other precincts only having one or two larger options.

Overall the Brisbane market remains dominated by warehouse style accommodation and 69% of the total vacancy is within this style of property as opposed to manufacturing space which accounts for 31%. Manufacturing space is relatively more difficult to lease with the currently available space having an average time on the market of 13.6 months. In contrast, the available warehouse space is slightly lower at 10.1 months.

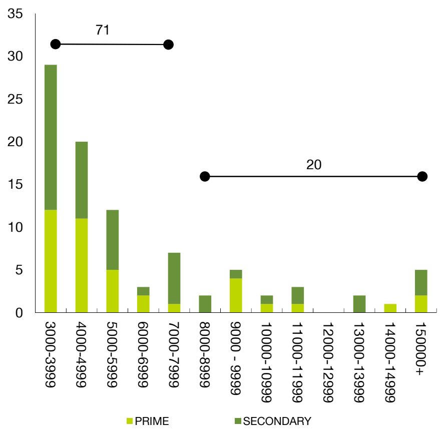
TABLE 1

Brisbane Industrial Available Space 3,000m²+ as at July 2014

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality	
						Prime %	Secondary %
Fringe	7,826	2	-	-5,256	-456	39	61
TradeCoast	137,960	17	113	77,752	65,278	63	37
North	71,028	11	106	5,676	19,990	30	70
Greater North	30,256	7	101	3,298	6,368	21	79
South	198,889	31	92	-32,960	6,666	15	85
South West	87,741	12	112	-15,356	11,443	83	17
South East	60,491	11	103	9,725	15,822	69	31
Brisbane Total	**594,191**	**91**	**103**	**42,879**	**125,111**	**44**	**56**

Source: Knight Frank

FIGURE 3
July 2014 Available Space
No of buildings by size and quality



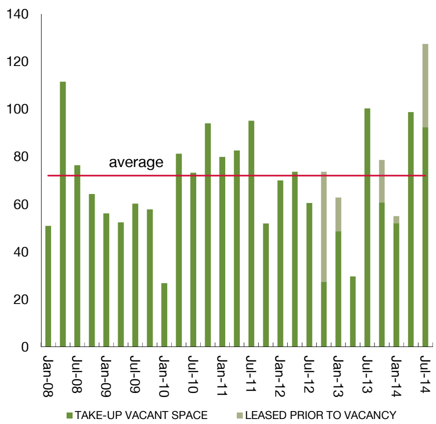
Source: Knight Frank

Take-up

The second quarter of 2014 recorded strong take-up with 92,508m² of space absorbed (ex D&C) across 17 buildings. These properties had been available for an average of 12.5 months. In addition there was 35,070m² of space leased prior to the buildings' entry to the vacancy list, in the initial stages of speculative development.

Ten of the 17 vacancies absorbed were under 5,000m² which indicates a welcome return to activity from medium sized local businesses. A further six were in the 5,000 — 8,000m² size bracket while the remaining was a larger asset in excess of 18,000m².

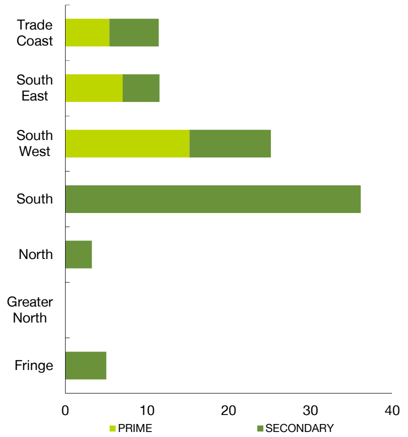
FIGURE 4
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

Take-up of existing accommodation was dominated by the South with 36,149m² absorbed across five secondary assets. In line with the relatively high levels of secondary vacant space in the South market, the average asking rents for these vacancies was $94/m² and the average time on the market before being leased was 15 months. The South West was the next most active sector with a total of 25,160m² taken up, the majority of which was prime space, including speculatively developed space.

FIGURE 5
Take-up 3 months to July 2014
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

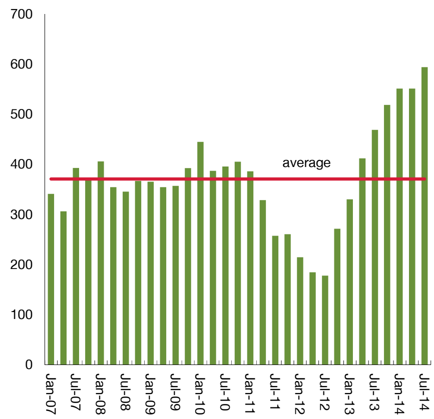
Summary

The total available space within the Brisbane market (over 3,000m²) increased over the second quarter of 2014, taking the total to another record level. However this was despite the take-up numbers recording relatively strong results, well above the average level. Therefore much of the additional vacancy can be attributed to new construction and also the backfill space which is being left behind by tenants who have committed to D&C accommodation. This trend is expected to continue as further major tenant relocations take place—eg. Super Retail Group and DB Schenker.

Improved take-up remains a positive for the market, particularly in the medium sized category which forms a large proportion of tenants within the Brisbane market, following softer demand in April/May as sentiment deteriorated surrounding the Federal Budget. Landlords within areas of strong competition have shown some greater propensity to discount rents and incentives have shown slight increases over the past 12 months. Much of the tenant demand remains focussed on newly constructed accommodation with larger tenants, generally retail logistics or 3PL, dominating the market and this trend is expected to continue.

"Larger tenant demand remains focussed on newly built accommodation — either speculative or D&C "

FIGURE 6
Brisbane Industrial Market
'000m² available space



Source: Knight Frank

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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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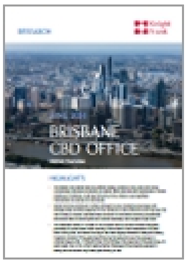

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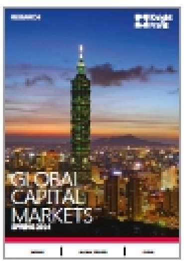

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