

BRISBANE

INDUSTRIAL VACANCY OCTOBER 2015

Key Facts

Total vacant space decreased by 6.5% over the quarter to 652,814m²

Prime vacancy accounts for 53% of the total; remaining higher than secondary due to backfill space

There are nine speculative buildings either under construction or completed; which accounts for **11% of the total vacancy**

Take-up remained solid in Q3 at 96,347m², well above the long term average



JENNELLE WILSON
Senior Director, QLD Research

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Steady take-up and relatively low new additions of vacant space has resulted in a fall to the total vacancy of 6.5%. There is more prime space vacant than secondary as cheaper secondary options have been in demand.

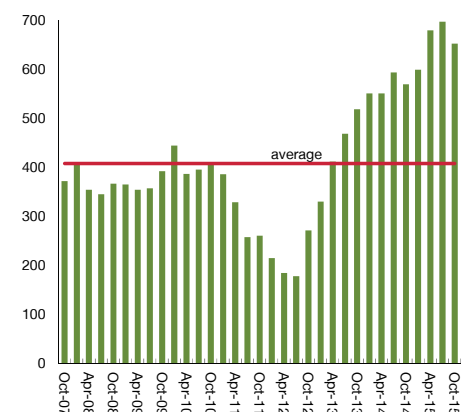
The level of available space within the Brisbane Industrial market decreased by 45,205m² over the past quarter to sit at 652,814m² as at October 2015. This is the first decrease in vacancy recorded since October 2014, however the total vacancy remains some 60% above the long term average. This reduction in total vacancy was assisted by relatively benign new additions to the available space with 43,632m² added across 10 properties.

The level of both prime and secondary space fell over the quarter, with the fall in prime space of 2.5% far outweighed by a reduction in available secondary space of 10.6%. As a result prime accommodation now accounts for 53% of the total.

Available space remains dominated by existing buildings (89%) with 6% coming from completed speculative buildings and a further 5% (31,853m²) in speculative development which is currently under construction.

Despite the reduction in total available space, the time on the market has increased to be 15.4 months on average across the whole market.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Secondary available stock fell sharply by 10.6% over the past quarter, unwinding the increases of the prior six months. Secondary space accounted for 53% of the take-up while accounting for only 33% of new additions to vacancy, which were all below 4,200m² in size.

In contrast the prime available space fell only slightly (down 2.5%) as the available prime space was higher than secondary for only the sixth time since the series began in 2009. Additions to the Prime space included a mixture of backfill space, sub-lease space and also further speculative stock construction starts.

Both prime and secondary stock appear to be recovering from their recent peaks in April 2015 and early 2014 respectively.

FIGURE 2
October 2015 Available Space
'000m² prime versus secondary space



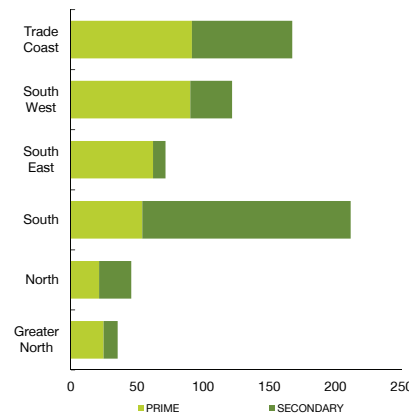
Source: Knight Frank Research

Distribution by Precinct

All but one of the precincts recorded a fall in vacancy over the past quarter with the TradeCoast (up by 3.6%) the only region to record an increase. There has been a steady increase in the prime vacancy within the TradeCoast with prime space now 55% of the total.

The North (-16.2%), Greater North (-10.8%), South (-6.4%), South West (-12.7%) and South East (-7.5%) all recorded strong decreases in vacancy. The South remains the region with the greatest area vacant and has the lowest proportion of prime vacancy at just 26%, markedly different from any of the other precincts which tend to have higher levels of prime space available, as the stock base is dominated by older style space.

FIGURE 3
October 2015 Available Space
'000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

The average size of vacancies was 6,730m² as at October, slightly down from the 6,911m² recorded in July, but still well above the sub-5,000m² average from mid-2012 when available stock above 8,000m² was scarce. As shown in Figure 4 there are currently 25 buildings greater than 8,000m² available for occupation, with the increase in larger stock a result of recent construction and associated backfill as well as some sub-lease activity from major corporates.

Available space remains dominated by warehouse style buildings, accounting for 80% of the area. There remains relatively less demand for manufacturing stock which, despite only accounting for 20% of the total available stock, has an average time on the market of 21 months.

Sub-lease space accounts for 22% of the available stock at 140,897m² as at October 2015. This is in line with levels recorded 12 months ago as a mix of corporate restructuring and downsizing take effect from tenants such as Boral, DHL, Toll, Toll NQX, Qube Logistics, Clough and Chalmers Transport all having significant sub-lease space available.

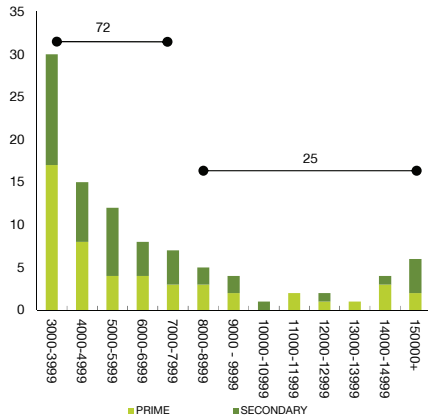
Available speculative stock has increased over the past quarter with 54 Tingira St, Pinkenba (7,400m²) under construction. Speculative stock continues to be well absorbed with part of Building 3, Drive Industrial Estate, Richlands and also 2-6 Business Dr, Narangba being leased in the past quarter.

TABLE 1
Brisbane Industrial Available Space 3,000m²+ as at October 2015

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	167,287	22	114	5,737	22,171	55	45
North	45,604	8	123	-8,845	1,916	47	53
Greater North	35,367	6	106	-4,300	13,511	70	30
South	211,390	31	92	-14,334	23,869	26	74
South West	121,739	17	107	-17,680	20,810	74	26
South East	71,427	13	108	-5,783	504	87	13
Total	652,814	97	105	-45,205	82,781	53	47

Source: Knight Frank Research

FIGURE 4
October 2015 Available Space
No of buildings by size and quality



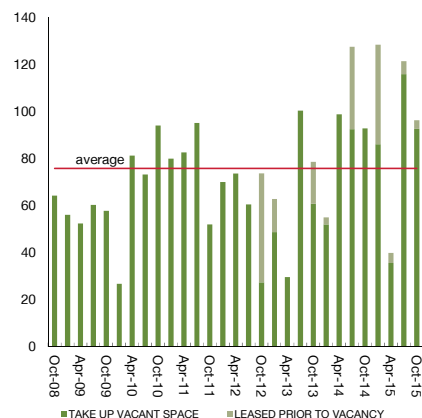
Source: Knight Frank Research

Building Take-up

Take-up, excluding D&C, remained at above average levels in Q3 2015 with 92,647m² absorbed over 18 buildings; with a further 3,700m² leased prior to the building becoming vacant. This was more than 20% higher than the average levels.

The properties taken-up had been available for an average of 15.6 months, made up of 12.3 months for prime and 19.9 months for secondary space. A number of larger secondary, longer term vacancies were occupied during the quarter such as 35 Evans Rd, Salisbury (12,000m²) and 425 Freeman Rd, Richlands (10,966m²).

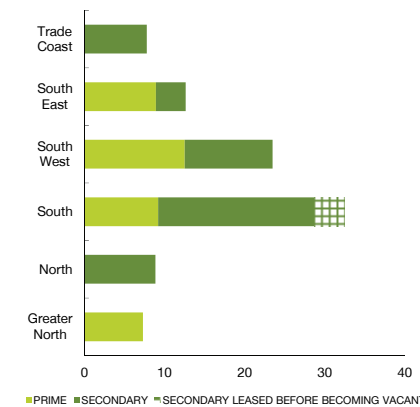
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

Take-up was dominated by secondary space this quarter, accounting for 53% of the total. The highest take-up was in the South with 32,468m², largely secondary, space absorbed. The South West also had a strong quarter with an even mix of prime and secondary space taken-up.

FIGURE 6
Take-up 3 months to October 2015
'000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

Outlook

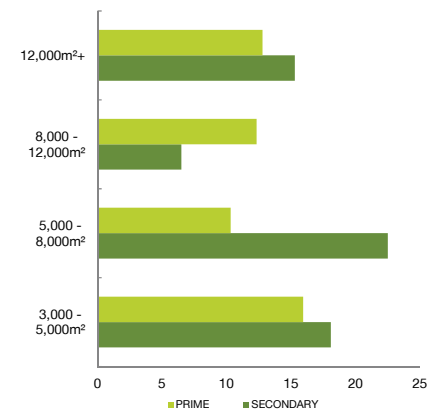
As foreshadowed by the increased enquiry and confidence from tenants in early 2015, the take-up levels have been well above average over the past two quarters, resulting in a fall in total vacancy to October 2015. Enquiry levels have begun to moderate into the final quarter of 2015 which may indicate an early end to the “property year”, however smaller to medium sized-tenants have remained active at levels higher than was the case 12 months ago.

This increased activity has assisted in reducing the total vacancy for the first time during 2015. The slightly softer tenant enquiry levels will be balanced by less backfill space to come to the market through to the end of 2015, which should insulate the vacancy in the short term.

Market rents remain under pressure, with the absorption over the quarter notably skewed towards secondary space, with a number of these having asking rentals in the range of \$75–95/m² net. With the economy in a relatively low-growth cycle companies are balancing the allure of

“Companies are balancing the allure of cheaper industrial space versus higher utility space to support cost control.”

FIGURE 7
Time on the Market by Size & Grade
Average No. months for available space—Oct 15



Source: Knight Frank Research

cheaper industrial space versus higher utility space to support cost control.

The investment market remains subject to high levels of demand, particularly for modern assets with a good tenant on a long WALE. The low yields these properties are currently achieving supports the development of new assets with relatively low starting rents compared with existing stock. Therefore larger tenants with good covenants retain the upper hand, however commitments are slow to achieve and the quantum of tenants seeking new space has appeared to abate following the retail-user led upswing of recent years. While the total vacancy appears to be stabilising there is limited scope to grow market rents.



RESEARCH

Jennelle Wilson

Senior Director, Queensland

+61 7 3246 8830

Jennelle.wilson@au.knightfrank.com

Matt Whitby

Group Director, Head of Research & Consulting

+61 2 9036 6616

Matt.Whitby@au.knightfrank.com

INDUSTRIAL

Greg Russell

Head of Industrial, Australia

+61 7 3246 8804

Greg.Russell@au.knightfrank.com

Chris Wright

Director

+61 7 3246 8861

Chris.Wright@au.knightfrank.com

Mark Clifford

Director

+61 7 3246 8802

Mark.Clifford@au.knightfrank.com

Mark Horgan

Manager—Strathpine Office

+61 7 3482 6000

Mark.Horgan@au.knightfrank.com

John Slater

Associate Director

+61 7 3246 8837

John.Slater@au.knightfrank.com

VALUATIONS

Tim Uhr

Director

+61 7 3193 6877

Tim.Uhr@qld.knightfrankval.com.au

Ian Gregory

Director

+61 7 3193 6844

IanGregory@qld.knightfrankval.com.au

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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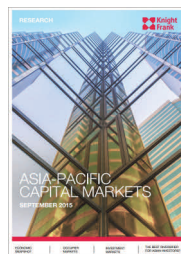
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