

BRISBANE

INDUSTRIAL VACANCY JULY 2016

Key Facts

Total vacant space has decreased over the past four quarters to 621,616m²

The **balance between prime and secondary** space available is shifting with **57% of vacancy being in secondary stock**.

There were **no speculative commencements** over the quarter, but two large commencements are expected in Q3.

Take-up was just above average in Q2 at 80,510m², the majority of which (59%) was **prime space**.



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Take-up at above-average levels and no new speculative construction starts assisted the vacancy to record its fourth consecutive decrease, down by 2.3% on the quarter and 10.9% lower than a year ago.

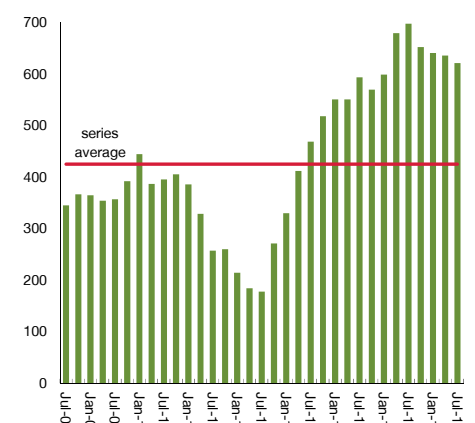
The level of available space within the Brisbane Industrial market has decreased for the fourth consecutive quarter to now sit at 621,616m². The reduction over the past quarter represented a 2.3% fall, with the total available space now 10.9% lower than a year ago.

Prime vacancy decreased by 15.0% over the quarter off the back of strong take-up and limited new additions. In contrast, secondary space increased by 9.9% with all of the additions to vacant space over the quarter categorised as secondary.

Completed speculative development accounts for 11% (69,452m²) of the total vacancy with speculative space under construction sitting at 2% with no building commencements in the quarter, however there are two larger projects at earthworks stages which are expected to progress in the short term. Total speculative stock has stabilised over the past year with new additions generally being balanced by leasing activity.

Although speculative stock is an important part of the market, given tenants demonstrated preference for new stock, 87% of the available space remains in existing buildings.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Prime vacancy has decreased again over the past quarter and appears to be maintaining a steadily improving trend, decreasing by 25.0% over the past year to 265,059m². The average time on the market for prime stock is currently 17.7 months, however this is influenced by a number of properties which have been on the market for some time, as the median time on the market is 12.0 months.

Available secondary space increased by 9.9%, over the past quarter to be 365,557m², accounting for 57% of the Brisbane total. The amount of available secondary space has continued to fluctuate and remains stubbornly high at a level 3.2% above a year ago.

FIGURE 2
July 2016 Available Space
'000m² prime versus secondary space



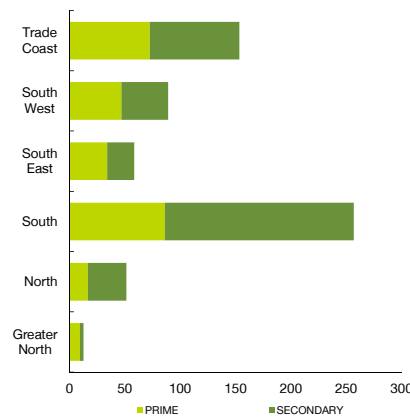
Source: Knight Frank Research

Distribution by Precinct

The TradeCoast, North and South markets recorded modest increases of 3.6% (5,371m²), 3.4% (1,700m²) and 4.5% (11,127m²) respectively over the past quarter. The Greater North, South West and South East markets all recorded improvements with falls of -3,300m² (20.8%), -10,174m² (10.3%) and -19,396m² (24.9%) respectively.

Most of the precincts continue to have a good balance between prime and secondary space available, the exceptions are the long-established South precinct where secondary space accounts for 67% of the total 256,826m² available and the North where 68% of the 51,371m² available is secondary space.

FIGURE 3
July 2016 Available Space
'000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

The average size of vacancies was 6,989m² as at July, a 4.3% increase over the past quarter and 7.0% higher than a year ago, as the average size continues to trend upwards. As shown in Figure 4, there are 25 buildings available which are larger than 8,000m², of which six are above 15,000m². Due to good take-up of prime buildings over the past quarter and larger backfill space becoming available, the number of larger secondary buildings has increased to 16, as opposed to prime with nine buildings available.

Warehousing space accounts for 81% of the vacancy by area, with manufacturing vacancy 19% of total space available. As the metal fabrication and resource sector industries remain in a period of lower activity this space is more difficult to lease. Added to the list this quarter was 285 Lavarack Ave, Eagle Farm, a 13,371m² building which was formerly occupied by One Steel (MRC), indicating there is still contraction expected across these industries with the continued uncertainty surrounding Arrium.

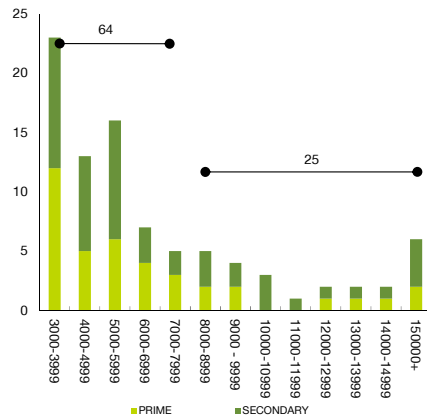
Available speculative stock across the Brisbane market now totals 82,024m², slightly lower over the past quarter due to the take-up for some space at Drive Industrial Estate. There is now 69,452m² of completed vacant speculative space, the largest of which is the 22,000m² at 22 Radius Dr, Larapinta, with a further 12,572m² under construction. It is expected that two further large speculative developments will commence in the short term at Lytton and Berrinba which will see the speculative stock levels boosted again to the end of the year.

TABLE 1
Brisbane Industrial Available Space 3,000m²+ as at July 2016

| 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 | 153,479 | 20 | 114 | 5,371 | -8,071 | 47 | 53 |
| North | 51,371 | 8 | 115 | 1,700 | -3,078 | 32 | 68 |
| Greater North | 12,535 | 4 | 110 | -3,300 | -27,132 | 75 | 25 |
| South | 256,826 | 34 | 97 | 11,127 | 31,102 | 33 | 67 |
| South West | 89,037 | 11 | 106 | -10,174 | -50,382 | 53 | 47 |
| South East | 58,368 | 12 | 108 | -19,396 | -18,842 | 58 | 42 |
| Total | 621,616 | 89 | 106 | -14,672 | -76,403 | 43 | 57 |

Source: Knight Frank Research

FIGURE 4
July 2016 Available Space
No of buildings by size and quality



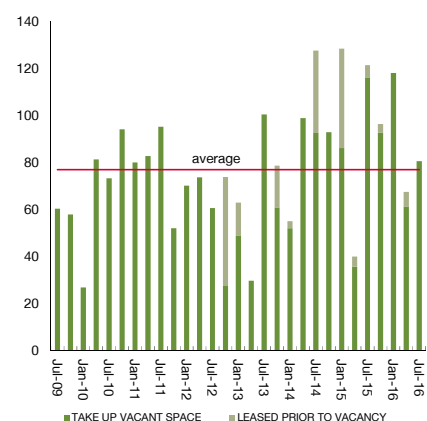
Source: Knight Frank Research

Building Take-up

Take-up, excluding D&C, was at average levels in Q2 2016, recovering from a slow first quarter. Take-up was 80,510m² from 13 properties and reinforces the generally stronger take-up levels of the past 12 months.

The properties taken-up had been available for an average of 21.2 months (median 18.0), made up of 22.1 months for prime and 20.0 months for secondary space. Almost half of the buildings taken up had been on the market for two years or more, particularly secondary stock or buildings in non-core locations.

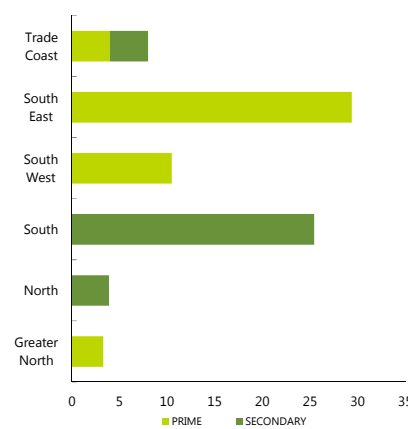
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

There was greater take-up in prime accommodation, accounting for 59% of absorption, the largest being 628 Kingston Rd, Loganlea (13,900m²) and 70 Darlington Drive, Yatala (11,277m²), both boosting the South East take-up. There was also good take-up, of exclusively secondary space, in the South which recorded 29,396m²

FIGURE 6
Take-up 3 months to July 2016
'000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

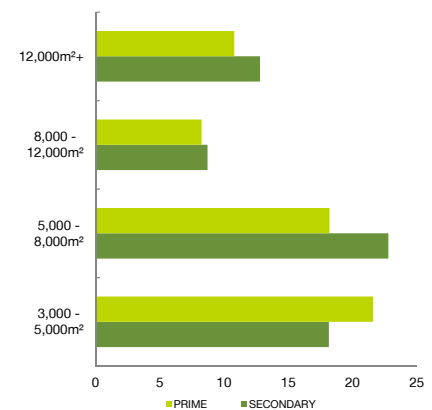
Outlook

Four consecutive quarters of reductions in the total vacancy has brought some confidence to the market. While the total vacancy remains 46% above the long term average, generally steadier take-up has translated to improvement. Despite this, rents remain under pressure as further backfill space and speculative development will continue to provide options for tenants.

Time on the market has increased slightly across total available space to average 17.4 months, however this is weighed by a number of longer vacancies, with the median lower at 12 months. Figure 7 shows that the many options within the sub-8,000m² size range has resulted in longer average times on the market. Averaging 8.25 months for prime and 8.7 months for secondary, the 8,000–12,000m² size bracket has the lowest average time on the market with all but one of the 13 properties in this size range being available for 12 months or less, including two new to the list this quarter.

“Good take-up of space, combined with no additions this quarter has seen the prime market show further improvement”

FIGURE 7
Brisbane Industrial Time on Market
Av months by size bracket and grade—July 2016



Source: Knight Frank Research

Backfill space from ACI/OI and Lindsay Brothers was added over the past quarter with further backfill expected as new facilities are completed for Sigma Pharmaceuticals and Couriers Please.

Across the industrial market, occupier demand remains patchy, with some improvement in larger tenant demand (10,000m²) recently in evidence. However with these larger tenants being strongly courted by developers to move to newly constructed properties (either D&C or speculative) only those with strong locational ties, a low budget or a short lead time are likely to take-up existing space. For existing assets refurbishment is increasingly required to gain tenants' attention.



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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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