

BRISBANE

INDUSTRIAL VACANCY OCTOBER 2016

Key Facts

Total vacant space has **increased by 14%** over the past quarter to **708,768m²**

High new speculative construction starts has boosted the **prime vacancy**, increasing to now **account for 49%** of the total

Total **speculative space** available **increased** to 109,420m² despite absorption of 29,400m² in the past quarter.

Take-up was 17% above average in Q3 at 90,794m², dominated (71%) by **prime space**.



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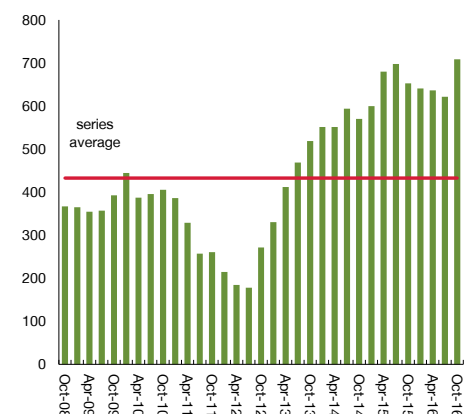
While take-up remained at above average levels the industrial vacancy was impacted by unusually high additions to vacant space over the quarter, dominated by a number of new speculative development starts.

After a year of sustained falls to the industrial vacancy in Brisbane, the past quarter recorded an increase to 708,768m², due to record high additions to vacancy, boosted by new speculative development starts of 56,796m². The vacancy has increased 14.0% over the previous quarter, returning total vacancy to just above the previous series peak in July 2015. Prime vacancy jumped by 30.5% over the quarter as new speculative stock was added to the list along with vacancy due to contractions by Target and Caterpillar. In contrast, secondary space was relatively stable, increasing slightly (1.8%) as additions were largely balanced by take-up.

Completed speculative space accounts for 5.7% (40,052m²) of total vacancy with speculative space under construction jumping to 9.8% (69,368m²) with 56,796m² of construction starts this quarter. The largest are two buildings under construction by Goodman Group at Export Motorway Estate (30,200m²) and the 18,872m² development by Charter Hall at Berrinba.

Despite the volatility of speculative stock, the Brisbane market remains dominated by existing buildings which account for 84.6% of the total vacancy.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Prime vacancy has increased over the past quarter, returning to levels seen in late 2015, as the increase in speculative stock has erased recent gains. Influenced by the large areas of prime stock which have only just become available, the average time on the market for prime space has reduced over the past quarter down from 17.7 months to 13.7 months and the median has also fallen to 9.0 months.

There was a modest increase to secondary space over the past quarter as the series reached historically high levels. While there were relatively low additions of secondary space to the vacancy over the past quarter (six properties totalling 32,633m²) this was almost matched by absorption, even though secondary only accounted for a third of the total take-up.

FIGURE 2

October 2016 Available Space

'000m² prime versus secondary space



Source: Knight Frank Research

Distribution by Precinct

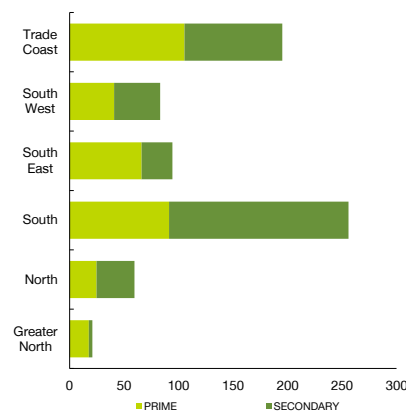
The TradeCoast (up 27% to 195,120m²), Greater North (up 66% to 20,835m²), North (up 16% to 59,550m²) and South East (up 62% to 94,383m²) all recorded significant increases over the past quarter. The South and South West markets both saw decreases with the South West recording a notable decrease of 6.7% with the South recording a modest fall of 0.4%.

The TradeCoast, South East and Greater North are dominated by prime space with the North and South having the greatest proportion of secondary accommodation. The South West is evenly balanced between prime and secondary accommodation as the region features both older and modern accommodation.

FIGURE 3

October 2016 Available Space

'000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

The average size of vacancies was 6,949m² as at October 2016, stable over the past quarter but still 3.3% higher than a year ago, as the average size continues to trend upwards. As shown in Figure 4, there are 30 buildings available which are larger than 8,000m², of which seven are above 15,000m². There is equal availability of prime versus secondary space in the larger buildings with 15 prime vacancies and 15 secondary vacancies larger than 8,000m².

The proportion of warehousing space available has remained stable at 82% of total vacancy by area, with manufacturing vacancy 18% of total space available. The proportion of manufacturing space is slightly higher in the more traditional areas of North (22%), South West (26%) and TradeCoast (21%). There were four manufacturing facilities added to vacancy over the past quarter with 60 Magnesium Dr, Crestmead (6,692m²), 30 Main Beach Rd, Pinkenba (11,608m²) and 97 Trade St, Lytton (6,600m²) the largest of these.

Total available speculative stock across the Brisbane market now totals 109,420m², higher over the past quarter as new construction starts have outweighed take-up. There is now 40,052m² of completed vacant speculative space, reduced following the absorption of 29,400m² in the past quarter (22 Radius Dr, Larapinta 22,000m² and 54 Tingira St, Pinkenba 7,400m²). With four speculative buildings commencing construction this quarter the amount of speculative space under construction has jumped to 69,368m².

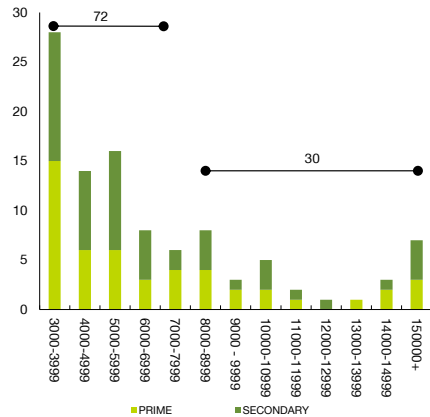
TABLE 1

Brisbane Industrial Available Space 3,000m²+ as at October 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	195,120	26	115	41,641	27,833	54	46
North	59,550	10	116	8,179	13,946	42	58
Greater North	20,835	5	111	8,300	-14,532	85	15
South	255,843	35	100	-983	44,453	36	64
South West	83,037	10	105	-6,000	-38,702	49	51
South East	94,383	16	107	36,015	22,956	70	30
Total	708,768	102	107	87,152	55,954	49	51

Source: Knight Frank Research

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



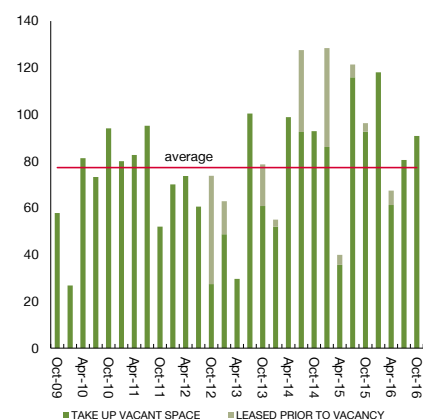
Source: Knight Frank Research

Building Take-up

Take-up, excluding D&C, was at above average levels in Q3 2016, representing two consecutive quarters of above average absorption. Take-up was 90,794m² from 10 properties with a number of larger leases boosting the take-up total.

The properties absorbed had been available for an average of 17.4 months (median 10.5), made up of 25.5 months for prime and 5.25 months for secondary space. While generally it would be expected that secondary space would be on the market for a longer period the relatively low secondary absorption this

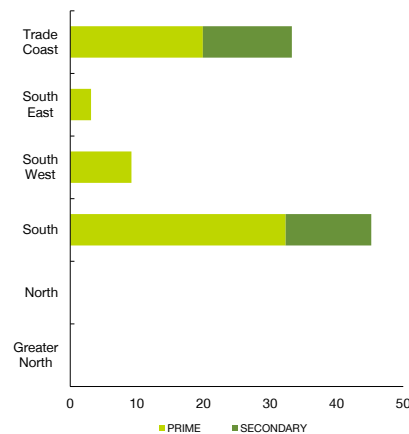
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

quarter (26,228m² or 29% of the total) was within assets only recently to the market. In contrast, the prime absorption, which accounted for 71% of the take-up, included some assets which had been available for an extended period. With four buildings taken-up over 10,000m² this reinforces the boost in larger tenant activity which has been in place over the past six months.

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



Source: Knight Frank Research

Outlook

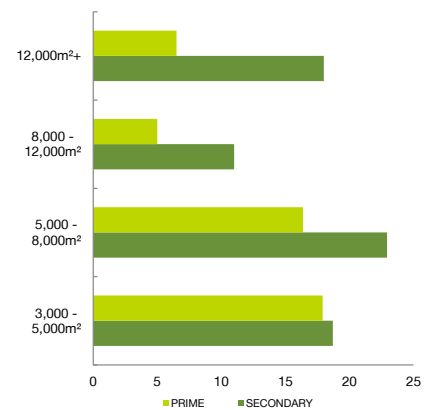
The increase to vacancy over the past quarter has broken the market's recent run of steady declines. However it is clear that this result was influenced by the unusually high additions this quarter of 174,753m² which was boosted by the addition of new speculative space under construction (56,796m²).

Take-up remained at above average levels over the past quarter, however enquiry levels have noticeably been patchy over recent months. The past quarter has seen some good leasing outcomes, particularly in the South with the 22,000m² speculative development at 22 Radius Dr, Larapinta leased to Greens Foods and MJ Logistics and 10,343m² at 62 Stradbroke St, Heathwood taken by Pact Group.

There is continued tenant preference for new prime grade property with limited demand for secondary space over the past quarter, which has led to increased discounting of secondary space.

“Take-up has remained strong, particularly for larger, prime space which should see speculative stock continue to outperform the wider market”

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



Source: Knight Frank Research

The time on the market for properties available has decreased, influenced by the large additions to the list this quarter, decreasing to 16.3 months from 17.4 months in the previous quarter. This remains weighted by longer vacancies with the median time on the market now sitting at 12 months.

In line with tenant demand, as shown in Figure 7, larger prime buildings have a far lower average time on the market at 5.0 months for 8,000m²-12,000m² and 6.5 months for 12,000m²+. This demand for prime, modern accommodation is expected to support demand for the speculative space, which is expected to fall relatively quickly.

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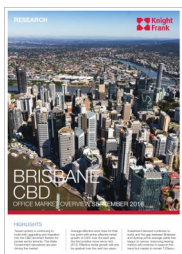
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Methodology:

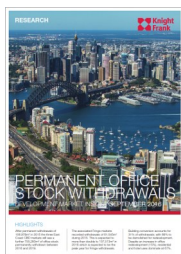
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Brisbane Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 3,000m². 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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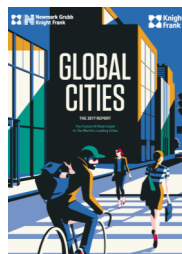
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