

BRISBANE

INDUSTRIAL VACANCY APRIL 2017

Key Facts

Total vacant space has **fallen by 19%** over the past quarter to **599,993m²**.

Improvement occurred across both **prime (down 18%)** and **secondary (down 21%)** with high take-up levels and very low additions to vacancy.

Total **speculative space** available **decreased** slightly to 90,227m² with absorption of 12,624m² and only one new construction start.

Take-up soared in Q1, reaching 163,790m², with secondary accounting for 52% of absorption.



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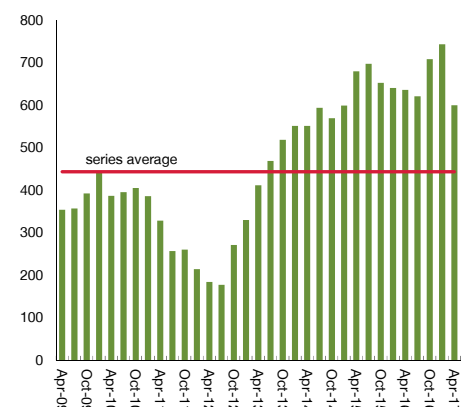
Take-up reached record levels during the first quarter of 2017 and when combined with low additions of vacant space caused the vacancy to contract significantly. Tenant activity will remain elevated for the remainder of 2017.

The Brisbane industrial vacancy fell by 19% in the first quarter of 2017 to 599,993m² as at April 2017, the first time since January 2015 that the total vacancy has been under 600,000m². With take-up well above average levels and few additions to vacancy (23,613m²) during the quarter, the market has made a significant improvement. Both the prime and secondary markets have benefitted with prime space falling by 18% to 289,055m² and secondary decreasing by 21% to 310,938m².

The quarter recorded a record take-up of 163,790m², twice the long term average, as a number of larger vacancies were removed from the market. While much of this take-up was pure leasing demand there appeared to be two other factors at play. The first was the relatively high absorption of space for short term leases, with some 38,000m² of space absorbed on lease terms between six and 15 months. The second was the higher than usual owner occupier activity which took up five properties totalling 29,566m².

Completed speculative space accounts for 13% (80,252m²) of total vacancy with speculative space under construction accounting for 1.7% (9,975m²) with few new starts in the past six months.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Both prime and secondary vacancy decreased over the past quarter due to good absorption across both grades. Prime vacancy fell by 18%, assisted by low additions to vacancy of 17,066m² over the quarter. The average time on the market for prime space has increased over the past quarter to 16.1 months, however reflective of the removal of some prime assets which had been vacant for some time, the median has decreased from 12 to nine months.

The amount of available secondary space fell significantly, down by 21% with virtually no additions to vacancy (6,547m²) overshadowed by the strong take-up of 84,695m². However time on the market indicators for secondary stock remain high with an average of 19.8 months and a median of 15 months.

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



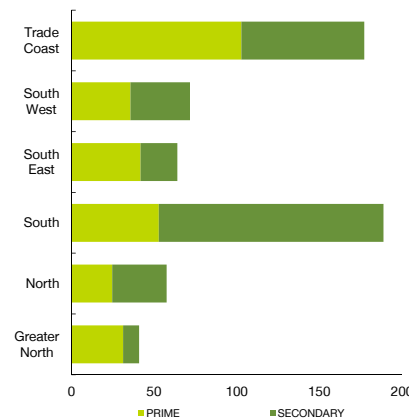
Source: Knight Frank Research

Distribution by Precinct

All precincts, except for the North and Greater North, recorded falls in available space over the past quarter. The most significant falls were in the South (down 30.1% to 188,764m²) to a two year low and South East (falling by 38.7% to 64,060m²), with the South East now only having 11 options above 3,000m².

The South West and TradeCoast also saw solid falls of 17.1% and 11.9% respectively, with the South West only having eight available properties evenly split between prime and secondary. The North was flat while the Greater North increased by 16,878m² with the addition of three vacancies including the prime 100 Potassium St, Narangba (10,331m²) which is for sale or lease.

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



Source: Knight Frank Research

Size & Type of Stock

As shown in Figure 4, there are 23 buildings available which are larger than 8,000m², down from 30 in the previous quarter as a number of larger buildings have been taken up. The balance between prime and secondary space in larger buildings remains quite even with 11 prime vacancies and 12 secondary vacancies larger than 8,000m². The average size of vacancies was 6,986m² as at April 2017, largely unchanged from the previous quarter but 4.3% higher than a year ago.

Warehouse space dominates the market and this is reflected in available stock, which is 82% warehouse with the remaining 18% manufacturing space. The precincts with the largest proportion of manufacturing space is TradeCoast with 20%, followed by the North and South East both at 19%. Partially driven by owner occupier activity there was good take-up of manufacturing space of 25,410m² in the past quarter, however this space remains harder to lease with an average time available of 23 months.

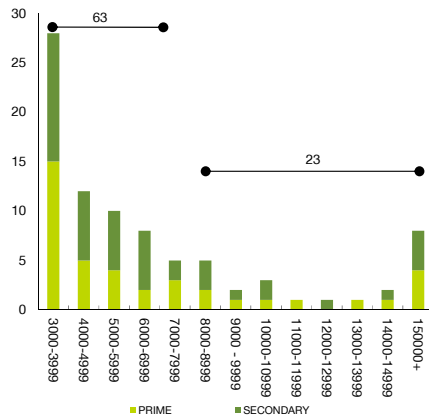
Speculative stock available in the Brisbane market totals 90,229m², lower over the past quarter with only one new start. There is now 80,252m² of completed vacant speculative space with only 9,975m² of uncommitted speculative stock under construction. The only new construction start over the past quarter was 26 Action St, Wacol (6,735m²). Two completed speculative developments were taken up—39 Resource St, Parkinson (4,810m²) purchased by an owner occupier and 29 Brickworks Place, Rochedale (7,814m²) on a long term lease.

TABLE 1
Brisbane Industrial Available Space 3,000m²+ as at April 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	177,101	22	112	-23,989	28,993	58%	42%
North	57,550	10	116	-	7,879	43%	57%
Greater North	40,904	9	107	16,878	25,069	76%	24%
South	188,764	26	99	-81,242	-56,935	28%	72%
South West	71,614	8	106	-14,782	-27,597	50%	50%
South East	64,060	11	108	-32,616	-5,890	65%	35%
Total	599,993	86	107	-143,565	-36,295	49%	51%

Source: Knight Frank Research

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

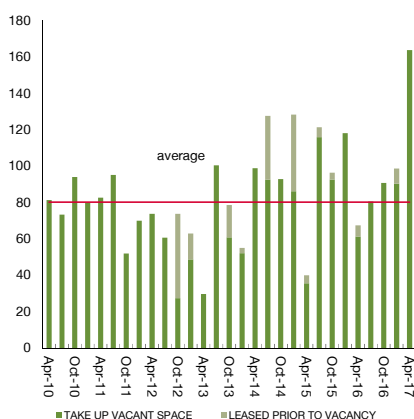


Source: Knight Frank Research

Building Take-up

The record take-up was the dominant factor in the market over the past quarter with 163,790m² of space absorbed. This is twice the average level and represents the fourth straight quarter of above average take-up, providing a welcome confidence boost to the leasing market. As discussed above some 38,000m² of this take-up were for periods of between 6-15 months, however this still indicates increased demand even if corporates are taking time to assess their future requirements in more detail. The average time on the market for space absorbed was 16.8 months and as expected the South was the dominant precinct.

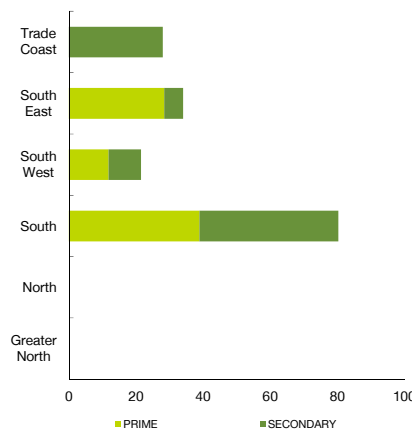
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

Five of the buildings absorbed were over 8,000m² with the largest 9 Anton Rd, Hemmant at 18,289m², which had been available for more than 2.5 years, leased by Winning Appliances which originally had a brief for a smaller facility. Also removed from the list was the sub-lease former Masters space at 338 Bradman Rd, Acacia Ridge (13,456m²) which will be utilised by Woolworths and similarly Toll has removed 8,217m² of sub-lease at 514 Boundary Rd, Richlands from the market to occupy themselves.

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



Source: Knight Frank Research

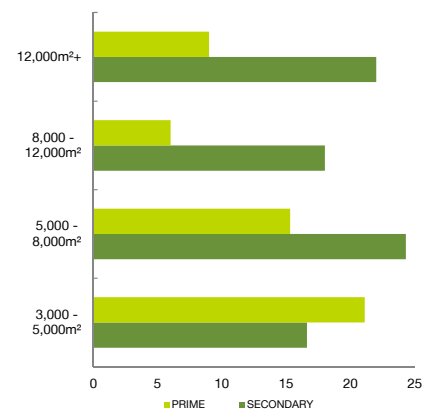
Outlook

The encouraging signs of the past three quarters have finally translated into a significant improvement in the Brisbane industrial vacancy. Partly due to an unusually quiet quarter in terms of vacancy additions, the total available space fell by 19% to be under 600,000m² for the first time in more than two years.

While prime take-up was slightly lower than secondary during the past quarter, accounting for 48% of absorption the theme of upgrading accommodation is expected to hold true for much of 2017. The exception will be in short term users, or those expanding but remaining price sensitive who will steer towards some of the larger secondary options available in the market. With 152,160m² on the list as available for more than two years, tenants that are flexible in their requirements retain the upper hand if this

“Q1 take-up of 163,790m² is twice the long term average and the fourth consecutive quarter of above average absorption”

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



Source: Knight Frank Research

space (48,625m² prime and 103,535m² secondary) is suitable for their uses.

Time on the market has increased to 18.1 months over the past quarter, as the average for secondary space continues to increase now sitting at 19.8 months, compared with prime at 16.3 months. The average continues to be weighed by assets available for some time, as the median for time on the market is lower for both prime and secondary at nine and 15 months respectively.

While further steady improvement to vacancy is expected during 2017, it is not expected that the Q1 result will be repeated this year, despite the generally higher levels of tenant activity with a number of sizeable deals near to fruition.



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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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