- *Leasing activity has been down as companies defer decisions*
- *Yields remain firm as the industrial space is resilient*
- *High supply additions will increase obsolescence pressure*

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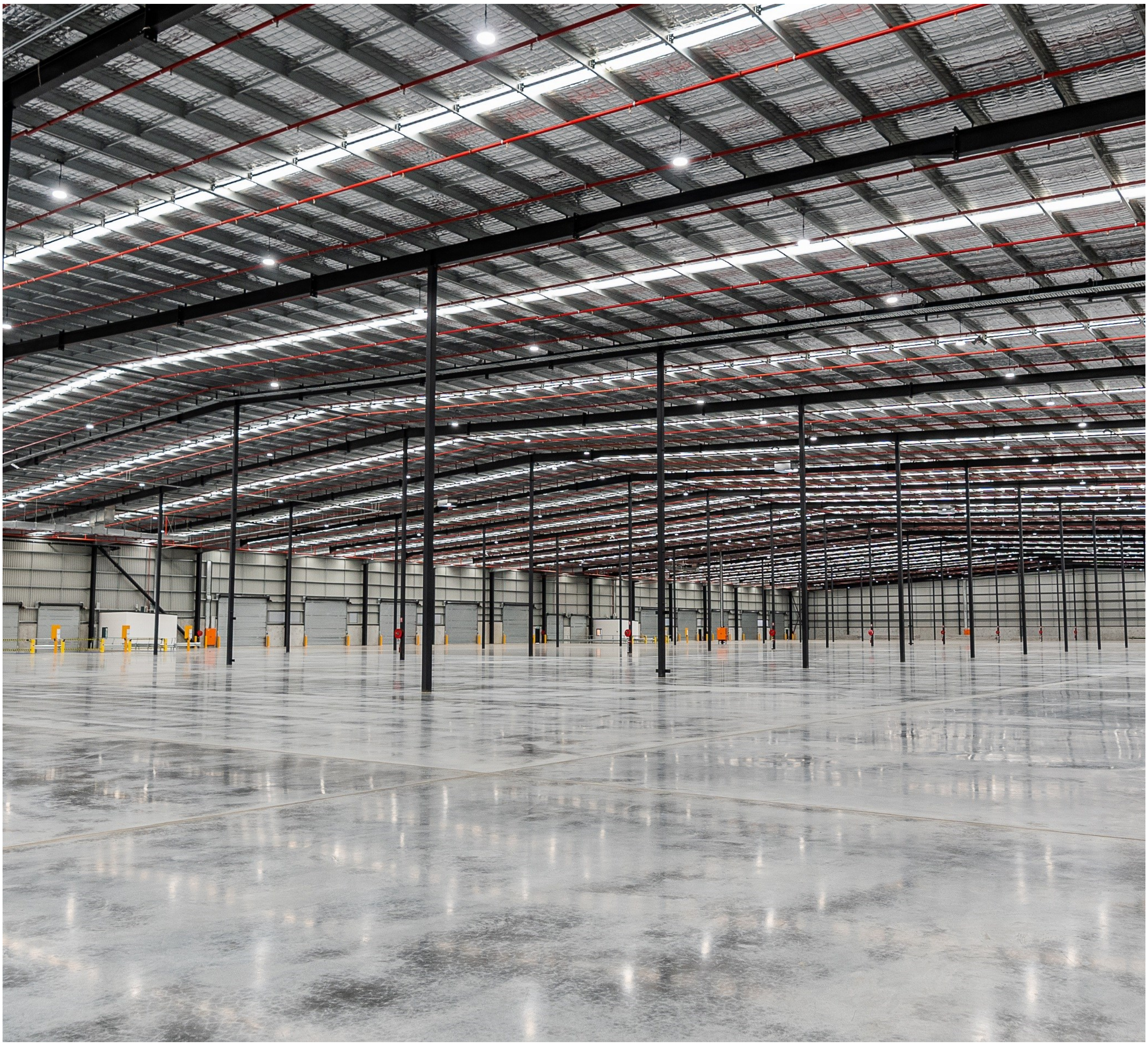
# Brisbane Industrial

**Market Report, October 2020**



# SUPPLY ADDITIONS HIGH WITH DEMAND FOR NEW SPACE

*Construction will be at 12 year highs in 2020 due to tenant demand for upgraded space. COVID-19 has slowed general leasing and brokerage while institutional demand has remained high*

## FUNDAMENTALS RESILIENT

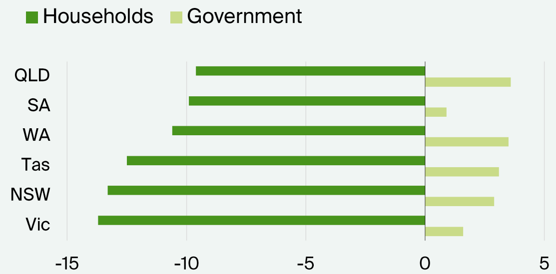
*With retail sales holding up the key warehouse and distribution industries exposed to consumer demand have been insulated during COVID-19*

Global economies are reeling from the fallout of lockdowns put in place to control the spread of COVID-19 since March 2020. Although entering a recession for the first time since 1991 the Australian economy and health system have proven to be robust on the global stage.

The fall in Australian GDP in the second quarter was nevertheless the highest recorded at 7% and reflected the significant curtailment of activity between March and June. As expected the majority of the impact was through household expenditure, down 12.1% with accommodation and food the hardest hit sector (-56.1%). The Queensland economy had the lowest drop in household expenditure during Q2 2020 of any of the states.

Final Consumption Expenditure

% change March 20 to June 20, chain volume measures




Source: Knight Frank Research, ABS

## TAKE-UP HAS BEEN IMPACTED

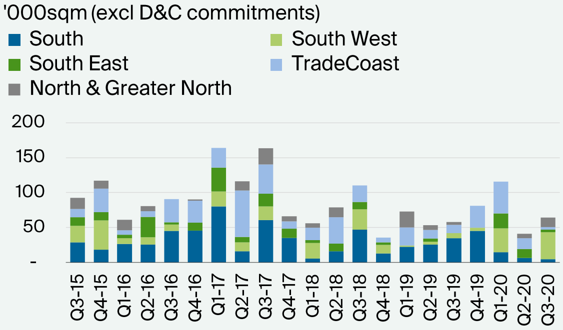
*After a strong Q1 2020, building on momentum from 2019, Q2 & Q3 activity has been impacted by a lack of confidence and deferred decisions*

The impact on confidence has delayed decisions for industrial users, with Q2 take-up the second lowest in five years. Take-up increased slightly during Q3, largely due to two 12,000sqm+ commitments in the South West, with other regions quiet.

Demand for industrial space remains focussed on logistics and 3PL users, accounting for 34% of take-up 2020ytd. The need to upgrade facilities to respond to faster delivery and direct B2C delivery is required as on-line retailing accelerates. Australia Post estimates that August 2020 was a new high for online retailing, 8.9% above the Christmas 2019 peak and 5.3% above the previous high in April 2020. Manufacturing was only just behind at 32% of activity as local production increases.

Brisbane Industrial Take-up

'000sqm (excl D&C commitments)




Source: Knight Frank Research

## EFFECTIVE RENTS DOWN

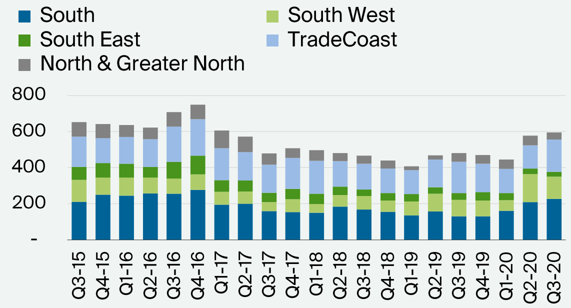
*Prime face rents are stable yoy at $113/sqm net but prime incentives have increased by 420bps to 15.7% as an encouragement for tenants to act*

Vacancy increased by 3.4% in Q3 2020, after a 30% jump in Q2, to be 596,173sqm. Of the available space added in the past six months 30% comes from speculative development in the South and South West. An additional 26% is backfill space from tenants relocating to new purpose built facilities with only 14% attributable to downsizing activity.

While prime face rents have been stable, secondary rents have fallen by 4.5% yoy to $88/sqm net with secondary owners, on average, less willing to move incentives. Secondary incentives are up by 140bps to 13.7%; a 6.1% fall in effective rent yoy. With prime vacancy up by 60% in the past six months, and tenants tentative, the prime effective rent is down 4.7% yoy as an inducement to act during 2020.

### Brisbane Industrial Vacancy

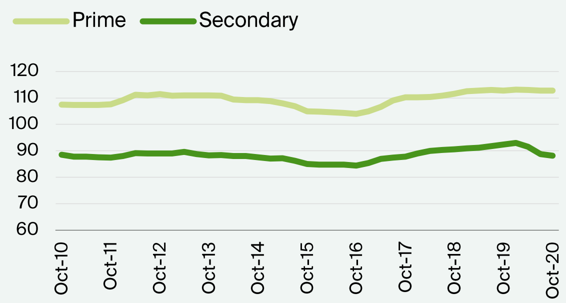
'000sqm available space by precinct




Source: Knight Frank Research

### Brisbane Region Rents

$/sqm net face




Source: Knight Frank Research

## 2020 SUPPLY A 12-YEAR HIGH

*Tenant preference for new buildings and the thirst for funds under management will grow 2020 supply to 400,000sqm*

This calendar year will see more than 400,000sqm of industrial space delivered to the market. This 12 year high in delivery is a direct impact of the tenant preference for new space. Of leases in 2020 to date, 42% has been to new supply. Newly constructed speculative stock and first generation backfill space will continue to be highly regarded by tenants, creating increasing obsolescence issues for older facilities.

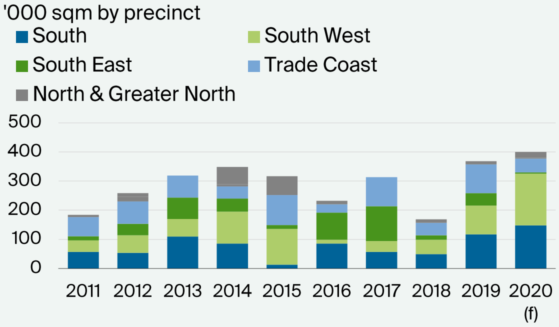
The majority of supply is being added into the South West (44%) and South (37%) precincts with available land and institutional ownership facilitating development. The key major institutional developers of Charter Hall, Dexus, Fife, Stockland, Frasers, Goodman, GPT and Logos have 315,000sqm delivered in 2020 or currently under construction.

Construction starts slowed over the course of the year as a more conservative mind-set took hold. There had been no speculative construction starts since May, however October will see at least two projects begin works. Land values will stabilise in the short term while the market reassesses.

Stockland and Fife, already in a development JV in Carole Park, have added 21.25ha to their land pipeline in Willawong, paying $195/sqm for the site which has a short term leaseback to Hastings Deering. In the short term most developer/investors will concentrate on working their current pipelines while speculators will continue to amalgamate and improve land for a 3-5 year delivery horizon, largely in the South, South West and South East markets.

### Brisbane Industrial Supply

'000 sqm by precinct




Source: Knight Frank Research

# PORTFOLIO SALES HAVE DOMINATED INVESTMENT THIS YEAR

***Despite some headline sales the overall investment turnover has been lower in 2020 as the middle tier market activity has been low. Yields have remained firm, particularly for core assets.***

Institutional demand for industrial investments has remained strong throughout the COVID-19 period with the relative resilience of industrial tenants, particularly those in the retail supply chain, maintaining appetite for the sector.

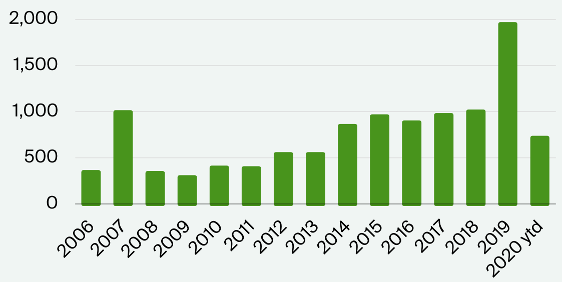
Nevertheless, the level of transactions during 2020 is expected to be lower than seen in 2019, which at $1.95 billion was a standout year for the Brisbane industrial market. In the year to October 2020 there has been $717 million in turnover which is roughly in line with the levels 2014-2018. With the four largest deals accounting for more than half the turnover, 2020 has seen relatively thin trade in the $5-25 million price bracket where private and smaller syndicators have been impacted by confidence and travel restrictions. As asset allocations turn away from retail, and to an extent office, the large players will increase industrial market penetration.

Wholesale and unlisted buyers have been dominant with 58% of purchasing activity while REITS (20%) are ahead of private investors (14%) in 2020 to date. Offshore investor appetite, particularly for portfolio sales has increased with 38% of transactions during 2020 to offshore buyers, up from 18% in 2019. Additionally GIC has been increasing investment through entity-level investments in DALT and ESR ALP.

Prime yields have remained firm with tightening for true core assets such as Aldi and Sigma portfolios in evidence, bringing $100million+ assets and/or long lease terms with solid tenants now seeing yields of c5.0%. Mainstream prime yields have largely stabilised from the start of 2020 with an 8bps firming. however a lack of general brokerage turnover limits evidence. Secondary yields were at their low point for this cycle in January 2020 with leasing risk to soften the upper yield band.

**Investment Turnover**

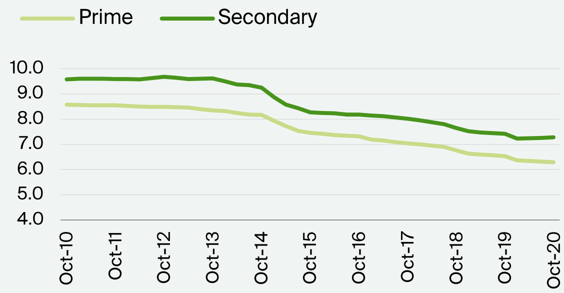
$million, assets $5million+




Source: Knight Frank Research

**Brisbane Yields**

% median core market yield




Source: Knight Frank Research Assumed WALEs 4-7 yr prime, 3-5yr

**Recent significant sales**

| PROPERTY | PRICE $M | SIZE SQM | $/SQM | PURCHASER | VENDOR | YIELD % | WALE |
|---|---|---|---|---|---|---|---|
| 99 Sandstone Pl, Parkinson (50%) | 152.20 | 55,245 | 5,510 | DWS | Frasers Logistic Trust | 5.10 | 12.7 |
| 68 Kremzow Rd, Brendale^ | 132.50 | 49,200 | 2,693 | Charter Hall CPIF/ Allianz Real Estate JV | Aldi Foods | 5.00 | 7.0 |
| 1 Lahrs Rd, Ormeau | 43.00 | 9,590 | 2,054 | Centurial Industrial REIT | ESR (Propertylink mandate) | 5.47 | 6.5 |
| 53 Wayne Goss Dr, Berrinba#^ | 38.60 | 14,990 | 2,575 | Logos/TCorp JV | Sigma Pharmaceuticals | 5.00 | 15.0 |
| 25 Backhouse Pl, Eagle Farm# | 38.20 | 17,200 | 2,221 | TradeCoast Central | EB Games | 5.40 | 10.0 |

# Vendor leaseback ^Part of portfolio sale, yields are as reported

# TRADE COAST

*Minimal construction and strong demand keeps the precinct in favour with investors*

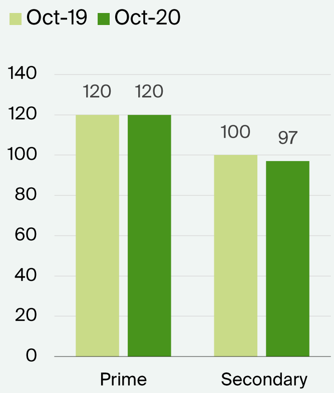
**HIGHLIGHTS**

| | TAKE-UP (SQM) | PRIME RENT ($/SQM) NET | MOST ACTIVE SECTOR |
|---|---|---|---|
| **DEMAND** | **96,936**<br>4% BELOW 5 YR AV | **120**<br>STABLE YOY | **28%**<br>TRANSPORT & WAREHOUSE |

| | VACANCY (SQM) | UNDER CONSTRUCTION (SQM) | SPECULATIVE STOCK (SQM) |
|---|---|---|---|
| **SUPPLY** | **178,407**<br>+3% YOY | **24,324** | **-**<br>COMPLETED OR U/C |

### TradeCoast Rents

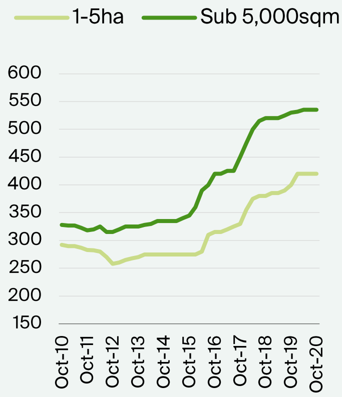
$/sqm net face




Source: Knight Frank Research

### Trade Coast Land Values

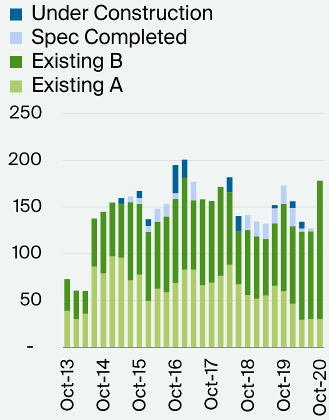
$/sqm site




Source: Knight Frank Research

### Trade Coast Vacancy

'000sqm available space by type




Source: Knight Frank Research

## KEY TRENDS

- Remains the precinct with the highest rents.
- Land values 1-5ha increased by 5.0% yoy.
- Amazon has committed to their first major Brisbane facility in Lytton.
- Significant sale for 2020 was the $38.2 million vendor leaseback by EB Games.

**Recent significant tenant commitments**

| OCCUPIER | PROPERTY | SIZE SQM | NET RENT $/SQM | TERM |
|---|---|---|---|---|
| **Amazon ^** | 49 Freight St, Lytton | 16,200 | 120 | 5 |
| **Fisher & Paykel #** | Port West Estate, Lytton | 19,950 | 105 | 10 |
| **DHL#** | 200 Holt St, Pinkenba | 11,500 | 123 | 5 |
| **Queensland Rail** | 59-61 Qantas Dr, Eagle Farm | 7,079 | 181 | 5 |
| **Ezi Aluminium** | 47 Trade St, Lytton | 4,936 | 125 | 7 |
| **Meyer Timber** | W1, Osprey Dr, Lytton | 5,634 | 108 | 3 |

# Pre-commitment ^Lease of speculatively developed space ~Existing space

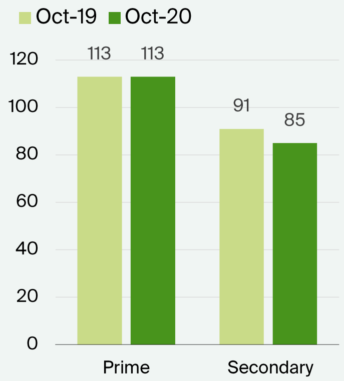
# NORTH & GREATER NORTH

*Hub for local businesses and manufacturers*

### HIGHLIGHTS

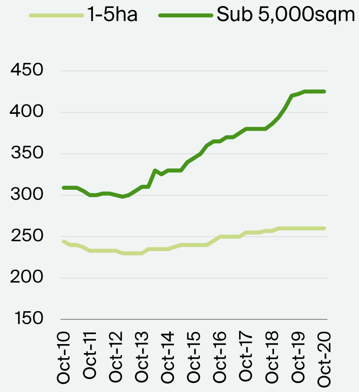
| | | | |
|---|---|---|---|
| | TAKE-UP (SQM) | PRIME RENT ($/SQM) NET | MOST ACTIVE SECTOR |
| **DEMAND** | **20,014** | **113** | **30%** |
| | 38% BELOW 5 YR AV | STABLE YOY | RETAIL TRADE |
| | VACANCY (SQM) | UNDER CONSTRUCTION (SQM) | SPECULATIVE STOCK (SQM) |
| **SUPPLY** | **39,875** | **16,842** | **-** |
| | -18% YOY | | COMPLETED OR U/C |

North & Greater North Rents
$/sqm net face



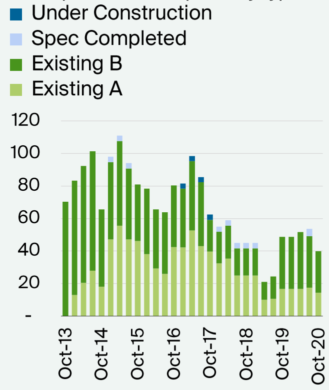

Source: Knight Frank Research

Greater North Land Values
$/sqm site




Source: Knight Frank Research

North & Greater North Vacancy
'000sqm available space by type




Source: Knight Frank Research

## KEY TRENDS

- D&C activity is more prevalent than speculative development due to a greater penetration of local developers.
- Significant sale was the Aldi distribution centre at $132.5m showing a 5% yield.

### Recent significant tenant commitments

| OCCUPIER | PROPERTY | SIZE SQM | NET RENT $/SQM | TERM |
|---|---|---|---|---|
| **Radlink Communications** | 78 Pritchard Rd, Virginia | 3,065 | 110 | 3 |
| **4WD Supa Centre#** | 31 Johnstone Rd, Brendale | 9,300 | 105 | 6 |
| **Cactus Wellhead#** | 25 Johnstone Rd, Brendale | 3,499 | - | - |
| **Avante Australia^** | 29 Saltwater Cres, Narangba | 4,450 | 100 | 7 |
| **Joyce Foam#** | 17 Robertson St, Brendale | 4,043 | 122 | 10 |

# Pre-commitment ^Lease of speculatively developed space ~Existing space

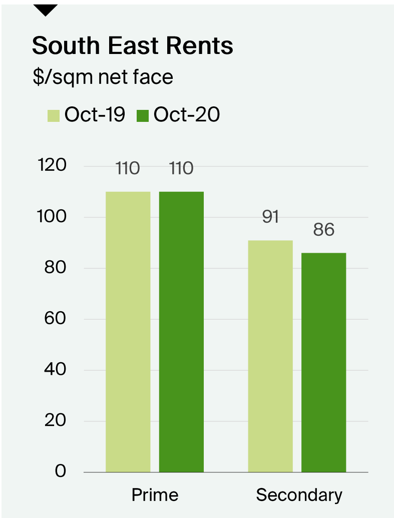
# SOUTH EAST

*Land delivery to continue to provide opportunities*

**HIGHLIGHTS**

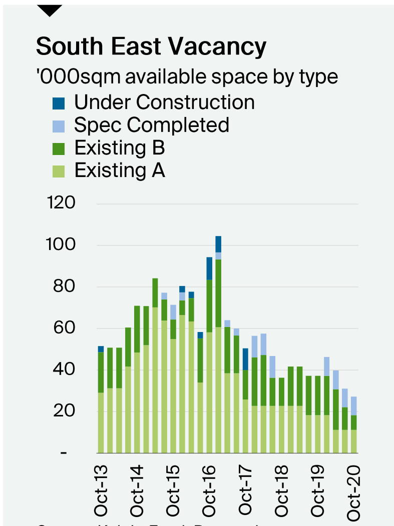
| | TAKE-UP (SQM) | PRIME RENT ($/SQM) NET | MOST ACTIVE SECTOR |
|---|---|---|---|
| **DEMAND** | **37,652**<br>10% BELOW 5 YR AV | **110**<br>STABLE YOY | **36%**<br>WHOLESALE TRADE |

| | VACANCY (SQM) | UNDER CONSTRUCTION (SQM) | SPECULATIVE STOCK (SQM) |
|---|---|---|---|
| **SUPPLY** | **27,282**<br>-127% YOY | **-** | **9,020**<br>COMPLETED OR U/C |



Source: Knight Frank Research

Source: Knight Frank Research



Source: Knight Frank Research

## KEY TRENDS

- Prime vacancy remains low with only 11,262sqm of existing space and 9,020sqm of speculative space available.
- As with most precincts the prime rents have been stable over the past year.
- Land Values (1-5ha) growth has been flat in the past year, however the past 5 years has seen a 49% uplift.

**Recent significant tenant commitments**

| OCCUPIER | PROPERTY | SIZE SQM | NET RENT $/SQM | TERM |
|---|---|---|---|---|
| **Volo Modular~** | 13 Business St, Yatala | 8,951 | - | 5 |
| **AMES~** | 16 Quarry St, Stapylton | 12,420 | - | 5 |
| **Knotwood~** | 2/63 Burnside Rd, Stapylton | 3,000 | - | - |
| **Gilders Transport~** | 16 Quarry St, Stapylton | 5,600 | - | 5 |
| **Ozwide Trailers#** | 14 Dixon St, Yatala | 4,950 | 105 | 10 |

# Pre-commitment ^Lease of speculatively developed space ~Existing space

# SOUTH

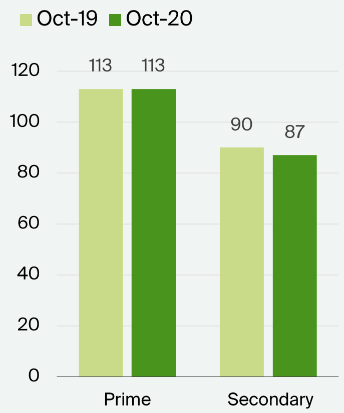
*Combination of traditional and development zones*

**HIGHLIGHTS**

| | TAKE-UP (SQM) | PRIME RENT ($/SQM) NET | MOST ACTIVE SECTOR |
|---|---|---|---|
| **DEMAND** | **70,823** | **113** | **34%** |
| | 42% BELOW 5 YR AV | STABLE YOY | RETAIL TRADE |

| | VACANCY (SQM) | UNDER CONSTRUCTION (SQM) | SPECULATIVE STOCK (SQM) |
|---|---|---|---|
| **SUPPLY** | **226,638** | **30,928** | **49,526** |
| | +74% YOY | | COMPLETED OR U/C |

### South Rents
$/sqm net face

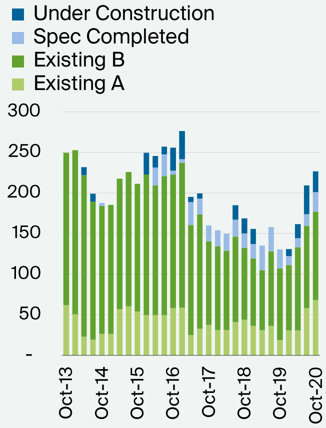



Source: Knight Frank Research

### South Land Values
$/sqm site


Source: Knight Frank Research

### South Vacancy
'000sqm available space by type




Source: Knight Frank Research

## KEY TRENDS

- Speculative development has accelerated with 69,146sqm to be delivered in CY2020. 26,849sqm of this has been recently leased by Phoenix Transport, Windoware, JB Hi Fi and Boral.
- Largest sale was the $152.2m, the 50% transfer of the Coles cold storage and freezer facility to DWS.

### Recent significant tenant commitments

| OCCUPIER | PROPERTY | SIZE SQM | NET RENT $/SQM | TERM |
|---|---|---|---|---|
| **CUBIS Systems~** | 91 Stradbroke St, Heathwood | 6,013 | 105 | 10 |
| **Namour Transport~** | 62 Stradbroke St, Heathwood | 4,900 | 103 | 5 |
| **JB Hi Fi^** | 2 Ironbark Cl, Berrinba | 10,028 | - | 7 |
| **Windoware^** | 2 Ironbark Cl, Berrinba | 4,322 | - | 5 |
| **Up2Scratch~** | 7 Lancashire St, Acacia Ridge | 2,482 | 110 | 5 |

# Pre-commitment ^ Lease of speculatively developed space ~Existing space

# SOUTH WEST

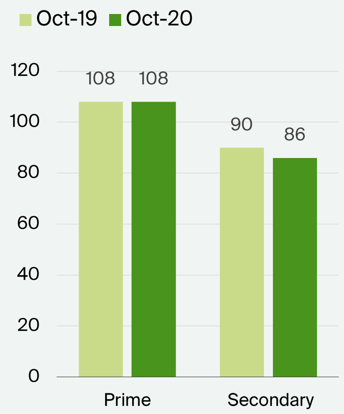
*South West dominates the current construction additions*

**HIGHLIGHTS**

| | TAKE-UP (SQM) | PRIME RENT ($/SQM) NET | LARGEST PRE-COMMITMENT (SQM) |
|---|---|---|---|
| **DEMAND** | **76,936**<br>44% ABOVE 5 YR AV | **108**<br>STABLE YOY | **66,067**<br>COLES @ REDBANK |

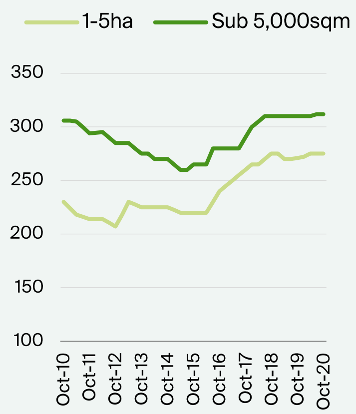
| | VACANCY (SQM) | UNDER CONSTRUCTION (SQM) | SPECULATIVE STOCK (SQM) |
|---|---|---|---|
| **SUPPLY** | **123,971**<br>+35% YOY | **122,079** | **44,460**<br>COMPLETED OR U/C |

### South West Rents
$/sqm net face



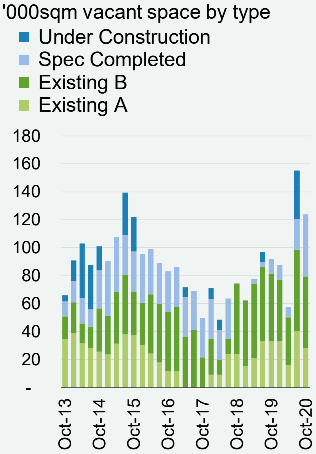

Source: Knight Frank Research

### South West Land Values
$/sqm site




Source: Knight Frank Research

### South West Vacancy
'000sqm vacant space by type




Source: Knight Frank Research

## KEY TRENDS

- Highest supply of all the precincts for 2020.
- A further 122,000sqm is under construction, dominated by the 60,067sqm Coles distribution centre.
- Speculative construction from Stockland and Dexus took vacancy to a record peak in Q2 before five-year high take-up in Q3 saw vacancy fall 20%.

### Recent significant tenant commitments

| OCCUPIER | PROPERTY | SIZE SQM | NET RENT $/SQM | TERM |
|---|---|---|---|---|
| **Bridgestone Earthmoving#** | 91 Rudd St, Inala | 5,800 | - | 10 |
| **Ron Crouch Transport~** | 163 Viking Dr, Wacol | 5,814 | 110 | 5 |
| **Decina Bathroomware#** | 115 Rudd St, Inala | 9,050 | 138 | 10 |
| **Delta Panels~** | 731 Boundary Rd, Darra | 9,884 | 118 | 7 |
| **ACR^** | 425 Freeman Rd, Richlands | 12,240 | 112 | 5 |

# Pre-commitment ^Lease of speculatively developed space ~Existing space

## DATA DIGEST

**Prime Grade:** Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
**Secondary Grade:** Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.
**Core Market Yield:** The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
**Supply & Leasing Volumes:** Incorporate assets where each tenancy is 3,000sqm+.
**WALE:** Weighted Average Lease Expiry
**Vacancy Methodology:**
This analysis collects and tabulates data detailing vacancies (3,000m$^2$+) within industrial properties across all of the Brisbane Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

### We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.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