RESEARCH

BRISBANE

INDUSTRIAL VACANCY **JULY 2015**

Key Facts

Total vacant space increased by 2.6% over the quarter to 698,019m²

Prime vacancy accounts for 51% of the total with the gap between prime and secondary narrowing

New speculative starts have pushed the total speculative space to **10% of the market**

Take-up recovered in Q2 recording a level **1.5 times the average**

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Take-up was strong in the second quarter of 2015, however the vacancy did increase marginally. Additions to vacancy were dominated by larger stock—with an average size of 8,359m².

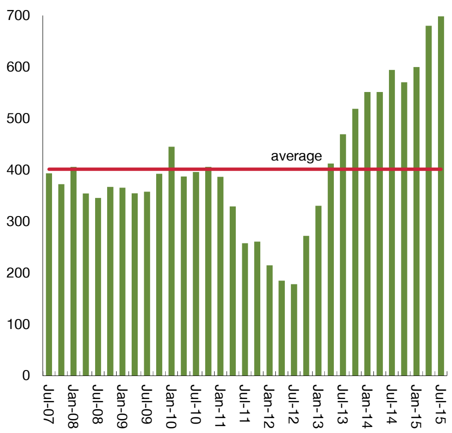
The level of available space within the Brisbane Industrial market increased marginally over the past quarter to sit at 698,019m² as at July 2015, a further historical high for the series. This places the current data some 74% above the long term average of 401,247m². Strong supply additions have continued to be a factor in the increase of total available space with backfill space a contributor. It is estimated that new supply in 2015 (over 3,000m²) will be the highest since 2008.

The level of prime space available fell slightly over the quarter, down by 1.7%. In contrast, secondary vacancy was up by 7.5% over the past quarter. While the level of prime space available remains higher than secondary, the gap has narrowed.

Available space remains dominated by existing buildings (90%) with 6% coming from completed speculative buildings and a further 4% (30,382m²) in speculative development which is currently under construction.

Despite the increase in total available space, the time on the market has remained stable, recording an average of 13.9 months across the whole market.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

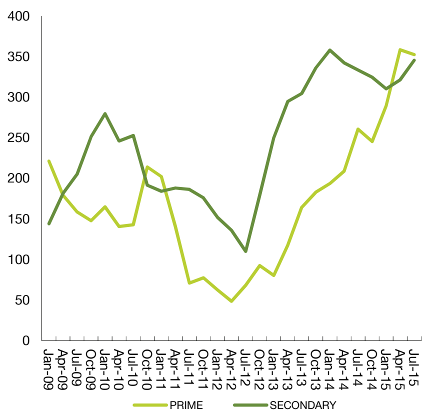
The level of prime and secondary available space remains particularly close, with prime space (352,529m²) currently slightly higher than secondary space at 345,490m². Prime space has recovered slightly, coming back from a series high which was recorded in April 2015.

In contrast, secondary available space has seen an increase over the past quarter, after showing some recovery from the previous peak in early 2014. Secondary buildings accounted for a little under half of the new additions to the vacancy list this quarter, while only accounting for 30% of the take-up. Four of the new secondary vacancies were larger properties, above 8,000m².

FIGURE 2

July 2015 Available Space

'000m² prime versus secondary space



Source: Knight Frank Research

Distribution by Precinct

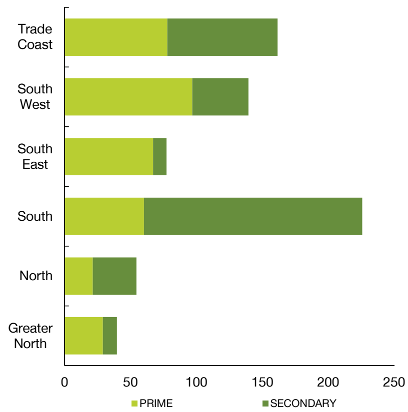
Three precincts experienced falls in vacancy over the past quarter with the North (-13%), Greater North (-17%) and South East (-8%) all recording decreases. The TradeCoast saw a marginal increase in available space and is evenly balanced between prime and secondary stock.

The South recorded a modest increase of 3.8%, however as the largest precinct it has the highest level of space available. As one of the older industrial areas, the precinct is dominated by secondary space. The South West recorded a significant increase of 29% over the past quarter. Along with the addition of two existing buildings, the increase was dominated by the commencement of new speculative construction.

FIGURE 3

July 2015 Available Space

'000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

The average size of vacancies has been steadily increasing, influenced by the larger scale backfill buildings and some older manufacturing space. The current average size of available stock (3,000m²+) is 6,911m² and this has shown a significant increase from an average of 4,945m² three years earlier.

This trend is illustrated in Figure 4, which shows there are currently 27 buildings greater than 8,000m² available for occupation. The level of larger available buildings has been growing since the most recent low-point in June 2012, when there were only two buildings above 8,000m² available. This shortage has triggered much of the larger scale construction which has been in evidence over the past three years. The demand for larger accommodation has remained strong, with four assets above 8,000m² absorbed in the last quarter and the average size of space absorbed in the past quarter was 6,018m².

Available space remains dominated by warehouse style buildings, accounting for 77% of the area. The muted demand for manufacturing stock is still influenced by the reduction of work in the mining infrastructure sphere.

Speculative stock has increased over the past quarter with DEXUS commencing construction of 30,382m² in the Drive Estate, Richlands. Completed speculative space totals 41,343m² across six assets, with 10,822m² recently absorbed in the South West.

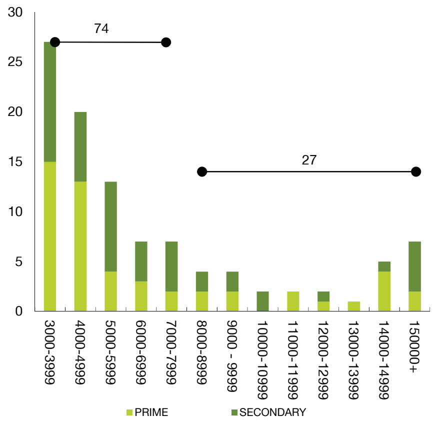
TABLE 1

Brisbane Industrial Available Space 3,000m²+ as at July 2015

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality Prime %	Building Quality Secondary %
TradeCoast	161,550	21	112	1,793	23,590	48	52
North	54,449	10	116	-8,335	-16,579	39	61
Greater North	39,667	7	105	-8,432	9,411	73	27
South	225,724	31	94	8,279	26,835	27	73
South West	139,419	18	105	31,535	51,678	69	31
South East	77,210	14	110	-6,972	16,719	87	13
Total	**698,019**	**101**	**105**	**17,868**	**103,828**	**51**	**49**

Source: Knight Frank Research

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



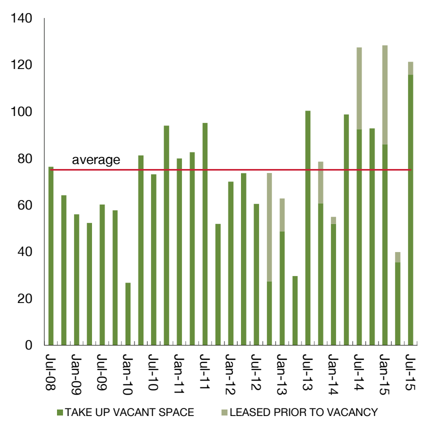
Source: Knight Frank Research

Building Take-up

Take-up, excluding D&C, rebounded in the second quarter of 2015, at levels close to the record result of Q4 2014. Over the past three months there was take-up of 115,879m² across 20 buildings; with a further 5,500m² leased prior to the building becoming vacant. This was more than 1.5 times the average take-up.

The properties taken-up had been available for an average of 16 months made up of 12.4 months for prime and 24 months for secondary space, with a number of longer term vacancies finding occupants during the quarter.

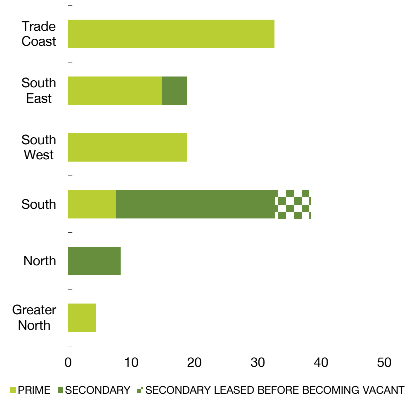
FIGURE 5
Brisbane Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

Take-up was dominated by prime space this quarter, accounting for 64% of the total. The highest take-up was in the South, where much of the secondary space was absorbed; followed by the TradeCoast which saw strong absorption of prime space across a variety of sizes.

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



Source: Knight Frank Research

Outlook

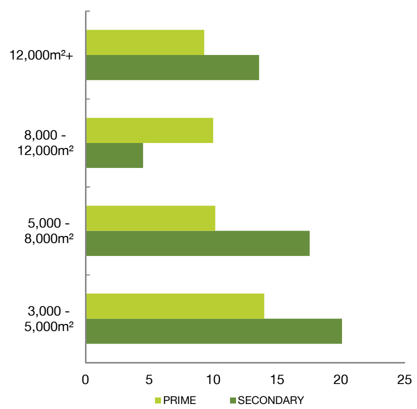
Activity and confidence increased in the second quarter of the year with take-up rebounding from a low result in Q1. While enquiry levels remain subject to highs and lows, the overall trend remains positive with demand in the mid-level 5,000m² - 7,500m² size range showing improvement.

While the vacancy has reached a new high of 698,019m², this was a 2.5% increase on the previous quarter and some 30,382m² (4%) of this was from new speculative space in the early stages of construction.

Despite the improvement in occupier demand, market rents still remain under pressure with secondary face net rents falling by 1.6% over the year to April 2015; while prime rents softened by 0.7% over the same period. At the same time incentives have steadily become more prevalent in the market for both existing and D&C/speculative space, generally ranging between 7%—12% for existing space.

> "Demand has shown an overall increase in recent months; however market rents remain under pressure"

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



Source: Knight Frank Research

While the interest rate environment remains low and the market is prepared to pay a premium for a longer WALE investment, yields will continue to be firm and this will assist new developments to be offered at highly competitive rental levels. This is expected to continue to support new construction on both a D&C and also speculative basis.

This new supply and the associated backfill space will continue to offer tenants either the opportunity to grow and upgrade their accommodation and/or obtain cost savings if they are prepared to relocate and test the market.

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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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