

BRISBANE

INDUSTRIAL VACANCY FEBRUARY 2016

Key Facts

Total vacant space has decreased over the past two quarters to 640,996m²

Available space is **split relatively evenly between prime (49%) and secondary (51%)**

There are ten speculative buildings available either under construction or completed; which accounts for **13% of the total vacancy**

Take-up improved in Q4 to be 118,087m², the highest recorded in 2015.



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The vacancy decreased by 1.8% over the past quarter, the second consecutive fall recorded for Brisbane. While take-up has been strong in the second half of 2015, rental levels remain under pressure and tenants have the upper hand.

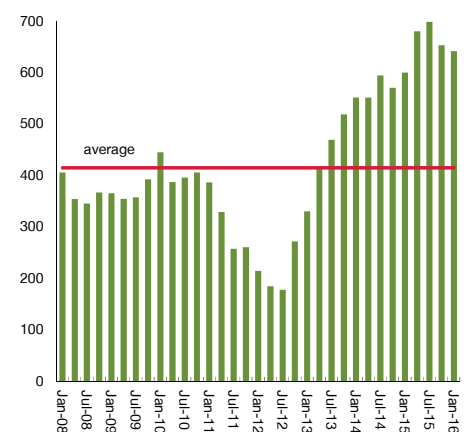
The level of available space within the Brisbane Industrial market decreased by 11,818m² over the past quarter to sit at 640,996m² as at January 2016. This represents the second consecutive quarter where the total vacancy has fallen. Although remaining well above average, the total vacancy is beginning to respond to a lull in backfill space and a reduction in new sub-lease space.

The level of prime space fell by 8.8% over the quarter to 313,511m², with absorption of prime space dominating the quarter. In contrast the secondary space available increased by 6.0% to total 327,485m².

Available space remains dominated by existing buildings (87%) with 7% coming from completed speculative buildings and a further 6% (31,853m²) in speculative development which is currently under construction. There has been some take-up of speculative space over the recent quarter, however further additions have come on line.

In tandem with the reduction in total vacancy, the time on the market has reduced slightly across the available space to currently average 15.1 months.

FIGURE 1
Brisbane Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Prime stock appears to have maintained its recent improvement with a further reduction of 30,283m² in available space over the quarter, equating to an 8.8% drop. Prime vacancy has decreased in each of the past three quarters as both good absorption and modest new additions have allowed the market to post some recovery.

The level of secondary space has continued to fluctuate quarter to quarter with an increase of 6.0% over the final quarter of 2015. Secondary space only accounted for 30% of the quarterly take-up with most of the properties taken-up sub-5,000m². Overall secondary space has improved by circa 10% since the recent peak in early 2014, however has proven resistant to sustained improvement.

FIGURE 2

January 2016 Available Space '000m² prime versus secondary space



Source: Knight Frank Research

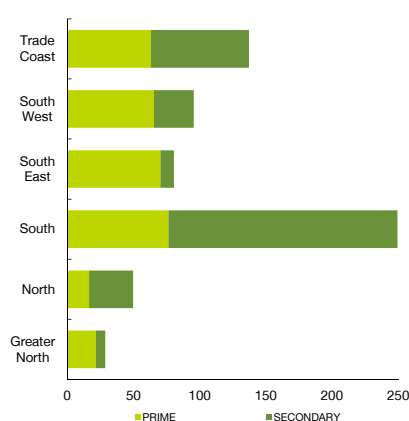
Distribution by Precinct

In the final quarter of 2015 three precincts recorded significant falls in vacancy with TradeCoast (down 18%), Greater North (down 18.9%) and the South West (down 21.5%) recording a total reduction in available space of 62,978m². To balance these falls the other three precincts recorded increases with the North (up 8.9%), South (up 18.0%) and South East (up 12.8%) meaning that the overall reduction in vacancy was only modest.

The South remains the region with the greatest vacant area, having the highest amount of both prime and secondary space. The South is followed by the TradeCoast, South West and South East, all of which have relatively high proportions of prime space.

FIGURE 3

January 2016 Available Space '000m² by quality & precinct



Source: Knight Frank Research

Size & Type of Stock

The average size of vacancies was 6,747m² as at January which was stable from the 6,730m² recorded in October. There are currently 22 buildings available which are larger than 8,000m², down by three from the 25 available in October but larger occupiers still have relatively more options than from just a few years ago. As shown in Figure 4 buildings greater than 8,000m² are evenly distributed between prime and secondary space.

Available space remains dominated by warehouse style buildings, accounting for 81% of the total. In line with the reduced expenditure in the resource sector, manufacturing and metal fabrication demand has remained subdued which impacts demand for that vacant space. Manufacturing stock has a current time on the market of 20.2 months in comparison with warehouse stock which averages 13.5 months.

Sub-lease space has fallen over the past quarter to be 15% of the total stock, down from 22% in October 2015. This reduction has been a combination of take up of sub-lease space in buildings such as 509 Boundary Rd, Darra and 180 Holt St, Eagle Farm as well as vacant space reverting to direct at lease end.

Speculative stock has increased over the past quarter despite absorption of 21,314m² in Q4 as 29,910m² of new speculative stock began construction, the most significant the DEXUS 22,000m² development at Larapinta. Completed speculative space totals 45,052m² with a further 37,310m² under construction to be completed in the next few months.

TABLE 1

Brisbane Industrial Available Space 3,000m²+ as at January 2016

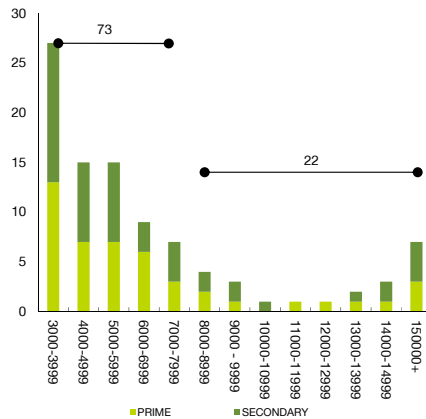
Precinct	Available Space m ²	No. of Buildings	Av Asking Rent \$/m ² net	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality	
						Prime %	Secondary %
TradeCoast	137,227	19	117	-30,060	-17,734	46	54
North	49,671	8	120	4,067	633	33	67
Greater North	28,677	4	103	-6,690	-20,222	75	25
South	249,349	36	94	37,959	63,988	31	69
South West	95,511	13	108	-26,228	4,798	68	32
South East	80,561	15	108	9,134	9,838	87	13
Total	640,996	95	105	-11,818	41,301	49	51

Source: Knight Frank Research

FIGURE 4

January 2016 Available Space

No of buildings by size and quality



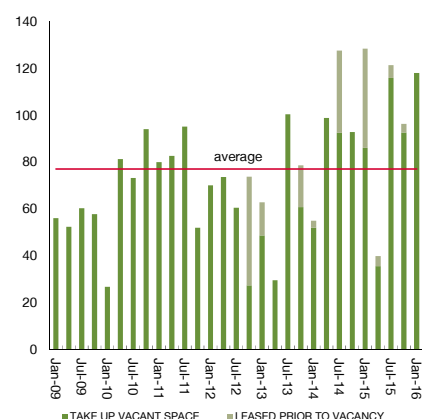
Source: Knight Frank Research

Building Take-up

Take-up, excluding D&C, remained at relatively high levels in Q4 2015 with 118,087m² absorbed over 20 buildings. This was some 50% above the long term average take-up levels and is the third consecutive quarter where take-up has been well above average.

The properties taken-up had been available for an average of 19.4 months, made up of 19.0 months for prime and 20.1 months for secondary space. There was a wide range of time on the market—from six months through to two years; seven of the vacancies absorbed were available for less than 10 months.

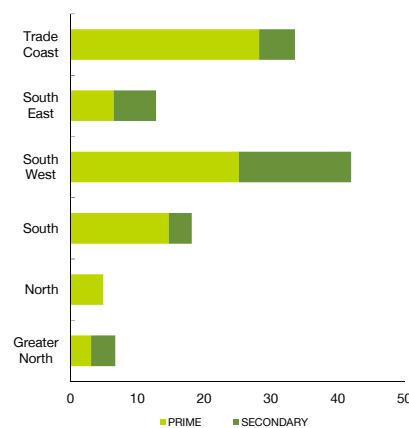
FIGURE 5

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

Source: Knight Frank Research

In contrast to the prior quarter, take-up was dominated by prime space (70%) with relatively less secondary space absorbed. The South West and the TradeCoast were the best performing precincts over the last quarter. Thirteen of the 20 properties absorbed were sub-5,000m² which shows some resurgence in the smaller tenant market.

FIGURE 6

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

Source: Knight Frank Research

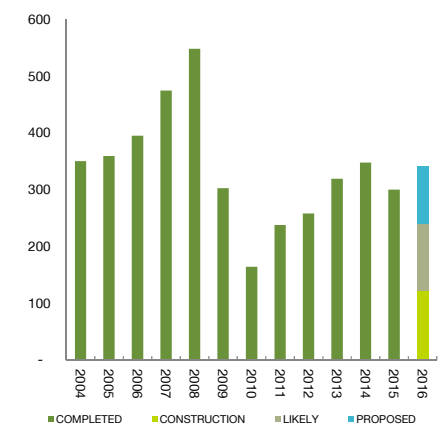
Outlook

Take-up of vacant industrial space was strong over the majority of 2015, following a slow start in Q1. Enquiry levels have remained patchy with solid periods of enquiry followed by quieter times in the market. Demand has continued to arise from transport and 3PL users as well as those companies related to the building industry.

Despite the total vacancy decreasing over the past two quarters, the level is still at historically high levels and the market continues to favour tenants. Market rents are showing a softening trend with discounting of advertised face rents and incentives firmly in the market. Increasingly landlords are accepting that rents on new leases will be lower than the passing rent from existing leases which had fixed reviews. This has extended to making strong offers to sitting tenants, who had been considering relocation, in order to maintain an income stream over the asset and avoid vacancy.

“In a climate of patchy demand the take-up levels have finished 2015 strongly”

FIGURE 7

Brisbane Industrial Supply'000m² new supply historical & forecast

Source: Knight Frank Research

The forecast new supply for 2016 appears to be in line with that of 2015 with a number of the “proposed” projects to potentially be deferred into 2017. Investment market conditions have remained solid for prime assets with yields sub-7% for modern, long WALE opportunities, although yields for assets with exposure to vacancy have appeared to plateau. These high prices achievable for new, long-leased assets has continued to spur both speculative development and low pre-commitment rents which will create further backfill space —although not at the pace that was seen in early 2015. While the vacancy appears to be trending down and take-up has remained strong, the market rents remain soft.



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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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