Brisbane Industrial Vacancy Report - February 2017

Despite take-up remaining at above average levels the industrial vacancy reached a new series high. Positive signs in the market are emerging from a broadening tenant enquiry base and increased tenant mobility.

The Brisbane industrial vacancy increased over the final quarter of 2016 to record 743,558m² as at January 2017. Despite take-up at above average levels, the higher additions to vacancy of 110,504m² resulted in the total vacancy increasing by 4.9% over the quarter, resulting in another series high for the Brisbane market. This increase was predominantly driven by vacancy in the secondary market which grew by 7.7% to 390,925m², while the prime market only increased by 2.0% over the same period.

Total vacant space has increased by 4.9% over the past quarter to 743,558m². Much of this increase was attributable to a rise in secondary vacancy of 7.7%; now accounting for 53% of total vacancy.
This increase in secondary vacancy has resulted in secondary properties accounting for 53% of the total available space, with prime reducing to 47% of the market (down from 49% in the past quarter). Backfill space has continued to be a trigger for additional vacancy (ie National Tiles), however corporate activity in the form of the Masters closure and Wesfarmers consolidation have also created available space.

Completed speculative space accounts for 5.0% (37,090m²) of total vacancy with speculative space under construction accounting for 7.9% (59,026m²) with only minor construction starts this quarter.

Quality of Stock

Prime vacancy increased slightly over the past quarter but remained below the series high levels of early 2015. Prime space take-up was solid but this was just outweighed by new additions to the list. Time on the market for prime space has plateaued over the past quarter to be 14.3 months (median of 12 months).

The amount of available secondary space also increased, up by 7.7% to 390,925m² with new additions to the list of 62,699m² outweighing the relatively strong take-up of 42,024m². The average time on the market for secondary stock has decreased over the past quarter as activity picks up in the sector, falling from 18.7 months to 16.9 months (median 12 months). The gap between prime and secondary vacancy has begun to re-widen over past quarters.

Distribution by Precinct

All precincts, except for the North, recorded increases to available space over the past quarter, although for the majority the increase was not significant. The TradeCoast (up 3% to 201,090m²), Greater North (up 15% to 24,026m²), South (up 5% to 270,006m²), South West (up 4% to 86,396m²) and South East (up 11% to 104,490m²) all increased over the quarter. The North recorded a decrease of –3.4% to 57,550m².

The TradeCoast, South West and North are evenly balanced between prime and secondary space. In contrast, the South East and Greater North are dominated by prime, while the South remains skewed towards secondary availability with prime space in the region quickly absorbed.
Size & Type of Stock

As shown in Figure 4, there are 30 buildings available which are larger than 8,000m², of which eight 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 average size of vacancies was 6,995m² as at January 2017, only a slight increase over the previous quarter but 3.7% higher than a year ago, as more larger options are available.

Warehouse space dominates the market and this is reflected in available stock, which is 84% warehouse with the remaining 16% manufacturing space. The precincts with a significant manufacturing proportion are the South West (25%), TradeCoast (21%) and North (19%). While there has been steady take-up of manufacturing space (c10,000m² in the past quarter) and only one manufacturing vacancy added to the list in the final quarter of 2016, manufacturing stock remains more difficult to lease, having an average time on the market of 22 months.

Speculative stock available in the Brisbane market totals 96,116m², lower over the past quarter as new starts were outweighed by take-up. There is now 37,090m² of completed vacant speculative space with a further 59,026m² of uncommitted speculative stock under construction. There were two smaller additions to speculative space in the past quarter—34 Alloy St, Yatala (3,338m²) and 59 Kingsbury St, Brendale (3,240m²) as smaller scale development is accelerating to cater for demand from smaller businesses.

Total speculative space available decreased to 96,116m² with absorption of 19,882m² and minimal new starts.

### TABLE 1
Brisbane Industrial Available Space 5,000 sqm+ as at January 2017

<table>
<thead>
<tr>
<th>Precinct</th>
<th>Available Space sqm</th>
<th>No. of Buildings</th>
<th>Av. Asking Rent $/sqm</th>
<th>Change Past Qtr sqm</th>
<th>Change Past Year sqm</th>
<th>Building Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Prime %</td>
<td>Secondary %</td>
<td></td>
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<tr>
<td>TradeCoast</td>
<td>201,090</td>
<td>25</td>
<td>111</td>
<td>5,970</td>
<td>63,863</td>
<td>51</td>
</tr>
<tr>
<td>North</td>
<td>57,550</td>
<td>10</td>
<td>116</td>
<td>-2,000</td>
<td>7,879</td>
<td>43</td>
</tr>
<tr>
<td>Greater North</td>
<td>24,026</td>
<td>6</td>
<td>112</td>
<td>3,191</td>
<td>-4,651</td>
<td>87</td>
</tr>
<tr>
<td>South</td>
<td>270,006</td>
<td>36</td>
<td>98</td>
<td>14,163</td>
<td>20,657</td>
<td>34</td>
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<tr>
<td>South West</td>
<td>86,396</td>
<td>11</td>
<td>106</td>
<td>3,359</td>
<td>-9,115</td>
<td>47</td>
</tr>
<tr>
<td>South East</td>
<td>104,490</td>
<td>18</td>
<td>110</td>
<td>10,107</td>
<td>23,929</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>743,558</td>
<td>106</td>
<td>106</td>
<td>34,790</td>
<td>102,562</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Knight Frank
Building Take-up

Take-up, excluding D&C, was at above average levels in Q4 2016, representing three consecutive quarters of above average absorption. Take-up was 90,394m² from 18 properties with the majority of leases in smaller or mid-sized properties ie Santa Fe Wridgeways (5,288m²) and Neumann Steel (3,000m²). The South dominated take-up, followed by the TradeCoast, which are also the precincts with the greatest vacancy.

The properties absorbed had been available for an average of 17.8 months (median 12), made up of 12.7 months for prime and 21.9 months for secondary space. While five of the properties were leased quite quickly (within six months) the average was boosted by a number of properties on the market for two years or more. While prime space had the greatest take-up with 54% of the space leased, secondary at 46% (42,024m²) had its highest result in more than a year. The largest take-up was at Export Motorway Estate, Lytton where speculative space of 10,482m² was taken by MRC and Direct Group and at 39 Kerry Rd, Archerfield where RCR Laser took-up 9,441m² of space.

Take-up remained at above average levels in Q4 at 90,394m², relatively evenly split between prime and secondary.

Outlook

Despite the increase to the total vacancy level, there are encouraging signs in the industrial market. Take-up has been at above average levels for the past three quarters and increasingly there is more demand in the 5,000m² – 8,000m² size range, accounting for eight of the 18 leases, whereas previously demand in this size range had been relatively slow. Take-up within the prime market is expected to continue to outweigh activity for secondary stock with the potential for tenants to upgrade their accommodation to remain one of the major driving forces for relocation during 2017.

The potential for tenants to upgrade their accommodation to remain one of the major driving forces for relocation during 2017.
Time on the market for total properties available has decreased, due to a reduction in the average time available for secondary assets, with the overall average decreasing to 15.7 months from 16.3 months in the previous quarter. This remains weighted by longer vacancies with the median time on the market now sitting at 12 months for both prime and secondary grades. Overall the average time available for prime stock is 14.3 months compared with secondary at an average of 16.9 months. As shown in Figure 7, the larger prime buildings continue to have the lowest average time on the market.

Despite the recent increases to the total vacancy, there remains a healthy pipeline of industrial space requirements in the market, and while newly built speculative accommodation or pre-commitment stock is still well placed to absorb the majority of these larger requirements, this continues to promote activity and liquidity within the market.