Further rental growth is recorded in the Brisbane Industrial and Logistics market

1.5%	▼ c.84,800 sqm	▼ c.79,400 sqm	▶ 5.8%
QLD annual population growth F24-33[1]	New Industrial Supply 2Q24	Gross Take-Up 2Q24	Super Prime Midpoint Yield

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up fell by one-third compared to last quarter, totalling c.79,400 sqm. Manufacturing occupiers dominated lease activity in 2Q24.
- New floorspace added to the market in 2Q24 totalled c.84,800 sqm, down 43% q-o-q. The CY2024 pipeline is expected to total close to 670,000 sqm, with 40% of this floorspace pre-committed.
- Brisbane's industrial rents increased further over the quarter. Super prime, prime and secondary average net face rents increased by 4.4%, 6.4% and 8.7% (q-o-q), respectively.
- Land values over 2Q24 appreciated by approximately 9% and 17% q-o-q for 0.25 ha lots and 1.6 ha lots, respectively.
- Investment transaction volumes in Brisbane's industrial market decreased in 2Q24, totaling AUD225 million (for transactions ≥ AUD 5 million).
- Yields have remained unchanged over the quarter– with the midpoint yield in 2Q24 for super prime grade assets remaining at 5.8% across the Brisbane market.

1. Deloitte Access Economics
Source: CBRE Research Q2 2024

Demand

Take-up has slowed, with volumes below the quarterly average

Gross take-up over 2Q24 decreased by 28% compared to the levels recorded the previous quarter, with around 79,400 sqm (transactions >4,000 sqm) of floorspace leased.

Take-up volumes are normalising across the Brisbane market (like other Eastern Seaboard markets), with 2Q24 take-up levels over 50% below the total recorded in 2Q23. Subdued business sentiment, heightened pressures on consumer spending and rental uplifts have driven this slowdown in take-up volumes. In addition to this, the demand pool for larger assets (i.e. > 10,000 sqm) is beginning to weaken as there is relatively more supply in the development pipeline being delivered in the size range of 10,000-15,000 sqm. With occupiers having more leasing options then what has been experienced over 2022 and 2023, generally decision-making has become more delayed.

Over half of the total floorspace leased this quarter was within existing assets, with 30% due to pre-leasing activity.

Notable transactions in 2Q24 included:

- BlueScope Distribution in the North precinct (c.17,000 sqm)
- Sime Darby Motors in the Trade Coast (c.13,900 sqm)
- A pre-lease by Logoline in the North (c.9,000 sqm)

Occupier demand for additional space is forecast to continue softening in the near term as occupiers reconsider expansion requirements in the face of softer consumer sentiment. Higher interest rates and ongoing pressures of cost-of-living has continued to impact retail trade performance, subsequently slowing down floorspace demand for expansionary purposes. Gross take-up however may pick-up in 2H24 as there becomes more availability in the market. Average vacancy for Brisbane has risen from 1.4% in 2H23 to 2.7% in 1H24.

Manufacturing sector contributes to half of leasing transactions over the quarter

Demand for space in 2Q24 was contributed by occupiers within the Manufacturing (51%), Wholesale Trade (25%), followed by Retail Trade (11%) industry sectors.

FIGURE 1: Brisbane Gross Take-Up by Precinct

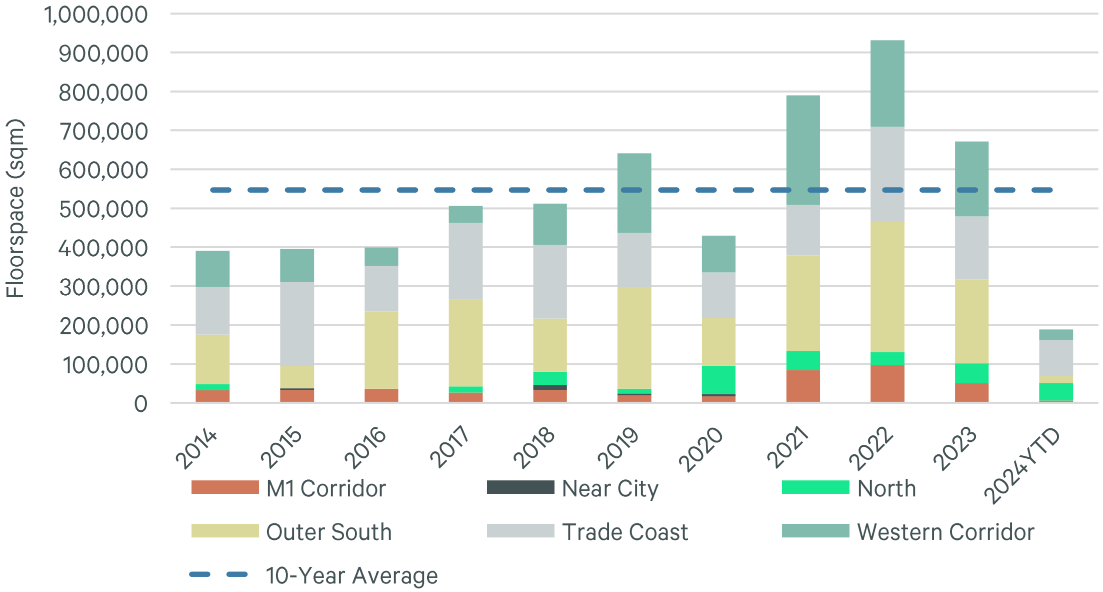
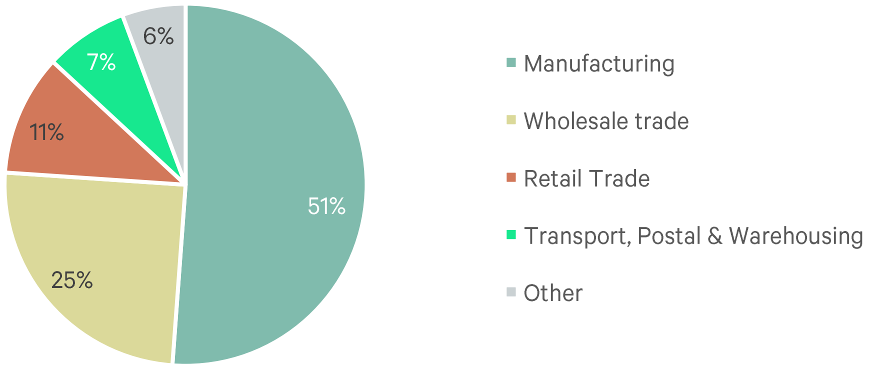


FIGURE 2: Brisbane Quarterly Take-up by Floorspace



To note: Reflects transactions >4,000 sqm.
Source: CBRE Research

Supply

Supply pipeline in 2024 set to total almost double the long-run average

New floorspace added to the market in 2Q24 totalled c.84,800 sqm, down from the 147,600 sqm completed in 1Q24. A large proportion of the new supply in the 2024 pipeline is forecasted to be delivered in 2H24.

The largest development completed over the quarter was the 520-538 Wembley Road Warehouse Building (c.26,000 sqm) located in Berrinba (Outer South). Also added to the market was Building 4 (c.26,000sqm) of the Acacia Ridge Business Park located at 30 Fox Road (Outer South).

New developments completed over 2Q24 have been concentrated in the Outer South (66%), M1 Corridor (20%) and Western Corridor (14%).

Off the back of higher construction costs, developers are requiring higher rents to ensure new projects are feasible. This is likely to lead to lower supply in the coming years.

Around 20% of the 2024 pipeline is expected to be delivered next quarter, with the following notable projects expected to reach projection completion in 3Q24:

- Ellison Estate, Ellison Road North (c.34,600sqm)
- 40 & 60 Charles Ulm Place Warehouse building, Gateway North (28,000sqm)
- The Link Industrial Park warehouse, Sherbrooke Road Outer South (c.28,000sqm)

Looking forward, there is currently c.435,500 sqm of stock currently under construction and scheduled for completion over 2H24. Over half of this supply for 2H24 is pre-committed. Most of the supply expected to be delivered for the remainder of 2024 will be added to the Western Corridor (32%) and Outer South (25%).

The CY2024 pipeline is expected to total c.667,900 sqm, which is close to double the long-run average. The 2025 pipeline is also forecast to total above the 10-year average, with a current pre-commitment rate of almost a quarter.

FIGURE 3: Brisbane Development Supply Pipeline

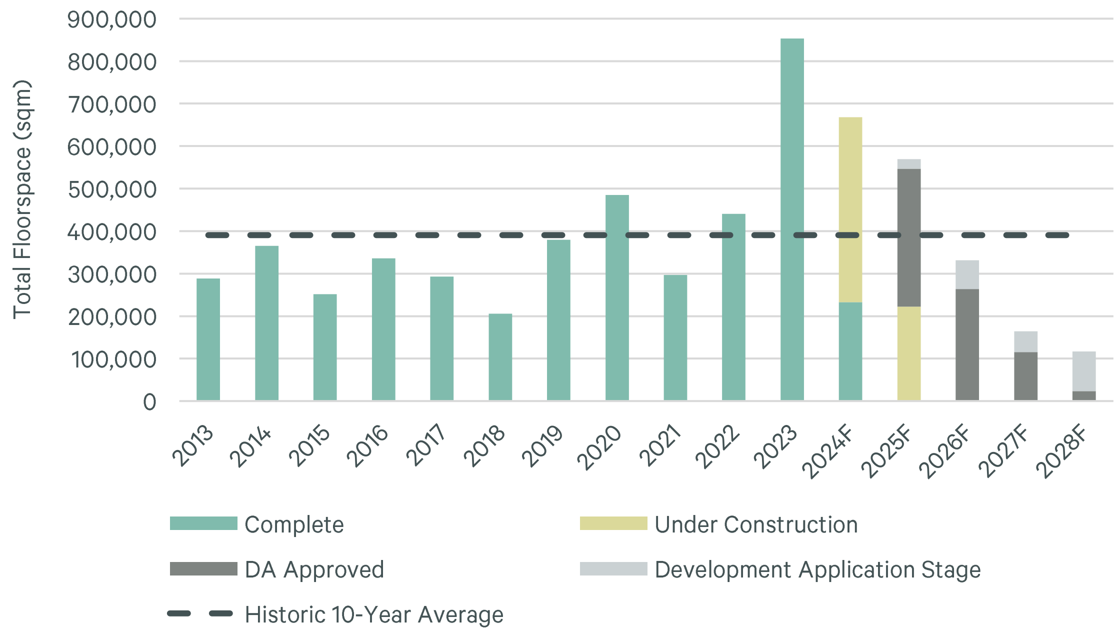
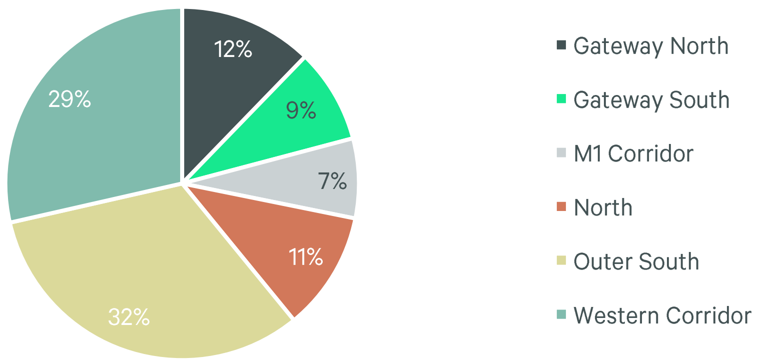


FIGURE 4: Precinct share of new developments completing in 2024, by floorspace



To note: Reflects new projects >4,000 sqm.
Source: CBRE Research

Leasing Market

Rental growth continues across Brisbane

Brisbane's rental uplift has been around 12 months delayed when compared to the Sydney and Melbourne markets. Hence why we have still recorded further rental growth. In addition, Queensland has experienced the highest construction cost inflation of any state, as such, pre-lease rents continue to rise to meet feasibilities of new developments. We forecast Brisbane rents will stabilise for most precincts in the coming quarters given that vacancy rates are expected to continue to trend upwards.

Super prime, prime and secondary net face rents increased by 4.4%, 6.4% and 8.7% (q-o-q), respectively. The largest q-o-q growth for super prime grade assets was recorded within the North precinct (+6.2%), due to the lack of space available.

Recent activity in the occupier market and tight vacancy has seen strong y-o-y growth in net face rents across the ATC, M1 Corridor, and Western Corridor. The largest y-o-y growth for prime grade assets was recorded within the M1 Corridor, increasing by 25%. Additionally, elevated rents notable within the Gateway North and South precincts can be attributed to a severe lack of undeveloped land supply available.

Although the average vacancy rate in Brisbane increased to 2.7% (as at 1H24), new developments continue to attract strong demand from occupiers looking for premium and efficient warehouse spaces.

Despite rents increasing, incentives also moved upwards across all asset classes over the quarter. Over 2Q24, super prime and prime incentives both increased by 2.5 percentage points to a new average of 15%. Due to mismatched rental expectations between landlords and occupiers, landlords have raised incentives to retain existing and attract new tenants. We expect incentives to continue to further rise over the next 6-12 months across all precincts and grades.

FIGURE 5: Prime Brisbane Rent Growth, y-o-y

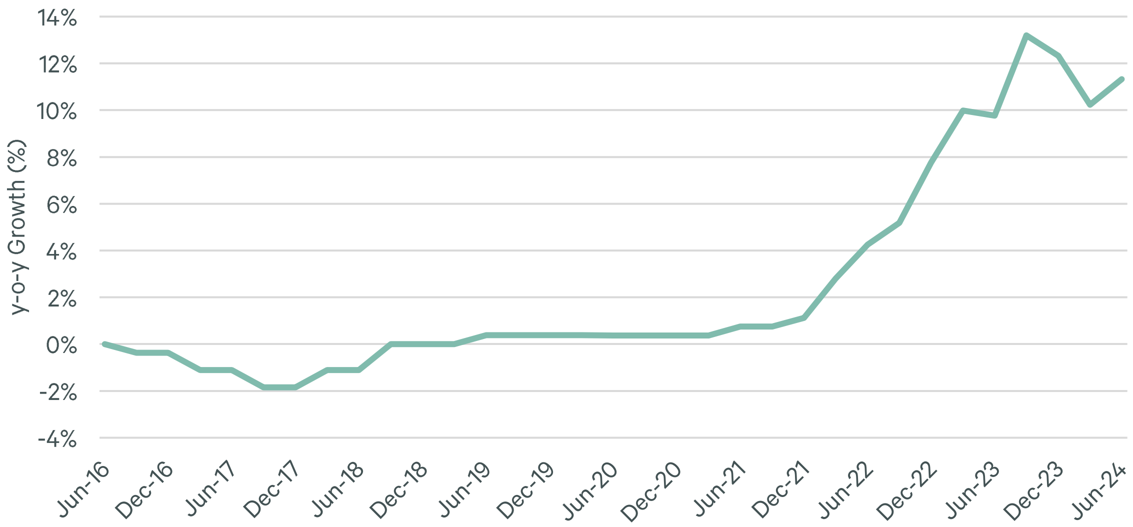
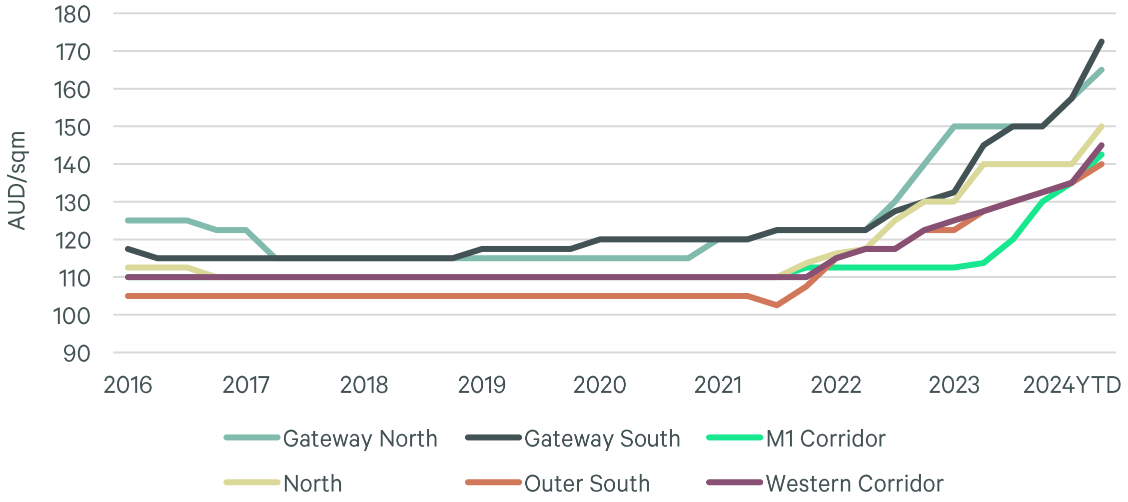


FIGURE 6: Brisbane Average Prime Net Face Rent, by Precinct



Source: CBRE Research Q2 2024

Land Values

Land values continue to increase across precincts

With strong demand for developable industrial land and tight supply in Brisbane's core industrial precincts, land values for both fully serviced small (0.25ha) and large (1.6ha) lots have continued to increase. Average land values over 2Q24 appreciated by approximately 9% and 17% q-o-q for 0.25 ha lots and 1.6 ha lots, respectively.

The share of land absorption has been concentrated within the Outer South and Western Corridor precincts. Given that the Near City, Trade Coast and North precincts are relatively more constrained, we expect the M1 Corridor, Outer South and Western Corridor market to continue to capture the bulk of demand.

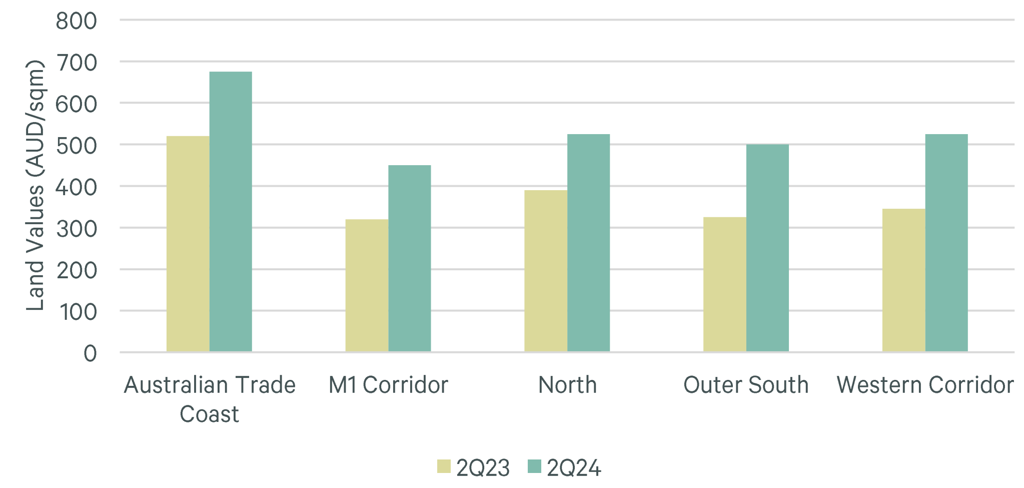
Over the last 12 months land values for 1.6 ha lots have increased by 38% (y-o-y) to an average of AUD 558/sqm. The smaller 0.25 ha lots across the Brisbane industrial precincts increased by 19% y-o-y to an average of AUD 640/sqm. The M1 Corridor, Outer South and Wester Corridor precincts have recorded the strongest land value appreciation in both small and large lots, increasing by an average of 30%, 35% and 42% (y-o-y), respectively.

Having the highest level of land constraints, land values within the ATC and North continue to show growth, recording an average land value rate of AUD 739/sqm and AUD 563/sqm, respectively.

There is currently around 6,490 ha of zoned industrial land within the Brisbane Region. Only 11% of this total (or 728 ha) has been identified as undeveloped and serviced. The Western Corridor has the largest share of undeveloped serviced land supply, equating to 203 ha (or 27%. While the North precinct has the lowest share of undeveloped service land availability (9%).

FIGURE 7: Average Land Values (0.25 ha lots), by precinct

FIGURE 8: Average Land Values (1.6 ha lots), by precinct



Source: CBRE Research

Investment Market

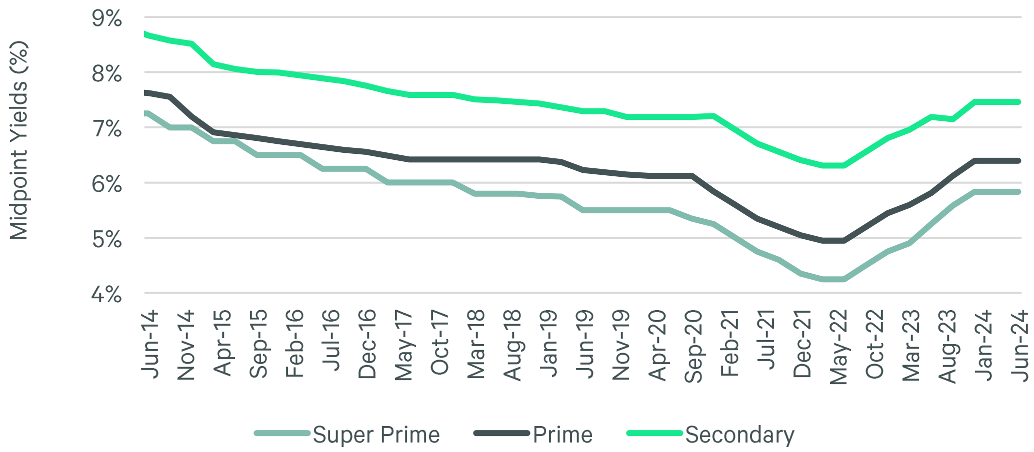
Transaction volumes continued to slow in 2Q24

Investment transaction volumes in Brisbane's industrial market slowed in 2Q24. Industrial sales over the quarter totalled AUD 225 million (for transactions ≥ AUD 5 million), representing a 32% decline compared to 2Q23. This decrease can be attributed to higher interest rates and uncertainty among buyers about pricing. Despite this, transaction activity is expected to improve over the next 6-12 months, following potential rates cuts and increased buyer certainty. We are seeing continued demand from interstate investors, who already have a presence in Sydney and Melbourne, as well as smaller syndicates.

The most notable transaction over the quarter was the sale of 45 South Pine road by Charter Hall to Trilogy Funds Management for AUD 29 million.

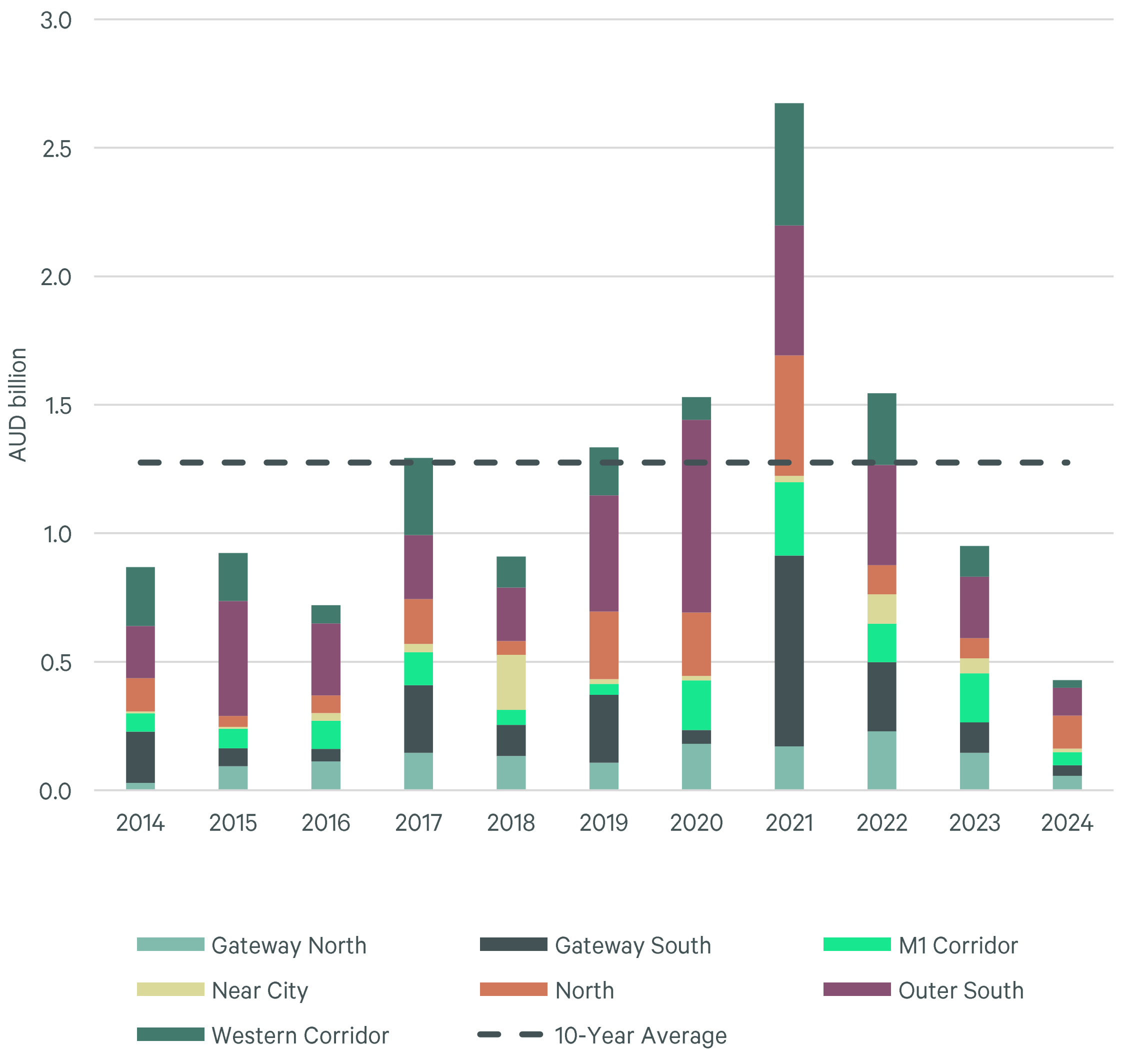
Yields have remained stable over the quarter – with the midpoint yield in 2Q24 for super prime assets in Brisbane at 5.8%.

FIGURE 9: Midpoint Brisbane Yields, by asset grade (2013-2024YTD)



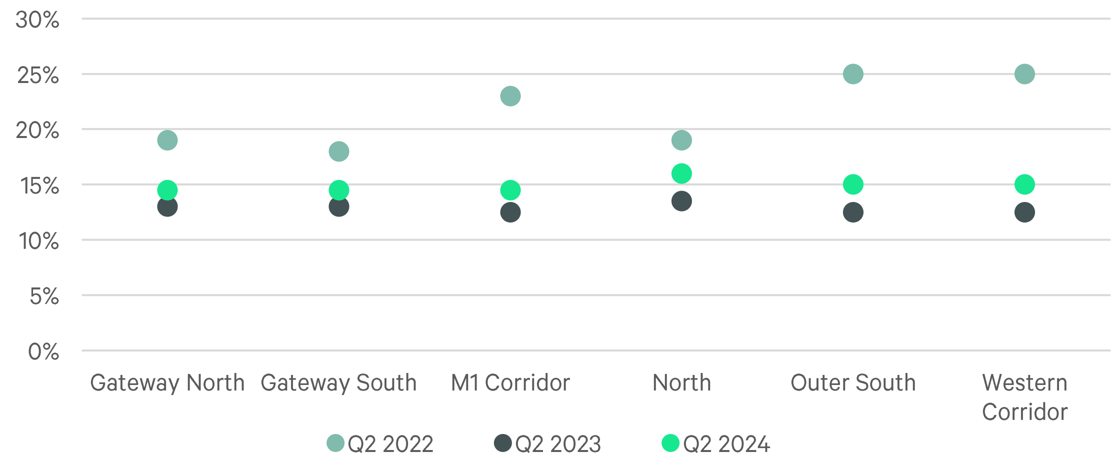
Source: CBRE Research

FIGURE 10: Brisbane Industrial Sales (greater than AUD 5 million)



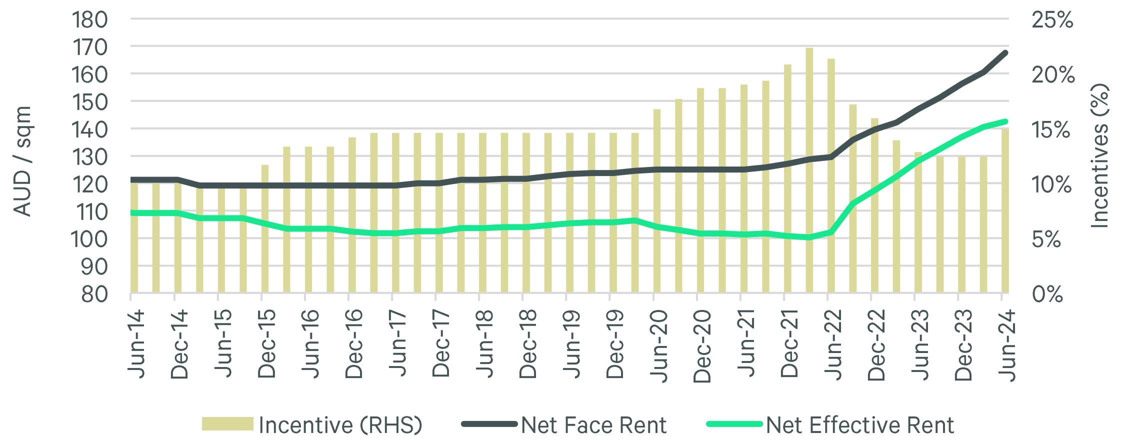
Source: CBRE Research

FIGURE 11: Prime Incentives, by Precinct and Year



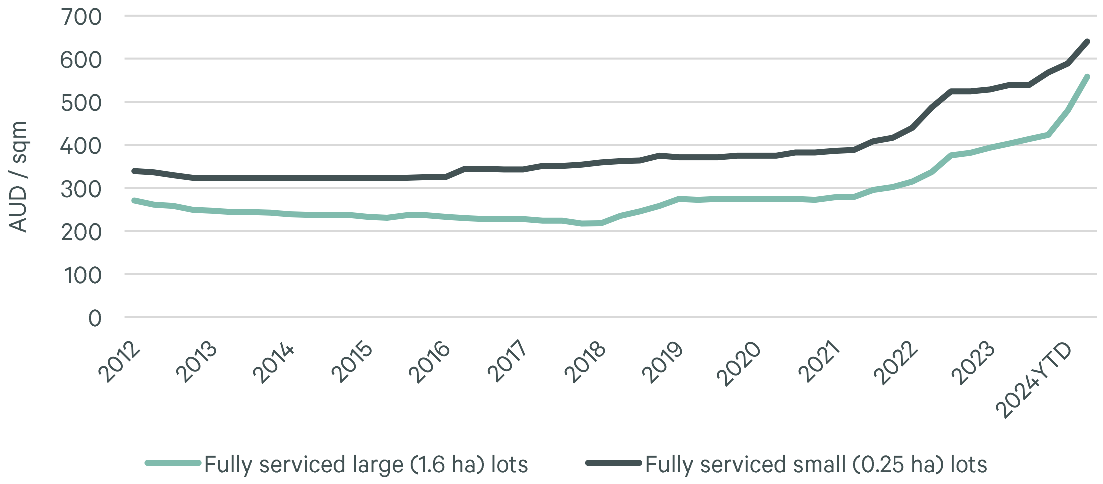
Source: CBRE Research

FIGURE 13: Average Brisbane Super Prime Rents and Incentives (2014-2024YTD)



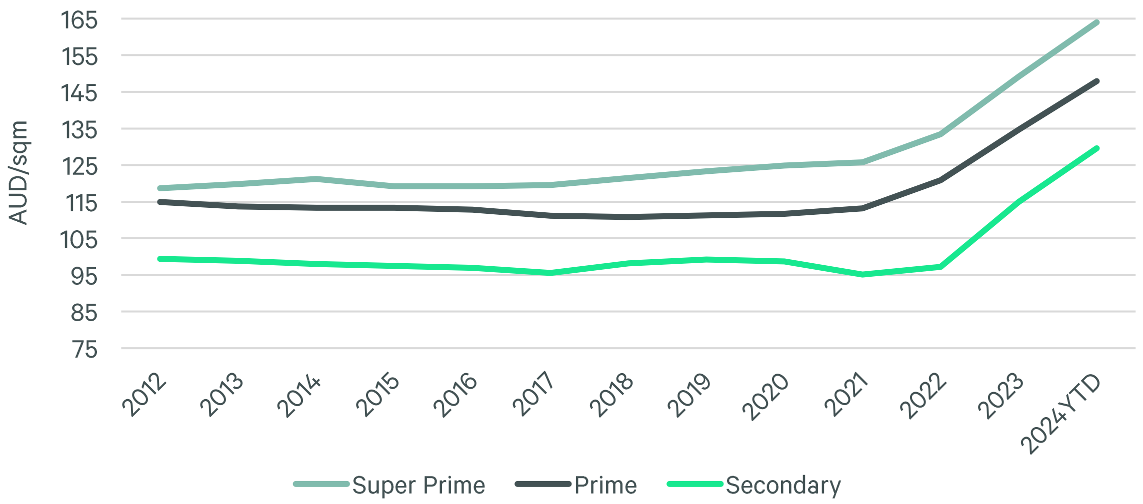
Source: CBRE Research

FIGURE 12: Brisbane Average Land Values



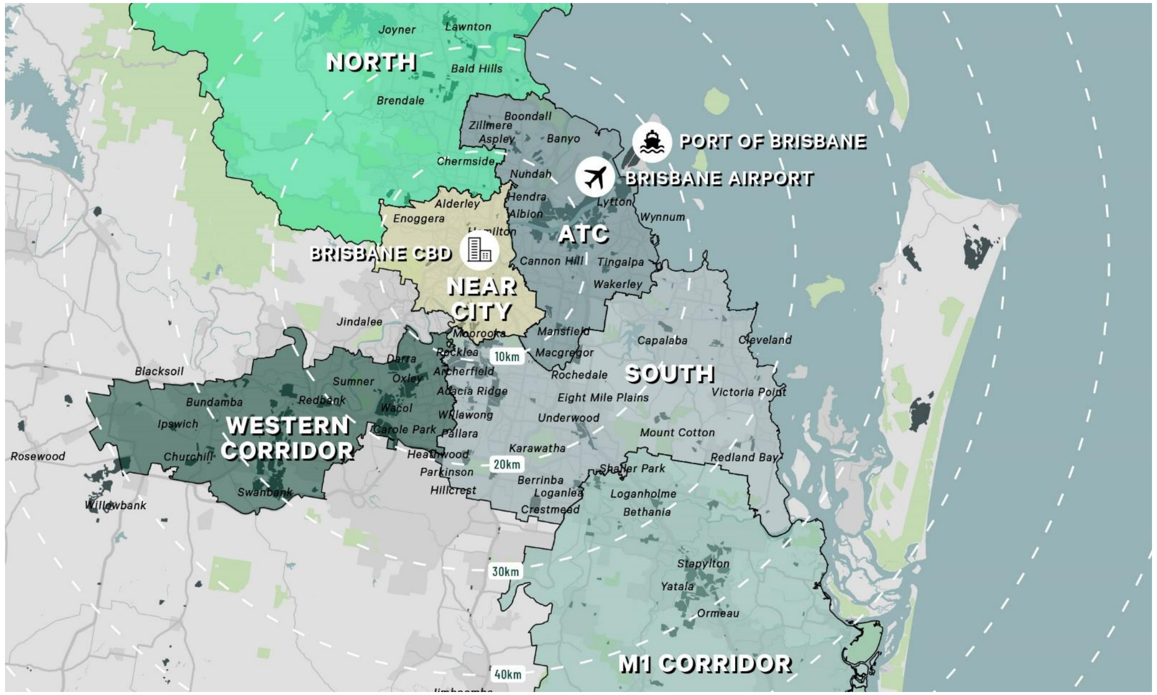
Source: CBRE Research

FIGURE 14: Brisbane Average Rent by Asset Grade



Source: CBRE Research

Market Area Overview



Definitions

Super Prime:
Less than 6 years old, height clearance between 13.7m and 14.6m. Buildings showcasing design excellence with combination of ESFR sprinklers and docks / on-grade doors, as well as strong truck articulation for loading/unloading.

Prime:
Generally, between 6 and 15 years old, height clearance over 10m and up to 13.7m.

Secondary:
Buildings that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

Contact

Sass Jalili
Head of Industrial & Logistics Research Australia
Director of NSW Research
Sass.jalili@cbre.com

Charlotte Fordyce
Research Analyst QLD
Charlotte.fordyce@cbre.com