Brisbane rents continue to rise, with vacancy remaining tight

1.5%
QLD annual population growth FY23-28[1]

▼ **c.136,000 sqm**
New Industrial Supply 1Q24

▼ **c.104,000 sqm**
Gross Take-Up 1Q24

▶ **5.8%**
Super Prime Midpoint Yield

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up activity fell 34% Q-o-Q, totalling c.104,000 sqm.
- New floorspace added to the market in 1Q24 totalled c.136,000 sqm, down 37% Q-o-Q. The CY2024 pipeline is expected to total c.800,000 sqm, with 32% of this floorspace pre-committed.
- Brisbane's industrial rents continued to grow in 1Q24, with high demand and vacancy remaining tight. Super prime, prime and secondary net face rents increased by 2.7%, 3.0% and 3.5% (Q-o-Q), respectively.
- Land values for 0.25 ha and 1.6 ha lots recorded upward movements, increasing by 0.54% and 15% Q-o-Q, respectively. Most of this growth was contributed within the Outer South and Western Corridor precincts.
- Investment transaction volumes in Brisbane's industrial market totalled AUD 155 million (for transactions ≥ AUD 5 million).
- Yields have remained unchanged in the quarter– with the midpoint yield in 1Q24 for super prime assets remaining at 5.83% across the Brisbane market.

1. Australian Government Centre for Population Projections.
Source: CBRE Research Q1 2024

Demand

Take-up volumes below the quarterly average

Total leased space over the quarter was relatively low, declining 34% Q-o-Q, totalling c.104,000 sqm. However, the lower take-up levels are consistent with historical trends seen in Q1 activity. 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. As a result, occupiers are beginning to have more choice than has been the case over the past two years and are holding off leasing decisions. Almost 70% of the total floorspace leased this quarter was within existing assets, with 50% due to pre-leasing activity.

The most significant transaction (by floorspace) this quarter was a pre-lease deal by DSV Air & Sea, committing to 16,000 sqm at Egret Street, Port of Brisbane (Trade Coast). Another lease transaction that occurred this quarter was a deal by GLT Trailers taking up 13,800 sqm at 2/39 Silica Street Carole Park (Western Corridor).

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. A further hinderance on take-up activity is the extremely low vacancy rate in Brisbane, which currently averages 1.4% (as at 2H23). In spite of this, we expect vacancy levels to rise over the next 12 months and this may lead to greater gross take-up activity.

Demand for space in 1Q24 was contributed by occupiers within the Manufacturing (49%), Transport, Postal and Warehousing (35%) and Retail Trade (12%) industry sectors.

FIGURE 1: Brisbane Gross Take-Up by Precinct

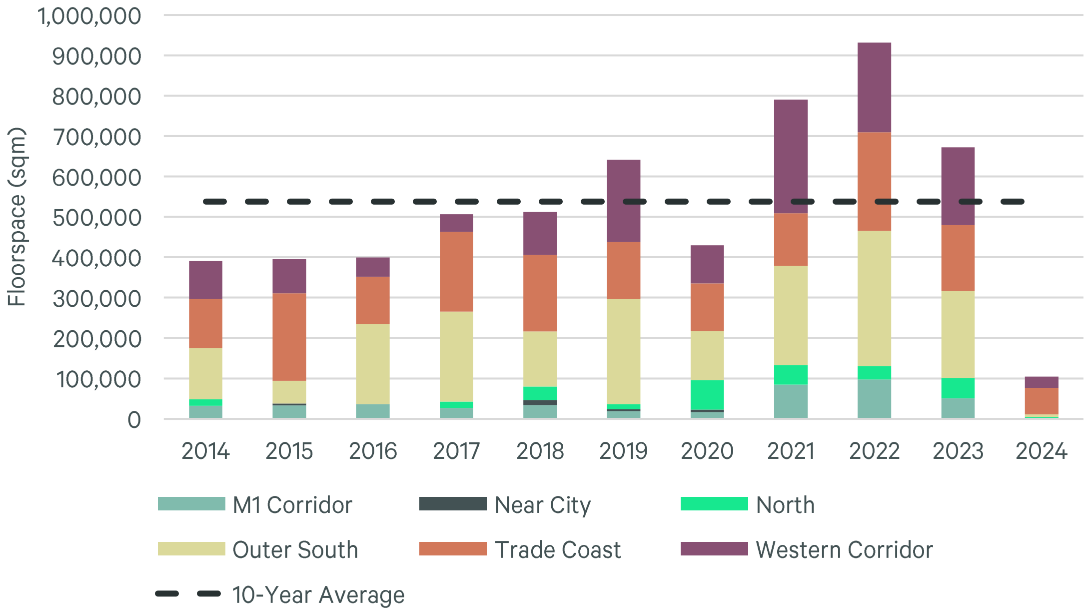
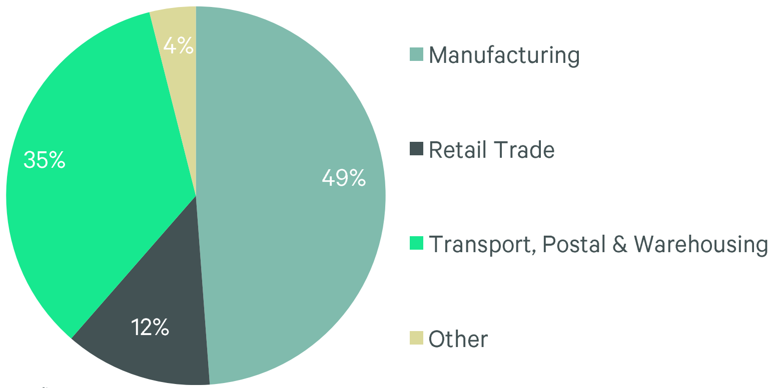


FIGURE 2: Brisbane Quarterly Take-up by Floorspace



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

Supply

Wave of new supply expected to come online over 2024

New floorspace added to the market in 1Q24 totalled c.136,000 sqm, down 37% Q-o-Q.

The largest development completed over the quarter was Stage 1 of the Crossbank Industrial Estate (44,664 sqm) located at Anton Road, Hemmant (Gateway South). Also added to the market was Ceva Logistics 36,000sqm Distribution Warehouse located at Gilmore Road (Outer South).

New developments completed over the quarter have been concentrated in the Outer South (37%), Western Corridor (32%) and Gateway North (16%).

Off the back of higher construction costs, developers are requiring significantly 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 2Q24:

- Acacia Ridge Business Park (Building 4), Acacia Ridge, Outer South (28,000sqm)
- The Link Industrial Park Warehouses, Outer South (28,000sqm)
- Wembley Road Warehouse Building, Berrinba, Outer South (26,000sqm)

Looking forward, there is currently c.800,000 sqm of stock currently under construction and scheduled for completion in 2024. As of 1Q24, around a quarter of this supply is pre-committed. Most of the supply expected to be delivered for the remainder of 2024 will be added to the Outer South (37%) and Western Corridor (32%).

The CY2024 pipeline is expected to total c.800,000 sqm, which is double the long-run average. Despite the 2025 pipeline also forecast to total above the 10-year average, it is important to note that 74% of this is DA Approved and completion may be pushed into the 2026 pipeline.

FIGURE 3: Brisbane Development Supply Pipeline

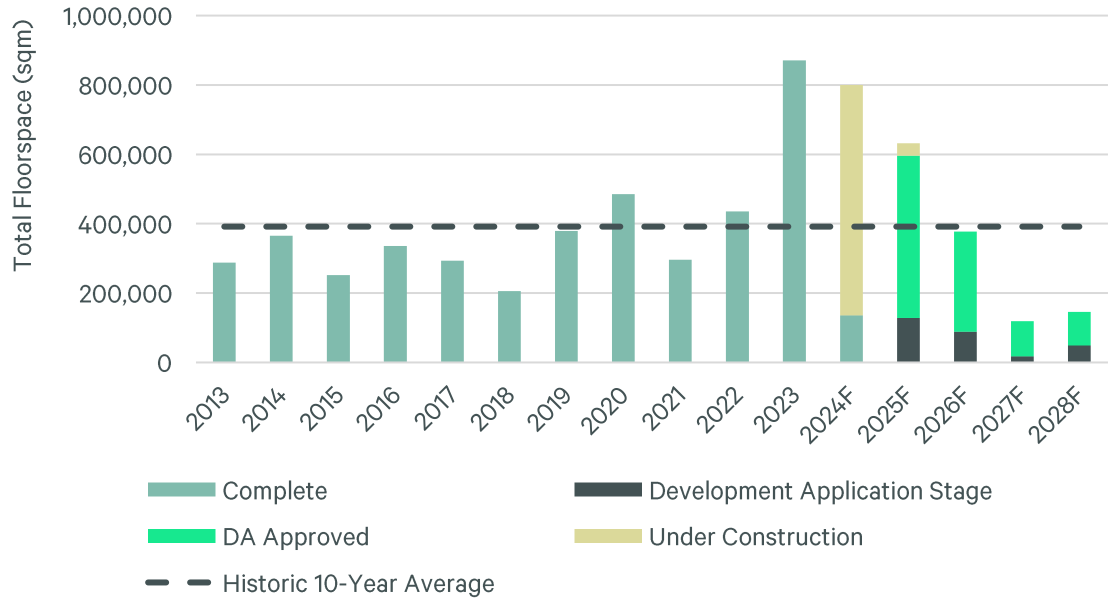
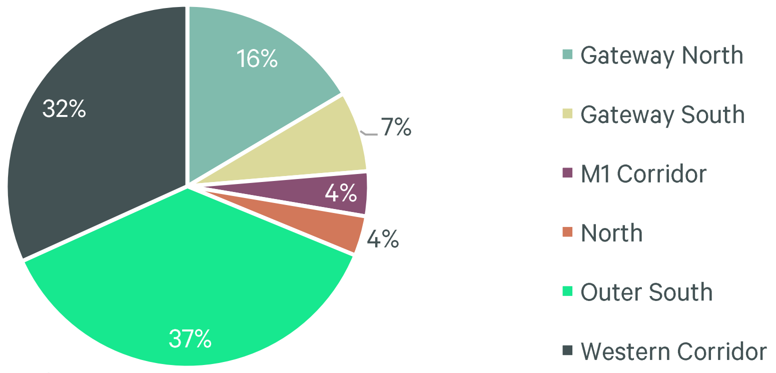


FIGURE 4: Precinct share of new developments completing in 2024, by floorspace



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

Leasing Market

Rents continue to rise

Brisbane's industrial rents continued to grow in 1Q24, as vacancy remains low. Super prime, prime and secondary net face rents increased by 2.7%, 3.0% and 3.5% (Q-o-Q), respectively. The largest Q-o-Q growth for super prime grade assets was recorded within the M1 Corridor (+5.4%), due to the lack of space available.

Recent activity in the occupier market and tight vacancy has seen strong year-on-year growth in net face rents across the ATC, North, Outer South and Western Corridor precincts. The largest Y-o-Y growth for prime grade assets was recorded within the M1 Corridor, increasing by 35%. Additionally, elevated rents notable within the Gateway North and South precincts can be attributed to a severe lack of undeveloped land supply available.

We expect Brisbane rents to continue to grow at above historic rates over 2024-27 due to solid population growth, limited land supply availability, as well as continued demand for space by large occupiers that already have a presence in Sydney and Melbourne. However, rents may stabilise in the short term as large volumes of stock comes online over the next 12 months.

Incentives throughout 1Q24 remained stable with super prime, prime and secondary incentives averaging 12%. We expect incentives to rise over the next 12 months due to the elevated levels of new supply being added to the market. Brisbane recorded upward movement in the vacancy rate between 1H23 and 2H23, however remains relatively tight at 1.4%. Although movements are not significant, we expect this increase to continue throughout 2024, as greater supply enters the market.

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

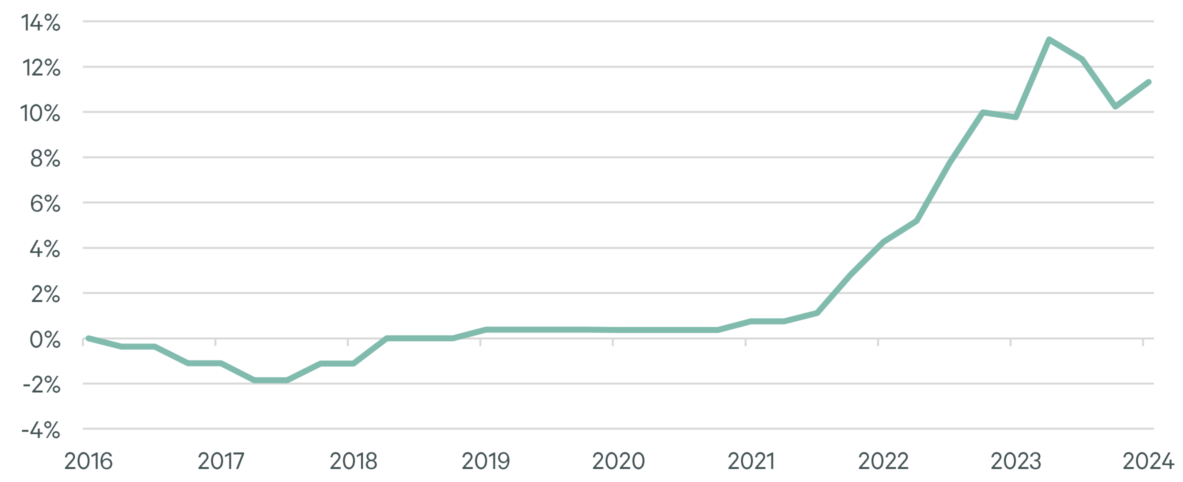
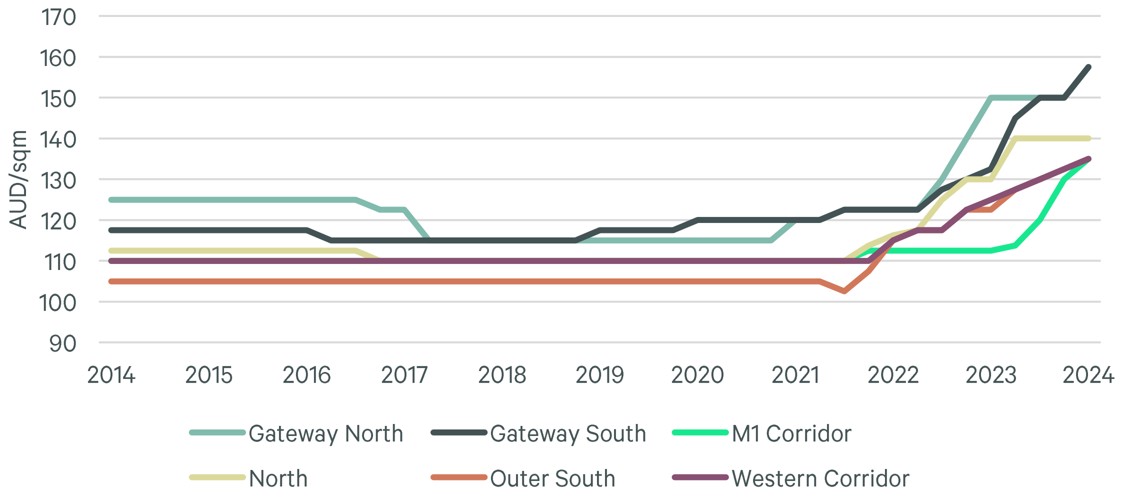


FIGURE 6: Brisbane Average Prime Net Face Rent, by Precinct



Source: CBRE Research Q1 2024

Land Values

Land values rise across the broad, due to lack of supply

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 increased significantly.

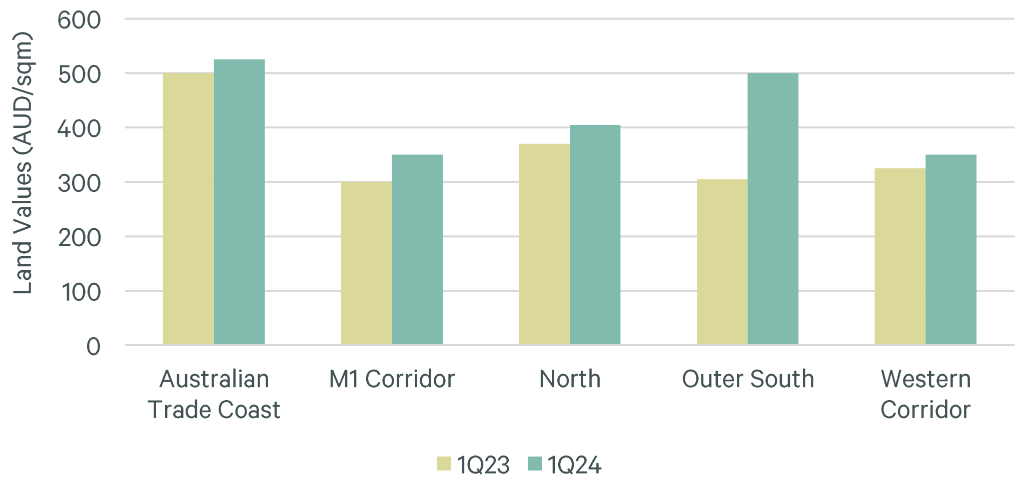
The share of land absorption has been concentrated within the Outer South and Western Corridor precincts. Given that the Near City, Trade Coast, North and M1 Corridor precincts are relatively more constrained, we expect the Outer South and Western Corridor market to continue to capture the bulk of demand.

In 1Q24, land values for 0.25 ha and 1.6 ha lots recorded upward movements. Most notably for large lots (1.6 ha), average land values increased by 15% on both a quarterly and yearly basis to an average of AUD 443/sqm. The smaller 0.25 ha lots across the Brisbane industrial precincts increased by 0.54% Q-o-Q, and 3% Y-o-Y, to an average of AUD 542/sqm. Most of the growth in both small and large lots was contributed within the Outer South and Western Corridor precincts, increasing by an average of 33.8% and 8.4%, respectively. Although the North, M1 Corridor and ACT precincts showed some growth in land values over 1Q24, they continue to have the highest level of land constrains. Land values within the inner areas of the Australian Trade Coast precinct remain elevated at an average of AUD 619/sqm, due to the lack of serviced industrial zoned land.

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

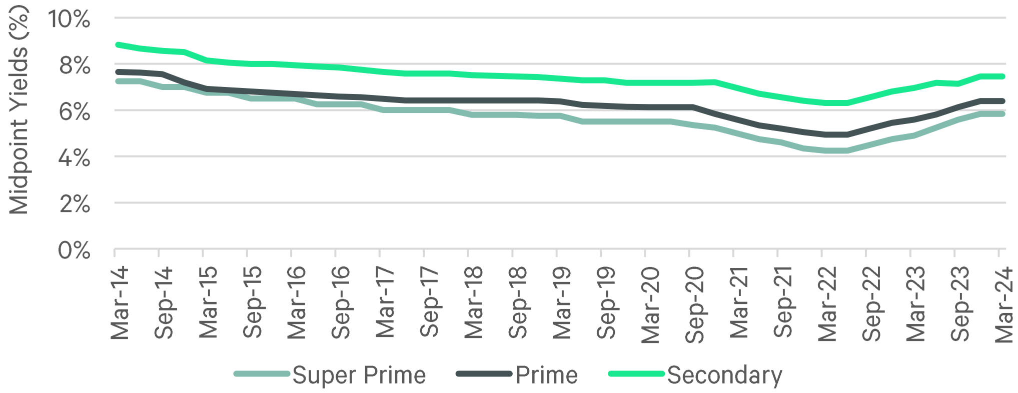
Transaction volumes slowed in 1Q24 following typical Christmas slowdown

Investment transaction volumes in Brisbane's industrial market slowed in 1Q24. Transaction volumes over the quarter totalled AUD 155 million (for transactions ≥ AUD 5 million), representing a 7% decline compared to 1Q23. This decrease can be attributed to higher interest rates and uncertainty among buyers about pricing. Despite this, transaction activity is expected to improve towards the end of 2024 with the potential for rate cuts.

The most notable transaction over the quarter was the sale of three industrial investments by CapitaLand Ascendas REIT to AshMorgan for AUD 73 million. The largest of the deal was the AUD 27.84 million sale of 77 Logistics Place, Larapinta at a passing yield of 6.4%.

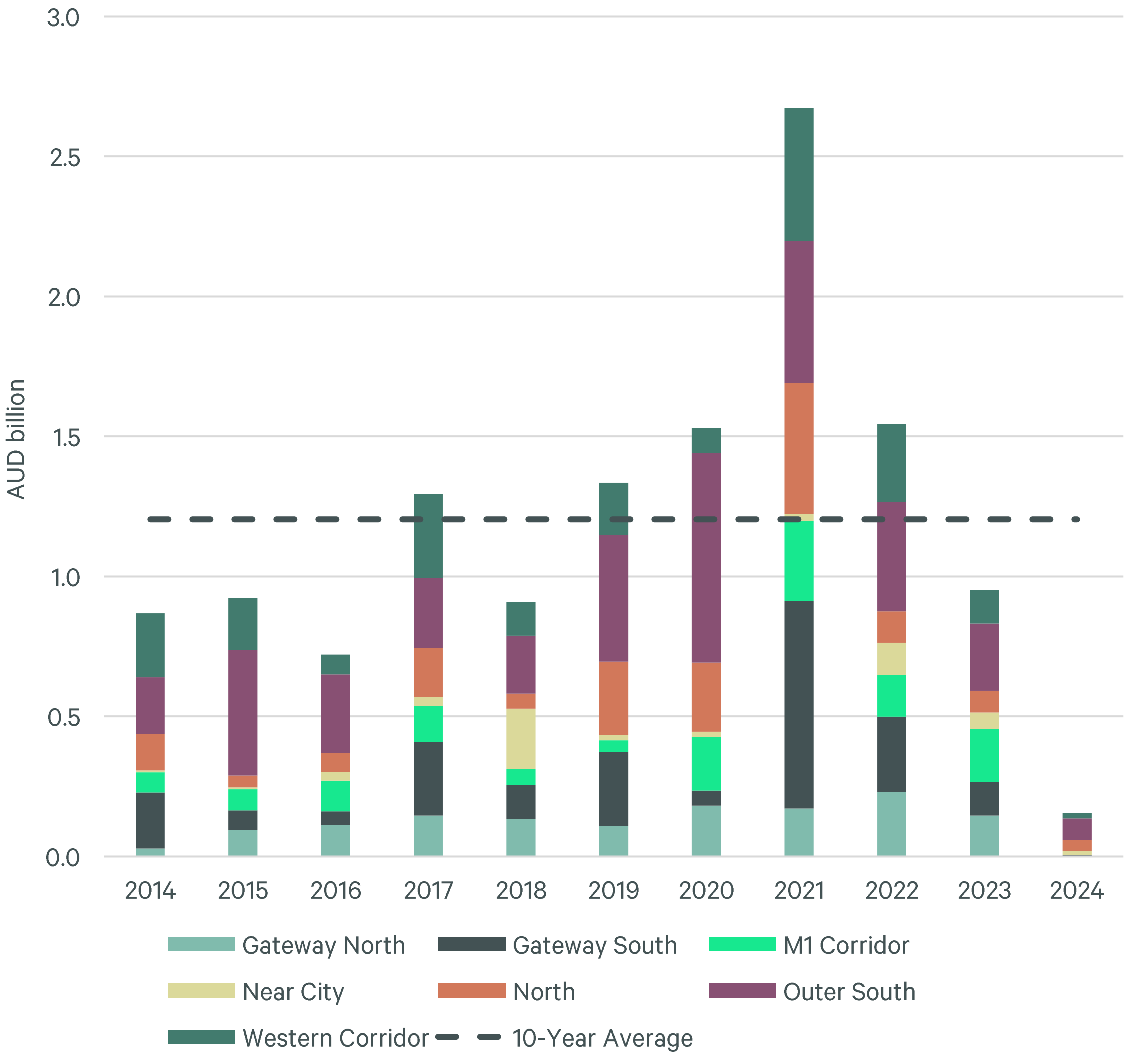
Yields have remained relatively stable over the quarter – with the midpoint yield in 1Q24 for super prime assets remaining at 5.83% for the Brisbane market. Industrial yields have held steady due to interest rates stabilizing. There has been a significant increase in capital costs off the back of historic lows.

FIGURE 9: Midpoint Brisbane Yields, by asset grade (2013-2023)



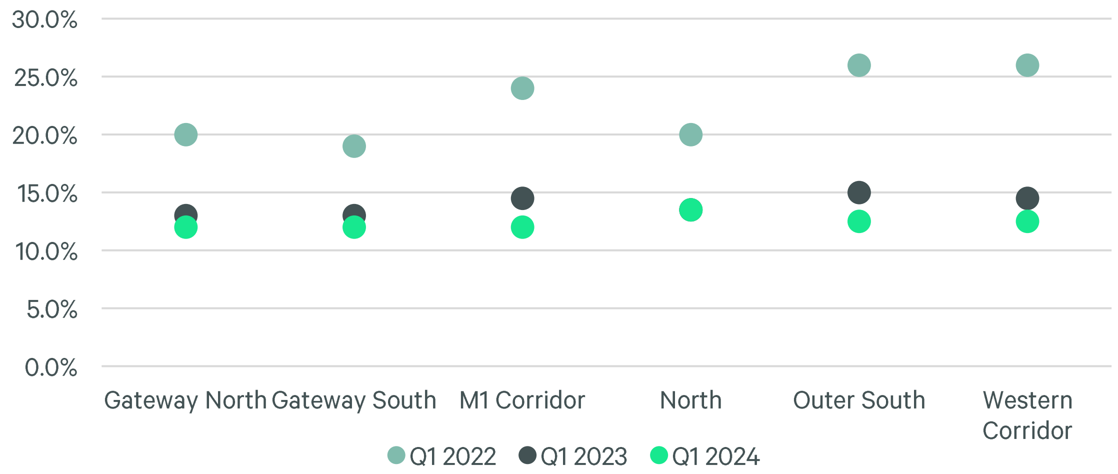
Source: CBRE Research

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



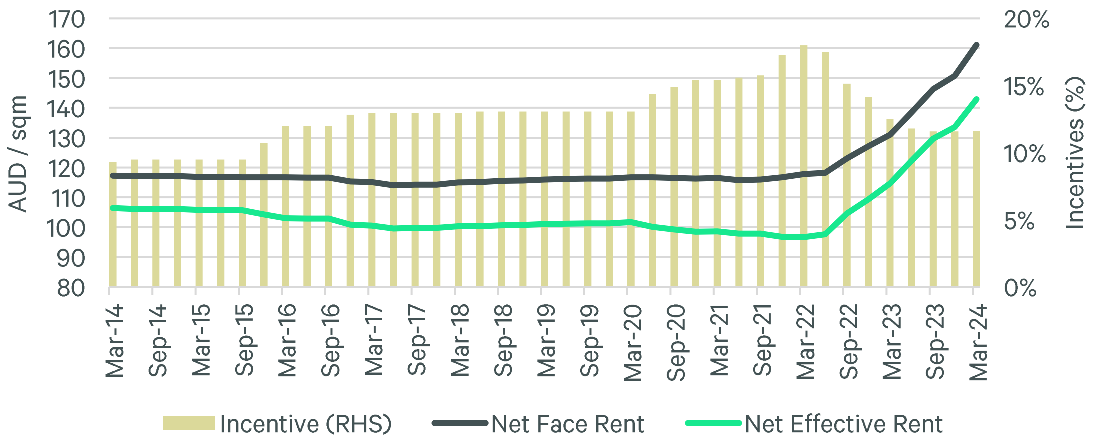
Source: CBRE Research

FIGURE 11: Prime Incentives, by Precinct and Year



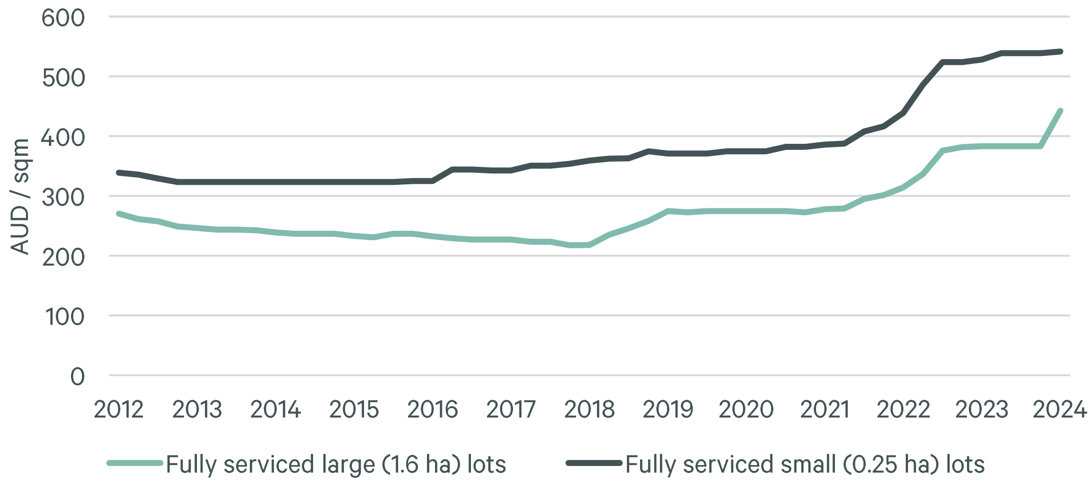
Source: CBRE Research

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



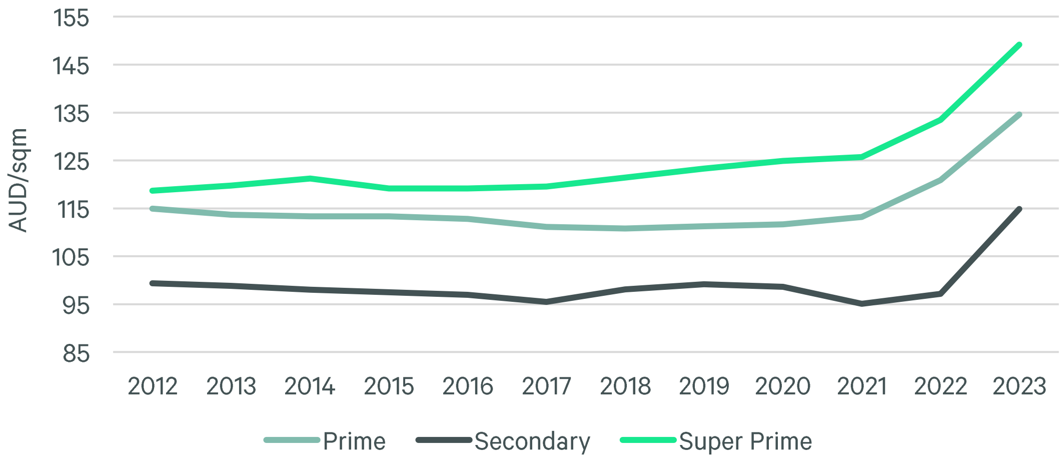
Source: CBRE Research

FIGURE 12: Brisbane Average Land Values



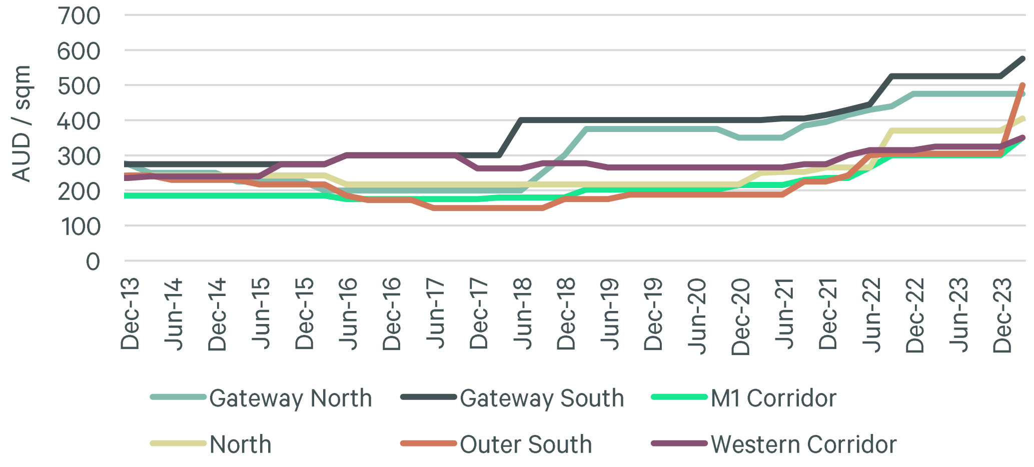
Source: CBRE Research

FIGURE 14: Brisbane Average Rent by Asset Grade



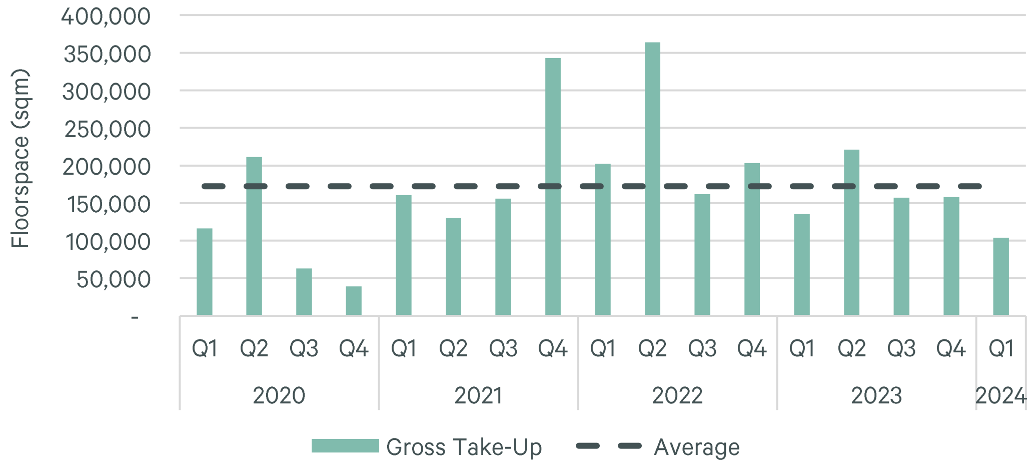
Source: CBRE Research

FIGURE 15: Average Land Values (1.6 ha lots), by Precinct (2013-2024)



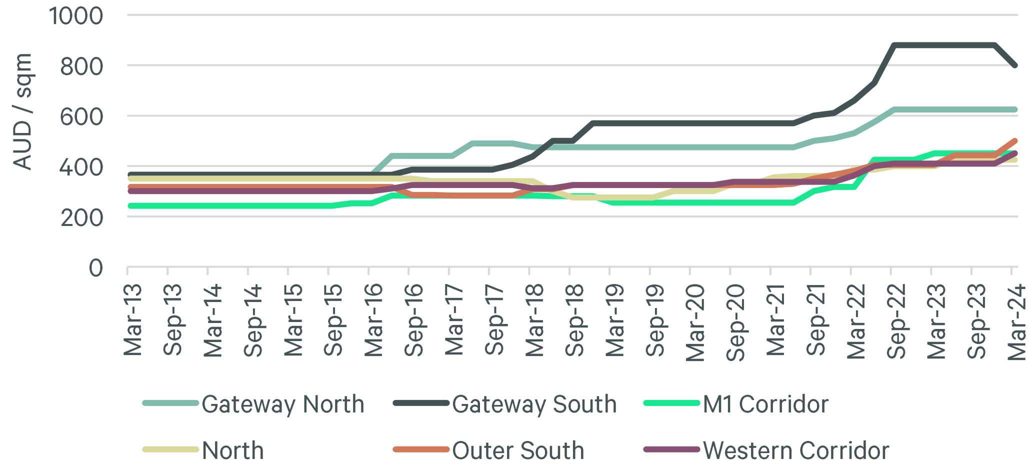
Source: CBRE Research

FIGURE 16: Take-up by Industry Sector, Brisbane 2024



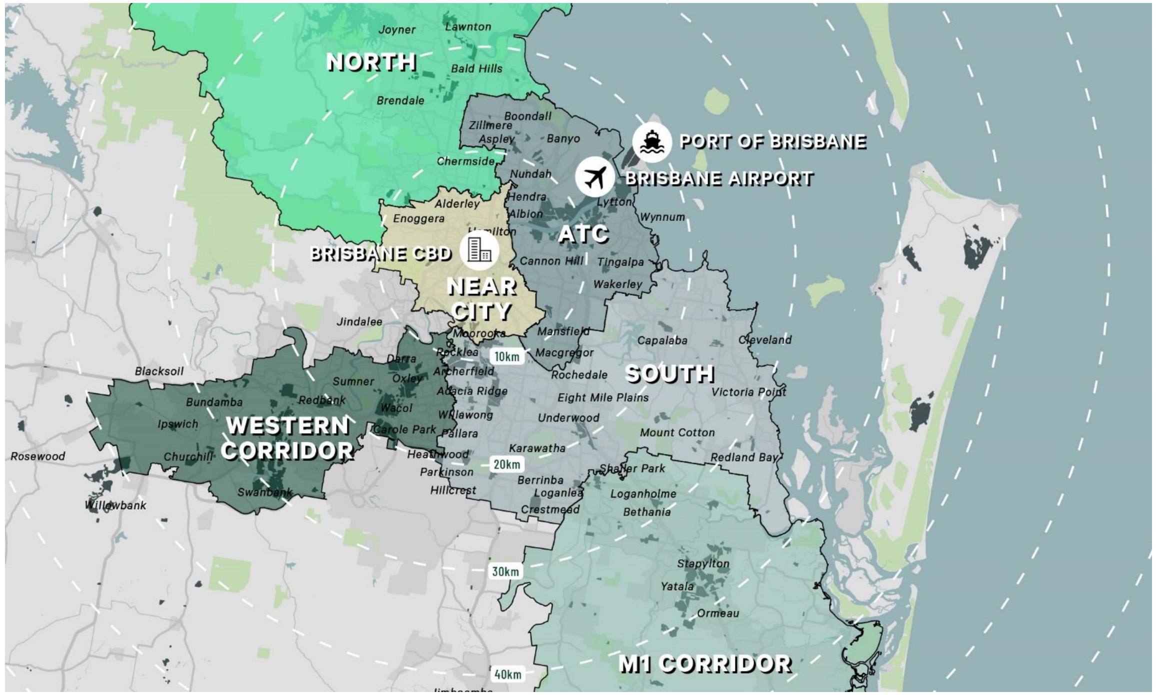
Source: CBRE Research

FIGURE 17: Average Land Values (0.25 ha lots), by Precinct (2013-2024)



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.

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