



# Brisbane Industrial Property Market Forecasts and Strategies 2011 – 2021



EXTRACT TO INDICATE THE GENERAL NATURE OF THE REPORT

COMMERCIAL PROPERTY



## Contents

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Introduction and major objectives of this report .....	3
1.2 Report outline.....	4
<b>2. DEMAND IN THE BRISBANE REGION .....</b>	<b>5</b>
2.1 Key points .....	7
2.2 The macroeconomic framework.....	8
2.2.1 The Australian economy: Current state of play .....	8
2.2.2 The Australian economy: Outlook .....	9
2.2.3 The Australian economy: Risks to our forecasts .....	11
2.2.4 The Queensland economy: Current state of play .....	12
2.2.4 The Queensland economy: Outlook .....	12
2.3 Demand for industrial space .....	15
2.3.1 Overview .....	15
2.3.2 Underlying demand for industrial space: current state of play .....	15
2.3.3 Underlying demand for industrial space: Outlook.....	17
<b>3. SUPPLY IN THE BRISBANE REGION .....</b>	<b>19</b>
3.1 Key points .....	21
3.2 Current state of play.....	23
3.3 Outlook for new construction .....	24
<b>4. REGIONAL PATTERNS OF DEMAND AND SUPPLY .....</b>	<b>29</b>
4.1 Key points .....	31
4.2 Brisbane’s industrial regions .....	32
4.3 Industrial land in Brisbane/South East Queensland .....	36
4.3.1 Vacant industrial land .....	36
4.3.2 Take-up of industrial land: current state of play.....	37
4.3.3 Take-up of industrial land: outlook.....	38
4.4 Industrial land values .....	39
4.5 Infrastructure .....	40
4.6 The influence of Government.....	41
<b>5. RENTS, YIELDS AND VALUES .....</b>	<b>43</b>
5.1 Key points .....	45
5.2 Industrial rents.....	46
5.2.1 Current state of play for industrial rents.....	46

5.2.2	Prospects for industrial rents .....	47
5.2.3	Short to medium term outlook.....	49
5.2.4	Regional variation .....	51
5.3	Yields and capital values .....	53
5.3.1	Current state of play for yields and values .....	53
5.3.2	Prospects for yields and values .....	54
<b>6.</b>	<b>INVESTMENT ISSUES.....</b>	<b>57</b>
6.1	Key points .....	59
6.2	Overview .....	60
6.3	Prospective investment returns.....	61
6.4	Comparisons with other property sectors .....	63
<b>APPENDIX</b>		
	Methodology.....	A-1

## Tables

Table I:	Strategy matrix .....	vi
Table II:	Historic and forecast rents, values and IRRs.....	ix
Table 2.1:	Key economic indicators, Australia and Queensland .....	7
Table 2.2:	Queensland Industrial Property Demand Index and its components, 1987 to 2021 .....	14
Table 3.1:	Key supply indicators .....	21
Table 3.2:	Brisbane Industrial Property Supply Index and its components, 1987 to 2021 .....	26
Table 4.1:	Vacant industrial land, Brisbane industrial region.....	37
Table 4.2:	Industrial land take-up scenarios, 'Core8'* region (December 2009).....	38
Table 4.3:	Access, land availability and land prices, Brisbane industrial regions (June 2011) .....	40
Table 5.1:	TradeCoast key rent, yield and value indicators.....	45
Table 5.2:	TradeCoast industrial rents, capital values and yields, 2007 to 2021 .....	48
Table 5.3:	Outlook for net rents, Brisbane industrial property .....	49
Table 5.4:	Southern Brisbane industrial rents, capital values and yields, 2007 to 2021 .....	50
Table 5.5:	Northern Brisbane industrial rents, capital values and yields, 2007 to 2021.....	52
Table 5.6:	Major Brisbane industrial sales, 2011 .....	54
Table 6.1:	Historic and forecast rents, values and IRRs.....	60
Table 6.2:	Strategy matrix.....	62
Table A.1:	Rental equation, real rents as dependent variable .....	A–5
Table A.2:	Yield equation, YIELD as dependent variable .....	A–6

## Charts

Chart I:	5 year IRR, market price vs. investment value, contribution to capital gain, TradeCoast, 1998 to 2021 .....	ii
Chart 2.1:	Queensland industrial property demand, 1986 to 2021.....	6
Chart 3.1:	Brisbane industrial property demand and new supply, 1986 to 2021 .....	20
Chart 3.2:	Warehouse and factory approvals, Brisbane industrial regions, 2000 to 2011 .....	22
Chart 5.1:	TradeCoast industrial property rentals, yields and values in current prices, high tech, prime and secondary, 1998 to 2021 .....	44
Chart 6.1:	5 year IRR, market price vs. investment value, contribution to capital gain, TradeCoast, 1998 to 2021 .....	58



## 1. INTRODUCTION

### 1.1 Introduction and major objectives of this report

*Brisbane Industrial Property 2011 to 2021* is BIS Shrapnel's 10th comprehensive forecasting report on the Brisbane industrial market. Within it we analyse future demand for and supply of industrial space, and their implications for property rentals, prices and investment returns.

After experiencing a boom of unprecedented magnitude last decade, the Brisbane industrial market went into a steep downturn post GFC. Both demand and construction collapsed, leaving the market oversupplied with space and land and taking its toll on the leasing and investment markets. Rents declined, yields blew out and prices fell sharply, reaching a trough (in most parts of the market) towards the end of 2009.

Since then, the market has remained relatively flat. An initial rebound in 2010 fuelled hopes of a quick recovery, with industrial space users coming back to the market and making decisions with regard to their accommodation needs. Unfortunately, it proved to be short lived. A string of domestic interest rate rises, sovereign debt problems in Europe, a struggling world financial system, political unrest in the Middle East/North Africa, natural disasters and damaging political wrangling in Canberra affected consumer and business confidence and caused the Australian economy to slow.

While the resources sector remains very strong, the winding back of federal and state government stimulus spending has caused a drop in investment and construction activity in Queensland. A stagnant residential market and fear of further interest rate rises saw retail expenditure stall, with consumers ramping up precautionary saving instead.

All of these factors have had a negative impact on underlying demand for industrial space. Instead of planning for rising stock levels and factory output, most space users are still engaged in dealing with past events, i.e. their prime motivation is the pursuit of efficiency rather than expansion.

Accordingly, the leasing market remains weak. While there is some upgrader demand, few space users are prepared to underwrite new projects, either as tenants or as owner/occupiers. Industrial construction remains stuck at 10 year lows, as does land take-up.

Meanwhile, the investment market remains patchy. After a string of large (national) portfolio sales in 2010, investor demand has weakened. A-REITs remain largely absent, preferring to develop rather than purchase.

In this environment, business success depends on making the right decisions. To do this it is essential to have a clear view about how the market will perform in the short and medium term. Our study provides market players with a carefully thought through analysis of what factors will influence the recovery in the Brisbane industrial market, the timing of the recovery and the regions that will benefit—all of which will assist market participants with investment, leasing, development and planning decisions.

Within the study, we assess the outlook for the Queensland economy and its impact on the demand for and supply of industrial space in Brisbane. We address the implications for rents, yields and investment returns for different grades of industrial property. Unlike other commentators, we look beyond the current weak patch to assess prospects over the medium to long term.

We examine in detail the following questions:

- When will businesses start to expand again and what will be the major drivers?
- When will construction recover? What will happen to land values and construction costs and how long will the tight financial conditions persist?
- Where will construction take place in the short to medium term and does the Brisbane market have sufficient stocks of vacant land to accommodate future demand for industrial space?
- When will rental growth recover and what will trigger it?
- When will funds flow back into the sector and what are the preconditions for this?
- Will yields continue to firm and what are their chances of once again reaching the extremely low levels of the last boom?
- What opportunities does the current market present? Is now a good time to enter the market, be it for investment, development or as an owner-occupier?
- How does Brisbane industrial property compare with other property investment opportunities?

## 1.2 Report outline

- The **Executive Summary** provides a concise summary of our findings with respect to the industrial property market, including our forecasts of rents, yields, values and investment returns.
- In **Chapter 2** we examine demand issues within the Brisbane region. We provide an outlook of the Australian and Queensland economies over the coming 10 years, before identifying and forecasting the principal drivers of demand for industrial space. Our conclusions determine aggregate demand for industrial space to 2021.
- **Chapter 3** analyses supply issues within the Brisbane region. We focus on the drivers of supply affecting construction feasibility, including space demand, land prices, construction costs and development finance. We discuss the current state of play and outlook for both factory and warehouse construction over the 10 years to 2021.
- Within **Chapter 4** we look at the drivers of regional demand and supply. We examine characteristics of individual regions, issues of land supply and land costs, as well as the supply of and access to infrastructure. We also look at the adequacy of long term industrial land reserves and the role of government in encouraging industrial activity in south-east Queensland.
- In **Chapter 5** we draw on the findings of Chapters 2 to 4 to analyse and forecast prime, secondary and high tech rents, yields and property values in both current and constant price (inflation adjusted) terms.
- **Chapter 6** examines the prospects for investment returns from Brisbane industrial property and the implications for property strategy for a variety of players. We seek to answer the question: Is Brisbane industrial property a good investment?
- Finally, the **Appendix** provides an overview of our forecasting methodology.



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