



## RESEARCH

# FEBRUARY 2013 MELBOURNE INDUSTRIAL VACANCY ANALYSIS

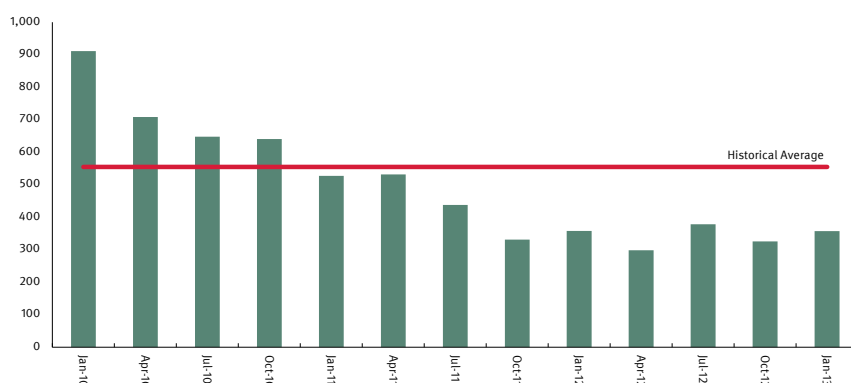
**Knight Frank**

Although the level of vacant stock within the Melbourne industrial market has increased marginally over the past quarter to January 2013, it still remains well below the historical average. Accordingly leasing activity in the three months to January 2013 was relatively subdued.

**VACANT STOCK  
LEVELS REMAIN  
LOW WITH  
357,225M<sup>2</sup> OF  
SPACE, 36%  
BELOW THE  
AVERAGE.**

The total amount of space available (>5,000m<sup>2</sup>) increased by 31,916m<sup>2</sup> in the fourth quarter of 2012, as a number of speculative buildings commenced with construction buoyed by a number of recent tenant commitments Vacancy in both prime and secondary accommodation increased.

Figure 2  
Melbourne Industrial Market  
'000m<sup>2</sup> available space - January 2010 to 2013



Source: Knight Frank

Table 1

### Summary of Available Industrial Space – January 2013

Market	Available Space (m <sup>2</sup> )	Number of Buildings	Av. Asking rent (\$/m <sup>2</sup> net)	Change past quarter (m <sup>2</sup> )	Change past 6 months (m <sup>2</sup> )	Change past 12 months (m <sup>2</sup> )
<b>Precinct</b>						
Fringe	6,800	1	75	-7,943	-7,943	-31,136
North	108,999	12	66	19,493	34,397	33,767
East	23,321	2	80	0	-12,240	15,235
South East	98,837	11	67	10,223	36,952	-5,059
West	119,268	11	67	10,143	-72,018	-13,351
<b>Total</b>	<b>357,225</b>	<b>37</b>	<b>68</b>	<b>31,916</b>	<b>-20,852</b>	<b>-544</b>
<b>Building Quality</b>						
Prime	110,901	11	81	9,566	-16,504	-18,247
Secondary	246,324	26	63	22,350	-4,348	17,703
<b>Building Type</b>						
Existing Stock	284,201	31	66	3,165	-33,301	-38,487
Speculative (Completed)	6,661	1	75	0	0	-18,460
Under Construction	66,363	5	78	28,751	12,449	56,403

Source: Knight Frank

Despite recording a relatively subdued quarter of leasing take up when compared to recent quarters, take up in the West remains strong. In the final quarter of 2012, 58,012m<sup>2</sup> of industrial space was leased across five buildings in the West with all but one being a prime grade building. Overall, some 62% of total space taken up was prime grade space, as prospective tenants' preference for prime grade space remaining steady.

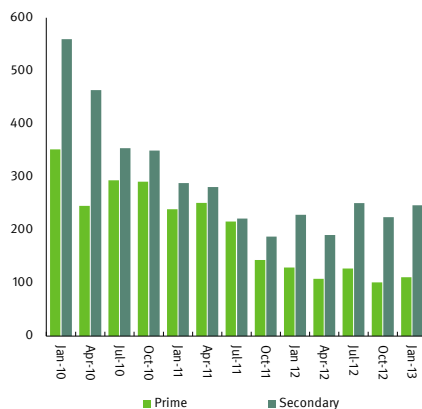
Developers are identifying opportunities due to the high demand for prime grade space, coupled with the disparity in available stock. Developers are increasingly commencing speculative developments, especially within the Western and South Eastern precincts. There were two new speculative developments that commenced in the fourth quarter, accounting for 28,751m<sup>2</sup> of space.



## Quality of Stock

Much like the past 18 months, available space is dominated by the secondary market, with 69% of available stock currently within secondary grade buildings. With the disparity expected to grow over the course of 2013, developers have been active in commencing new projects to capture the high demand for prime grade stock. There are currently five speculative developments (>5,000m<sup>2</sup>) contributing to the 2013 new supply pipeline.

Figure 2  
Melbourne Industrial Available Space  
'000m<sup>2</sup> by grade - January 2010 to January 2013



Source: Knight Frank

Prime accommodation accounts for 31% of available stock. As at January 2013, there are five speculative developments currently under construction. Meanwhile, the amount of quality prime space within existing industrial buildings continued to diminish over the fourth quarter of 2012.

Figure 3  
Melbourne Industrial Available Space  
'000m<sup>2</sup> by type - April 2012 to January 2013



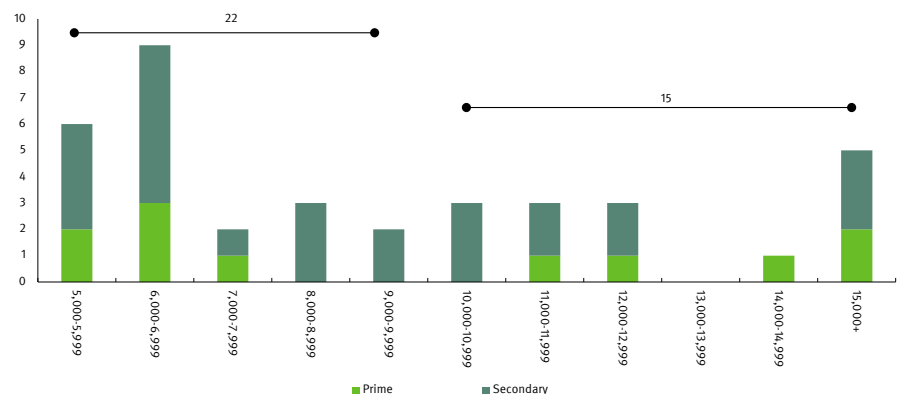
Source: Knight Frank

During the fourth quarter of 2012, the amount of vacant space within existing buildings increased by approximately 6%. While the amount of speculative space completed but yet to be leased remained steady, the amount of available speculative stock under construction increased by 76%. Currently there is 66,363m<sup>2</sup> across five industrial buildings, all of which are located in the Western and South Eastern precincts that are being speculatively developed. Of the three new speculative developments that commenced during Q4-12, two have already been committed to either partly or wholly prior to completion; indicating the high demand for prime accommodation. Exacerbated by the limited options available, Able Imports committed to 14,000m<sup>2</sup> at 169 Australis Drive, Derrimut leaving 16,000m<sup>2</sup> available, whilst two tenants leased a total 12,900m<sup>2</sup> at Lot 10 Boundary Drive, Truganina.

## Distribution by Precinct

The Western precinct has the greatest level of available industrial space as at January 2013, with 119,268m<sup>2</sup>, of which 46% is within prime stock; however the majority of this space is within speculative stock under construction. The Northern precinct continued to hold the second highest level of available industrial stock with 108,999m<sup>2</sup> within 12 buildings. Prime industrial accommodation within the South Eastern precinct remains limited with only one option available in the form of a 17,850m<sup>2</sup> speculative building under construction at Atlantic Drive, Keysborough by Australand, in The Key Industrial Estate.

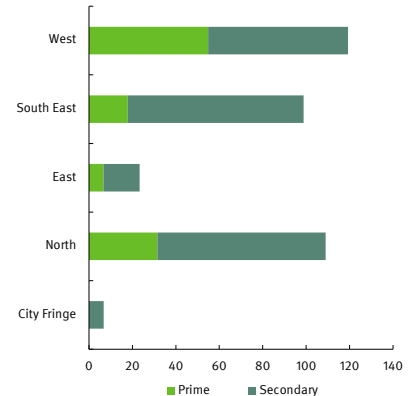
Figure 5  
Melbourne Industrial Available Space  
No of buildings by size of building m<sup>2</sup> and quality - January 2013



Source: Knight Frank

Meanwhile, the East comprises two options available above 5,000m<sup>2</sup>. The City Fringe had two industrial buildings committed; however there is strong leasing activity within office/warehouse space sub 1,500m<sup>2</sup>. There is only one option above 5,000m<sup>2</sup> remaining within the City Fringe precinct.

Figure 2  
Melbourne Industrial Available Space  
'000m<sup>2</sup> by quality & precinct - January 2013



Source: Knight Frank

## Size of Available Stock

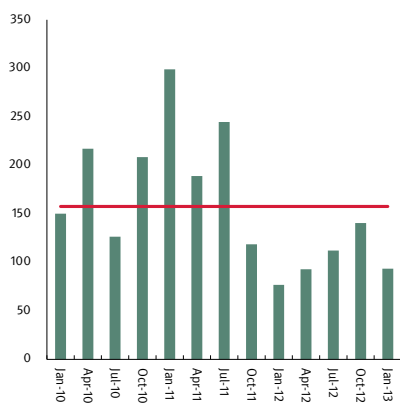
There are currently 15 industrial options available in excess of 10,000m<sup>2</sup>, with only five of these being within prime grade accommodation. There are 22 smaller industrial options (5,000m<sup>2</sup> - 9,999m<sup>2</sup>), six of these being of prime grade quality. With construction activity appearing to pick up over the last half of 2012, prospective tenants looking at upgrading or expanding space will have more prime grade options available in the coming months than previous months.



## Building Take-up

Knight Frank estimates that during the past quarter to January 2013 there were 10 buildings (5,000m<sup>2</sup>) leased totaling 93,456m<sup>2</sup>. Five of the buildings leased were prime grade assets, two of which were either partly or wholly leased prior to completion, while the remaining five were secondary grade. The past quarter recorded a relatively subdued result after three consecutive quarters of increasing take up. The new supply pipeline, and limited prime quality existing stock has likely inhibited demand over the final quarter of 2012.

Figure 6  
Melbourne Industrial Take-up  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

### Methodology:

This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne 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 5,000m<sup>2</sup>.
2. Buildings are categorized into the below three types of leasing options
  - o *Existing Buildings* – existing buildings for lease.
  - o *Speculative Buildings* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
  - o *Under Construction* – buildings available for lease which are being speculatively constructed and will be available for occupation within 12 months.

Data collection and analysis represents a snap shot of market vacancy as at January 2013, the beginning of the first quarter.

### The Melbourne Industrial Property Market has been divided into five distinct industrial precincts, as follows:

<b>Fringe</b>	CBD Fringe; predominantly Port Melbourne
<b>North</b>	Suburbs North of the CBD on the North/East side of the Calder Freeway. Includes areas of Preston, Thomastown, Broadmeadows, Epping, Campbellfield, Somerton, and Tullamarine
<b>East</b>	The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon.
<b>South East</b>	The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham
<b>West</b>	On the Southern-side of the Calder Freeway to incorporate the traditional Industrial areas within the west, including Altona, Laverton, Sunshine, Derrimut, Brooklyn, Ravenhall and Deer Park

[www.knightfrank.com.au](http://www.knightfrank.com.au)

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