

# MELBOURNE

## INDUSTRIAL VACANCY FEBRUARY 2015

### Key Facts

**Vacancy levels continue to increase** with speculative development at record high levels.

**Western region continues to dominate vacancy and take-up levels** across Melbourne's industrial markets.

**Leasing activity** in the quarter at strongest levels since **July 2011**, led by **expanding tenants**.

**Secondary available space** marginally **declined** caused by improved leasing.



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Several backfill options entering the market along with speculative projects under development have seen industrial vacancy rise to 890,636m<sup>2</sup>, outweighing an above historical average absorption of 166,302m<sup>2</sup>.

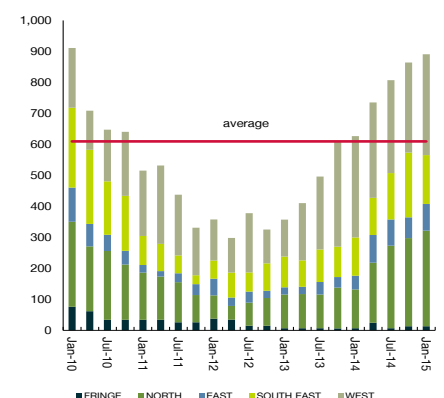
Over the fourth quarter of 2014, the total amount of space available (5,000m<sup>2</sup>+) in Melbourne's industrial market increased by 26,528m<sup>2</sup> to reach 890,636m<sup>2</sup>. As at January 2015, the level of available space in Melbourne's industrial market is at its highest since January 2010, and is 46% above its historical average. Although the vacant space has been on the rise since October 2012, the quarterly growth rate has slowed over 2014; with vacancy levels having increased by only 3.1% in the three months to January 2015.

Available space in existing and completed speculative stock decreased by 6,528m<sup>2</sup> and 6,483m<sup>2</sup> respectively over the three months to January 2015. Increased demand from a number of tenants expanding their operations into adjoining premises resulted in a contraction in vacancy of this stock. In contrast, speculative space currently under construction saw its vacancy increase by 39,539m<sup>2</sup>.

As at January 2015, there were 81 options

available for lease, which on average had been on the market for nine months. Of the total available opportunities, 38 were for prime grade assets.

FIGURE 1  
**Melbourne Industrial Market**  
'000m<sup>2</sup> available space



Source: Knight Frank

## Quality of Stock

In the three months to January 2015, the proportion of prime vacancy increased to represent 49% of the total available space. This reflects a sharp turnaround from two years ago, when prime vacancies accounted for only 31% of the total available space.

Prime vacant space increased by 38,424m<sup>2</sup> to reach 441,757m<sup>2</sup>, slightly lower than that of secondary space at 448,879m<sup>2</sup>. The rise in prime vacancy largely resulted from an increase in speculative construction, as well as additions from backfill space.

Speculative development under construction is at record high levels, and measured 108,071m<sup>2</sup> as at January 2015. Australand is anticipated to build four speculative buildings totalling 47,111m<sup>2</sup>

of industrial space in Altona and Truganina over 2015.

Meanwhile, 24,000m<sup>2</sup> of backfill space is now available at 29 National Drive, Lyndhurst (South East) as Bunnings relocated to its purpose built distribution centre in Salta Properties' Portlink Dandenong South Inland Port Estate.

Secondary space saw a marginal decline of 11,896m<sup>2</sup> over the past quarter, driven by cost conscious tenants seeking affordable facilities in key locations. Elite Logistics leased a 6,079m<sup>2</sup> warehouse at 50-68 Westgate Drive in Altona North, while O'Kelly Group consolidated its operations from various locations to lease 11,010m<sup>2</sup> at 6-24 Monash Drive, Dandenong South on a 10 year lease. Also, Uni Trans absorbed 10,542m<sup>2</sup> of warehouse accommodation at 31-49 Nathan Road in Dandenong South.

## Distribution by Precinct

Over the past quarter, vacancy climbed across the Northern, Eastern and Western regions, with the highest vacancy added to the Western region. Over the past quarter, vacancy in the West increased by 34,624m<sup>2</sup> to now total 324,978m<sup>2</sup> across 29 buildings. The West continues to account for the majority of the vacant stock, followed by the North with 308,060m<sup>2</sup>. The City Fringe maintained stable vacancy levels at 13,600m<sup>2</sup>. In the South East however, vacancy fell by 51,065m<sup>2</sup> as a result of steady levels of leasing activity and the addition of only one backfill option in the precinct.

## Size & Type of Stock

Available industrial space in Melbourne continues to be dominated by warehousing space which now accounts for 90% of the total vacancy. The declining manufacturing sector is increasingly driving conversion of these obsolete facilities for alternate uses.

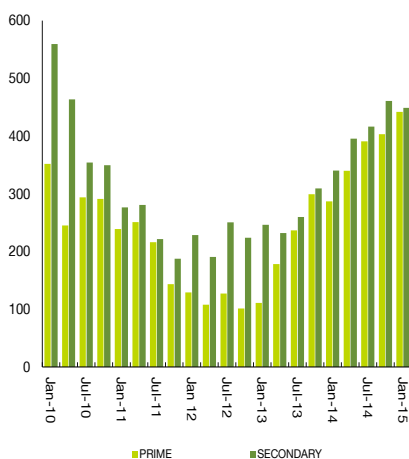
Larger users (>10,000m<sup>2</sup>) have 31 available options, of which 15 are prime properties totalling 291,065m<sup>2</sup> of vacant space, and all categorised as warehousing accommodation. Within the larger options, tenants have a choice of one speculatively built property and five speculative buildings still under construction.

There is more variety for tenants at the smaller end of the market with 50 options smaller than 10,000m<sup>2</sup>, of which 23 are prime buildings.

FIGURE 2

### January 2015 Available Space

'000m<sup>2</sup> prime versus secondary space

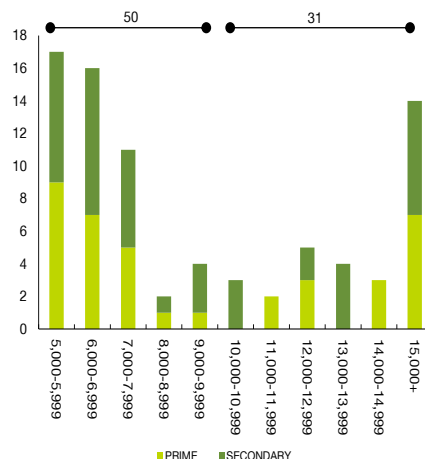


Source: Knight Frank

FIGURE 3

### January 2015 Available Space

No of buildings by size and quality



Source: Knight Frank

TABLE 1

### Melbourne Industrial Available Space 5,000m<sup>2</sup>+ as at January 2015

Precinct	Available Space m <sup>2</sup>	No. of Buildings	Av Asking Rent \$/m <sup>2</sup> net	Change Past Qtr (m <sup>2</sup> )	Change Past Year (m <sup>2</sup> )	Building Quality	
						Prime %	Secondary %
City Fringe	13,600	2	75	0	6,800	0	100
North	308,060	25	57	23,993	183,034	42	58
East	85,997	10	78	18,976	41,699	29	71
South East	158,001	15	80	-51,065	34,513	65	35
West	324,978	29	68	34,624	-2,258	57	43
<b>Total</b>	<b>890,636</b>	<b>81</b>	<b>72</b>	<b>26,528</b>	<b>263,788</b>	<b>49</b>	<b>51</b>

Source: Knight Frank

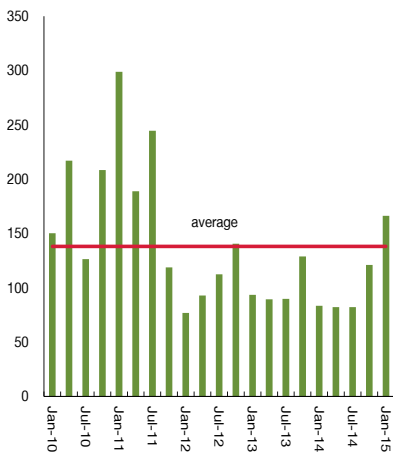
## Building Take-up

Gross take-up (excl D&C) in the fourth quarter of 2014 totalled 166,302m<sup>2</sup>, of which 44% was within prime space. The level of absorption over the final quarter of 2014 was the strongest quarterly take-up level since July 2011 and was also above the historical average. In addition the level of take-up achieved in the 12 months to December 2014 totalled 451,585m<sup>2</sup>, the highest take-up in a calendar year since 2011.

Over the past quarter, larger users (>10,000m<sup>2</sup>) and the smaller users both absorbed nine out of the 18 buildings taken-up. The majority of the stock taken-up over the quarter was within existing facilities with one speculatively built asset was also absorbed in the quarter. In addition, Godfreys signed a 10 year lease on a 12,000m<sup>2</sup> distribution centre at Aylesbury Drive, Altona which is a speculative building still under construction.

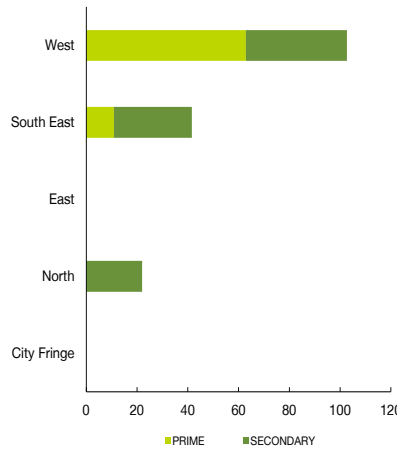
The bulk of the stock absorbed was built to suit warehousing and tailored for logistics sector tenants, with the exception of two secondary grade manufacturing facilities in the South East. Vellex Transport is relocating for expansion purposes to a 9,200m<sup>2</sup> building at 3-5 Healey Road in Dandenong South, a former manufacturing facility which was

FIGURE 4  
**Melbourne Industrial Take-up**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank

FIGURE 5  
**Take-up 3 months to January 2015**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank

refurbished to suit their requirements.

Of the 18 properties that were leased during the past quarter, the average time on the market was 10 months, with the exception of the Godfreys distribution centre which was leased while still under construction.

By precinct, the Western region with 102,694m<sup>2</sup> and South Eastern region at 41,612m<sup>2</sup>, were the strongest performing precincts in the three months to January 2015, accounting for 87% of the gross take-up of available space.

Absorption levels achieved over the past quarter in the West were highest in the precinct since July 2011, boosted by tenants seeking expansion from neighbouring properties. The largest leasing deal in the region was recorded by Fastline International expanding their operations into an adjacent building at 8 Saintry Drive in Truganina (14,055m<sup>2</sup>). Bega Cheese absorbed 12,169m<sup>2</sup> of additional space at 162A West Park Drive, Derrimut which also adjoins its existing property. Additionally, Total Transport has withdrawn the sublease space at 600 Geelong Road in Brooklyn (6,146m<sup>2</sup>) due to alternate extension plans.

Of the space absorbed in the Western region, prime grade stock, represented 61% of the take-up. Smeg's distribution centre (5,277m<sup>2</sup>) at 22 Park West Drive in

“The South East was the only precinct which saw its vacancy levels fall over the past quarter to January 2015.”

Derrimut and Silk Logistics' five-year lease absorbing 13,240m<sup>2</sup> at 69 Studley Court in Derrimut, were among prime grade commitments in the region.

Absorption in the South East measured 41,612m<sup>2</sup>, representing 25% of the gross take-up across Melbourne, followed by the North absorbing 21,996m<sup>2</sup>. The majority of stock leased in both the precincts was categorised as secondary grade, however Professional Freight Services absorbed 10,860m<sup>2</sup> of prime space at 1/81-125 Princes Highway in Dandenong.

## Outlook

Melbourne's industrial vacancy is expected to rise further during 2015 given the pipeline of speculative development currently under construction (which is more than double of the historical average, and at record high levels).

Backfill space, in particular, is also anticipated to increase as developers competitively pursue tenants to relocate into purpose-built (D&C's) and speculatively developed facilities, with secondary buildings most at risk.

Although speculative development continues to attract tenants; the lengthening letting up periods and volatile business confidence levels are likely to slow the growth of speculative development, at least until vacancy levels show signs of easing.



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#### 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 categorised into the below three types of leasing options. A) Existing Buildings – existing buildings for lease. B) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. C) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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