



RESEARCH

JULY 2012 MELBOURNE INDUSTRIAL VACANCY ANALYSIS

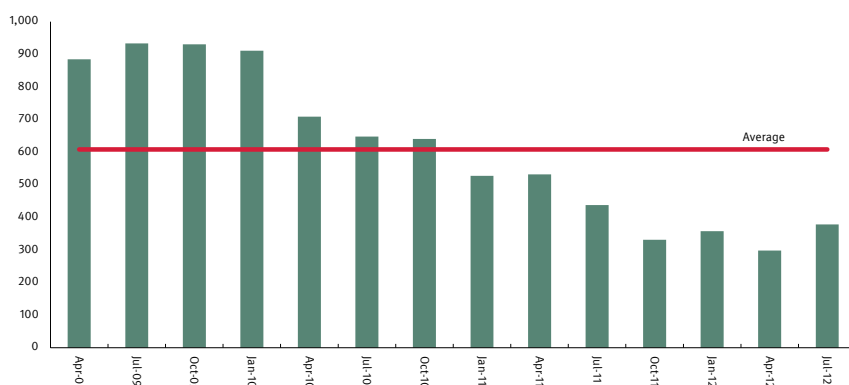
Knight Frank

After recording a new low for the first quarter of 2012, the level of vacant space within the Melbourne industrial market has increased over the second quarter but remains well below the historical average. Leasing activity in the three months to July 2012 represented the third consecutive quarter of lacklustre take up indicating both the constraints of new supply and subdued business investment.

**VACANT STOCK
IS 269,525M²
BELOW LEVELS
RECORDED TWO
YEARS AGO**

The total amount of space available (>5,000m²) increased by approximately 79,000m² in the second quarter of 2012 reflecting the construction of a number of speculative developments. Vacancy in both prime and secondary grade accommodation increased.

Figure 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank

Table 1
Summary of Available Industrial Space – July 2012

Market	Available Space (m ²)	Number of Buildings	Av. Asking rent (\$/m ² net)	Change past quarter (m ²)	Change past 6 months (m ²)	Change past 12 months (m ²)
Precinct						
Fringe	14,743	2	90	-19,900	-23,193	-11,193
North	74,602	8	73	30,263	-630	-54,973
East	29,237	3	87	-8,086	21,151	29,237
South East	68,209	8	66	-1,982	-35,687	-18,224
West	191,286	19	65	79,336	58,667	-4,280
Total	378,077	40	69	79,631	20,308	-59,433
Building Quality						
Prime	127,405	13	78	19,459	-1,743	-88,543
Secondary	250,672	27	66	60,172	22,051	29,110
Building Type						
Existing Stock	317,502	34	69	59,007	-5,186	-38,745
Speculative (Completed)	6,661	1	75	-9,960	-18,460	-18,460
Under Construction	53,914	5	75	30,584	43,954	-2,228

Source: Knight Frank

With no new speculative developments completed over the past quarter, demand strengthened for an already tight prime grade industrial space market. Given the financing environment, the economic crisis in Europe, and the health of the Victorian economy; development is likely to remain sporadic. Many developers continue to remain cautious of speculative development until economic conditions are better suited and funding becomes more accessible (for both developers and occupiers).

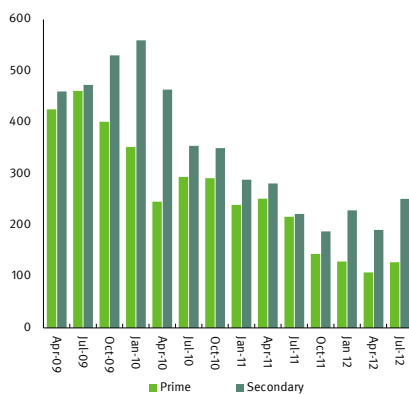
Increasingly prospective tenants are more inclined to consider a speculative development that they can commit to immediately, meeting their current requirements, rather than entering into a pre-lease agreement with the associated development lead time.



Quality of Stock

Much like the past four quarters, available space is dominated by the secondary market, with 66% of available stock currently within secondary buildings. With an average asking rental of \$66/m² compared with \$69/m² three months prior, it is evident that even the better quality secondary stock has been taken up, exacerbating the disparity between prime and secondary grade accommodation.

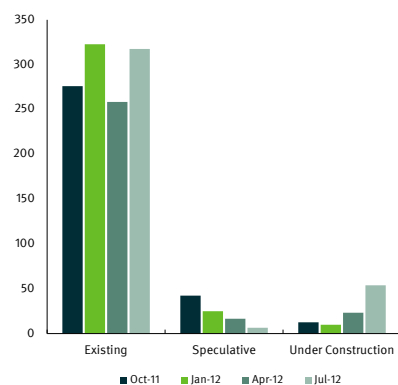
Figure 2
Melbourne Industrial Available Space
'000m² by grade April 2009 – July 2012



Source: Knight Frank

Prime accommodation accounts for 33% of the available stock, although given the relative lack of new supply over the past two years most of this is within existing buildings rather than brand new stock. Over the medium term, available prime space continues to contract with 88,543m² less A-grade space available than 12 months ago.

Figure 3
Melbourne Industrial Available Space
'000m² by type Oct 2011 – July 2012



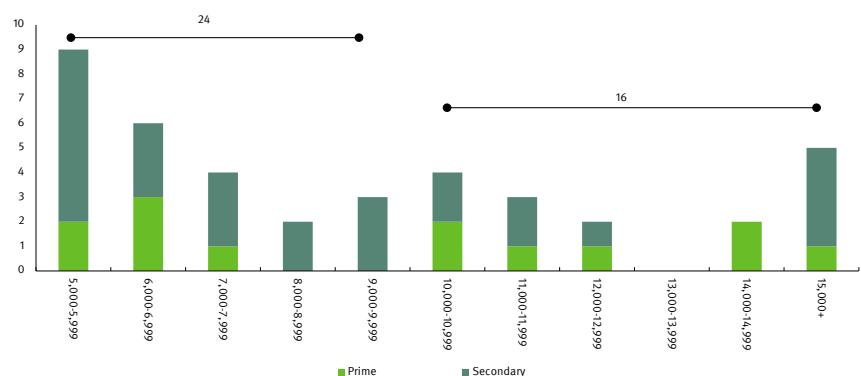
Source: Knight Frank

During the second quarter of 2012, the amount of vacant industrial space within existing stock increased by 23%, after a number of existing buildings had become vacant as tenants continue to upgrade their premises. There are currently only five speculative developments currently under construction, all of which are located in the Western precinct. Although speculative development remains scarce, a number of developers including DEXUS and Australand have recently launched speculative projects in order to capture the strong tenant demand for A-grade existing accommodation.

Distribution by Precinct

The Western precinct has the greatest level of available industrial space as at July 2012, with 191,286m². Compared to the previous quarter, where prime accommodation accounted for 60% of available space within the precinct, prime accommodation accounts for 50% in this quarter, demonstrating the continued demand for high quality industrial space. The South East precinct has the second highest level of available space, of which secondary grade space accounts for 100% of the total stock available within the precinct. Although the available space within the South East was expected to drop on the back of two leases executed during the second quarter, approximately 13,000m² of secondary stock has subsequently become available within two buildings. There are a mere three industrial options above 5,000m² available in the East.

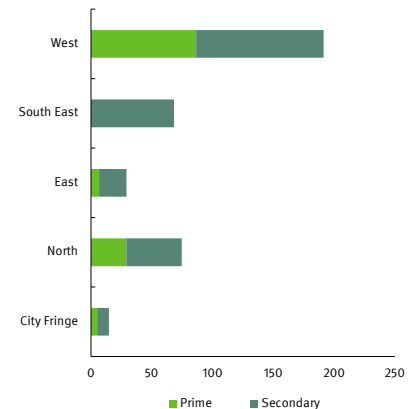
Figure 5
July 2012 Available Space
No of buildings by size of building m² and quality



Source: Knight Frank

The City Fringe recorded take up of 14,743m² where two buildings were leased. There remains strong demand to be located within close proximity to sea ports, major arterials and rail.

Figure 4
July 2012 Available Space
'000m² by quality & precinct



Source: Knight Frank

Size of Available Stock

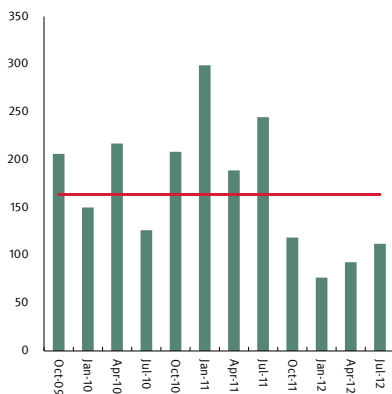
Prospective tenants in the market looking for larger industrial accommodation options are left with limited choices as demonstrated in Figure 5. Currently there are 16 options available in excess of 10,000m², with only seven of these being prime grade accommodation. There are 24 smaller industrial accommodation options (5,000m²-9,999m²), of which only five of these are prime buildings. With limited larger high quality options under construction; prospective tenants looking at upgrading or expansion will continue to need to investigate D&C projects in the short term.



Building Take-up

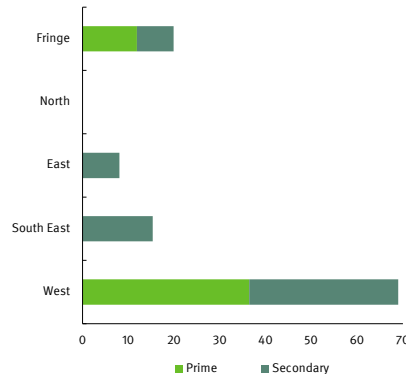
Knight Frank estimates that during the second quarter of 2012 there were 10 buildings greater than 5,000m² leased totaling 112,299m². Five of the buildings leased were prime grade assets, while five were secondary grade. The amount of take-up recorded over the past three quarters has been subdued when compared with the historic average, constrained by the new supply pipeline. Although take up levels remain subdued, they continue to outstrip new supply.

Figure 6
Melbourne Industrial Take –up
'000m² Est Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Figure 7
Melbourne Industrial Take-up 3 months to July 2012
Estimated Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Once again, the majority of space taken up for the second quarter of 2012 was classed as secondary space, accounting for 43% of the total industrial space taken up in the quarter. Leasing activity was concentrated in the West, surprisingly followed by the City Fringe with a strong result. Gross absorption within these precincts was recorded at 48,316m² for prime and 40,565m² for secondary. As shown in Figure 7 there was no prime space taken up within the North, East or South East industrial precincts.

Summary

The level of building take-up recorded by Knight Frank was higher than the previous quarter with 112,299m², remaining in line with recent activity. While available space increased, prime grade space remains below those 12 months earlier. The level of available space is expected to gradually increase as a result of a number of impending commitments to pre-leased and D&C facilities, as recently demonstrated by Kraft's pre-lease and PFG Australia's D&C arrangement releasing opportunities for backfill.

Despite an abundance of land set to be released over the second half of 2012 and the low levels of prime grade options available for prospective tenants, Knight Frank expects speculative construction activity to remain constrained over the remainder of the year, limited by finance and uncertain economic conditions.

For large prime tenants looking to commit to space within a relatively short time frame, there are very limited options available. Alternatively tenants will likely have to commit to a speculative project, pursue a D&C, commit to facilities with an upcoming lease expiry or re-commit to their current accommodation.

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.

- The sample data includes buildings with a minimum floor area of 5,000m².
- Buildings are categorized into the below three types of leasing options
 - Existing Buildings* – existing buildings for lease.
 - Speculative Buildings* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
 - Under Construction* – buildings 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 July 2012, the beginning of the second quarter.

The Melbourne Industrial Property Market has been divided into 5 distinct industrial precincts, as follows:

Fringe	CBD Fringe; predominantly Port Melbourne
North	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
East	The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon.
South East	The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham
West	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

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