

MELBOURNE

INDUSTRIAL VACANCY OCTOBER 2014

Key Facts

Vacancy has **increased** for an eighth consecutive quarter, to now be **7% higher** than the previous quarter.

Existing space dominates **total vacancy**, accounting for **86%** with 739,188m².

New speculative building commencements have **halved** in comparison to the preceding year

Take-up over the past quarter is **strongest since October 2013**, largely driven by the absorption in the **West**.



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Melbourne's available space has increased for the eighth consecutive quarter with vacancy levels now at 864,108m²; albeit with take-up levels of 121,097m², the strongest quarterly performance since October 2013.

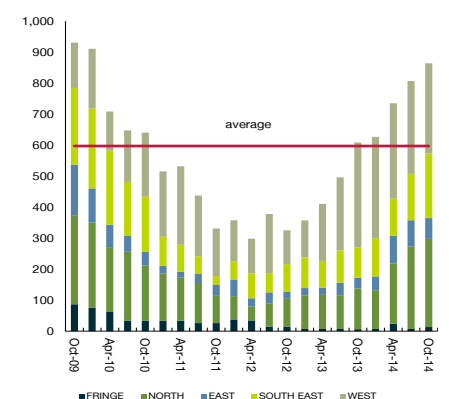
In the three months to October 2014, the level of vacant space (>5,000m²) within Melbourne's industrial precincts has increased by 56,839m² and currently measures at 864,108m², 45% above its historical average. There are 79 industrial buildings now available for lease, of which 35 are categorised as prime grade representing 47% of vacant industrial stock.

Vacancy in Melbourne's industrial market remains dominated by existing space measuring 739,188m², contributing 86% of all available space in October 2014. Existing accommodation has now reached its highest level since the beginning of the series in April 2009. The high vacancy levels across existing space are providing strong competition to attract tenants, despite the improvement seen in the absorption levels during the three months to October 2014.

The level of vacant stock in speculative buildings (completed and under construction) decreased by 5,093m² falling to 124,920m² in the past quarter due to the

take up of one building and decreased levels of speculative construction. New speculative building commencements in the 12 months to October 2014 have halved in comparison to the preceding year.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank

Quality of Stock

In the three months to October 2014, prime vacancy levels increased further, up 12,554m² to reach 403,333m², yet remain below secondary space which rose to 460,775m². While the prime vacancy has been driven to some extent by space contractions, it has largely been boosted by backfill stock. Available prime space is at its highest level since July 2009, whereas speculative stock of prime grade quality saw a marginal decline. The fall in availability of speculative stock partly reflects some improved leasing activity, and also reflects a lack of new speculative developments commencing.

Business confidence remains subdued at 5.0 points in September 2014 (NAB) compared to 12.0 points in September 2013 (NAB), reflecting the continued cautious approach from businesses,

which is impacting labour market and consumer sentiment. While some speculative developments exist, in most cases a pre-commitment from a tenant will be necessary prior to commencement of large projects.

Distribution by Precinct

As at October 2014, the majority of vacant stock is located in Melbourne's Northern (33%) and Western (34%) regions. While the North has seen its vacancy grow by 47% over the past six months, the West has seen a reduction (6%) in its vacant space.

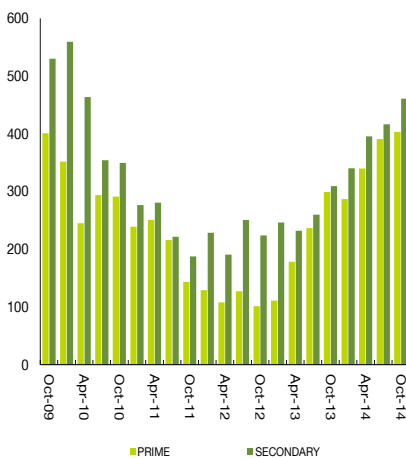
Limited options in the Eastern and City Fringe regions have contained the available space at 8% and 1% respectively of the total vacancy in Melbourne.

In comparison, the vacancy in the South East has reached 209,066m², and now accounts for 24% of Melbourne's total available space. Growing by 75% from April 2014, the majority of space additions in the region have resulted from higher secondary grade existing options.

Size & Type of Stock

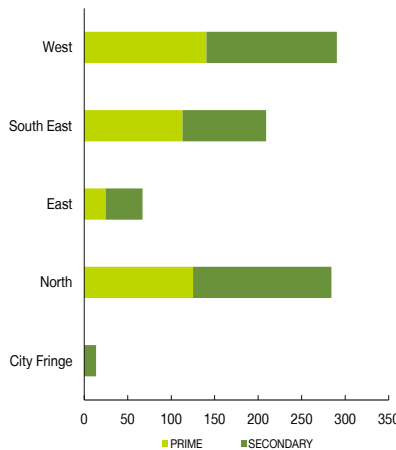
There are now 32 buildings available for larger users (>10,000m²). Of these, only 13 are prime grade properties, with two buildings being speculative developments still under construction. All of the prime assets were built to suit warehousing and for logistics use as opposed to manufacturing use, reflecting Victoria's shift from manufacturing to warehousing and logistics in recent years.

FIGURE 2
October 2014 Available Space
'000m² prime versus secondary space



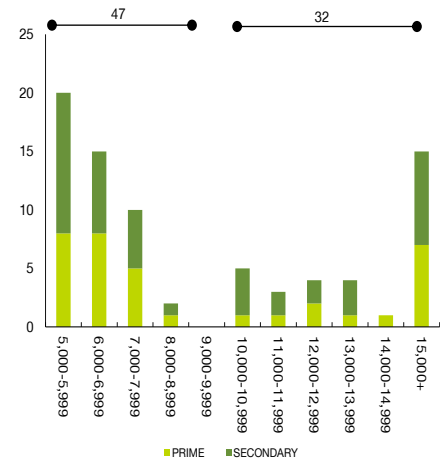
Source: Knight Frank

FIGURE 3
October 2014 Available Space
'000m² by quality & precinct



Source: Knight Frank

FIGURE 4
October 2014 Available Space
No of buildings by size and quality



Source: Knight Frank

TABLE 1
Melbourne Industrial Available Space 5,000m²+ as at October 2014

Precinct	Available Space m ²	No. of Buildings	Av Asking Rent \$/m ² net	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality Prime %	Building Quality Secondary %
City Fringe	13,600	2	75	6,800	7,325	0	100
North	284,067	23	57	17,676	152,194	44	56
East	67,021	8	81	-17,451	33,089	37	63
South East	209,066	19	78	59,285	111,383	54	46
West	290,354	27	68	-9,471	-48,396	48	52
Total	864,108	79	72	56,839	255,595	47	53

Source: Knight Frank

Comparatively, there is a greater availability of options for tenants at the smaller end of the market with 47 options less than 10,000m², of which 22 are prime.

Analysis of the current vacant buildings in Melbourne's industrial market reveals that the average period of vacancy is nine months, whilst the buildings leased during the past quarter have typically been on the market for 11 months.

Building Take-up

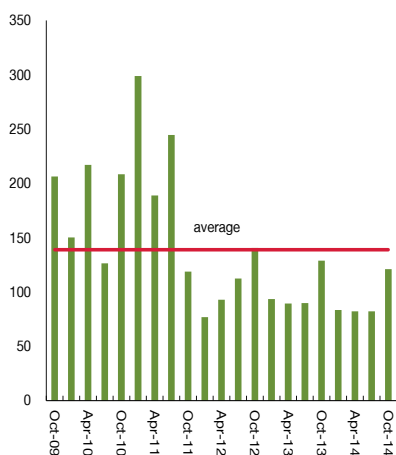
Melbourne's industrial take-up totalled 121,097m² in the three months to October 2014, the strongest quarterly performance since October 2013.

Though take-up remains below its historical average, the gross take-up in the six months to October 2014 was 23% higher than its preceding six month period.

Seven out of 12 buildings absorbed were categorised as prime, demonstrating the continued tenant preference for prime quality buildings. Of these, four were larger options (>10,000m²) built to suit warehousing and logistics users.

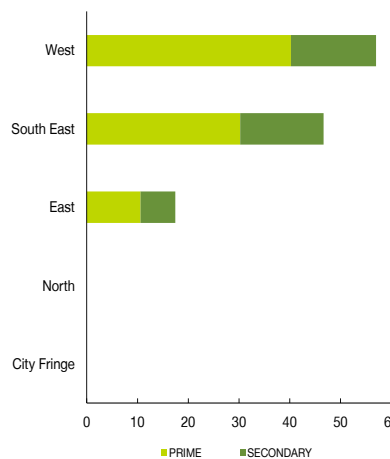
The majority of the stock absorbed was within existing accommodation, with only one speculatively developed facility leased in the quarter. Linpac Packaging leased the speculatively built 11,854m² warehouse at 28 Distribution Drive in Truganina.

FIGURE 5
Melbourne Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

FIGURE 6
Take-up 3 months to October 2014
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

Three of the five secondary grade assets absorbed were within manufacturing assets located in the Eastern and South Eastern regions. A former printing facility at 181-193 Forster Road in Mount Waverley has been recently leased by Print-bound, who are relocating within the Eastern precinct.

The 12 properties leased during the past quarter had been available for an average of 11 months on the market, with the exception of 17-45 Pound Road West in Dandenong South. L'Oreal vacated the 24,235m² prime grade warehouse, which was immediately leased by Reece Plumbing.

The West, with its total take-up of 57,003m² has continued to outperform all regions, accounting for 47% of the gross absorption across Melbourne. Sublease vacant stock in the West fell by 9% as ACFS subleased 5,450m² of prime space from UTI at 172 Australis Drive in Derrimut. However, the largest leasing deal in the region was recorded by Deliver Transport who leased 16,799m² of prime space at 56-60 Toll Drive in Altona.

Absorption in the South East measured 46,643m², representing 39% of the gross take-up across Melbourne and outpacing its historic average for the first time since July 2011. Two out of four buildings leased in the region were manufacturing assets of secondary grade, whereas the majority of the prime stock absorbed was

“Take-up levels in the South East were above its historical average for the first time since July 2011.”

in warehouse accommodation. Fiorelli Transport has recently leased 6,000m² in Australand's asset at 16-32 South Park Drive in Dandenong South.

Outlook

While Melbourne's industrial vacancy has tracked upwards for the past 24 months, further increases are anticipated over the remainder of 2014. The majority of the additional vacant stock will be coming from existing facilities, with speculative development levels currently under construction easing.

With the level of prime vacancy approaching record high levels, speculative development is likely to continue to decline. Speculative under construction levels currently sit 39% above the historical average.

The trend of tenants upgrading their accommodation from secondary buildings into prime facilities is forecast to continue as landlords remain competitive in securing quality tenants.

In line with the increasing levels of vacancy, prime and secondary industrial asking rents have continued to ease and incentives remain a feature of the market. It is anticipated that rental levels will remain under pressure until vacancy has peaked.

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Methodology:

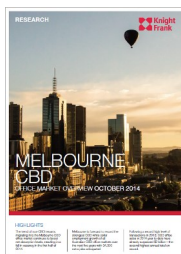
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 5,000m². 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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