

MELBOURNE

INDUSTRIAL VACANCY JULY 2015

Key Facts

Total vacancy is at historical high levels totalling 951,233m², despite of fall in available speculative stock

The **North dominates total vacancy with 328,028m²**, accounting for 34% of available stock

There are **no speculatively developed buildings above 5,000m² currently under construction**

Gross take-up totalled 126,774m², up 24% over the previous quarter, reflecting improved leasing activity



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Although take-up levels were up by 24% to 126,774m² over the past quarter, Melbourne's industrial vacancy reached a historical high for the series at 951,233m², driven by tenant relocations and consolidations.

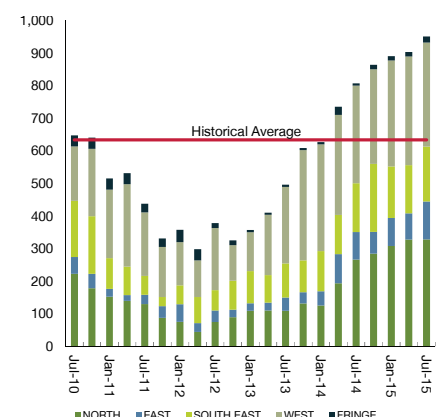
The level of available space within Melbourne's industrial market (5,000m²+) increased by 47,509m² to reach 951,233m², spread across 85 buildings over the past quarter. Industrial vacancy in Melbourne has tracked upwards since October 2012 and is currently at historical high levels, measuring 33.4% above its long term average.

Vacant space remains dominated by existing stock which now accounts for 90% of the total vacancy, up from 84% recorded a year ago. New construction in 2015 has risen to its highest levels since 2008, correspondingly increasing backfill vacancy within existing stock from pre-lease tenants upgrading into newly built facilities. In addition, some business consolidations have also resulted in an increase in the existing vacant stock.

Interestingly, vacancy within speculative space (both under-construction and completed) fell by 20,630m² to 91,511m² in the past quarter, now accounting for only 9.6% of the overall vacancy. Available

speculative stock is now 27% below its historical average. Presently there are no speculatively developed facilities (5,000m²+) under construction across all Melbourne industrial precincts, for the first time since we have been tracking the series.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Over the quarter, the level of prime space increased by 9,168m² to reach 424,681m², but remains below the peak level recorded six months ago. Prime space now accounts for 45% of the total vacancy, down from 48%, a year ago.

The rise in prime space vacancy resulted from an increase in existing stock, impacted by tenant consolidations and relocations to purpose-built facilities. Fisher & Paykel (8,878m²) and Hellmann Logistics (7,576m²) are two tenants who have relocated from prime grade buildings into purpose-built facilities (both within the Western region).

Half of the available options in the West are now above 10,000m². Recent additions of larger available facilities include: Queensland Cotton (10,835m²), Goodyear (10,078m²), both from

Derrimut, and ACFS (15,664m²) from Truganina. As a result of these larger vacant options, prime industrial vacancy in the West accounts for 59% up from 55% in the previous quarter.

Elsewhere, prime vacancy rose in the South East as a result of tenant consolidations. ITW Pryda (6,290m²) and DTM Logistics (5,225m²) both have plans to vacate facilities in Dandenong South to other Melbourne sites.

Vacant secondary stock levels continued to climb, increasing by 38,341m² to reach 526,552m², its highest level since January 2010. Secondary vacancy grew by 8% over the past quarter largely impacted by 29,306m² of sublease space on offer all within the South East.

Speculative vacant space now measures 91,511m², all of which is now completed. Vacant speculative stock is now 27%

below its historical average. Vacancy levels in speculative stock declined by 20,630m² over the past quarter despite the completion of two facilities in the West. Currently there are no speculatively built facilities under construction, for the first time since the beginning of the series. However, further new speculative developments are being planned with expectations of construction commencing in the next quarter.

Distribution by Precinct

Over the past quarter, 17 backfill options totalling 161,688m² were added to the available stock. The East and South Eastern regions saw the highest level of additions causing their vacancy levels to rise by 44% and 14% respectively. Both precincts had recorded falls of 6% in the first quarter of 2015. In contrast, the West saw its vacancy fall by 4% due to modest absorption. Following a slight rise over the past quarter, vacancy in the North reached a historical high level at 328,028m², accounting for 34% of Melbourne's total vacancy.

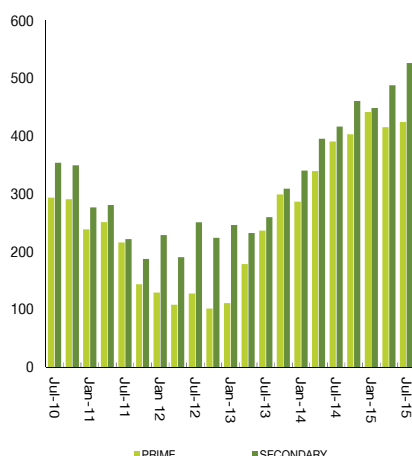
Size & Type of Stock

Vacancy levels in manufacturing facilities increased as tenants scaled back their operations. Major additions in vacant space included BMW Venture Plastics' (13,070m²) upcoming departure from 5 - 11 Stephen Road, Dandenong South. Manufacturing tenants now have 10 available options totalling 130,330m², whereas warehouse accommodation continues to dominate vacancy, accounting for 86% of the total available space with 75 options (820,903m²).

FIGURE 2

July 2015 Available Space

'000m² by grade

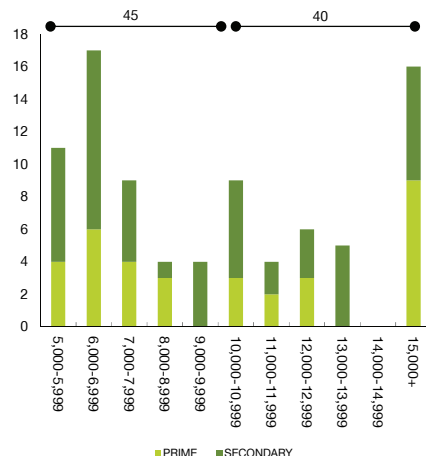


Source: Knight Frank Research

FIGURE 3

July 2015 Available Space

No. of buildings by size and quality



Source: Knight Frank Research

TABLE 1

Melbourne Industrial Available Space 5,000m²+ as at July 2015

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 %	Secondary %
City Fringe	18,800	3	75	5,200	12,000	-	100
North	328,028	27	57	384	61,637	40	60
East	116,353	13	78	35,711	31,881	11	89
South East	168,498	14	77	20,510	18,717	56	44
West	319,554	28	68	-14,296	19,729	59	41
Total	951,223	85	71	47,509	143,964	45	55

Source: Knight Frank Research

The number of vacant larger buildings (>10,000m²) has increased over the past quarter from 31 to 40, in contrast to the number of smaller buildings (<10,000m²) decreasing from 51 to 45. Currently there are 34 prime options available for users, 17 in each of the smaller and larger sized building categories.

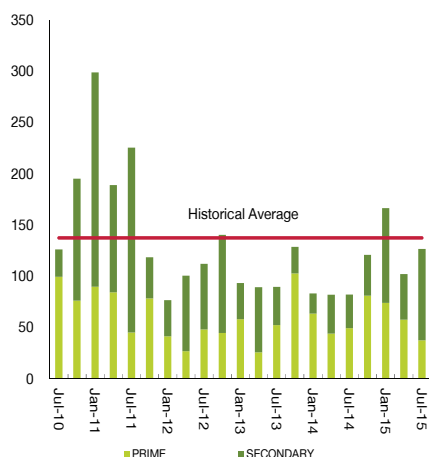
Building Take-up

Gross take-up (excl D&C) over the second quarter of 2015 totalled 126,774m² across 17 buildings, 24% above the previous quarter. Total absorption however remains 8% below the historical average, which has been the trend since October 2011. All buildings absorbed over the past quarter were warehouse facilities with an average letting-up period of 9.9 months. Interestingly, secondary stock was absorbed in 8.3 months on average, while prime stock was leased in 13.1 months; suggesting occupiers are seeking short term flexibility with the economy still recovering.

Over the past quarter, total absorption of prime space measured 37,558m² across six buildings, accounting for 30% of the overall take-up. Absorption of prime stock was 44% below its historical average. Five out of six prime options absorbed were sub-8,000m² properties, reflecting the preference of larger occupiers to design and construct facilities. Also, three speculatively

FIGURE 4

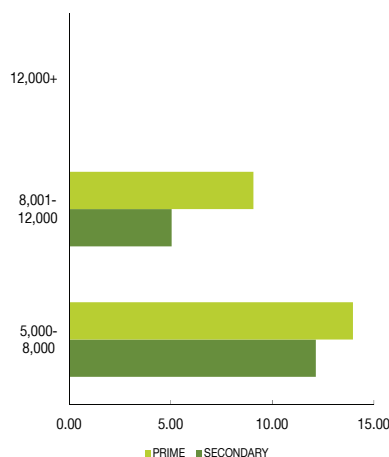
Melbourne Industrial Take-up '000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

FIGURE 5

Letting-up Period by Size & Grade Average no. of months for take-up—July 2015



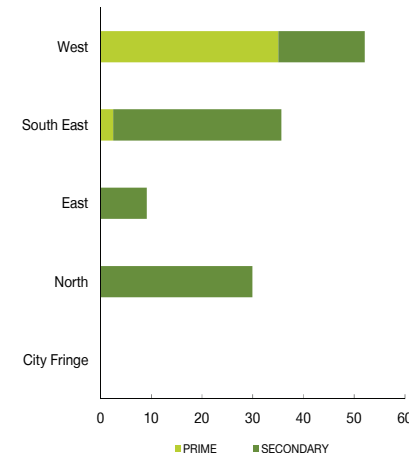
Source: Knight Frank Research

completed prime grade buildings were leased over the past quarter, with the largest lease to the third party logistics provider Cosmic S&S, absorbing Australand's 9,019m² warehouse at 18-34 Aylesbury Drive, Altona.

Absorption in the past quarter was dominated by secondary space which accounted for 70% of the total take-up. Demand for secondary space was driven by existing tenants who expanded into adjacent properties and tenants seeking short term flexibility. VFS expanded its operations into its neighbouring tenancy (7,615m²) at Building 13, 43-63 Princes Highway, Dandenong, which was

FIGURE 6

Take-up 3 months to July 2015 '000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

“Presently there are no speculatively developed facilities above 5,000m² under construction across all Melbourne industrial precincts.”

previously occupied by Bunnings. Ajax Fastners leased a 9,500m² warehouse at 41-51 Mills Road, Braeside on a short term lease. Secondary space take-up was also aided by the sale of two vacant industrial properties to owner-occupiers, including a 9,121m² warehouse at 289 - 313 Bayswater Road, Bayswater.

The West continued to outperform other regions, absorbing 52,068m², resulting in vacancy falling by 4% over the quarter. Elevator Placement Services leased a 7,528m² facility at 9-15 Strezlecki Avenue, Sunshine West on a five year lease, while Melbourne Transport & Logistics leased a 7,723m² warehouse at 24 William Angliss Drive, Laverton North.

Absorption in the South East was driven by the take up of secondary space totalling 35,660m². Award Brands leased 10,700m² at 47-69 Pound Road West, Dandenong South on a 10 year lease.

Outlook

Macro drivers such as low investment yields and interest rates have been favouring purpose-built development, which is expected to continue to divert demand from existing stock towards prime grade D&C buildings. As a result vacancy and rental levels are forecast to remain under pressure for existing stock.

Improved tenant demand for newly built facilities coupled with an easing of speculative construction is expected to result in a decline in overall vacancy levels through the remainder of 2015.



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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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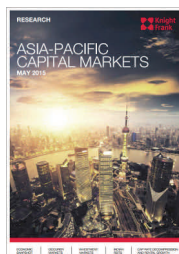
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