

MELBOURNE

INDUSTRIAL VACANCY OCTOBER 2015

Key Facts

Total vacancy reached a new historical high of 1,025,508m², despite a modest rise in take-up levels

Available speculative space declined to its **lowest level** since January 2013

Gross absorption totalled 139,285m² up 10% over the previous quarter and also above its historical average

Prime stock accounted for 55% of gross absorption (excl D&C's) and 13% above its historical average



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Melbourne's industrial vacancy reached a new record high for the series at 1,025,508m², despite take-up levels 13% above the historical average.

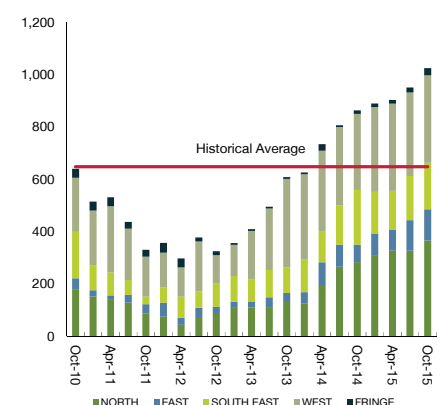
The level of vacant space (5,000m²+) within the Melbourne industrial market increased by 74,275m² to reach 1,025,508m², across 91 buildings in the three months to October 2015. While the current vacancy level is another historical high for the market there are signs that vacancy is close to reaching its peak. Vacancy in Melbourne's industrial market has continued to grow for the past three years (since October 2012) and is currently 58% above its long term average.

Existing stock continues to dominate vacant space which increased a further 87,612m² over the past quarter and now accounts for 92% of the total vacancy, up from 86% 12 months ago. Existing stock has tracked upwards since October 2012 and has now increased by 208,146m² from a year ago to reach 947,334m². Increasingly occupiers are relocating or consolidating operations into newly built facilities (prelease or speculative) taking advantage of the competitive leasing terms on offer.

In contrast, vacant speculative space (both under construction and completed) fell for a

second consecutive quarter, resulting from improved take-up levels and limited additions (6,015m²) of new speculative development under construction. Vacancy levels in speculative stock declined by 13,337m² to 78,174m² over the past quarter, its lowest level since January 2013.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Both prime and secondary available space increased over the past quarter. Although the level of prime space grew by 12,307m² to reach 436,988m², it remains below the peak recorded at January 2015. During the quarter, the proportion of prime space decreased to 43% of the total vacancy compared to 45% as at the previous quarter.

In contrast, secondary space has steadily risen since January 2015, growing by 61,968m² to now reach 588,520m².

Vacancy in speculative space declined from its peak levels recorded at 157,976m² in January 2015 to now measure 78,174m², of which 6,015m² is still under-construction. Strong pre-lease demand has diverted speculative construction activity, led by the low

interest rate environment and attractive incentives offered by larger institutions. As a result of tenants consolidating from multiple sites (mostly secondary grade) into purpose-built prime facilities, existing available space continues to increase. Toll Transport vacated secondary accommodation in the Eastern (38,083m²) and South Eastern (10,694m²) regions, as it continues to consolidate its operations.

Available prime existing accommodation increased over the quarter, impacted by several relocations including; Fastline (24,662m²) and Makreo Steel (6,731m²) with both relocating within the Western region. Elsewhere, Godfreys (9,000m²) moved from the City Fringe to the West. Prime vacancy also rose in the South East impacted by Spotless (6,150m²) consolidating some of its operations.

Distribution by Precinct

For the second consecutive quarter, the North (366,525m²) has continued to lead the overall vacancy, with 65% of its available space categorised as secondary grade. As the Victorian economy continues to shift away from manufacturing, business closures in associated industries are compounding the growth in vacant stock. Amcor Closures (13,437m²) in Thomastown and Austube Mills (28,617m²) in Somerton are two recent closures, which have added to the existing stock levels.

The vacancy in the Western region increased by 13,656m² over the quarter, with 59% of its total available space within prime stock. However, increasingly much of the vacancy is impending with a number of properties occupied by tenants only on a short term basis.

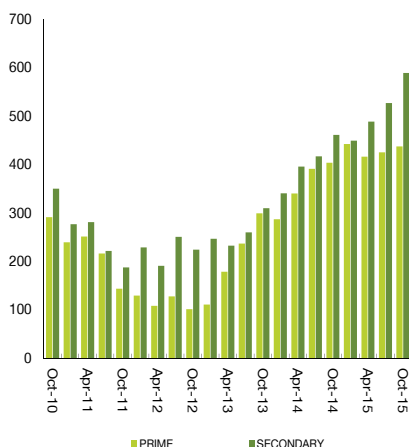
Elsewhere, the Eastern region saw its vacancy rise by 3,181m² to reach 119,534m², with all additions being in secondary space, impacted by Toll Transport's consolidations.

The South East also saw a rise, growing by 9,941m² in its available stock to reach 178,439m², by means of major additions including Toll Transport (10,694m²) and Ruddocks Pet Food (11,611m²).

Size & Type of Stock

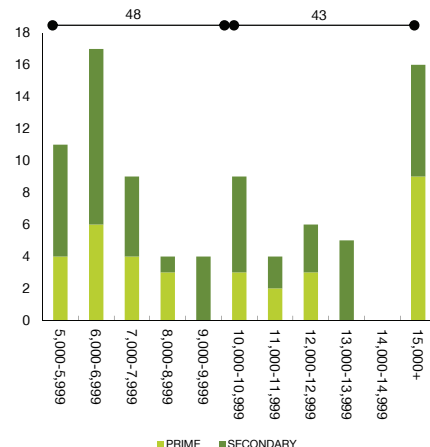
Larger users have 43 options (10,000m²+), up from 40 buildings in the previous quarter. Currently there are 35 prime options available, 18 in the larger and 17 in the smaller sized buildings.

FIGURE 2
October 2015 Available Space
'000m² by grade



Source: Knight Frank Research

FIGURE 3
October 2015 Available Space
No. of buildings by size and quality



Source: Knight Frank Research

TABLE 1
Melbourne Industrial Available Space 5,000m²+ as at October 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	27,800	4	86	9,000	14,200	32	68
North	366,525	29	57	38,497	82,458	35	65
East	119,534	12	76	3,181	52,513	11	89
South East	178,439	16	74	9,941	-30,627	49	51
West	333,210	30	68	13,656	42,856	59	41
Total	1,025,508	91	72	74,275	161,400	43	57

Source: Knight Frank Research

Available warehousing space measuring 853,053m² across 78 buildings continues its dominance, accounting for 83% of the total available space. Further addition to the existing available warehouse space was driven by tenants upgrading or consolidating operations. Currently available manufacturing stock totals 172,455m² from 13 properties, up from 123,921m² across 11 buildings, a year ago.

Building Take-up

The third quarter of 2015 saw gross take-up (excl D&C) totalling 139,285m² across 13 buildings. Total absorption over the quarter grew by 10% over the previous quarter and was also marginally above its historical average.

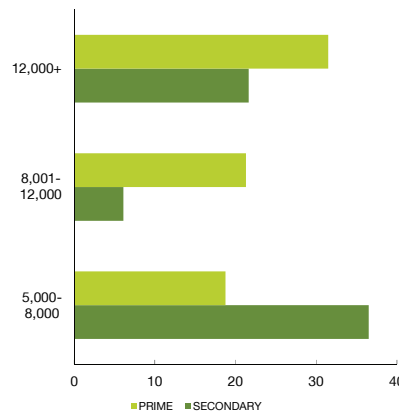
Analysis of letting-up periods showed that prime stock was absorbed in a shorter timeframe of 18.6 months on average, whereas secondary stock was leased in 21.5 months. Mid-sized properties (8,001m² – 12,000m²) catered to a wider range of occupiers and saw the shortest letting-up period of 16.2 months on average.

Prime space at 75,921m² led absorption over the past quarter, accounting for 55% of the overall take-up and also measured 13% above the historical average. Two speculatively completed prime buildings were leased over the past quarter in the Western and South

FIGURE 5

Letting-up Period by Size & Grade

Average no. of months — October 2015



Source: Knight Frank Research

Eastern regions. The largest speculative lease involved Gale Pacific's (11,430m²) lease at Building 2/197–207 Discovery Road, Lyndhurst. The screening and shading manufacturer will use the Lyndhurst warehouse as an offsite storage for its manufacturing site at Braeside. Secondary space absorption fell to 63,364m² from 89,216m² in the past quarter, having surpassed prime take-up levels in the two preceding quarters. The largest secondary building leased involved William Adams consolidating its Eastern region sites into a 16,660m² facility at 227 Wellington Road, Mulgrave, close to its main operations at 17-55 Nantilla Road, Clayton.

“Speculative space declined from its peak of 157,976m² as at January 2015 to now measure 78,174m², its lowest level since January 2013”

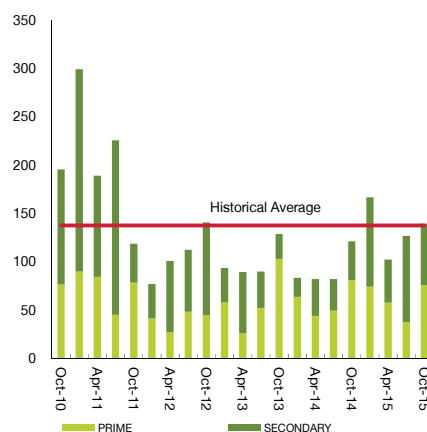
The Western region recorded take-up of 66,622m², substantially greater than other industrial precincts and also 19% above its historical average. Toyo Tyres expanded from its Sunshine West (4,000m²) facility into a 7,912m² speculative facility at 76 Calarco Drive, Derrimut. While Clemenger International leased a 15,150m² warehouse at 33-65 Paramount Road, Tottenham on a seven year lease.

Absorption in the South East totalled 30,449m², all within prime space. In addition to Gale Pacific; Star Track Express leased 12,729m² at 16-32 South Park Drive, Dandenong South for five years; while the Australian Bureau of Statistics occupied 6,290m² at 2-10 National Drive, Dandenong South on a short term lease.

FIGURE 4

Melbourne Industrial Take-up

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

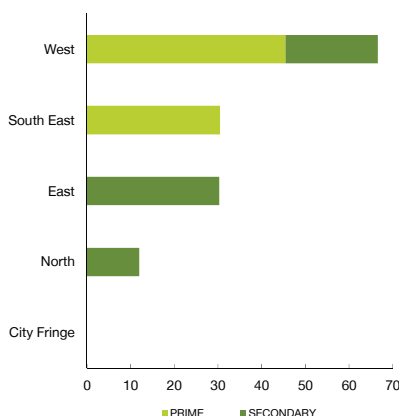


Source: Knight Frank Research

FIGURE 6

Take-up 3 months to October 2015

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



Source: Knight Frank Research

Outlook

Recent changes in Australia's leadership with Malcom Turnbull becoming prime minister have boosted business and consumer confidence levels. Improved confidence levels are likely to drive retail and housing demand, the key drivers for warehousing and logistics, boosting absorption levels. Vacancy driven by backfill stock will remain elevated, but is expected to peak in the near term. Backfill has risen as a result of tenants upgrading or consolidating from multiple sites into newly built facilities (speculative and pre-lease). As a result of the elevated backfill vacancy levels, rents are forecast to remain under pressure for existing stock, particularly for secondary accommodation.



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Methodology:

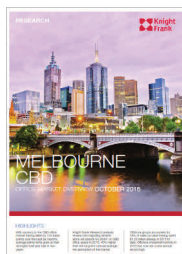
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 5,000m².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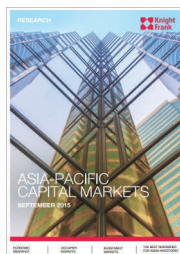
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