MELBOURNE
INDUSTRIAL VACANCY FEBRUARY 2016

Key Facts

Total vacancy declined over the quarter, yet it remains **53% higher** than the **long term average**

Vacancy in the Western region fell and is now at its **lowest level since July 2013**

Gross absorption rose by 13,620m^2 to 152,905m^2, **11% above the long term average**

Average let-up time fell to 14.5 months, down from 19.7 months recorded in the previous quarter

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Melbourne's industrial vacancy declined marginally with lower than average additions of vacant space and take-up levels above the historical average.

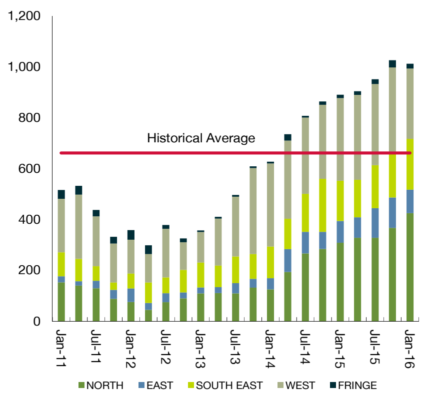
Melbourne's industrial vacancy declined by 13,435m^2 to 1,012,073m^2 within 89 buildings, in the three months to January 2016. This is the first decrease in vacancy recorded since October 2012, indicating that vacancy may have reached its peak. Melbourne's available space had been increasing since January 2013 and is still currently 53% above its long term average.

In tandem the reduction in total available space, letting-up times also decreased across Melbourne's industrial market, with the average take-up time falling to 14.5 months, down from 19.7 months, from the previous quarter.

Although existing stock continues to dominate total vacancy, this too has declined, falling by 13,907m^2 to 933,427m^2 over the quarter. The decline in existing stock resulted from a relatively low level of additions in available space and the improved take-up levels.

Vacant speculative space (under construction and completed) increased by 472m^2 to reach 78,646m^2. This marginal rise in speculative stock was the first increase since January 2015. The trend of rising vacancy has stymied the commencement of new speculative projects, slowing the increase in total available accommodation over the past 12 months.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

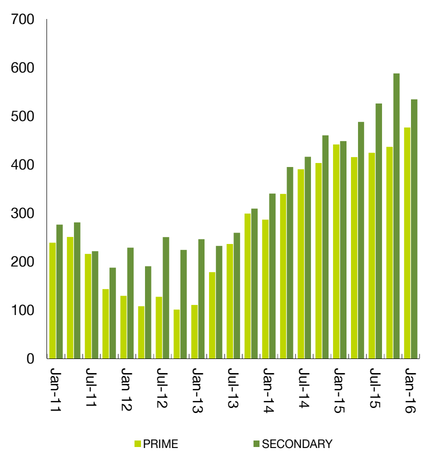
The level of prime space grew by 39,977m^2 to now reach 476,965m^2, a historical high for the series. Prime vacant stock levels were boosted by a mix of backfill space and speculative stock under construction. As a result, during the quarter, the proportion of prime space increased to 47% of the total vacancy compared to 43% as at the previous quarter.

Prime backfill space increased as a result of a number of tenants consolidating from multiple sites into larger facilities or relocating for efficiency purposes. Key prime backfill additions included: UTi Logistics (12,248m^2) in the West, Ausmart (10,241m^2) and Wettenhalls Transport (6,729m^2) both in the South East.

Vacant speculative stock increased by 472m^2 to reach 78,646m^2 over the past quarter. Additions to the speculative stock were limited to Goodman's warehouse (17,887m^2), currently under construction at West Industry Park Estate, Truganina. Speculatively built space continues to be well absorbed, sustaining the relatively constrained speculative stock levels (under construction and completed) which are 35% below the long term average.

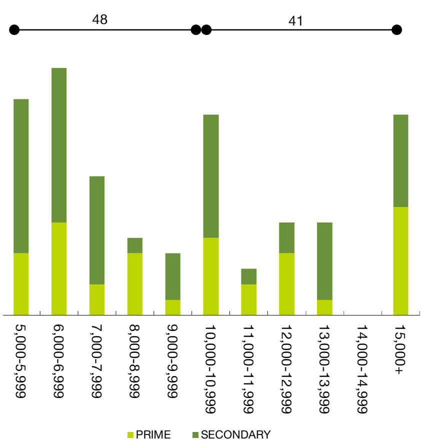
In contrast, secondary space fell for the first time since January 2015, declining by 53,412m² to 535,108m^2. Secondary stock levels reduced as a direct result of lower additions of available space coupled with improved take-up boosted by some sublease and short-term leases. New additions in secondary accommodation over the quarter due to tenant relocations included; Print Media Group (5,345m^2) and APAC Packaging (5,735m^2) both relocating within the South East.

FIGURE 2
January 2016 Available Space
'000m² by grade



Source: Knight Frank Research

FIGURE 3
January 2016 Available Space
No. of buildings by size and quality



Source: Knight Frank Research

Distribution by Precinct

The North has continued to lead overall vacancy for the past six months, with its available space growing by a further 57,997m^2 over the past quarter to now measure 424,522m^2. Available space in the North is now at record high levels, with the proportion of prime space equalling the secondary accommodation.

Available space within the Western region reduced by 57,215m^2 over the quarter to 275,995m^2. This was the largest decline within the region since October 2012. Furthermore, improved absorption led to the vacancy within the region falling to its lowest level since July 2013.

Elsewhere, the Eastern region recorded a decrease in its vacancy by 27,227m^2 to 92,307m^2; whilst City Fringe also saw its available space reduce by 9,000m^2 to now measure 18,800m^2. Both regions recorded modest take-up levels, limited with no new vacant space added to the stock over the quarter to be absorbed.

In contrast, the South East saw a rise in its vacancy, growing by 22,010m^2 to reach 200,449m^2, with the additions from Ausmart Retail (10,241m^2), APAC (5,735m^2) and Print Media Group (5,345m^2).

Size & Type of Stock

There are currently 41 buildings sized greater than 10,000m², down from 43 options in the previous quarter. At present, there are 36 prime options available, 19 in excess of 10,000m^2 and 17 in the smaller sized buildings.

TABLE 1
Melbourne Industrial Available Space 5,000m²+ as at January 2016

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality Prime %	Building Quality Secondary %
City Fringe	18,800	3	75	-9,000	5,200	0	100
North	424,522	29	57	57,997	116,462	50	50
East	92,307	10	79	-27,227	6,310	14	86
South East	200,449	20	75	22,010	42,448	46	54
West	275,995	27	68	-57,215	-48,983	58	42
Total	**1,012,073**	**89**	**71**	**-13,435**	**121,437**	**47**	**53**

Source: Knight Frank Research

Warehousing accommodation increased by 18,859m^2 over the quarter to now measure 871,912m^2 across 78 buildings, accounting for 86% of the total available space. However, average letting-up time for warehousing shortened to 12.2 months from 17.5 months, benefitting from properties leased prior to their completion and some buildings being let soon after becoming vacant.

Building Take-up

Take-up (excluding D&C) increased by 13,620m^2 to reach 152,905m² across 14 buildings, 11% higher than the long term average. Absorption levels remained above the historical average for a second consecutive quarter.

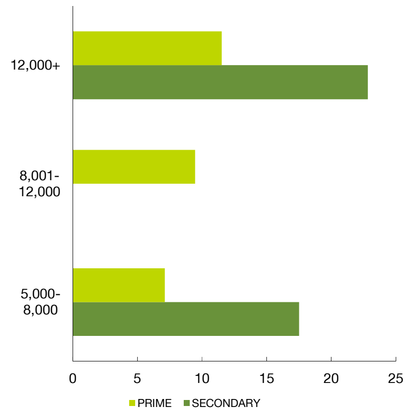
Prime stock was leased in a timeframe of 9.6 months on average, whereas secondary stock was absorbed in 20.1 months. Small-sized properties (5,001m^2—8,000m^2) saw the shortest letting-up period of 7.1 months on average and were mostly leased to short -term tenants, with the exception of Maxim Foods' commitment to a 6,015m^2 warehouse on a 10 year lease.

Prime space take-up rose to 97,443m^2 from 75,921m^2 over the past quarter, accounting for 64% of the overall take-up. In addition to the backfill space, one speculatively completed prime building and another under construction property were leased over the quarter in the South

FIGURE 5

Letting-up Period by Size & Grade

Average no. of months —January 2016



Source: Knight Frank Research

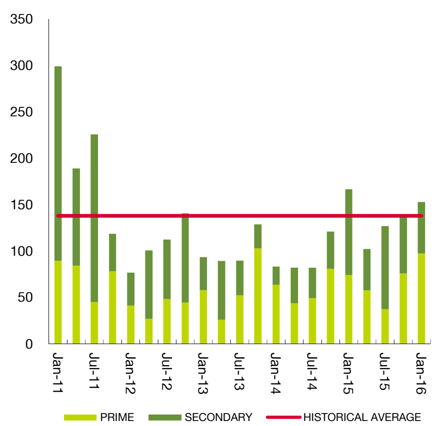
East and Western regions. Zenexus leased 11,400m^2 speculatively built space at 20 Southern Court in Keysborough, next to the Transport Management Solutions (6,434m^2) facility located at 19 Southern Court, Keysborough. Growthpoint had acquired both properties in July 2013 with five year rental guarantees from Frasers Property. Elsewhere, Maxim Foods absorbed a 6,015m^2 facility which is scheduled to be completed by mid 2016 at 27-45 Fitzgerald Road, Laverton North.

Secondary space absorption fell to 55,462m^2 from 63,364m^2 over the past quarter and included: Qube Logistics' 6,000m^2 lease at 33 - 47 Doherty's Road

FIGURE 4

Melbourne Industrial Take-up

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

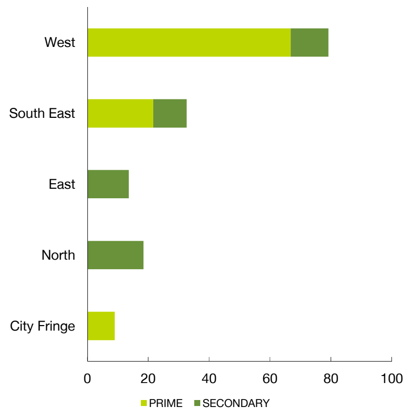


Source: Knight Frank Research

FIGURE 6

Take-up 3 months to January 2016

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



Source: Knight Frank Research

"The West recorded the greatest vacancy decline over the quarter falling by 57,215m²

in Laverton North and Boral occupying 6,427m^2 at 413 Francis Street, Brooklyn.

By region, the Western region recorded the highest level of leasing activity by absorbing 79,229m^2 of vacant space, accounting for 52% of the total take-up. Andiamo House leased 15,994m^2 for five years at 56 Parkwest Drive and Concept Logistics occupied 14,000m^2 at 61 Australis Drive, both in Derrimut. Elsewhere, Murray Goulbourn sub-leased 24,662m^2 at 51 William Angliss Drive, Laverton North. Take-up in the South East totalled 21,641m^2, all within prime space. In addition to Zenexus; Hollier Dicksons occupied 10,241m^2 at 80-96 South Park Drive, Dandenong South for seven years.

Outlook

The current low yield environment is likely to encourage new developments (D&C and speculative), attracting tenants to modern assets with relatively lower rents compared to existing facilities. Therefore, vacancy will continue to be led by backfill stock in the medium term, as tenants upgrade, consolidate or relocate for efficiency purposes. As a result, rental growth will remain subdued, although the outlook is promising with increasing take-up levels coupled with signs that vacancy is nearing its peak.

Whilst warehousing demand was driven by retail trade and housing construction over the past year; going forward, transport, logistics and food retailing is likely to be the focus of industrial demand.

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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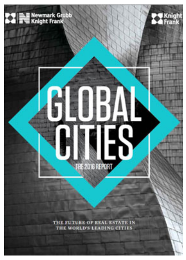

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