

# MELBOURNE

## INDUSTRIAL VACANCY APRIL 2016

### Key Facts

**Total available space increased by 6.2%** over the past quarter to a series high of 1,074,788m<sup>2</sup>.

**Prime vacant stock increased 16%** while vacant secondary stock levels declined.

**Completed vacant speculative development accounts for 45,377m<sup>2</sup> or 4.2%** of available stock.

**Gross take-up totalled 124,266m<sup>2</sup>** over the first quarter, up 21.6% on the first quarter in 2015.



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Following a slight decrease in the last quarter of 2015, vacant stock in Melbourne reached a new series high as at April 2016, largely underpinned by additional prime backfill options.

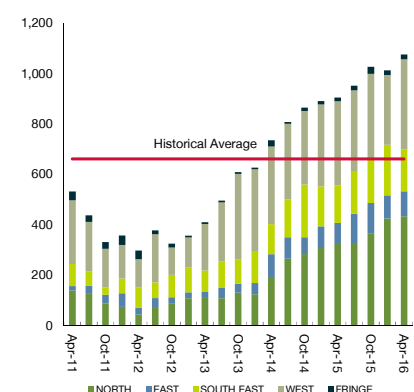
Melbourne industrial available space increased by 62,715m<sup>2</sup> or 6.2% over the first quarter of 2016. Total vacancy now measures 1,074,788m<sup>2</sup> across 94 buildings, the highest level since the series began in 2009. Current levels of available space across Melbourne now sits 62% above its long term average with 40% of the total vacancy in the Northern region.

The rise in vacancy has been underpinned by an increase in prime grade backfill options within existing stock as tenants upgraded and consolidated from multiple sites into purpose built facilities. Existing vacant stock accounted for 93% of total vacancy as at April 2016, up from 86% as at April 2015. Completed speculative development accounts for 4.2% (45,377m<sup>2</sup>) of the total vacancy. Speculative space under construction is sitting at 3% with one building commencement during the first quarter.

Leasing activity (excl. D&C's) slowed over the first quarter, with 124,266m<sup>2</sup> of gross take-up recorded. Notwithstanding take-up

measuring slightly below the long term average, year-to-date leasing activity is tracking at 21.6% above levels recorded in the prior corresponding period in Q1 2015. Leasing activity was the most active in the South East region over the first quarter, accounting for 57% of total take-up.

FIGURE 1  
**Melbourne Industrial Market**  
'000m<sup>2</sup> available space



Source: Knight Frank Research

## Quality of Stock

Prime vacancy across Melbourne totalled 553,016m<sup>2</sup> as at April 2016, up 16% from 476,965m<sup>2</sup> in January 2016. Prime vacant stock is now at a historical high for the series, largely following a number of backfill options entering the market, mainly located in the West including: CEVA's facilities at 70 Swan Drive, Derrimut and 64 Westpark Drive, Derrimut totalling 27,000m<sup>2</sup>.

In contrast, vacant secondary stock levels declined for a second consecutive quarter. Secondary vacancy fell by 2.5% to 521,772m<sup>2</sup> over the three months to April 2016 underpinned by solid gross take-up, including 11-25 Toll Drive, Altona North (16,144m<sup>2</sup>) which was leased to Seaway Logistics.

Vacant speculative stock totalled 76,395m<sup>2</sup>, of which 45,377m<sup>2</sup> is

completed with a further 31,018m<sup>2</sup> currently under construction. Speculative built space continues to be well absorbed with overall levels of vacancy remaining below the series average of 121,357m<sup>2</sup> per quarter.

Over the first quarter, one speculative development commenced construction, totalling 22,798m<sup>2</sup>, namely Frasers Property's A & B warehouse facility at Doriemus Drive in Truganina, anticipated to come online in the June 2016 quarter. Nevertheless, vacant stock additions were offset by 33,496m<sup>2</sup> of speculative space absorbed over the three months to April 2016.

Only one speculative development reached practical completion as vacant in the first quarter, which was Goodman's 9,887m<sup>2</sup> warehouse at 8 Vulcan Drive, Truganina in the West Industry Park.

## Distribution by Precinct

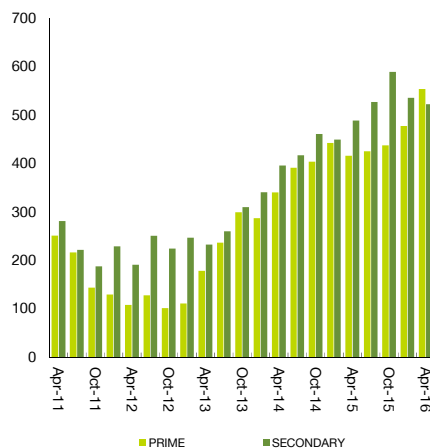
The South East was the only region to record a fall in vacancy over the first quarter. Vacancy declined by 17.4% to 165,498m<sup>2</sup> across 16 buildings after solid leasing activity measuring 70,995m<sup>2</sup> offset new vacancy additions.

The Western region recorded the largest increase in available space with vacant stock levels reaching 357,982m<sup>2</sup> as at April 2016, 61% above the series quarterly average of 222,521m<sup>2</sup>. Prime space accounted for 90% of vacant stock entering the West precinct over the first quarter, with 241,088m<sup>2</sup> currently available. Nevertheless, with a relatively limited pipeline of speculative construction activity coupled with around 40,000m<sup>2</sup> of available space under offer, vacant stock levels are anticipated to decline in the West over the medium term.

For the fifth consecutive quarter the Northern precinct continued to lead overall vacancy with available space measuring 433,546m<sup>2</sup>. Vacant stock in the North is now at a historical high for the series, with the proportion of prime space equalling secondary vacant stock.

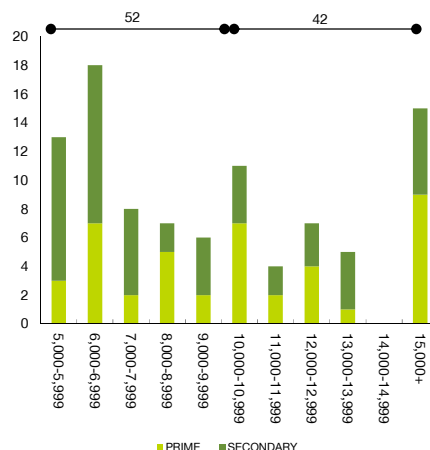
In the Eastern region available space increased by 6,655m<sup>2</sup> to 98,962m<sup>2</sup>, while available space in excess of 5,000m<sup>2</sup> in the City Fringe remained unchanged at 18,000m<sup>2</sup> over only three buildings.

FIGURE 2  
April 2016 Available Space  
'000m<sup>2</sup> by grade



Source: Knight Frank Research

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



Source: Knight Frank Research

TABLE 1  
Melbourne Industrial Available Space 5,000m<sup>2</sup>+ as at April 2016

Precinct	Available Space m <sup>2</sup>	No. of Buildings	Av Asking Rent \$/m <sup>2</sup> net	Change Past Qtr (m <sup>2</sup> )	Change Past Year (m <sup>2</sup> )	Building Quality	
						Prime %	Secondary %
City Fringe	18,800	3	75	0	5,200	0	100
North	433,546	30	57	9,024	105,902	50	50
East	98,962	11	74	6,655	18,320	13	87
South East	165,498	16	72	-34,951	17,510	48	52
West	357,982	34	69	81,987	24,132	67	33
<b>Total</b>	<b>1,074,788</b>	<b>94</b>	<b>70</b>	<b>62,715</b>	<b>171,064</b>	<b>52</b>	<b>48</b>

Source: Knight Frank Research

## Size & Type of Stock

Of the 94 vacancies currently available in Melbourne, 52 are sub-10,000m<sup>2</sup> options. There are currently 42 options available for 10,000m<sup>2</sup>+ users, 54% of which are of prime quality grade. For larger 20,000m<sup>2</sup>+ users there are 10 options available, although there is a scarcity of larger available stock in the West region, with only two options available in excess of 20,000m<sup>2</sup>, of which only one is prime.

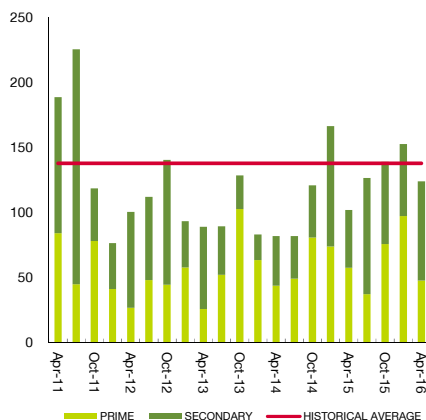
## Building Take-up

Gross take-up totalled 124,266m<sup>2</sup>, slightly below the series' quarterly average of 138,042m<sup>2</sup>. Nevertheless, year-to-date take-up is tracking at 21.6% above levels recorded as at April 2015.

Prime gross take-up slowed over the quarter, measuring 48,028m<sup>2</sup>. One notable leasing transaction was Toll leasing a 11,390m<sup>2</sup> facility at Efficient Drive in Westpark Industrial Estate, Truganina on a five year term paying \$75/m<sup>2</sup> net. Toll joined Schenker and MaxiPARTS who previously pre-committed to the facility.

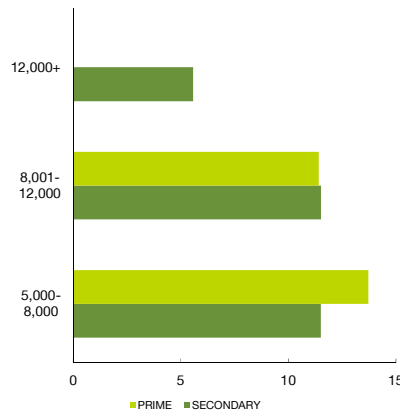
Interestingly, above-average levels of take-up were recorded in the secondary market with 76,238m<sup>2</sup> absorbed across eight buildings. Leasing activity in the secondary market accounted for 62% of total activity over the first quarter,

FIGURE 4  
Melbourne Industrial Take-up  
'000m<sup>2</sup> est Take-up buildings (excl D&C)



Source: Knight Frank Research

FIGURE 5  
Letting-up Period by Size & Grade  
Average no. of months — April 2016



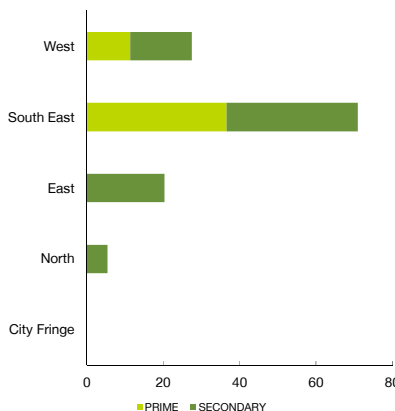
Source: Knight Frank Research

compared with 36% over the previous quarter, underpinned by five deals in excess of 10,000m<sup>2</sup>.

The properties leased had been available for an average of 11 months, made up of 12.1 months for prime and 10.6 months for secondary space. There was a wide range of time on the market, from three months through to two years.

Strong leasing activity in existing stock continued over the first quarter, accounting for 73% of total gross absorption. Gross take-up of speculative stock also increased, measuring 33,496m<sup>2</sup> compared with 11,400m<sup>2</sup> over the last quarter.

FIGURE 6  
Take-up 3 months to April 2016  
'000m<sup>2</sup> est Take-up buildings (excl D&C)



Source: Knight Frank Research

“The South East recorded the greatest vacancy decline over the quarter falling to 165,498m<sup>2</sup>”

By region, the South East recorded the highest level of leasing activity measuring 70,995m<sup>2</sup>, the strongest quarterly total of take-up since Q1 2010. Notably, secondary gross take-up almost matched prime space, with 34,317m<sup>2</sup> and 36,368m<sup>2</sup> leased respectively. Secondary take-up was underpinned by several short term leases and owner occupier activity in excess of 10,000m<sup>2</sup>.

Leasing activity was fairly even across both the East (20,348m<sup>2</sup>) and the West (27,534m<sup>2</sup>) regions, with muted activity in the North and City Fringe.

## Outlook

The development of speculative stock is anticipated to rise in 2016, given the low yield environment which will continue to encourage new developments.

Despite the potential for an increase in speculative stock, vacancies will continue to stem from backfill options in the medium term, as tenants upgrade and consolidate from multiple sites into purpose built facilities or relocate for efficiency purposes. As a result, vacancy rates are anticipated to remain above average in the medium term, albeit with signs that the total vacancy is nearing its peak in the short term, notwithstanding various properties that are likely to come on line in late 2016 and 2017 relating to the automotive industry.

With a lack of large existing options in traditional industrial areas, occupiers may be forced to look further afield for suitable premises. This is particularly evident in the Western region where there are just two vacant stock options above 20,000m<sup>2</sup>.

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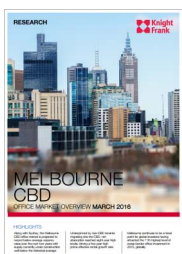
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### Methodology:

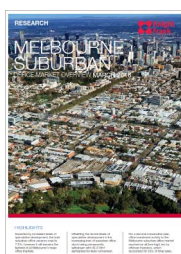
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 5,000m<sup>2</sup>. 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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