

MELBOURNE

INDUSTRIAL VACANCY JULY 2016

Key Facts

Total available space decreased by 1.3% over the past quarter to 1,060,662m².

Prime and secondary vacant stock levels decreased by 0.6% and 2.1% respectively.

Completed vacant speculative development accounts for 62,130m² or 5.9% of available stock.

Year to date gross take-up is 5.1% above levels recorded in Q2 2015.



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Following a series high in April 2016, improving take-up volumes have placed downward pressure on vacancy levels, falling 1.3% in the three months to July 2016.

Melbourne industrial available space decreased by 14,126m² or 1.3% over the second quarter of 2016. Total vacancy now measures 1,060,662m² across 89 buildings, 60% above its long term average.

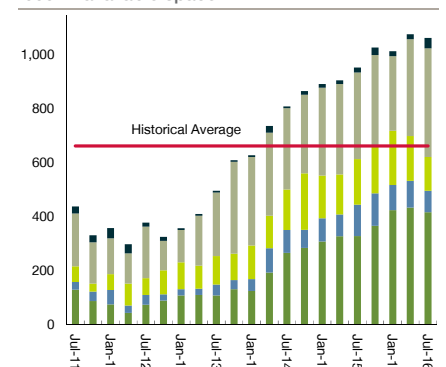
Elevated vacancy continues to be underpinned by an increase in prime grade backfill options within existing stock as tenants upgraded and consolidated from multiple sites into purpose built facilities. Existing vacant stock accounted for 94% of total vacancy as at July 2016, up from 90% as at April 2016. Completed speculative development accounts for 5.9% (62,130m²) of the total vacancy. There is currently no speculative space under construction across Melbourne's industrial market.

Vacant stock levels continue to vary considerably by precinct. The addition of several backfill options saw vacant stock in the City Fringe more than double with the West also recording a 12.2% increase in vacancy. At the same time, a large reduction in vacant stock levels was recorded for both the South East and East regions as solid

take-up was met with limited new additions.

Leasing activity (excl. D&C's) slowed over the second quarter, with 116,273m² of gross take-up recorded. Notwithstanding take-up measuring slightly below the long term average, year-to-date leasing activity is tracking at 5.1% above levels recorded in the prior corresponding period in Q2 2015.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

The amount of prime vacant space measures 1,060,662m² as at July 2016. Although vacancy decreased 1.3% over the second quarter, vacant stock levels remain 60% above the long term average.

Despite declining by 0.6% over the second quarter, prime vacant space still accounts for the majority of the Melbourne total at 52%. This was largely underpinned by a number of backfill options becoming available including four of CEVA's facilities located in the West, collectively totalling 49,652m².

Solid gross take-up saw vacant secondary stock levels decline for a third consecutive quarter. Vacant secondary space is now at its lowest level since April 2015 with 510,953m² available.

Vacant completed speculative stock increased by 3.6% as Frasers Property's A & B warehouse facility at Doriemus Drive in Truganina (22,798m²) reached practical completion in June 2016. Speculative built space continues to be well absorbed, with 47,761m² already absorbed in 2016. Overall levels of vacancy for speculative stock remain well below the series average of 121,357m² per quarter.

There are currently no speculative developments under construction for the second time since the series began. However there are several speculative developments in the pipeline with expectations of construction anticipated to rise over the next 12 months, given the low yield environment which will continue to encourage new developments.

Distribution by Precinct

Vacant stock levels continue to vary between precinct. The South East recorded the largest decrease in vacancy, falling 24.4% to 125,073m² across 11 buildings. The Eastern region also saw available space decline, falling by 19.6% to 79,517m² across eight buildings. Activity in both regions was underpinned by solid leasing activity measuring 59,870m² collectively. Vacant space in the South East is now at its lowest level since April 2014, while vacant stock levels in the Eastern precinct are at the lowest level since October 2014.

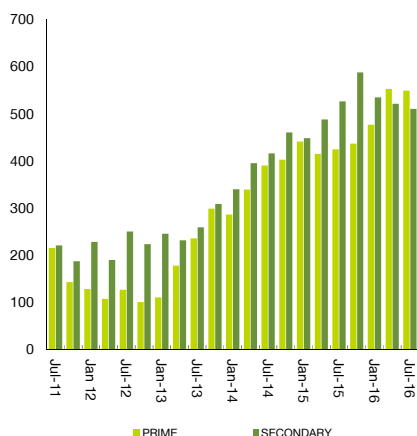
Following five consecutive quarters of increasing vacancy in the North, vacant stock levels decreased 4% to 416,161m² across 28 buildings, following a number of leasing transactions in the precinct.

Available space in excess of 5,000m² in the City Fringe increased for the first time since October 2015, with vacant stock levels reaching 38,098m² across five buildings. Increases were underpinned by one prime grade facility at 80 Turner Street (11,000m²) and a further two secondary grade facilities becoming vacant at 437 Plummer Street (15,098m²), both located in Port Melbourne.

For the second consecutive quarter, the Western region recorded an increase in available space with vacant stock levels reaching 401,813m² as at July 2016, 76% above the series quarterly average of 227,192m². Prime space accounted for 60% of vacant stock entering the West precinct over the second quarter, with 241,088m² currently available.

FIGURE 2

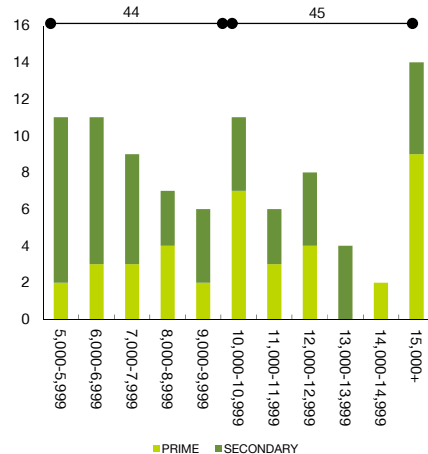
July 2016 Available Space '000m² by grade



Source: Knight Frank Research

FIGURE 3

July 2016 Available Space No. of buildings by size and quality



Source: Knight Frank Research

TABLE 1

Melbourne Industrial Available Space 5,000m²+ as at July 2016

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	38,098	5	85	19,298	19,298	29	71
North	416,161	28	57	-17,385	88,133	49	51
East	79,517	8	78	-19,445	-36,836	8	92
South East	125,073	11	66	-40,425	-43,425	49	51
West	401,813	37	70	43,831	82,259	67	33
Total	1,060,662	89	71	-14,126	109,429	52	48

Source: Knight Frank Research

Nevertheless, with no speculative construction activity coupled with approximately 45,000m² of available space currently under offer, vacant stock levels are anticipated to decline in the West over the short term.

Size & Type of Stock

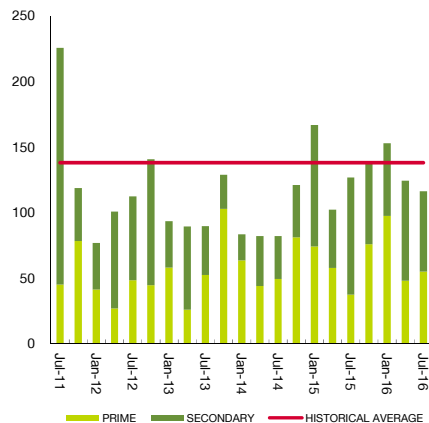
Of the 89 vacancies currently available in Melbourne, 44 are sub-10,000m² options. There are currently 45 options available for 10,000m²+ users, 55.6% of which are of prime quality grade. For larger 20,000m²+ users there are 10 options available, although there is a scarcity of larger available stock in the Western region, with only three options available in excess of 20,000m², of which only one is prime.

Building Take-up

Gross take-up totalled 116,273m², slightly below the series quarterly average of 138,042m². Nevertheless, year-to-date take-up of 240,539m² is tracking at 5.1% above levels recorded as at July 2015.

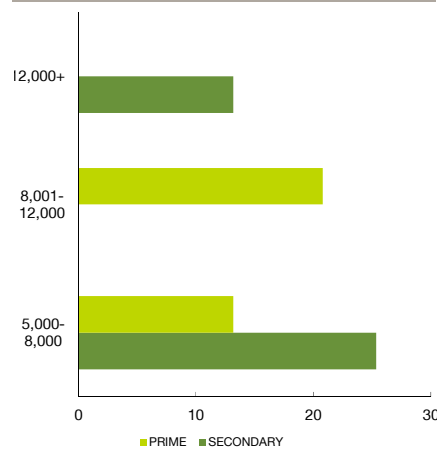
Prime gross take-up recorded a moderate increase over the quarter, up 14.6% to measure 55,034m². One notable leasing transaction was Rocket Logistics leasing a 6,150m² facility at 2-18 National Drive in Dandenong South on a five year term paying \$85/m² net.

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 — July 2016



Source: Knight Frank Research

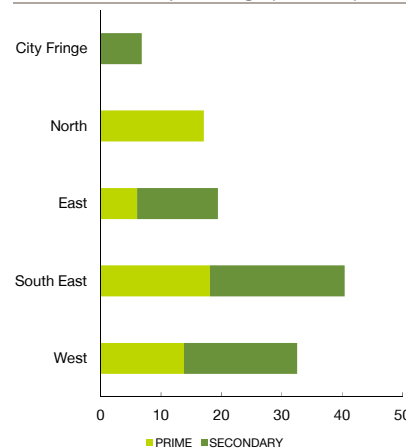
Furthermore, Nippon Express leased a 8,220m² speculative facility at 2 Roussos Place in West Industry Park, Truganina on a five year term paying \$75/m² net.

Secondary take-up slowed over the quarter with 61,239m² absorbed across eight buildings. Leasing activity in the secondary market accounted for 52% of total activity over the second quarter, compared with 62% over the previous quarter.

The properties leased had been available for an average of 19.4 months, made up of 15 months for prime and 22.6 months for secondary space.

Strong leasing activity in existing stock

FIGURE 6
Take-up 3 months to July 2016
'000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

“Prime gross take-up increased 14.6% over the quarter, totalling 55,034m².”

continued over the second quarter, accounting for 87.7% of total gross absorption. Gross take-up of speculative stock slowed, measuring 14,265m² compared with 33,496m² over the last quarter.

By region, the South East recorded the highest level of leasing activity for the second consecutive quarter, measuring 40,425m², accounting for 35% of total take-up. Take-up in the West totalled 32,358m² while leasing activity was fairly even across both the East (19,445m²) and the North (17,065m²) regions, with muted activity in the City Fringe.

Outlook

Speculative construction levels are expected to remain relatively low, while the pre-commitment market remains competitive as tenants continue to upgrade and relocate into purpose built facilities. This will continue to support above average vacancy rates in the medium term. Notwithstanding signs that the total vacancy is nearing its peak in the short term, additional properties 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 or at inner infill sites for suitable premises. This is particularly evident in the Western region where there are only three vacant stock options above 20,000m².

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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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