

# MELBOURNE

## INDUSTRIAL VACANCY FEBRUARY 2017

### Key Facts

**Total available space fell by 6%** over the past quarter to 1,026,968m<sup>2</sup>.

**Prime vacant stock increased 4.6%** whereas vacant secondary stock levels decreased by 16.3%.

**Two speculative projects commenced over the quarter**, totalling 59,073m<sup>2</sup>.

**Gross take-up measured 240,952m<sup>2</sup> in the final quarter of 2016**, 71% above the long term average.



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With take-up reaching a five-year high of 240,952m<sup>2</sup>, vacant stock fell to its lowest level since January 2016. Take up was driven by record high quarterly absorption levels achieved in the West.

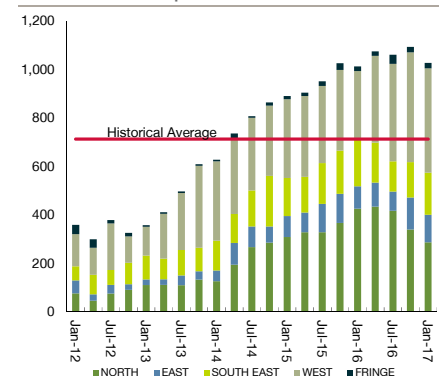
Despite an increase of speculative development, five-year high quarterly leasing activity in the Melbourne industrial market resulted in a decrease in industrial vacancy levels. Over the past quarter vacant stock levels in Melbourne decreased by 65,655m<sup>2</sup> or 6%, its lowest level in 2016. Total vacancy now measures 1,026,968m<sup>2</sup> across 87 buildings (+5,000m<sup>2</sup>). While vacancy fell, the current availability of buildings greater than 5,000m<sup>2</sup> is still 44% above its long term average.

Over the past quarter, gross take-up measured 240,952m<sup>2</sup>, 71%, above the long term average and the highest quarterly total since Q2 2011. The West recorded its highest quarterly level of leasing activity on record, accounting for 65% of total take-up with 156,606m<sup>2</sup> absorbed across 11 buildings. Despite above average gross take up of prime grade assets, only secondary grade vacancy levels decreased over the quarter. While take up in prime grade buildings was offset by an increase in speculative development, secondary vacancy levels fell to their lowest level since Q4 2014.

Existing vacant stock accounted for 86% of total vacancy as at January 2017, while completed speculative space accounted for 7% (71,803m<sup>2</sup>) of total vacant stock.

Only the South Eastern industrial precinct recorded an increase in vacant stock levels while vacancy in the North has fallen to its lowest level since Q4 2014.

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



Source: Knight Frank Research

## Quality of Stock

Vacant stock in Melbourne decreased by 6.0% over the quarter to 1,026,968m<sup>2</sup>, its lowest level since January 2016 following strong quarterly leasing activity.

In the prime market, a 4.6% increase in vacant space was recorded over the past quarter, primarily underpinned by an increase in speculative development in the West. Prime vacant stock currently totals 562,116m<sup>2</sup> and accounts for 54.7% of all vacancies across Melbourne.

In the secondary market, vacant stock decreased by 16.3% in the fourth quarter, measuring 464,852m<sup>2</sup>, its lowest level since Q4 2014. The fall in vacant stock was underpinned by above average levels of secondary take-up in the North and West precincts.

Vacant completed speculative stock increased by 59% in the fourth quarter,

up from 45,161m<sup>2</sup> to 71,803m<sup>2</sup> as three speculative projects completed. The three completions included 67 Scanlon Drive, Epping (5,600m<sup>2</sup>), 930 Taylors Road, Dandenong South (6,651m<sup>2</sup>) and 28-52 Smeaton Avenue, Dandenong (14,391m<sup>2</sup>).

Speculative built space continues to be well absorbed, with 84,971m<sup>2</sup> leased in 2016, 56% above levels recorded in 2015. Overall levels of vacancy for speculative stock remain well below the series average of 115,925m<sup>2</sup> per quarter. Two speculative projects commenced in the fourth quarter with speculative space under construction totalling 72,280m<sup>2</sup> across four schemes. The two schemes to commence included Frasers Andretti Court & Sunline Drive (36,558m<sup>2</sup>) and Lot 8, Foxley Court (22,515m<sup>2</sup>) both located in the West Park Industrial Estate.

The amount of speculative space under construction is now 63% above the long term average.

## Distribution by Precinct

Vacant stock levels continue to vary across the precincts. The South East was the only precinct to record an increase during the fourth quarter as a number of new additions totalling 42,593m<sup>2</sup> became vacant. Vacant stock increased by 19.3% to measure 174,326m<sup>2</sup>, the highest level since Q4 2015.

The North region recorded the largest fall in vacancy during the quarter, declining by 15.4% to 286,438m<sup>2</sup> across 25 buildings after gross take-up across the region measured 50,568m<sup>2</sup>.

Vacancy in the East decreased by 14.6% to measure 113,090m<sup>2</sup> underpinned by gross take-up of 19,366m<sup>2</sup> and no new additions to vacant stock over the quarter.

Limited additions to vacant stock coupled with above average levels of take-up saw available space in the West decrease for the first time since Q4 2015. Vacant stock level fell by 4.9% to measure 430,959m<sup>2</sup>. Prime space accounted for 75% of vacant stock in the West over the fourth quarter, with 321,082m<sup>2</sup> available.

There was no change over the fourth quarter to vacant stock in the City Fringe, measuring 22,155m<sup>2</sup>.

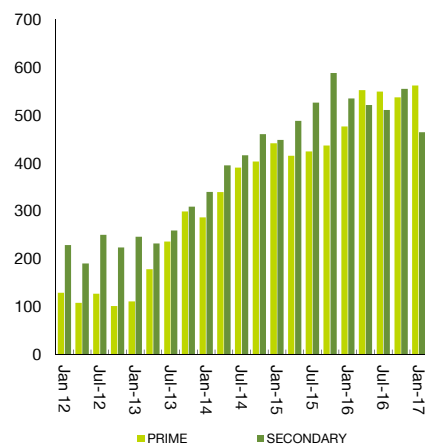
## Size & Type of Stock

Of the 87 vacancies currently available in Melbourne, 43 are sub-10,000m<sup>2</sup> options. There are currently 44 options available for 10,000m<sup>2</sup>+ users, 59% of which are of prime quality grade. For larger 20,000m<sup>2</sup>+

FIGURE 2

### January 2017 Available Space

'000m<sup>2</sup> by grade

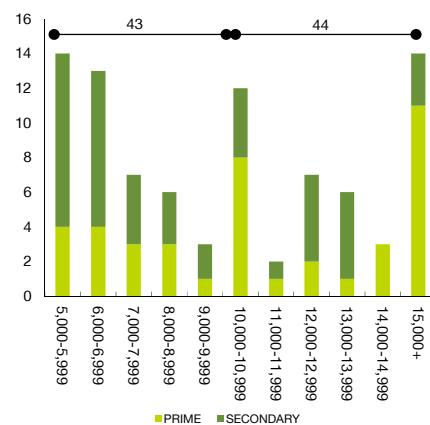


Source: Knight Frank Research

FIGURE 3

### January 2017 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 January 2017

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	22,155	3	92	0	3,355	0	100
North	286,438	25	57	-52,281	-138,084	48	52
East	113,090	12	56	-19,366	20,783	13	87
South East	174,326	17	71	28,181	-26,123	50	50
West	430,959	30	55	-22,189	154,964	75	25
<b>Total</b>	<b>1,026,968</b>	<b>87</b>	<b>68</b>	<b>-65,655</b>	<b>14,895</b>	<b>55</b>	<b>45</b>

Source: Knight Frank Research



users there are 11 options available, five of which are in the West.

## Building Take-up

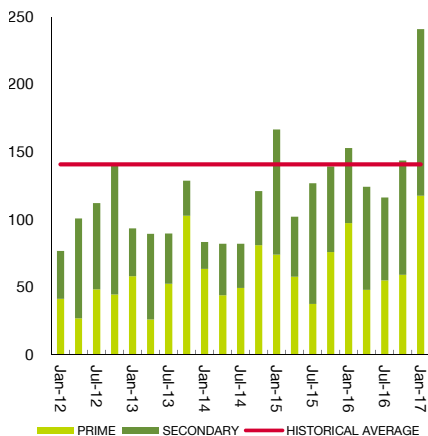
Gross take-up in the fourth quarter totalled 240,952m<sup>2</sup> which was the second consecutive quarter of above average gross take-up. On an annual basis, gross take-up in 2016 was 23% ahead of volumes recorded in 2015, totalling 640,630m<sup>2</sup> across 112 transactions, the highest annual total since 2010.

By region, the West recorded the highest level of leasing activity, measuring 156,606m<sup>2</sup> accounting for 65% of total take-up in the fourth quarter. For the second consecutive quarter above average levels of take-up were recorded in the North, with 50,568m<sup>2</sup> across four transactions recorded in the fourth quarter. In the East, 19,366m<sup>2</sup> of leasing activity was recorded while take-up in the South East was relatively subdued, measuring 14,412m<sup>2</sup>, the lowest level since July 2014.

On an annual basis, the West accounted for 46.5% of leasing activity followed by the South East (22.2%) the North (18.7%) the East (10%) and the City Fringe (2.3%).

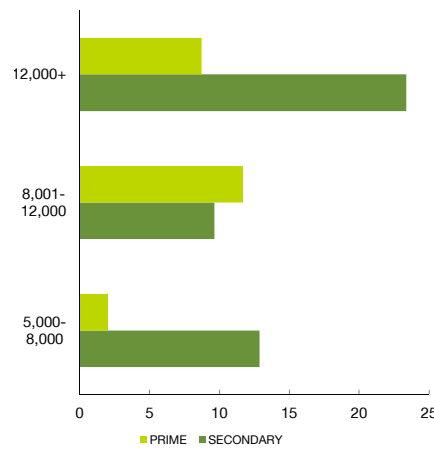
Above average levels of prime gross take-up were recorded in the fourth quarter, measuring 117,701m<sup>2</sup>, 72% above the long term average. Volumes were

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 — January 2017

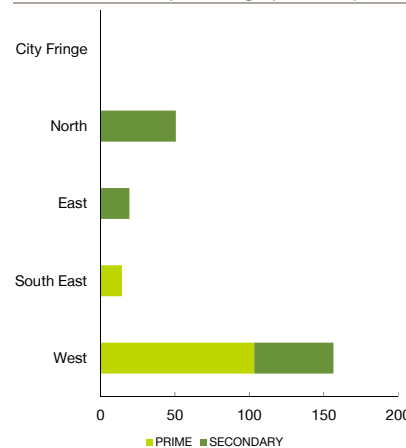


Source: Knight Frank Research

boosted by leasing activity in the West, with seven transactions totalling 103,289m<sup>2</sup> recorded. One notable leasing transaction was CEVA leasing a 18,360m<sup>2</sup> warehouse facility at 24 Parkwest Drive in the Park West Industrial Estate, Derrimut for a three year term. Prime space accounted for 43.6% of annual take-up in the third quarter, of which 84,971m<sup>2</sup> (30.3%) was within speculative space.

For the second consecutive quarter, strong leasing activity was recorded in the secondary market with 123,251m<sup>2</sup> absorbed across 10 buildings. Volumes were 179% above the long term average of 68,940m<sup>2</sup> and the highest quarterly total since Q2 2011. One notable

FIGURE 6  
Take-up 3 months to January 2017  
'000m<sup>2</sup> est Take-up buildings (excl D&C)



Source: Knight Frank Research

“Gross take-up in 2016 was 23% ahead of volumes recorded in 2015”

transaction included ITI Australia leasing a 18,815m<sup>2</sup> facility at G7&G8, 445-469 Grieve Parade, Altona on a two year term at a net rent of \$68.50/m<sup>2</sup>.

The properties leased had been available for an average of 11.5 months, made up of 7.4 months for prime and 15.3 months for secondary space.

Strong leasing activity in existing stock continued over the fourth quarter, accounting for 94% of total gross absorption.

## Outlook

The recent decline in interest rates, combined with improved business confidence levels, will continue to support retail spending and housing construction levels maintaining solid tenant demand for industrial space over the medium term.

In regards to vacancy, stock levels are anticipated to remain elevated over the medium term, underpinned by a combination of elevated backfill vacancy and additional properties likely to come on line throughout 2017 relating to the automotive industry.

Despite a recent uptick in speculative development, construction levels are anticipated to remain relatively low in the medium term. The pre-commitment market remains competitive as tenants continue to upgrade and relocate into purpose built facilities.

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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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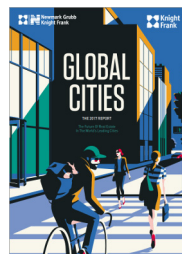
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