

MELBOURNE

INDUSTRIAL VACANCY APRIL 2017

Key Facts

Total available space fell by 8.1% over the past quarter to measure 943,277m².

Prime vacant stock increased by 4.7% while secondary vacant stock decreased by 23.7%.

Three speculative projects commenced over the quarter, totalling 90,739m².

Gross take-up measured 251,534m² over the first quarter, 79% above the series average.



JANE WONG
Research Analyst

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Melbourne's industrial vacancy declined for the second consecutive quarter, falling to its lowest level since Q1 2015 underpinned by above average levels of take-up.

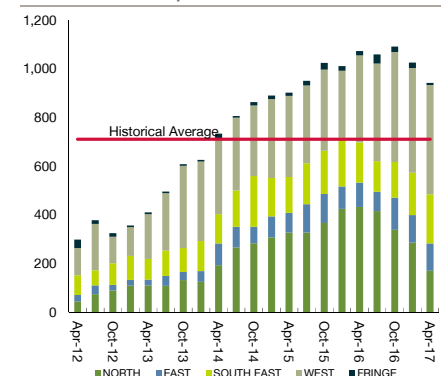
Over the first quarter of 2017, industrial vacancy in Melbourne declined for the second consecutive quarter by 83,691m² or 8.1%. The fall in vacancy was predicated by above average levels of take-up in the North and West precincts. Total vacancy now measures 943,277m² across 83 buildings, its lowest level since Q1 2015.

Nevertheless, total vacancy remains 32.5% above the series average. Prime vacant stock continued to increase over the quarter with the addition of eight backfill options in Q1 2017 as tenants continue to upgrade and consolidate from multiple sites into purpose-built facilities.

Existing vacant stock accounted for 80% of total vacant stock as at April 2017, while completed speculative space accounted for 10.2% of total vacant stock. Three speculative developments commenced construction in the first quarter, all of which are in the West precinct. Speculative space under construction accounted for 9.6% of total vacant stock.

Gross take-up reached a six-year high, measuring 251,534m², with year-to-date volumes 102% above levels recorded in Q1 2016. Leasing was the most active in the Western region, accounting for 44.1% of gross take-up with 110,907m² being absorbed across 14 buildings.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

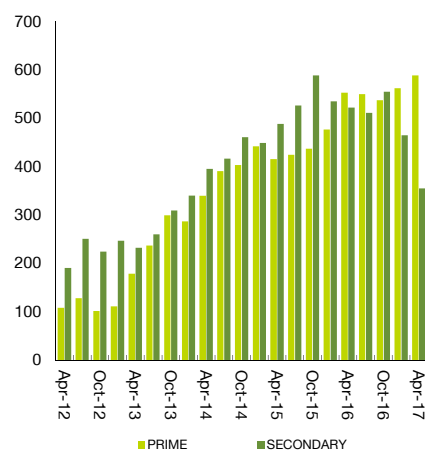
Quality of Stock

The level of prime vacant stock reached a historical high for the series, having increased by 4.7% to measure 588,568m² as at April 2017. The increase was largely underpinned by three speculative developments commencing construction in the West, combined with an increase in backfill space. Major vacancies included 106-116 Macklin Drive, Derrimut (7,576m²), vacated by Hellmann Worldwide Logistics, and 169 Australis Drive, Derrimut (15,400m²), vacated by Albi Imports.

In contrast, the level of secondary vacant stock decreased by 23.7% to measure 354,709m², its lowest level since Q1 2014. This was largely underpinned by limited additions to existing vacant stock, combined with above average levels of take-up in the North and West precincts.

FIGURE 2

April 2017 Available Space '000m² by grade



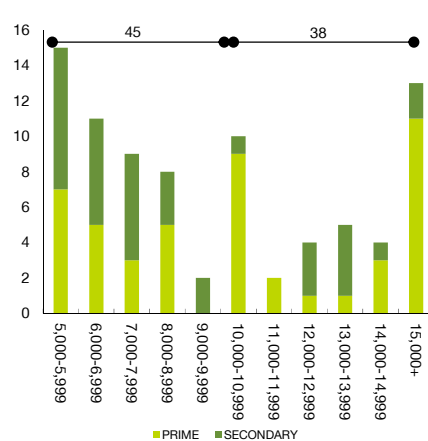
Source: Knight Frank Research

Vacant completed speculative space increased by 34.6% over the quarter to measure 96,667m² as five speculative developments completed construction in Q1 2017. The most notable completions included 2/52 Fox Drive, Dandenong South (5,500m²), 359-407 Frankston-Dandenong Road in Dandenong South (8,205m²) and 93-103 Pacific Drive in Keysborough (8,745m²). Nevertheless, vacant stock levels for speculative space remain 16.6% below the series average of 115,925m².

Speculative space under construction increased by 25% over the quarter to measure 90,739m², its highest level since Q1 2015. New developments that commenced over the quarter included Salta Property Group's 3 Taras Avenue, Altona (5,195m²), IntraAust property's 33-45 Fitzgerald Road, Laverton North (6,000m²) and Frasers Property's Spec B, Archer Road in Westpark Industry Estate, Truganina (14,871m²). The Western region

FIGURE 3

April 2017 Available Space No. of buildings by size and quality



Source: Knight Frank Research

accounts for 94% of total speculative space under construction in Melbourne.

Distribution by Precinct

Vacant stock levels continue to vary across all precincts. The Northern region once again recorded the largest fall in vacancy, decreasing by 41% to 169,993m² following above average levels of take-up.

Vacancy in the City Fringe region continued to decrease and is now sitting at 8,500m². There is only one available option for lease above 5,000m² (80 Turner Street, Port Melbourne).

Despite above average levels of take-up in the Western region over Q1 2017, vacant stock levels increased by 4.5% to 450,260m². Prime space accounted for 68% of vacant stock levels within this region with approximately 85,000m² of it being speculative space that has recently commenced construction.

Vacancy in the South Eastern region continued to increase over the quarter, up 15.6% to measure 201,434m² as at April 2017. The increase in total vacancy resulted from six backfill options becoming available, totalling 37,901m². Vacant stock levels in the South East region are now at the highest level since October 2014.

The Eastern region was the only precinct to record no change over the quarter, static at 113,090m².

TABLE 1

Melbourne Industrial Available Space 5,000m²+ as at April 2017

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	8,500	1	125	-13,655	-10,300	0	100
North	169,993	16	69	-116,445	-263,553	65	35
East	113,090	12	66	0	14,128	13	87
South East	201,434	23	79	27,108	35,936	67	33
West	450,260	31	71	19,301	92,278	73	27
Total	943,277	83	82	-83,691	-131,511	62	38

Source: Knight Frank Research

Size & Type of Stock

Of the 83 vacancies currently available in Melbourne, 45 are sub-10,000m² options. There are 38 options available for 10,000m²+ users, 27 of which are of prime quality grade. For larger 20,000m²+ users, there are nine options available, seven of which are of prime quality grade.

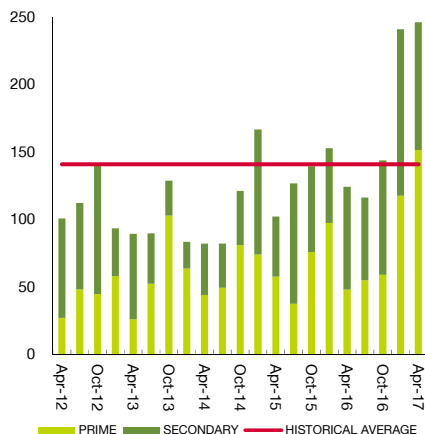
Building Take-up

Gross take-up in Q1 2017 totalled 251,534m², 79% above the series average and the highest quarterly total since Q1 2011. Year-to-date take-up is 102% ahead of the equivalent period in 2016.

Prime gross take-up totalled 151,554m² in Q1 2017, the strongest quarterly take-up since Q1 2010. Volumes were boosted by robust leasing activity in the Western region with 93,240m² absorbed across 11 buildings. One notable transaction included 61 Australis Drive, Derrimut (10,800m²) leased to Mitre 10. Prime space accounted for 60% of gross take-up in the first quarter, 25% of which was speculative space.

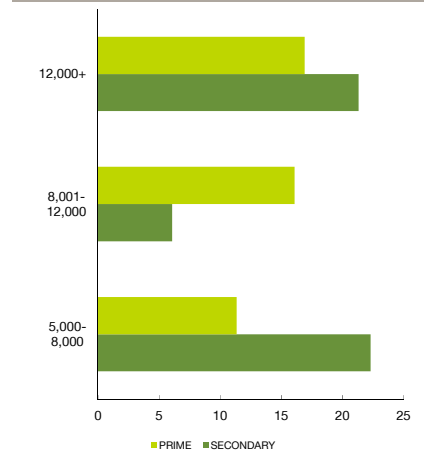
Above average levels of take-up were recorded in the secondary market with 94,580m² being absorbed across nine buildings.

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 — April 2017

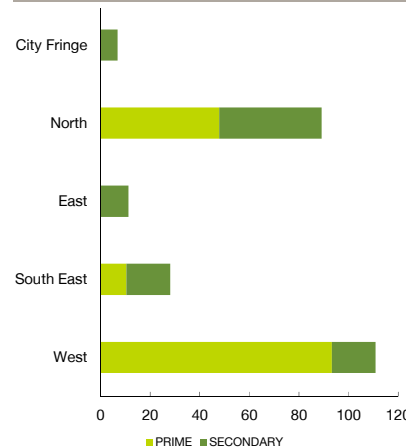


Source: Knight Frank Research

By region, the West recorded the highest level of leasing activity, at 110,907m², accounting for 44% of gross take-up. For the third consecutive quarter, above average levels of gross take-up were recorded in the Northern region with 94,506m² being absorbed across seven transactions. One notable transaction included Warwick Fabrics leasing 8,772m² at 25 Transport Drive, Somerton paying \$75/m² net.

Take-up in the South Eastern region totalled 28,040m², a 95% increase over the quarter. In contrast, leasing activity in the Eastern region was relatively subdued with just 11,226m² being absorbed. In the City Fringe, only one leasing transaction was recorded measuring 5,329m².

FIGURE 6
Take-up 3 months to April 2017
'000m² est Take-up buildings (excl. D&C)



Source: Knight Frank Research

“Prime gross take-up totalled 151,554m² in Q1 2017, the strongest quarterly take-up in seven years.

The properties leased had been available for an average of 15.7 months, made up of 14.8 months for prime space and 16.6 months for secondary space.

Strong leasing activity in existing stock continued over the first quarter, accounting for 92.9% 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 increasing 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 below the long-term average in the medium term. The pre-commitment market remains competitive as tenants continue to upgrade and relocate into purpose built facilities.



RESEARCH & CONSULTING

Kimberley Paterson

Associate Director, Victoria

+61 3 9604 4608

Kimberley.paterson@au.knightfrank.com

Jane Wong

Research Analyst, Victoria

+61 3 9604 4650

Jane.wong@au.knightfrank.com

VICTORIA

James Templeton

Managing Director, Victoria

+61 3 9604 4724

James.templeton@au.knightfrank.com

INDUSTRIAL

Gab Pascuzzi

Senior Director, Head of Division

+61 3 9604 4649

Gab.pascuzzi@au.knightfrank.com

Ben Hackworthy

Director, Business Space

+61 3 9604 4731

Ben.hackworthy@au.knightfrank.com

Adrian Garvey

Director Industrial

+61 3 8545 8616

Adrian.garvey@au.knightfrank.com

NATIONAL

Tim Armstrong

Head of Industrial, Australia

+61 7 3246 1871

Tim.armstrong@au.knightfrank.com

Greg Russell

Head of Industrial Investment –Australia

+61 2 8545 8804

Greg.russell@au.knightfrank.com

VALUATIONS

Michael Schuh

Joint Managing Director –Victoria

+61 3 9604 4726

mschuh@vic.knightfrankval.com.au

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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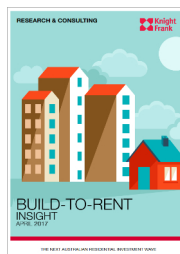
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