



# RESEARCH

## APRIL 2012 MELBOURNE INDUSTRIAL VACANCY ANALYSIS

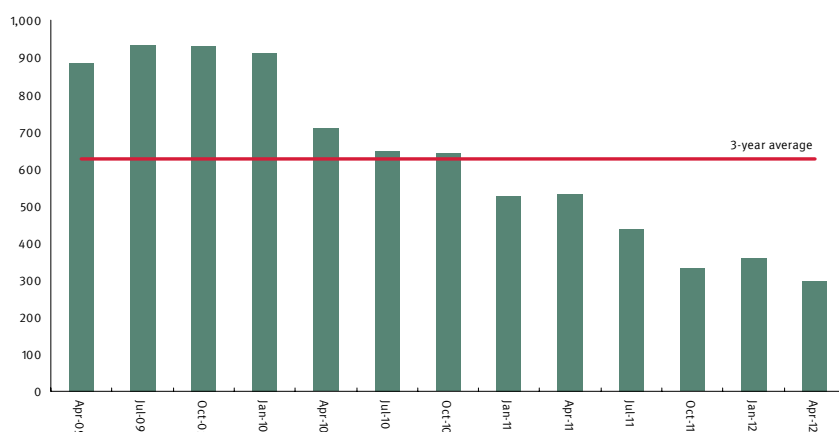
### Knight Frank

The Melbourne industrial market has recorded another new low for available industrial space as at April 2012; with tenant demand continuing to outstrip supply. After a subdued result to January 2012, leasing activity in the three months to April caused the level of vacant stock to decrease to a new low.

**A NEW VACANT STOCK LOW HAS BEEN RECORDED OF 298,446M<sup>2</sup>; 52% BELOW THE AVERAGE**

The total amount of space available greater than 5,000m<sup>2</sup> reduced by approximately 60,000m<sup>2</sup>, in the three months to April. Reflecting a lack of prime options available, 64% of this reduction came from within secondary accommodation.

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



Source: Knight Frank

Market	Available Space (m <sup>2</sup> )	Number of Buildings	Av. Asking rent (\$/m <sup>2</sup> net)	Change past quarter (m <sup>2</sup> )	Change past 6 months (m <sup>2</sup> )	Change past 12 months (m <sup>2</sup> )
<b>Precinct</b>						
Fringe	34,643	4	95	-3,293	8,707	464
North	44,339	5	66	-30,893	-43,493	-95,173
South East	107,514	11	73	-4,468	43,414	2,182
West	111,950	13	67	-20,669	-41,284	-140,936
<b>Total</b>	<b>298,446</b>	<b>33</b>	<b>72</b>	<b>-59,323</b>	<b>-32,656</b>	<b>-233,426</b>
<b>Building Quality</b>						
Prime	107,946	12	80	-21,202	-35,605	-143,124
Secondary	190,500	21	69	-38,121	2,949	-90,339
<b>Building Type</b>						
Existing Stock	258,495	29	72	-64,193	-17,539	-142,026
Speculative (Completed)	16,621	2	75	-8,500	-25,847	-34,625
Under Construction	23,330	2	75	13,370	10,730	-56,812

Source: Knight Frank

The only speculative space under construction at this time is within the West precinct. Knight Frank has identified approximately 98,000m<sup>2</sup> that is either DA approved or mooted within the North, South East and West, however given the financing environment and the condition of the Victorian economy, private developers remain unlikely to advance on significant spec projects until funding is more accessible.

Larger tenant requirements are likely to be on a pre-lease basis rather than speculative development. However, some of the larger developers have been proceeding speculatively given the limited prime industrial options available in the market with mostly successful outcomes to date.

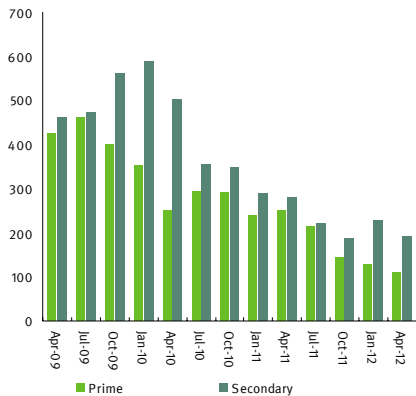


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## Quality of Stock

Available space is dominated by the secondary market representing 64% of available stock. With an average asking rental of \$69/m<sup>2</sup> this vacant secondary space ranges from sites with low utility through to older but highly functional. Prime accommodation accounts for 36% of the available stock, although given the relative lack of new supply over the past two years most of this is within existing buildings rather than brand new stock.

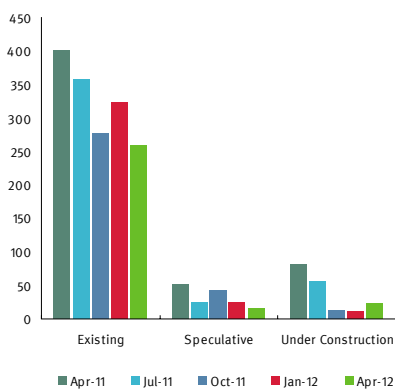
Figure 2  
Melbourne Industrial Available Space '000m<sup>2</sup> by grade April 2009 – April 2012



Source: Knight Frank

The reduction of available secondary stock is directly due to the lack of new prime accommodation coming to market. As a result, presently there are two speculative developments currently under construction in the West precinct to capture this demand.

Figure 3  
Melbourne Industrial Available Space '000m<sup>2</sup> by type April 2011 – April 2012



Source: Knight Frank

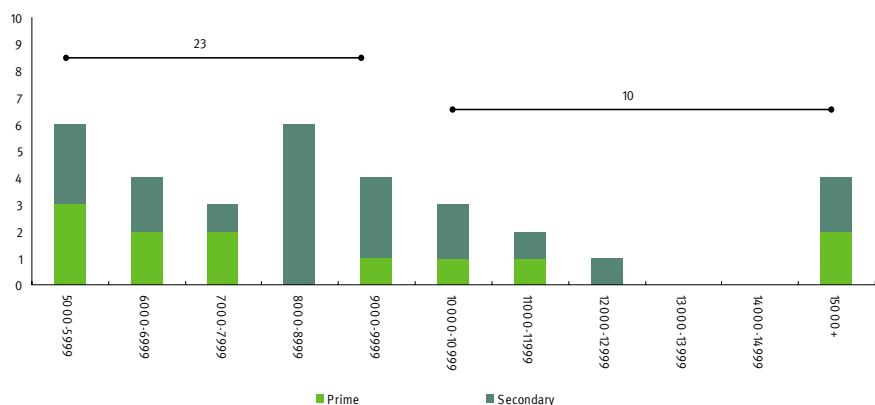
During the first quarter of 2012, the amount of vacant industrial space within existing stock fell by 20%, coinciding with a strong period of leasing activity. One speculative development by Australand for 9,960m<sup>2</sup> at Leo Court, Truganina has reached completion, while two more commenced over the quarter, within the relatively affordable West precinct.

## Distribution by Precinct

The Western precinct has the greatest level of available industrial space at April 2012, with over 60% of this prime accommodation. Approximately one third of this space is within buildings currently under construction including a 15,564m<sup>2</sup> Office/Warehouse with a large hard stand situated within the DEXUS Industrial Estate at 25 Distribution Drive, Laverton North. The second largest precinct; the South East, is dominated by secondary accommodation which currently makes up for 94% of this space, however this amount is expected to reduce during the next quarter due to two lease deals that are yet to be executed. There is only one prime option available in this region, a new speculative office/warehouse facility at 1894 Princes Highway, Mulgrave.

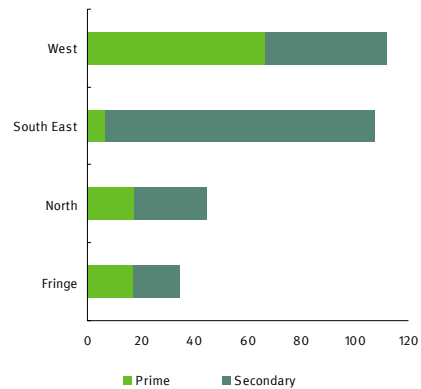
With the greatest volume of Prime space concentrated in the West there is limited prime stock available in the other regions. However the Fringe and North precincts provide a decent amount of Prime stock as a proportion of total stock.

Figure 4  
April 2012 Available Space  
No of buildings by size of building m<sup>2</sup> and quality



Source: Knight Frank

Figure 5  
April 2012 Available Space  
'000m<sup>2</sup> by quality & precinct



Source: Knight Frank

## Size of Available Stock

Prospective tenants in the market looking for larger industrial accommodation options are left with limited choices. Currently there are 10 options available that are in excess of 10,000m<sup>2</sup>, only four of these being prime grade accommodation. There are 23 smaller industrial accommodation options (5,000m<sup>2</sup>-9,999m<sup>2</sup>), only eight of these being prime buildings. With limited larger, high quality options prospective tenants looking at upgrading or expansion and will need to continue to pursue D&C projects, or purchase land to develop purpose built facilities. The majority of the tenant requirements over 20,000m<sup>2</sup> were fulfilled over the past year through a pre-lease, the most recent being a 23,400m<sup>2</sup> facility at 19-39 Studley Court, Derrimut developed by Gibb Group and design and constructed by Qanstruct Group.

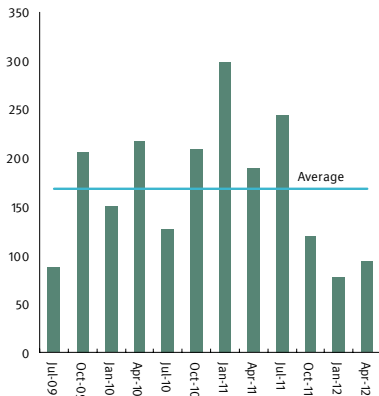


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## Building Take-up

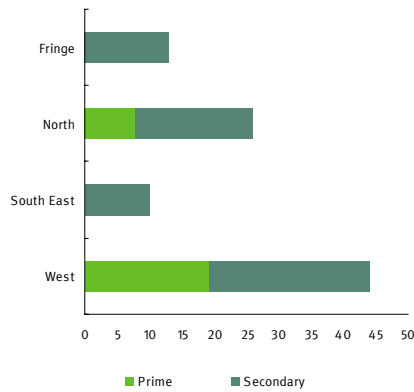
Knight Frank estimates that during the three months to April 2012 there were 10 buildings greater than 5,000m<sup>2</sup> leased covering an area of 92,882m<sup>2</sup> (excluding D&Cs), two of these buildings leased were Prime grade assets, while eight were Secondary. The amount of take-up recorded over the past three quarters has been subdued when compared with the historic average. Over the same time, the amount of available stock has also diminished.

Figure 6  
Melbourne Industrial Take-up by Qtr  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Figure 7  
Melbourne Industrial Take-up 3 months to April 2012  
Estimated Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Absorption data for this three month period favoured secondary space, accounting for 71% of the total industrial space taken up. Leasing activity was concentrated in the West and the North; with gross absorption within these precincts recorded at 26,986m<sup>2</sup> for prime and 42,960m<sup>2</sup> for secondary. As shown in Figure 7 there was no prime space taken up within the City Fringe or South East industrial precincts.

## Summary

The April 2012 results represented a new low for the total available space, as recorded by Knight Frank since the data series began in April 2009. All regions monitored experienced a drop as take-up continues to outstrip supply. While available space has steadily diminished, market asking rentals have only begun to respond to the tighter market, with modest increases in the second half of 2011.

The disparity of stock availability between Prime and Secondary accommodation continues to show there are comparatively limited opportunities for tenants to re-locate to modern premises.

Due to a lack of funding options and a high Australian dollar causing turmoil within one of Victoria's biggest industries (manufacturing); it is difficult to expect a significant increase in speculative development for larger sized stock in the short term. Developers will likely seek a tenant pre-commitment to mitigate most of the risks involved, however a handful of listed groups may continue to remain active in the spec market.

## 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 categorized into the below three types of leasing options
  - o *Existing Buildings* – existing buildings for lease.
  - o *Speculative Buildings* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
  - o *Under Construction* – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

Data collection and analysis represents a snap shot of market vacancy as at April 2012, the beginning of the second quarter.

### The Melbourne Industrial Property Market has been divided into 4 distinct industrial precincts, as follows:

<b>Fringe</b>	CBD Fringe; predominantly Port Melbourne
<b>North</b>	Suburbs North of the CBD on the North/East side of the Calder Freeway. Includes areas of Preston, Thomastown, Broadmeadows, Epping, Campbellfield, Somerton, and Tullamarine
<b>South East</b>	Incorporates both the East and the South East. The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon. The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham
<b>West</b>	On the Southern-side of the Calder Freeway to incorporate the traditional Industrial areas within the west, including Altona, Laverton, Sunshine, Derrimut, Brooklyn, Ravenhall and Deer Park

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