

# MELBOURNE

## INDUSTRIAL VACANCY JULY 2017

### Key Facts

**Total available space fell by 7.8%** over the past quarter to measure 870,007m<sup>2</sup>.

**Prime vacant stock decreased by 8.7%** while secondary vacant stock decreased by 6.3%.

**Speculative space under construction accounted for 13.7%** of available stock.

**Year-to-date gross take-up is 24.3% ahead** of the equivalent period in 2016.



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Melbourne's industrial vacancy declined for the third consecutive quarter, falling to its lowest level since Q3 2014 as a result of strong take-up levels, predominantly in the West.

For the third consecutive quarter, industrial vacancy in Melbourne declined, falling by 73,270m<sup>2</sup> or 7.8%. As at July 2017, vacant stock measured 870,007m<sup>2</sup> across 80 buildings. The Western region accounted for nearly half of total vacant stock across the Melbourne industrial market. While total vacancy is at its lowest level since October 2014, it remains 22.2% above the series average.

The fall in vacancy was underpinned by prime vacant stock which decreased for the first time since Q3 2016. Secondary vacant stock continued to decrease, falling to its lowest level since Q3 2013.

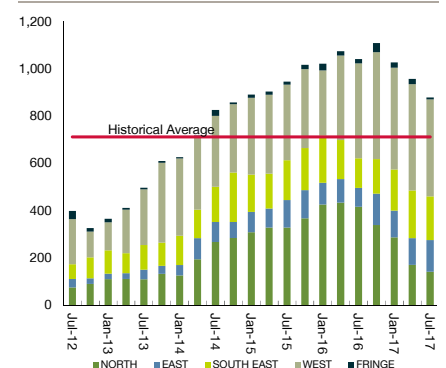
Existing vacant stock accounted for 76.4% of total vacancy while vacant completed speculative space accounted for 9.9%. Speculative space under construction accounted for the remaining 13.7%. One development commenced construction in the second quarter.

Gross take-up measured 144,527m<sup>2</sup> in the three months to July 2017 as above average

levels of take-up were recorded in the West. Year-to-date take-up is 24.3% above levels recorded in the equivalent period in 2016.

Overall letting-up times decreased with the average take-up time falling to 8.4 months, down from 15.7 months in the previous quarter.

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



Source: Knight Frank Research

## Quality of Stock

As at Q2 2017, total vacant space decreased for the third consecutive quarter to measure 870,007m<sup>2</sup>. Despite falling to its lowest level since Q3 2014, vacancy remains 22.2% above the series average.

Prime vacant stock decreased for the first time since Q3 2016 as leasing activity offset new supply additions. Prime vacant stock fell by 8.7% to measure 537,561m<sup>2</sup>, its lowest level since Q4 2015. Nevertheless, prime vacant space accounted for the majority of total vacant space at 61.8% as tenants continue to upgrade and consolidate from multiple sites into purpose-built facilities.

Secondary vacant stock decreased for the third consecutive quarter, falling by 6.3% to measure 332,446m<sup>2</sup>, its lowest level since Q3 2013. This was driven by limited additions to existing vacant stock combined with above-average levels of

secondary take-up in the West.

Vacant completed speculative space fell to 85,973m<sup>2</sup> across 11 properties as 41-45 Evolution Drive, Dandenong South (5,118m<sup>2</sup>) was leased. As at Q2 2017, vacant completed speculative stock was 25.8% below the quarterly average.

Speculative space under construction increased by 31.2% in Q2 2017 to reach a new series high of 119,082m<sup>2</sup>. This comes after no speculative space was under construction at the equivalent period in 2016. The increase resulted from above average levels of speculative development activity in the Western region as the competitive pre-commitment market, combined with diminishing land supply and increasing land values, are driving robust demand for speculative built facilities. The Western region currently accounts for 95% of total speculative space under construction across Melbourne.

## Distribution by Precinct

In Q2 2017, vacancy levels decreased across all precincts except in the Eastern region. For the first time since our series began, the City Fringe has no vacant options above 5,000m<sup>2</sup> after 80 Turner Street, Port Melbourne (8,500m<sup>2</sup>) was leased in Q2 2017.

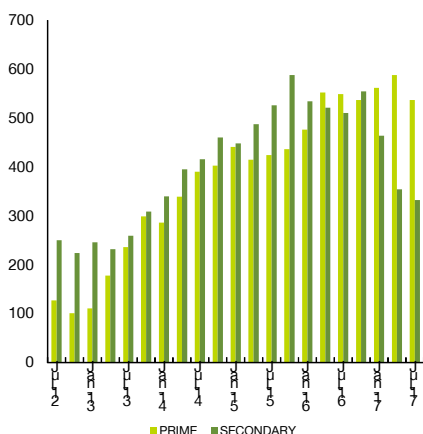
Vacancy in the Eastern region increased by 18.4% to measure 133,904m<sup>2</sup> following the addition of Fantastic Furniture's backfill space at Building 4B, 1508 Centre Road in Clayton Business Park, Clayton (19,000m<sup>2</sup>). Vacancy in the East is now at its highest level since Q3 2009.

The Western region recorded the largest fall in vacancy by lettable area, down by 40,009m<sup>2</sup> to measure 410,251m<sup>2</sup> following above-average levels of take-up. Prime space accounted for 74.9% of vacant space within this region with approximately 113,000m<sup>2</sup> of this being speculative space under construction.

Available space in the Northern region decreased for the fifth consecutive quarter, falling by 29,303m<sup>2</sup> to measure 140,690m<sup>2</sup>, its lowest level since Q4 2013. Several buildings withdrawn from the vacancy survey having been fragmented into sub-5,000m<sup>2</sup> options was the catalyst for the fall.

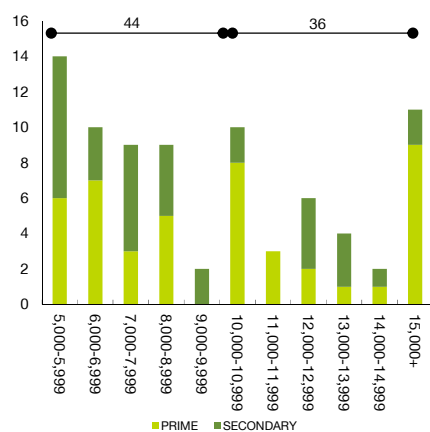
Vacancy in the South Eastern region decreased for the first time since Q2 2016, down by 8.1% to measure 185,162m<sup>2</sup> following limited additions to existing stock and strong levels of take-up.

FIGURE 2  
July 2017 Available Space  
'000m<sup>2</sup> by grade



Source: Knight Frank Research

FIGURE 3  
July 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 July 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	0	0	N/A*	-8,500	-38,098	0	0
North	140,690	13	75	-29,303	-275,471	71	29
East	133,904	13	71	20,814	54,387	11	89
South East	185,162	21	76	-16,272	60,089	62	38
West	410,251	33	72	-40,009	8,438	75	25
<b>Total</b>	<b>870,007</b>	<b>80</b>	<b>73</b>	<b>-73,270</b>	<b>-190,655</b>	<b>62</b>	<b>38</b>

Source: Knight Frank Research \*no vacancy

## Size & Type of Stock

Of the 80 vacancies currently available in Melbourne, 44 are sub-10,000m<sup>2</sup> options. There are 36 options available for 10,000m<sup>2</sup>+ users, 25 of which are of prime quality grade. For larger 20,000m<sup>2</sup>+ users, there are seven options available, six of which are of prime quality grade in the North, South East and West.

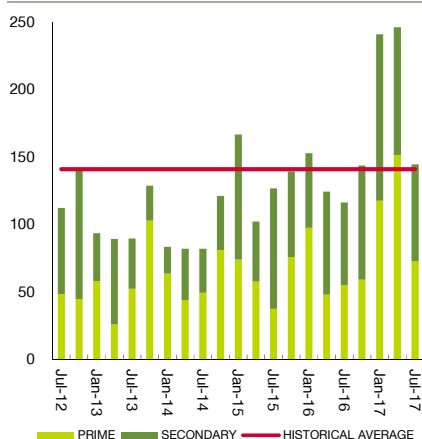
## Building Take-up

Gross take-up in Q2 2017 totalled 144,527m<sup>2</sup>, falling by 42.5% from the previous quarter. Nevertheless, take-up levels remain 2.6% above the series average. Year-to-date take-up is 24.3% ahead of the equivalent period in 2016.

Prime gross take-up totalled 72,893m<sup>2</sup>, 6.9% above the series average. Leasing activity in the prime market accounted for 50.4% of total take-up in Q2 2017 compared with 60.3% in Q1 2017. One notable transaction included Chemist Warehouse leasing an additional 10,111m<sup>2</sup> at 70 Sydney Road, Somerton on a four-year term paying \$76/m<sup>2</sup>.

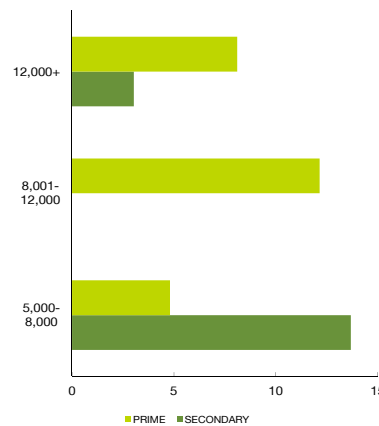
Above-average levels of take-up were also recorded in the secondary market with 71,634m<sup>2</sup> absorbed across five buildings. The largest transaction was 30 Taras Avenue, Altona North (40,831m<sup>2</sup>) which was sold to an owner-occupier. The property, initially owned by Dexu Property Group, was purpose-built for

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 — July 2017

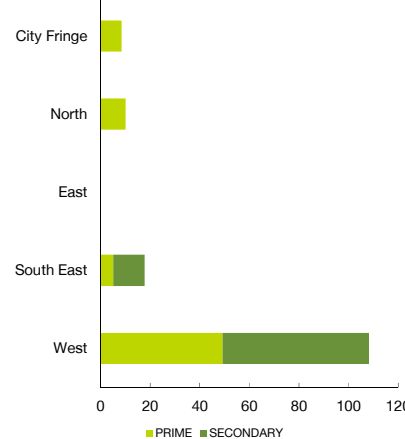


Source: Knight Frank Research

Target in 1996. Target recently relocated to a new purpose-built facility in Charter Hall Group's Drystone Industrial Estate, Laverton North (63,000m<sup>2</sup>).

The West continues to lead gross take-up by region with 108,189m<sup>2</sup> absorbed in Q2 2017, accounting for 63.3% of total take-up across Melbourne. Notable transactions included Silk Contract Logistics leasing 64 West Park Drive, Truganina (20,337m<sup>2</sup>) on a six-year term and SKM Recycling leasing 25 Briggs Drive, Derrimut (14,970m<sup>2</sup>) on a two-year term. Leasing activity was fairly subdued in the South East (17,727m<sup>2</sup>), the North (10,111m<sup>2</sup>) and the City Fringe (8,500m<sup>2</sup>), with no leasing activity in the East.

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



Source: Knight Frank Research

“Available space in the Northern region decreased for the fifth consecutive quarter to measure 140,690m<sup>2</sup>, its lowest level since Q4 2013.”

The properties leased had been available for an average of 8.4 months, made up of 8.35 months for prime space and 8.36 months for secondary space.

Strong leasing activity in existing stock continued over the quarter, accounting for 97.0% of total gross absorption. Gross take-up of speculative stock slowed, measuring 5,118m<sup>2</sup> compared with 17,926m<sup>2</sup> over the previous quarter.

## Outlook

The recent low 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. This is particularly evident in the West with three requirements totalling 100,000m<sup>2</sup> currently seeking industrial facilities. The arrival of global retailers Amazon and Decathlon later this year into the Australian market will further strengthen the demand for well-located warehouse and logistic facilities.

Despite the potential for further increases in speculative stock, vacancies will continue to stem from backfill space in the medium term. As a result, vacancy levels are anticipated to remain above the series average in 2017, albeit with signs that total vacancy has now reached its peak having decreased for three consecutive quarters.



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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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