

MELBOURNE INDUSTRIAL VACANCY Q3 2019

Strong prime absorption constricts vacancy to historical lows

- Total vacancy in Melbourne’s industrial market contracted by 5% on a Quarter on Quarter basis to 670,259 sq m in Q3-19, underpinned by continuing demand for prime stock, driven largely by 3PL providers, online retailers and food distributors.
- The West and South East precincts accounted for 33% and 27% respectively of total vacancy, with under-construction, speculative stock replenishing the prime grade pipeline in these regions as demand continues to outstrip supply.
- Take-up for the current quarter totaled 147,265 sq m, whilst overall absorption in the last 9 months totaled 659,544 sq m, which is 23% higher than the same period last year. Demand for prime stock soared by 38%, while secondary stock absorption contracted by 7%.
- Approx. 59% of the total 234,532 sq m of speculative developments earmarked for completion in 2019 have already been leased. The strong take-up levels in the speculative space, especially in the West and the South East precincts bolstered developers appetite, with the development pipeline showing no signs of softening.

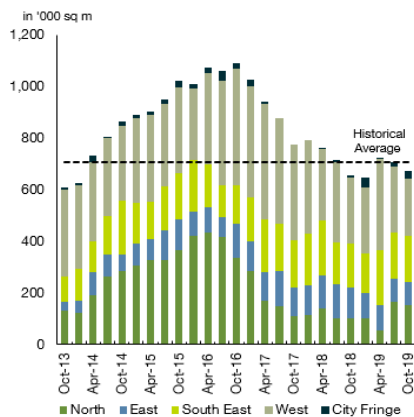


FINN TREMBATH
Associate Director

TABLE 1
Melbourne Industrial Available Space ≥ 5,000sq m for Q3 2019

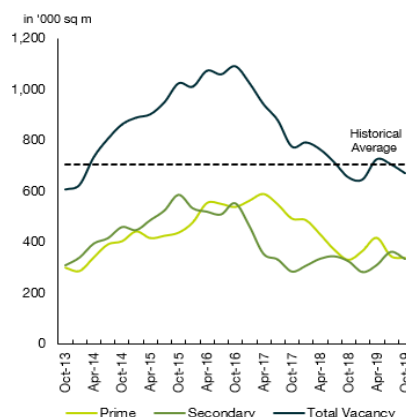
Precinct	Available Space (sq m)	No. of Buildings	Avg. Asking Rent (\$/sq m net)	Change Past Qtr (sq m)	Change Past Year (sq m)	Building Quality Prime %	Building Quality Secondary %
City Fringe	29,558	3	120	12,154	21,847	24%	76%
North	150,101	10	86	-15,236	47,626	41%	59%
East	89,900	7	79	256	-27,785	0%	100%
South East	181,410	18	83	1,922	10,083	44%	56%
West	219,290	16	81	-36,178	-37,421	86%	14%
Total	670,259	54	90	-37,082	14,350	50%	50%

FIGURE 1
Industrial Available Space By Region



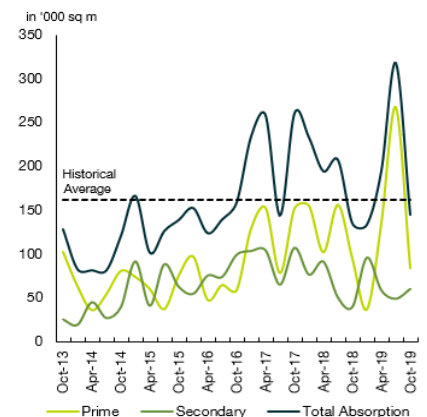
Source: Knight Frank Research

FIGURE 2
Industrial Vacancy by Type



Source: Knight Frank Research

FIGURE 3
Industrial Take-up by Type
Excl. D&C

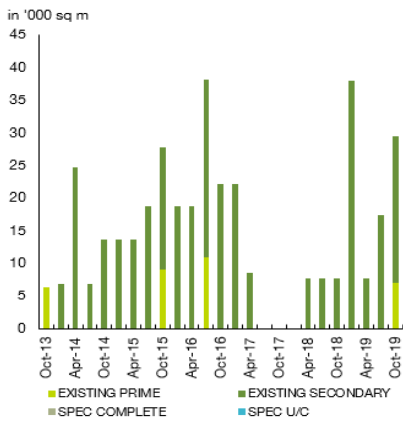


Source: Knight Frank Research

City Fringe

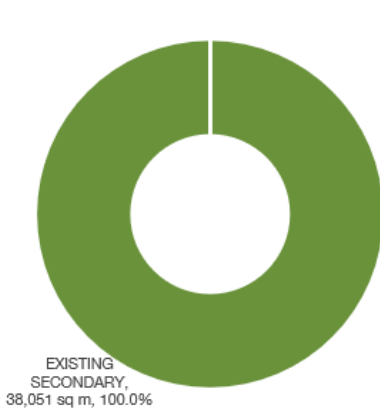
- Available stock in the Fringe precinct increased in the current quarter to 29,558 sq m, which included a 7,000 sq m prime building in South Melbourne.
- Backfill space is expected to add to vacancy in the first half of 2020, as tenants relocate to more expansive properties.

FIGURE 4
Vacancy By Type – City Fringe



Source: Knight Frank Research

FIGURE 5
Absorption by Type – City Fringe
Take-up: 12 months to October 2019

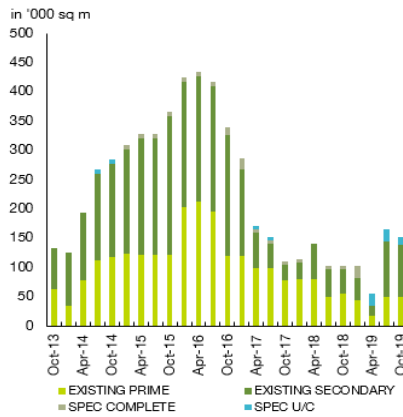


Source: Knight Frank Research

North

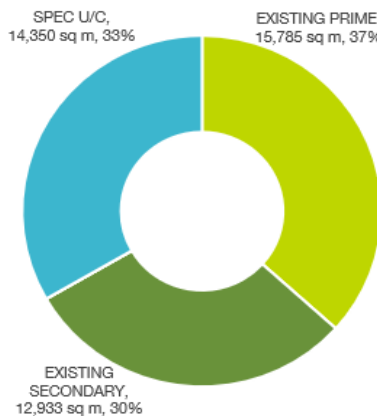
- Vacancy in the North declined by 8% in Q3-19. Prime vacancy dropped by 13% with only 3 A-grade buildings available to lease in the 10,000 sq m+ space.
- Speculative space of circa 6,720 sq m was absorbed during the current quarter by a specialized manufacturer at 481 Cooper St in the Biodiversity Business Park.

FIGURE 6
Vacancy By Type—North



Source: Knight Frank Research

FIGURE 7
Absorption by Type—North
Take-up: 12 months to October 2019

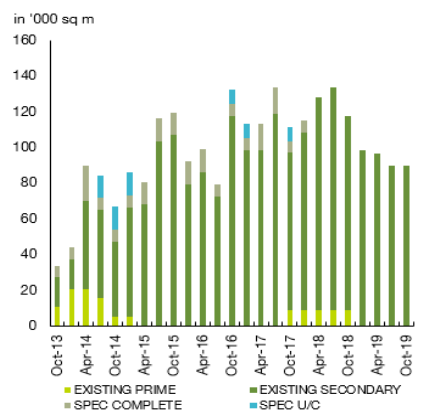


Source: Knight Frank Research

East

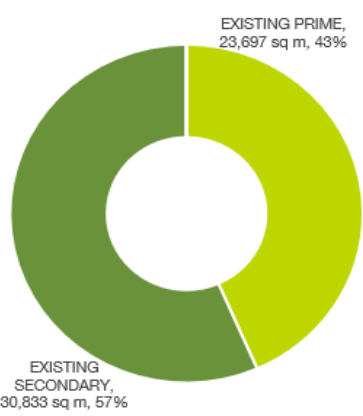
- Secondary stock levels remained unchanged at 89,900 sq m for the current quarter, while there continues to be no prime vacancy in the East.
- Leasing was subdued with only 21,894 sq m being taken up during the past 9 months, mainly due to a lack of prime stock in the precinct.

FIGURE 8
Vacancy By Type—East



Source: Knight Frank Research

FIGURE 9
Absorption by Type—East
Take-up: 12 months to October 2019

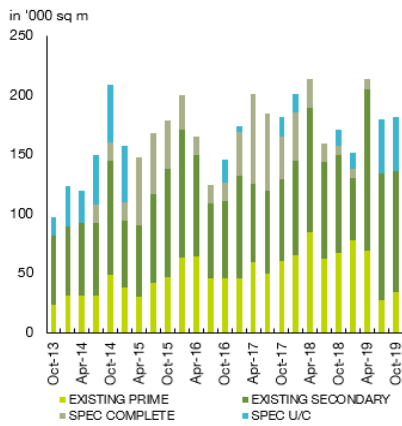


Source: Knight Frank Research

South East

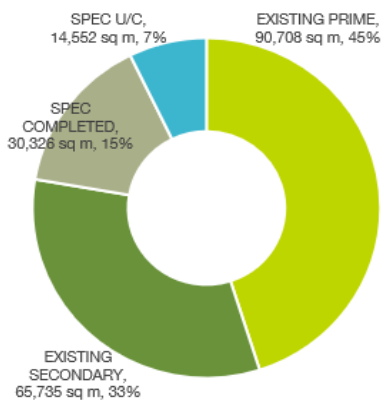
- Vacancy in the South East remained stable in the current quarter, but has increased by 19% from the start of the year.
- Tenant demand continued for prime grade properties, with 37,030 sq m leased during Q3-19, including Puma leasing a 14,552 sq m under-construction speculative warehouse in Fraser's Braeside Industrial Estate.

FIGURE 10
Vacancy By Type—South East



Source: Knight Frank Research

FIGURE 11
Absorption by Type—South East
Take-up: 12 months to October 2019

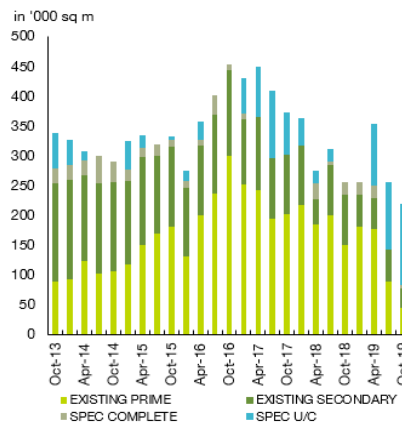


Source: Knight Frank Research

West

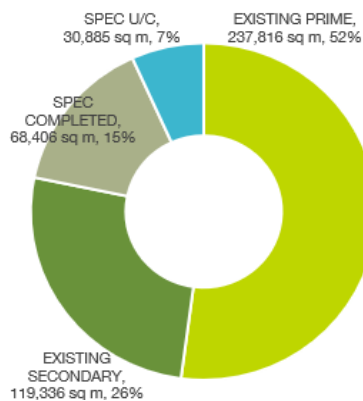
- Available space decreased by 14% during the current quarter to 219,290 sq m, on the back of continued demand by logistics operators for prime properties.
- Take-up in the West amounted to 101,383 sq m, headlined by Asaleo Care leasing 17,279 sq m and Dutton Cars leasing 18,815 sq m, both in Altona North.

FIGURE 12
Vacancy By Type—West



Source: Knight Frank Research

FIGURE 13
Absorption by Type—West
Take-up: 12 months to October 2019



Source: Knight Frank Research

RESEARCH & CONSULTING

Finn Trembath

Associate Director, Victoria
+61 3 9604 4608
Finn.Trembath@au.knightfrank.com

Kanwal Singh

Research Analyst, Victoria
+61 3 9604 4627
Kanwal.singh@au.knightfrank.com

Ben Burston

Partner, Chief Economist
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

INDUSTRIAL

Gab Pascuzzi

Partner, Head of Division
+61 3 9604 4649
Gab.Pascuzzi@au.knightfrank.com

Joel Davy

Partner
+61 3 9604 4674
Joel.Davy@au.knightfrank.com

Adrian Garvey

Director
+61 3 8545 8616
Adrian.Garvey@au.knightfrank.com

NATIONAL

Robert Salerno

Partner, Head of Industrial
+61 2 9761 1871
Robert.Salerno@au.knightfrank.com

Greg Russell

Partner, Head of Industrial Investments
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

VALUATION & ADVISORY

Michael Schuh

Partner, Joint Head of Valuation & Advisory
+61 3 9604 4726
Mschuh@vic.knightfrankval.com.au

VICTORIA

James Templeton

Partner, Managing Director
+61 3 9604 4724
James.Templeton@au.knightfrank.com

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 5,000 sq m. 2. Buildings are categorized 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.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



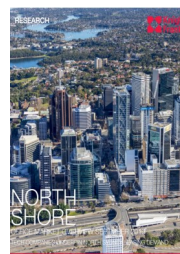
Melbourne's Fringe Office Market Report
Sep 2019



Melbourne CBD Office Market Overview
Sep 2019



Brisbane CBD Office Market Overview
Sep 2019



North Shore Office Market Overview
Sep 2019

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2019 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

