



RESEARCH

OCTOBER 2012 MELBOURNE INDUSTRIAL VACANCY ANALYSIS

Knight Frank

The demand for industrial space is demonstrating resilience with vacant stock falling. Leasing activity in the three months to October 2012 continues to gain momentum from its nadir in the January 2012 quarter.

VACANT STOCK LEVELS REMAIN LOW WITH 325,309M², 43% BELOW THE AVERAGE.

The total amount of space available (>5,000m²) decreased by 52,768m² in the third quarter of 2012, as a number of speculative buildings under construction were committed to at or just prior to completion. Vacancy in both prime and secondary accommodation decreased.

Figure 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank

Table 1
Summary of Available Industrial Space – October 2012

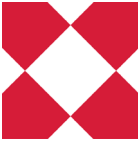
| Market | Available Space (m ²) | Number of Buildings | Av. Asking rent (\$/m ² net) | Change past quarter (m ²) | Change past 6 months (m ²) | Change past 12 months (m ²) |
|-------------------------|-----------------------------------|---------------------|---|---------------------------------------|--|---|
| Precinct | | | | | | |
| Fringe | 14,743 | 2 | 90 | 0 | -19,900 | -11,193 |
| North | 89,506 | 10 | 71 | 14,904 | 45,167 | 1,674 |
| East | 23,321 | 2 | 80 | -12,240 | -14,002 | -11,996 |
| South East | 88,614 | 10 | 68 | 26,729 | 18,423 | 59,831 |
| West | 109,125 | 10 | 67 | -82,161 | -2,825 | -44,109 |
| Total | 325,309 | 34 | 69 | -52,768 | 26,863 | -5,793 |
| Building Quality | | | | | | |
| Prime | 101,335 | 10 | 81 | -26,070 | -6,611 | -42,216 |
| Secondary | 223,974 | 24 | 65 | -26,698 | 33,474 | 36,423 |
| Building Type | | | | | | |
| Existing Stock | 281,036 | 30 | 69 | -36,466 | 22,541 | 5,002 |
| Speculative (Completed) | 6,661 | 1 | 75 | 0 | -9,960 | -35,807 |
| Under Construction | 37,612 | 3 | 83 | -16,302 | 14,282 | 25,012 |

Source: Knight Frank

The West continues to dominate the leasing market with the most space taken up, recording 83,209m² across eight buildings. There were 19 industrial buildings available in the preceding quarter, compared with 10 buildings this quarter. Increased demand for prime and good quality secondary space is becoming apparent, with take up now on the heels of long term quarterly averages.

The disparity in stock available has caused some upward pressure in rents in the West and South East, Victoria's major industrial precincts, as the demand for high quality space remains strong.

With only one new speculative development completed over the past quarter, the pipeline of new supply remains scarce.

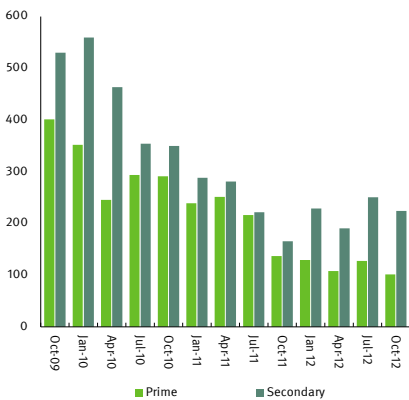


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Quality of Stock

The current financing environment, coupled with the economic implications deriving from the sovereign debt crisis in Europe and the state of Victoria's economy, have all made it difficult for new development. As a result, available prime stock again remains limited, a trend that is expected to continue into the new year. Secondary stock accounts for 69% of total available stock. Tenant demand for quality facilities has resulted in the proportion of prime stock steadily falling over the past 18 months.

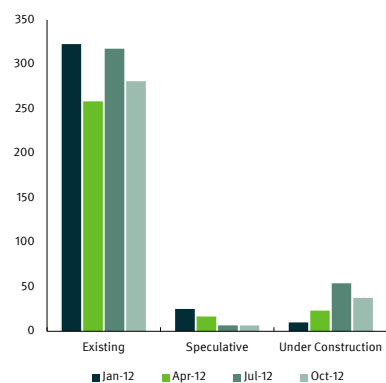
Figure 2
Melbourne Industrial Available Space '000m² by grade October 2009 – October 2012



Source: Knight Frank

Prime accommodation accounts for 31% of available stock, although the majority of this is within existing prime buildings rather than new stock, with only a handful of speculative projects coming online, as developers seek pre-commitments to mitigate risks.

Figure 3
Melbourne Industrial Available Space '000m² by type January 2012 – October 2012



Source: Knight Frank

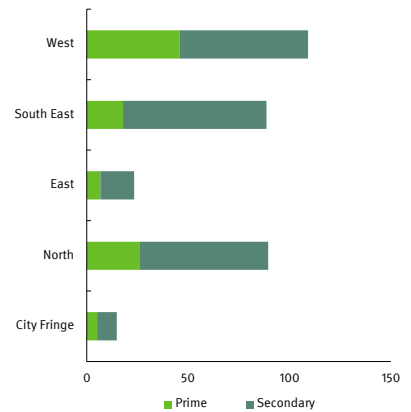
During the third quarter of 2012, the amount of vacant space within existing buildings fell by approximately 12%. Whilst the amount of speculative space completed but still waiting to be leased remained steady, the amount of available speculative stock under construction decreased by 30%. Of the five speculative buildings under construction that were reported in the second quarter, three of them have been leased before completion, demonstrating the continued strength of demand for prime accommodation. Catch of the Day took 26,376m² within two buildings in Australand's West Park Industrial Estate, meanwhile COPE Sensitive Freight leased 7,794m² at 128 Swann Drive, Derrimut.

Distribution by Precinct

The Western precinct has the greatest level of available industrial space as at October 2012, with 109,125m², 42% of this is within prime stock. The Northern precinct now contains the second highest level of available industrial stock at 89,506m² after three buildings became vacant totaling 25,383m². Prime industrial accommodation within the South East remains scarce, with secondary stock accounting for 80% of available options. Currently the only prime option for tenants in the South East comes in the form of a speculative building under construction at Atlantic Drive by Australand, within The Key Industrial Estate. The East recorded a relatively strong quarter of take up with 33,397m² leased within three buildings. There are now only two options available above 5,000m² in the precinct.

The City Fringe had no take up of industrial space above 5,000m², with most of the leasing activity being within office/warehouse space sub 1,500m². Two options (>5,000m²) remain within the precinct.

Figure 4
October 2012 Available Space '000m² by quality & precinct

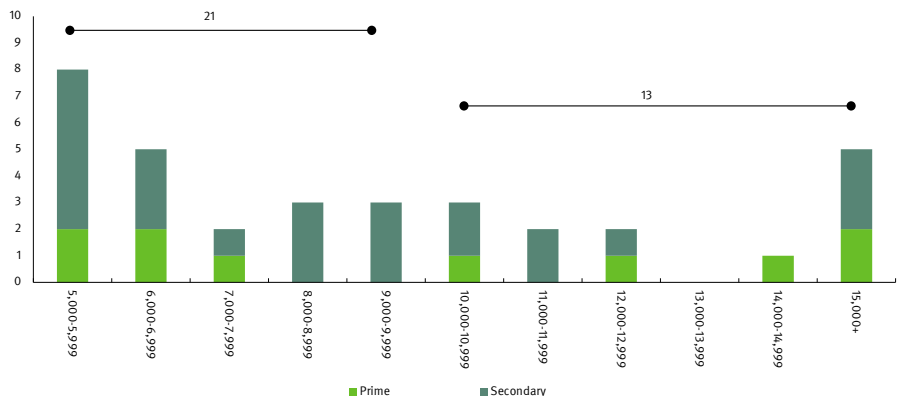


Source: Knight Frank

Size of Available Stock

Prospective tenants in the market looking for larger industrial accommodation options are left with limited choices as demonstrated in Figure 5. Currently there are 13 options available in excess of 10,000m², with only five of these being prime grade accommodation. There are 21 smaller industrial accommodation options (5,000m²-9,999m²), of which only five of these are prime buildings. With limited larger high quality options under construction; prospective tenants looking at upgrading or expansion will continue to need to investigate D&C projects in the short term.

Figure 5
October 2012 Available Space
No of buildings by size of building m² and quality



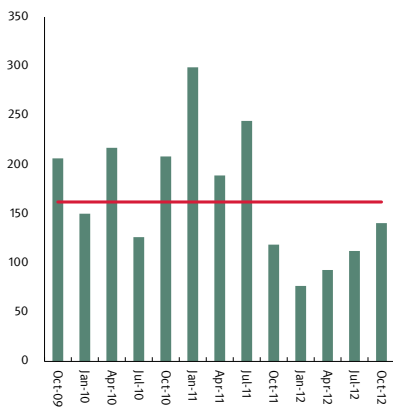
Source: Knight Frank



Building Take-up

Knight Frank estimates that during the quarter ending October 2012 there were 14 buildings (>5,000m²) leased totaling 140,613m². Four of the buildings leased were prime grade assets, three of which were leased prior to or at completion, while 10 were secondary grade. The amount of take-up recorded over the past three quarters was relatively strong, although remains constrained by the pipeline of new supply. However take-up is returning to long term averages and continues to outstrip supply with developers remaining cautious.

Figure 6
Melbourne Industrial Take –up
'000m² Est Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

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 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 available 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 October 2012, the beginning of the fourth quarter.

The Melbourne Industrial Property Market has been divided into 5 distinct industrial precincts, as follows:

| | |
|-------------------|---|
| Fringe | CBD Fringe; predominantly Port Melbourne |
| North | 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 |
| East | The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon. |
| South East | The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham |
| West | 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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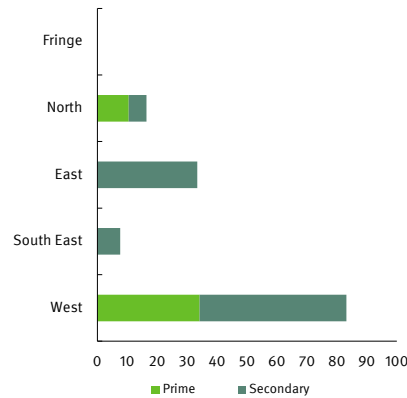
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Figure 7
Melbourne Industrial Take-up 3 months to October 2012

Estimated Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Once again, the majority of space taken up for the third quarter of 2012 was classed as secondary space, accounting for 68% of the total industrial space taken up in the quarter. Leasing activity was concentrated in the West, surprisingly followed by the East, a strong result with three buildings leased, and accounting for 24% of total take up. As shown in Figure 7, there was no prime space leased in the South East or East precincts. The North recorded 16,392m² of space leased within two buildings, one of which was prime.

Summary

The level of building take-up recorded by Knight Frank was higher than the previous quarter with 140,613m², representing a 25% increase over the quarter, and reaching closer to the long term quarterly average take up of 162,098m². While total available space decreased, prime and secondary vacant space continues to diverge.

The sustained demand for industrial space and the disparity between prime and secondary stock have only exacerbated the need for high quality industrial space. Looking forward, larger developers may take on the risk of speculative development to capitalize current demand trends. Prospective tenants with active requirements are more commonly committing to speculative developments before completion as demonstrated by Catch of the Day committing to two industrial buildings totaling 26,376m² within the West Park Industrial Estate. Another speculative building comprising 7,794m² that was recently completed at Swann Drive, Derrimut was leased to Cope Sensitive Freight. The strong tenant demand for speculative developments is expected to continue with prime space dwindling at an increasing rate.