

OCTOBER 2013

MELBOURNE INDUSTRIAL VACANCY ANALYSIS

The volume of available space within the Melbourne industrial market has continued to increase during 2013 and for the first time since October 2010 is above the five year average of 545,556m². At 608,513m², the total available space is 112,384m² greater than the level recorded in July 2013, with the majority of this additional industrial space becoming available within the Western and Northern precincts.

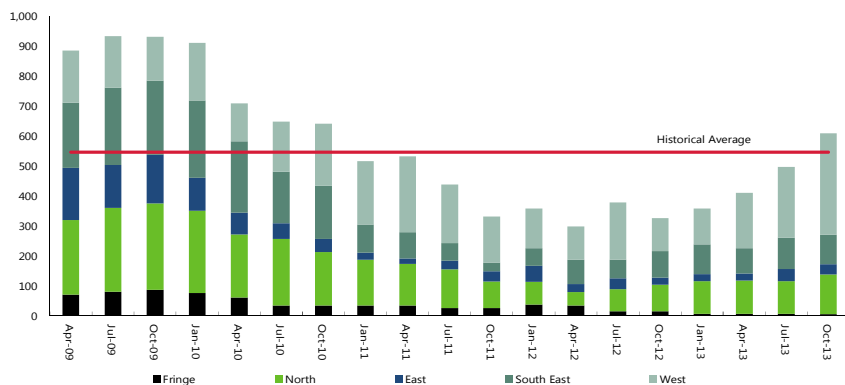
The level of prime available space has continued to rise steadily through 2013. The rise in prime space over the past quarter is largely due to the increase in backfill and sub-lease space becoming available.

In the third quarter of 2013, two further speculative developments commenced construction, adding 26,555m². Currently, there are six speculative developments under construction. Despite the commencement of the additional speculative projects this quarter, overall vacancy in the speculative development decreased. Vacancy within under construction developments fell largely as a result of the successful leasing of the facilities following their completion.

Table 1 Summary of Available Industrial Space – October 2013						
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	6,275	1	71	-525	-525	-8,468
North	131,873	13	57	23,120	21,317	42,367
East	33,932	3	83	-6,769	10,611	10,611
South East	97,683	9	63	-7,016	12,754	9,069
West	338,750	31	70	103,574	153,848	229,625
Total	608,513	57	69	112,384	198,005	283,204
Building Quality						
Prime	299,246	27	75	62,812	120,868	197,911
Secondary	309,267	30	50	49,572	77,137	85,293
Building Type						
Existing Stock	501,500	47	59	126,975	179,807	220,464
Speculative (Completed)	32,570	3	75	-3,325	2,327	25,909
Spec. Under Construction	74,443	7	76	-11,266	15,871	36,831

Source: Knight Frank

Figure 1
Melbourne Industrial Market
'000m² available space



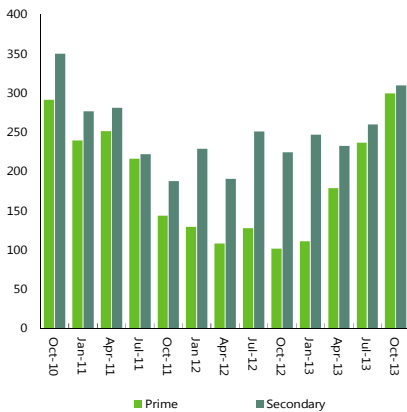
THERE IS
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RESEARCH

Quality of Stock

The volume of available prime space has increased over the past year by 197,911m² and in the last quarter by 62,812m² to reach 299,246m² in third quarter of 2013. Available prime space now accounts for 49% of total vacant accommodation spanning across 27 industrial properties in comparison to 31% twelve months ago. Comparatively, secondary space vacancy touched 309,267m² during the third quarter of 2013, marking an increase of 49,572m² over the previous quarter and 85,293m² in the past year.

Figure 2
Melbourne Industrial Available Space '000m² by grade – October 2010 to October 2013

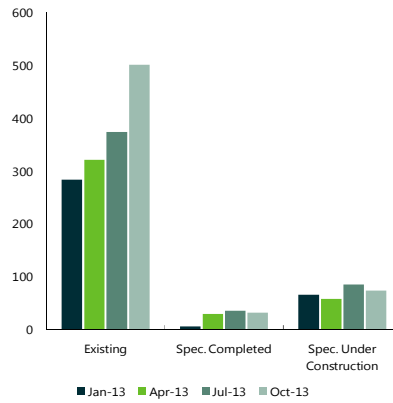


Source: Knight Frank

Currently, vacant prime space had an average net asking rent of \$75/m², a premium of 50% compared to the secondary space average net asking rent of \$50/m². Increased competition resulting from the boosted levels of speculative and backfill space have seen average asking rents ease from \$81/m² for prime space and \$65/m² in secondary space twelve months ago.

During the third quarter of 2013, vacancy in existing buildings rose by 34% in comparison to the past quarter. Whereas in the third quarter, the availability of completed speculative space decreased by 9% falling to 32,570m². Newly completed speculative space continues to attract tenants; as demonstrated by the recent commitments of Hitachi and ACFS to new developments in the West.

Figure 3
Melbourne Industrial Available Space '000m² by type January 2013 to October 2013

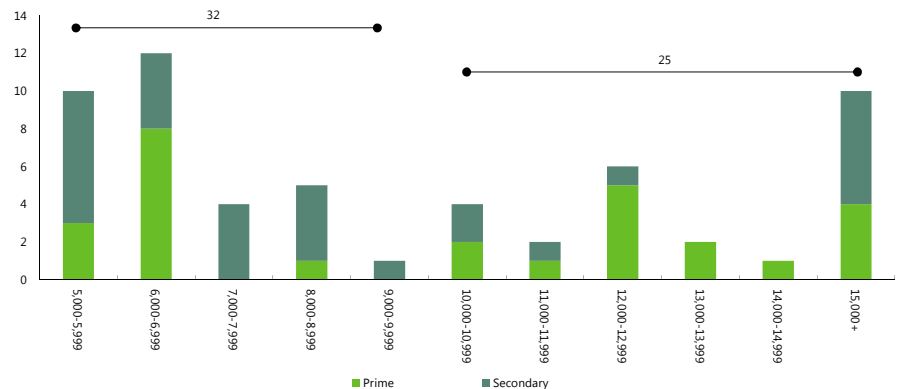


Source: Knight Frank

Distribution by Precinct

As at October 2013, the highest volume of vacant space was available within the Western precinct covering 338,750m², around 56% of total vacant space across all precincts. Currently, prime vacant stock in the West stands at 173,689m², 51% of total vacant space in the precinct. The second largest precinct by vacancy was the North with 131,873m² of available space, 19% (21,317m²) above the vacancy levels of Q1 2013. Warehousing accommodation dominated available space in the Western and Northern precincts which accounted for 83% of vacant space. In contrast, spread of vacant warehousing and manufacturing space within the South East was more balanced with 46% of vacant space classed as manufacturing stock.

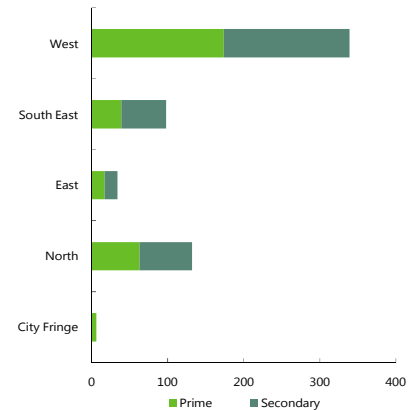
Figure 5
October 2013 Available Space
No. of buildings by size of building and quality



Source: Knight Frank

The City Fringe and East precincts have witnessed relatively tight vacancy levels in recent quarters and currently account for only 1% and 6% of the total available space in the Melbourne industrial market respectively.

Figure 4
October 2013 Available Space '000m² by quality & precinct



Source: Knight Frank

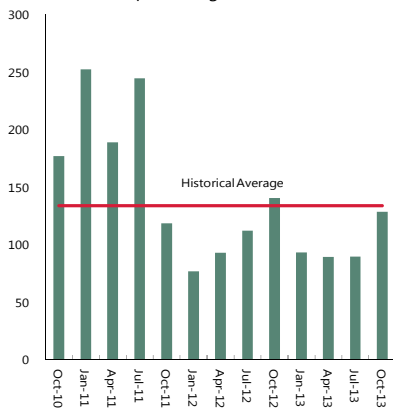
Size of Available Stock

The current available stock includes 25 industrial properties exceeding the size of 10,000m², with 15 out of these categorised as prime grade. Developers continue to target larger occupiers with prime grade stock, with currently ten options in excess of 15,000m². Furthermore, over half of the speculative properties currently under construction are above 10,000m². Speculative under construction activity has slowed down in October 2013 and now accounts for just 12% of the total available stock, in contrast to its five year historical peak of 18% in January 2013.

Building Take-up

The third quarter of 2013 recorded a total industrial property take-up of 128,750m², spanning across twelve buildings close to the historical average. Half of the buildings taken-up were above 10,000m², of which the majority were prime grade assets. Of the take-up within buildings 10,000m² and above, only one secondary grade property was taken-up by manufacturing and fabrication sector. Warehousing and logistics users had a strong dominance in take-up of industrial space, accounting for about 80% of the space absorbed in the third quarter of 2013.

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



Source: Knight Frank

The level of absorption was highest in the Western precinct, which accounted for 66% (84,398m²) of the total take-up followed by the East. The North recorded a take-up of 13,917m², all of which was in prime-grade buildings. Limited by availability, City Fringe take-up was 6,800m², while the South East precinct had a take-up of 6,255m². Interestingly, the South East has absorbed only 28,964m² during the first three quarters of 2013 despite 287,311m² of industrial vacant space available in the precinct during same period.

Prime grade buildings accounted for 80% of the total take-up during Q3 2013, with 64,758m² of prime grade space being absorbed within the Western precinct alone. Speculative development comprised a 28% (35,987m²) share in total take-up of industrial space. In addition to the successful absorption of Australand's 10,607m² speculative development at 6 Saintly Drive in Truganina; Linfox leased a 17,380m² prime grade warehouse at 1 Atlantic Drive, Keysborough. Prime grade take-up within existing buildings included leases to Austrans in a 14,917m² facility at 25 Briggs Drive in Derrimut and Booth Transport's commitment to a 11,000m² facility at 183 Fitzgerald Road in Laverton North.

Summary

Compared to first quarter of 2013, within the available vacant space, the proportion of prime grade stock has grown from 43% to 49% in Q3 2013. The steep growth in prime grade can largely be attributed to backfill space stemming from the recent surge of speculative development as well as an increased level of sub-lease vacancy. A wide range of options are currently available within existing buildings, which has subdued demand for speculative developments, especially those still under construction. Following the Federal election result, business and consumer confidence levels have sharply risen during September 2013. The unprecedented low interest rate of 2.5% along with emerging signs of an improving global economy is anticipated to lead to increased tenant demand and business expansion. Knight Frank expects that with increased levels of tenant demand, pre-lease activity will also pick-up. Speculative development is also expected to continue, following the successful take-up of recently completed projects. However available space in existing stock is anticipated to rise following the completions of several pre-committed developments in 2014.

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 Stock* – existing buildings for lease.
 - o *Speculative (Completed)* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
 - o *Speculative (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 1 October 2013, ie. 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 include the traditional industrial areas within the west, including Altona, Laverton, Sunshine, Derrimut, Brooklyn, Ravenhall and Deer Park.

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Research Contacts

Richard Jenkins
Director – Research Victoria
+61 3 9604 4713
Richard.Jenkins@au.knightfrank.com

Monica Mondkar
Research Analyst – Victoria
+61 3 9604 4608
Monica.Mondkar@au.knightfrank.com

Industrial Contact

Gab Pascuzzi
State Director – Industrial Victoria
+61 3 9604 4649
Gab.Pascuzzi@au.knightfrank.com

Knight Frank Industrial

Melbourne +61 3 9602 5722
Glen Waverley +61 3 8545 8600