

OCTOBER 2013

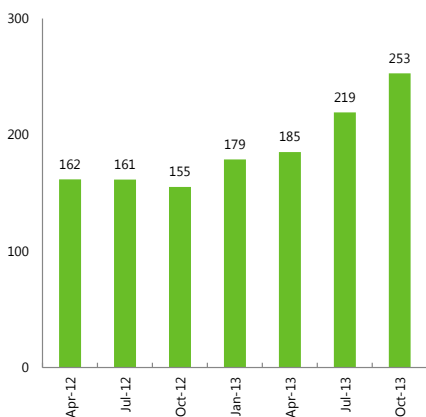
PERTH INDUSTRIAL VACANCY ANALYSIS

Contraction within the Perth Industrial Market has been evident during 2013 with the vacancy increasing to its highest level since our analysis began in April 2012. The total available floor space (+2,000m²), as at October 2013, amounted to 252,852m², which represents a 15% increase from last quarter and sits 63% higher than the nadir reached twelve months ago of 155,210m².

Vacancy increases were seen across all Perth regions over the past quarter. The vacancy rose circa 1.9% and 6.1% in the North and South regions respectively. In the East the increase was more pronounced with a 21.5% rise in available floor space compared to the previous quarter.

The level of vacant stock has been trending upwards over the past 12 months which can be attributed to contraction in the mining services industry, causing a number of companies to down-size. As a result, sub-lease space has considerably increased.

Figure 1
Perth Industrial Market
'000m² available space

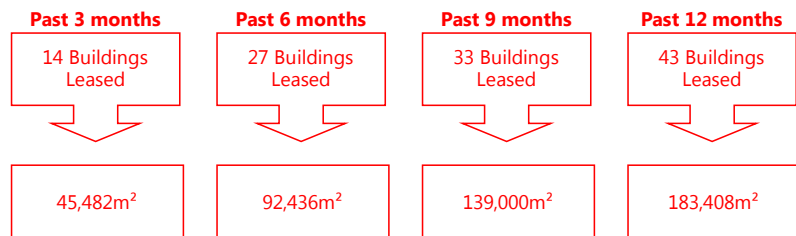


Source: Knight Frank

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						
North	48,402	13	113	904	22,071	20,833
East	131,005	28	114	28,116	31,347	60,004
South	73,445	18	114	4,464	14,147	16,805
Total	252,852	59	114	33,484	67,565	97,642
Building Quality						
Prime	129,431	31	124	-7,320	21,944	69,392
Secondary	123,421	28	102	40,804	45,621	28,250
Building Type						
Existing	230,036	52	111	33,875	65,895	83,923
Speculative (Completed)	5,000	1	123	-3,334	-879	5,000
Spec. Under Construction	17,816	6	133	2,943	2,549	8,719

Source: Knight Frank

Figure 2
Perth Industrial Market
Est take-up of buildings 2,000m² + (excl D&C)



Source: Knight Frank

Gross take up (excl. D&C's) of circa 45,482m² was recorded during the quarter, which was slightly below the July 2013 quarter reading of 46,945m². This reduction represents a softer level of underlying demand brought on by the conservative approach businesses are taking when deciding on leasing requirements.

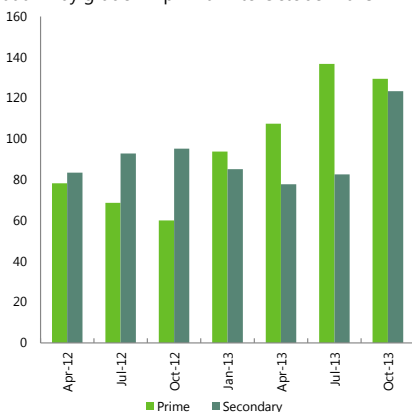
While leasing activity is present within the market, many companies associated with the resource sector are reluctant to commit to change during this time of economic uncertainty and remain in a cost minimisation phase.

Quality of Stock

A shortage exists for large prime-grade industrial stock (only two prime options +8,000m²) in Perth at present which is largely due to a lack of supply of new land constraining the market. Furthermore, owners of lesser grade properties are provided with little incentive to invest the capital that is required to upgrade their industrial sites to meet this demand.

The level of available prime space decreased over the past quarter by 7,320m² to a total of 129,431m². As a result, the proportion of prime space available decreased from 62.0% as at July 2013 to currently stand at 51.0%.

Figure 3
Perth Industrial Available Space
'000m² by grade – April 2012 to October 2013



Source: Knight Frank

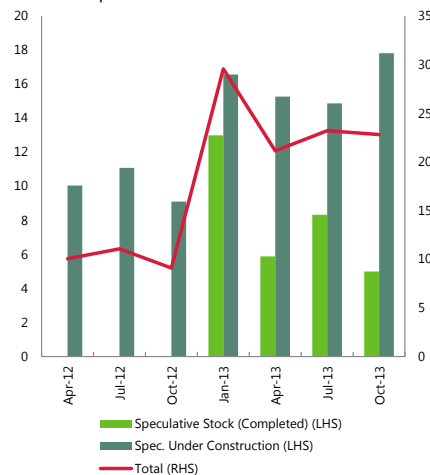
Conversely, secondary space available in the market increased during the quarter by 40,804m² to a total of 123,421m². These figures are the highest levels which have been recorded in the secondary market since our survey began.

Of the 252,852m² currently available in the market, 5,000m² (or 2.0%) is made up of speculative stock, as shown in Figure 4, which is down from 8,334m² in July 2013. The change in speculative stock can be attributed to a recent lease at 26 Callaway Street in Wangara.

The current level of speculative stock which is under construction has shown an upward movement this quarter totalling 17,816m². This increase is due to the addition of

2,943m² of GLA which is being constructed at 4 Mews Road in Fremantle.

Figure 4
Speculative Stock
'000m² - April 2012 – October 2013



Source: Knight Frank

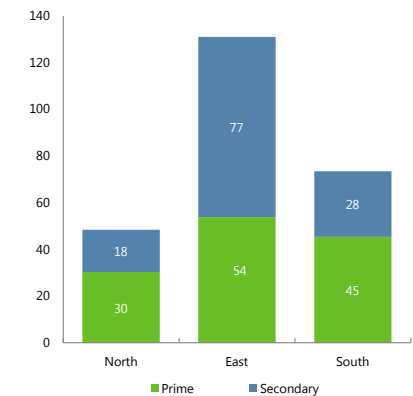
Distribution by Precinct

As at October 2013, vacant stock in the East totalled 131,005m² or 51.8% of the total Perth figure. Several leasing deals occurred during the quarter, amounting to gross take-up of 11,238m², however, regardless of this take-up, the vacancy in the East continued to increase due to a number of large industrial facilities becoming available, including 2 Hugh Edwards Drive in Kewdale comprising 11,376m² of GLA.

The level of vacant stock in the South totalled 73,445m² and was dominated by prime stock at 61.7%. This proportion, however, has fallen from 71.2% at July 2013 as the share of secondary stock available in the market increased.

Vacancy levels in the North increased by circa 1.9% during the past quarter, taking it to a total of 48,402m² from 47,498m² three months prior. Of this vacancy, 62.6% stemmed from Prime-grade properties, which represents a 2.2% increase from the July 2013 reading. Even though 12,314m² of North space was absorbed during the quarter, 15,620m² of new stock became available which offset any material change in the vacancy figure.

Figure 5
October 2013 Available Space
'000m² by quality & precinct

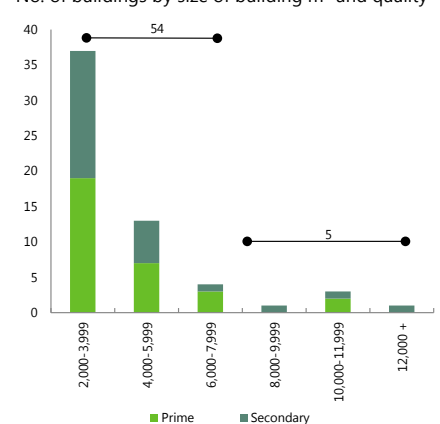


Source: Knight Frank

Size of Available Stock

There are currently insufficient leasing opportunities for larger tenants with only one vacancy in excess of 12,000m², which is secondary, and a further four that provide in excess of 8,000m², two of which are prime quality. Greater availability, however, exists for tenants at the smaller end of the market with four properties ranging between 6,000m² to 8,000m² in size, 13 properties ranging between 4,000m² to 6,000m² in size, and 37 properties ranging between 2,000m² to 4,000m² in size.

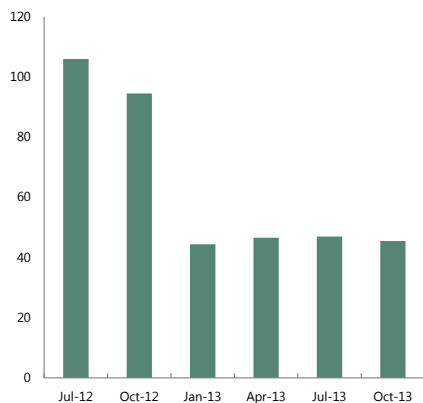
Figure 6
October 2013 Available Space
No. of buildings by size of building m² and quality



Source: Knight Frank

Building Take-up

Figure 7
Perth Industrial Take-up
'000m² Est Take-up buildings 2,000m² + (excl D&C)



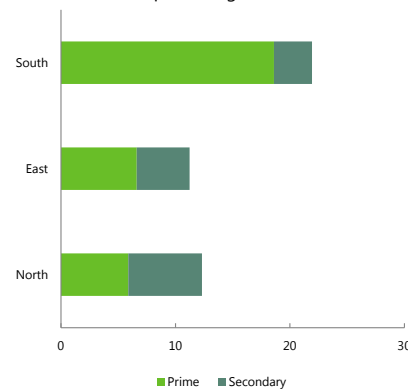
Source: Knight Frank

During the October 2013 quarter, 14 leases greater than 2,000m² (excl. D&C) were recorded by Knight Frank covering an area of 45,482m². The majority (68.4%) of this absorption comprised prime stock indicating the general desire of businesses to occupy better quality properties. Furthermore, a number of these leases were for relatively longer terms of five years plus.

Demand has continued to soften during the course of 2013. Stock turnover has reduced and properties are sitting vacant on the market for longer periods of time.

It is important to note that the elevated take-up levels recorded during the July and October quarters of 2012 were driven by some large leasing deals at three assets (totalling 120,671m²). As a result, the overall take-up figures exaggerated the strength of leasing conditions during those periods.

Figure 8
Perth Industrial Take-up 3 months to October 2013
Estimated Take-up buildings 2,000m² + (excl D&C)



Source: Knight Frank

The majority of take-up this quarter was recorded in five prime assets across the South region of Perth (18,604m² or 40.9%). The North and East regions recorded similar absorption levels at 12,314m² and 11,238m² respectively, with a fairly even spread between prime and secondary grade stock.

Summary

The Perth industrial vacancy is somewhat linked to the fortunes of WA's resources industry, and while the current period sees many companies sitting idle or downsizing, available floor space has been on the rise since the beginning of the year. As a result, rental rates may experience downward pressure as landlords attempt to secure tenants.

With current leasing conditions being particularly tight for large, prime assets, large tenants will continue to look at the pre-lease market to satisfy new space requirements. This is particularly evident in the Jandakot Airport precinct which currently has approximately 37,000m² of pre-committed office/warehouse space currently under construction, which is due for completion over the next 18 months.

In addition, with roughly 17,816m² of new, speculative stock (over 2,000m²) currently under construction and due for completion later this year and the beginning of 2014, vacancy in the secondary market is likely to rise as tenants shift to the newly constructed prime properties. This will favour the outlook for prime rents compared to secondary.

Methodology:

This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Perth 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 2,000m².
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 *Spec. 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, the beginning of the fourth quarter.

The Perth Industrial Property Market has been divided into 3 distinct industrial precincts, as follows:

North	Neerabup, Wangara, Landsdale, Malaga, Balcatta, Osborne Park
East	Bassendean, Bayswater, Hazelmere, Belmont, Kewdale, Welshpool, Forrestfield, Beckenham, Maddington, Forrestdale
South	Myaree, O'Connor, Canning Vale, Bibra Lake, Jandakot, Banjup, Kwinana, East Rockingham, Naval Base, Rockingham, Henderson

KnightFrank.com.au

Research Contact

Gabriel Payne
Research WA
+08 9225 2412
Gabriel.Payne@au.knightfrank.com

Industrial Contact

Jarrad Grierson
Director – Industrial
+08 9225 2411
Jarrad.Grierson@au.knightfrank.com

Knight Frank Industrial

Perth + 08 9325 2533

© Knight Frank 2013 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.