

# PERTH INDUSTRIAL VACANCY JULY 2014

## Key Facts

**Available space totalled 303,562m<sup>2</sup> as at July 2014**, representing an 8% increase from the previous quarter.

**There are increasing levels of smaller**, secondary grade vacancies becoming available.

**Take-up was the highest level since October 2012**, with the majority of leases occurring within prime grade facilities.



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A growing number of vacancies has offset relatively strong leasing take-up over the three months to July 2014, as an increasing number of smaller secondary assets become available in the Perth Industrial market.

The level of available space within the Perth Industrial market has increased by 22,711m<sup>2</sup> (8%) over the second quarter of 2014 to currently sit approximately 40% above the long term average. Total available space within manufacturing and warehousing assets (above 2,000m<sup>2</sup>) now measures 303,562m<sup>2</sup>, representing a 96% increase from the low point of 155,210m<sup>2</sup>, which was reached in October 2012.

The increase was predominately comprised of lower quality assets and as a result, the level of available secondary space increased by 41% to 193,016m<sup>2</sup> during the quarter. In contrast, prime vacancies decreased by 23% to 110,546m<sup>2</sup>. As a result the proportion of prime vacancy decreased from 51% to 36% during the quarter.

The level of vacant warehousing space remained fairly static during the quarter, decreasing by 1% to currently sit at 212,336m<sup>2</sup>. At the same time, vacant manufacturing space increased by 40% to 91,226m<sup>2</sup>. This increase can be

attributed to continued contraction within Perth's manufacturing industry which has seen many companies consolidate their businesses or close down altogether. As a result, the proportion of available manufacturing accommodation increased from 23% to 30% during the quarter.

Although the number of speculative builds under construction has marginally increased, available stock continues to be dominated by existing accommodation. Currently, there is 273,579m<sup>2</sup> of available existing space in the market which equates to 90% of total available space.

Speculative stock for lease (including both under construction and completed) accounted for 29,983m<sup>2</sup> or 10% of total vacancies, representing a 14% increase from the previous quarter. This rise can be attributed to units 1, 2 & 3 at 16 Aspiration Circuit in Bibra Lake coming to market, which on completion will provide a total GLA of 6,444m<sup>2</sup>. A further five lots are proposed to be speculatively constructed at 16 Aspiration Circuit offering an additional 10,446m<sup>2</sup>.

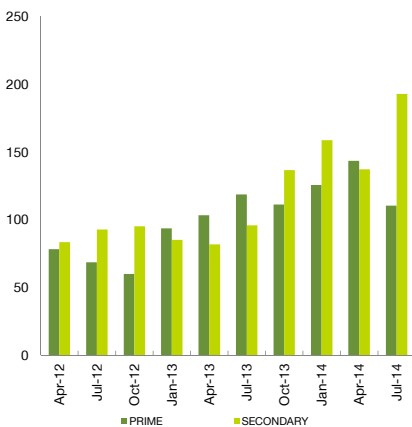
## Quality of Stock

A significant shift in the quality of available stock has ensued over the past quarter which has seen the proportion of secondary grade accommodation increase from 49% to 64% of total available stock. A number of factors have contributed to this trend including increased activity amongst logistics tenants which has seen a number of companies expand into larger prime grade facilities, a general flight to quality, and continuing company contraction which is most evident within the manufacturing industry.

## Precinct Analysis

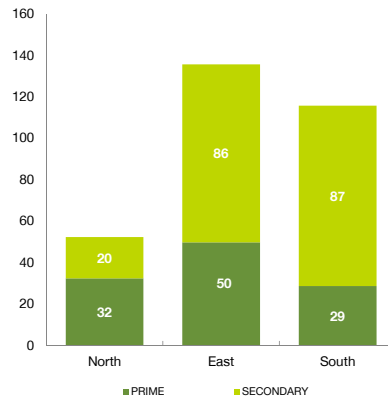
Approximately 135,662m<sup>2</sup> of space is available for lease in the East, representing 45% of total vacant stock. A total of 14 properties became vacant in this region during the period, however

FIGURE 1  
July 2014 Available Space  
'000m<sup>2</sup> prime versus secondary space



Source: Knight Frank

FIGURE 2  
July 2014 Available Space  
'000m<sup>2</sup> by quality & precinct



Source: Knight Frank

a 173% quarterly improvement in take-up saw total vacancy in the East fall by 12,557m<sup>2</sup> (down 8%).

The most significant additions to the East include 811 Abernethy Road, Forrestfield comprising 7,021m<sup>2</sup>, as well as 5,636m<sup>2</sup> which became available at 5 Abbott Road, Perth Airport. However, the majority of additions in the East comprise lower quality space, and as a result, the proportion of available secondary stock in this region increased from 54% to 63% during the quarter.

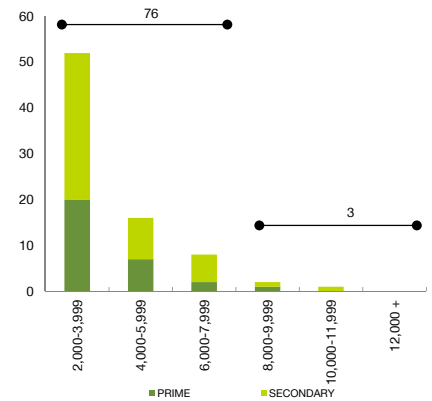
In contrast, vacancy in the North and South regions increased by 33% and 24% respectively. Vacancy in the North totalled 52,213m<sup>2</sup> and is mainly concentrated in the areas of Malaga and Wangara. Vacancy in the South totalled 115,687m<sup>2</sup>, and includes only one larger building in excess of 8,000m<sup>2</sup>.

## Size & Type of Stock

There are currently three buildings available which cater for users of 8,000m<sup>2</sup> plus, with only one being considered prime accommodation. All three properties are suited towards warehouse uses rather than manufacturing. However, one of these larger options, (10 Clark Street, O'Conner), is a specialised facility that includes a 2,815m<sup>2</sup> cold store freezer which would only suit specific tenants.

Approximately 30% of Perth's total current available stock (above 2,000m<sup>2</sup>) is considered to have a primary manufacturing use, as opposed to 70% warehouse use. This represents a significant increase in the proportion of available manufacturing space recorded over the past quarter.

FIGURE 3  
July 2014 Available Space  
No of buildings by size and quality



Source: Knight Frank

TABLE 1  
Perth Industrial Available Space 2,000m<sup>2</sup>+ as at July 2014

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 %	Building Quality Secondary %
North	52,213	18	112	12,926	6,708	62	38
East	135,662	34	106	-12,557	32,773	37	63
South	115,687	27	109	22,342	49,438	25	75
<b>Perth Total</b>	<b>303,562</b>	<b>79</b>	<b>108</b>	<b>22,711</b>	<b>88,919</b>	<b>36</b>	<b>64</b>

Source: Knight Frank

## Building Take-up

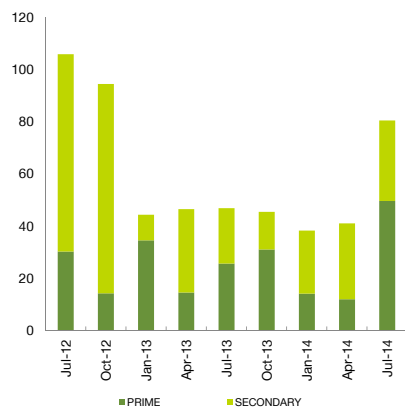
During the past three months, 21 leases greater than 2,000m<sup>2</sup> (excl. D&C) were recorded by Knight Frank covering a combined area of 80,468m<sup>2</sup>. This represents a 96% improvement in take-up from the previous quarter and the highest level of take-up since October 2012. The majority (61%) of this absorption comprised prime stock which is indicative of the ‘flight to quality’ that is evident within the market.

Despite the availability of speculative stock, 19 of the 21 leases recorded occurred within existing buildings. One of the speculative leases to occur includes 2,508m<sup>2</sup> at 19 Aspiration Circuit, Bibra Lake which leased to ASC Pty Ltd for a term of four years.

Unlike the first quarter of 2014, where nearly all take-up stemmed from properties under 4,000m<sup>2</sup>, the past quarter recorded a number of more significant spaces taken up with 8 out of 21 leases occurring in buildings greater than 4,000m<sup>2</sup> in size. Included within this absorption was the 5,130m<sup>2</sup> lease at 111 Division Street, Welshpool which was leased to Automotive Parts for a term of five years.

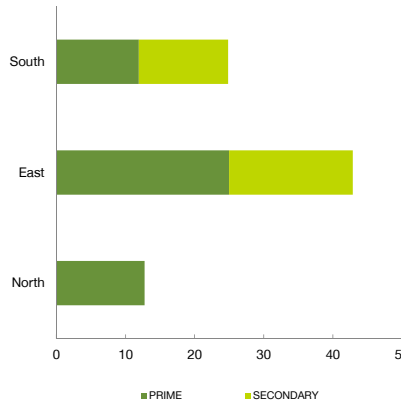
The East saw the greatest level of activity, with 42,864m<sup>2</sup> of take-up recorded which was assisted by three leases in excess of 5,000m<sup>2</sup>. This was followed by the South with 24,883m<sup>2</sup> of

FIGURE 4  
**Perth Industrial Take-up**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank

FIGURE 5  
**Take-up 3 months to July 2014**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank

take-up including a 2,430m<sup>2</sup> lease at 25 Quarimor Street, Bibra Lake which was leased to CTE Group for a term of five years. Unlike the first quarter of 2014 which saw absorption in the North dominated by secondary stock, take-up during the current period occurred solely within prime grade facilities.

## Summary

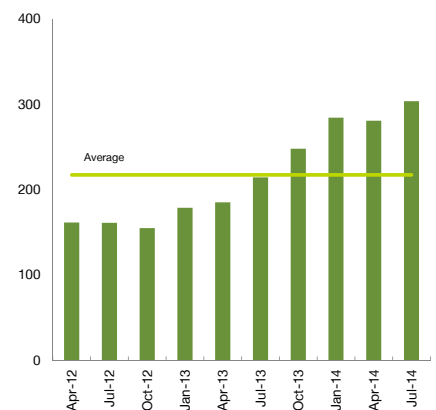
The total available space within the Perth market (over 2,000m<sup>2</sup>) continued to trend higher during the quarter following a mild reduction in Q1 2014. The recent rise in vacancy has been driven by further company consolidation and contraction particularly within the manufacturing industry. This has led to a sharp rise in sub-lease space (up 42%) entering the market compared to the first quarter of 2014. Available sub-lease space currently totals 69,776m<sup>2</sup> or 23% of total vacant stock.

Although total vacancy increased by 8% during the quarter, a significant improvement in take-up provided a welcoming boost to the market. However, considering the lack of expansionary measures being implemented by WA businesses, further increases in absorption are unlikely and any pre-lease activity would result in increased levels of backfill space becoming available.

A flight to quality has been evident with

“Available sub-lease space increased by 42% during the three months to July 2014”

FIGURE 6  
**Perth Industrial Market**  
'000m<sup>2</sup> available space



Source: Knight Frank

the majority of leases recorded during the quarter occurring within prime grade facilities. The resultant backfill has seen an influx of smaller secondary grade properties enter the market such that the proportion of these assets (ranging between 2,000m<sup>2</sup> – 4,000m<sup>2</sup>) has increased from 18% to 33% during the quarter. Growing levels of leasing activity provides a positive sign that confidence is returning to the market. However, several large tenancies remain vacant and the potential exists for several more to become available during the remainder of 2014 as a result of continued pre-lease activity.

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### 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 2,000m<sup>2</sup>. 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.

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