

PERTH

INDUSTRIAL VACANCY OCTOBER 2014

Key Facts

Total vacant space rose by 16% during Q3, creating a new historical high.

Prime and secondary vacancies increased at the same rate, recording a 16% rise across both types.

The greatest increase was in the East, which has 45% of the total vacant stock.

Take-up rate declined during Q3, recording a 63% drop from the previous quarter.



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Vacancy levels in Perth's industrial market continued to increase over the third quarter of the year, sitting 53% above the historical average. The market saw a fall in take-up rates in Q3 following a sharp increase during Q2.

The Perth industrial market continued to see a rise in the level of vacancies which has increased by 48,691m² (16%) over the third quarter of 2014 to currently sit at approximately 53% above the historical average. Total available space within manufacturing and warehousing assets (above 2,000m²) now measures 352,253m², representing the highest recorded vacancy from the low point of 155,210m², which was reached in October 2012.

Prime grade assets vacancy increased by 17,960m² from 110,546m² to 128,506m² over the quarter while secondary grade vacancies increased by 30,731m² from 193,016m² to 223,747m² over the quarter. Both prime and secondary quality assets increased at a rate of 16% respectively compared to the previous quarter.

The level of vacant warehousing space continued to trend upwards during the third quarter, increasing by 13.1% to currently sit at 240,052m². At the same time, vacant manufacturing space increased by 23% to

112,201m². The proportion of available manufacturing accommodation continued to increase from 30% to 32% during the quarter.

The substantial increase in both prime space and manufacturing space is attributed to the ongoing downturn in mining construction activities which affects the demand for locally-made products and components leading to consolidation or closure of companies. Vacancies continue to be dominated by existing accommodation which accounts for 317,498m² of available space, translating to 90% of total available space.

Speculative stock for lease (including both under construction and completed) accounted for 34,755m² or 10% of total vacancies, representing a 16% increase from the previous quarter. There were two new speculative buildings included during the review period with a total space of 4,385m² at 1 Discovery Drive, Bibra Lake and 36 Guthrie Street, Osborne Park.

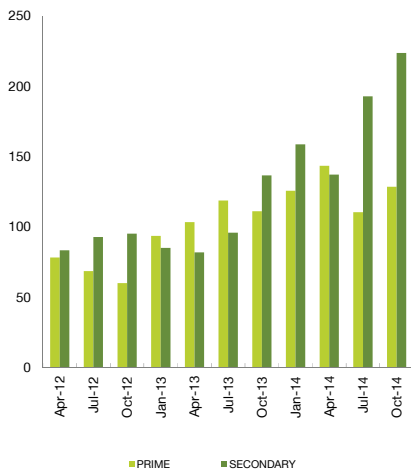
Quality of Stock

The current available stock continues to be predominantly made up of secondary grade assets at 64% while prime grade assets makes up the remaining 36% of the overall vacancy as at October.

The prime and secondary quality assets recorded an increase of vacant space at a corresponding rate, with a 16% increase across both categories compared to the previous quarter.

The comparative vacancy rate in prime and secondary properties may be attributed to tenants taking advantage of the soft market for an upgrade in quality or accommodation size and to reset their rents. Consequently, the active movement of occupiers from an existing building to better quality accommodation, could lead to an increase in leasing activity due to higher churn in the market.

FIGURE 1
October 2014 Available Space
'000m² prime versus secondary space



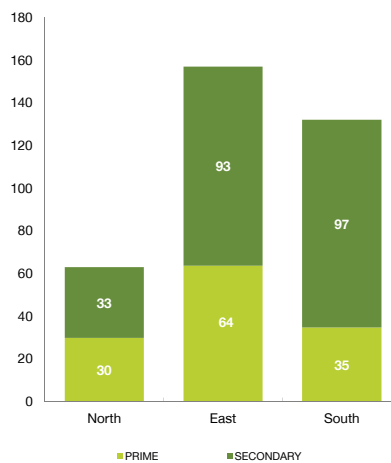
Source: Knight Frank

Distribution by Precinct

The majority of the space available for lease is in the Eastern precinct with approximately 157,009m² representing 45% of the total vacant stock. There were 38 properties vacant in the region during the review period.

Vacancy in the Eastern suburbs is mainly concentrated in the areas of Welshpool and Kewdale. The most significant additions to the East includes 31-33 Miles Road, Kewdale and 77/83 McDowell Street in Welshpool comprising of 7,433m² and 5,047m² of space respectively. However, the majority of additions in the East comprise lower quality space, and as a result, the proportion of secondary stock available in this region makes up 59% of its total

FIGURE 2
October 2014 Available Space
'000m² by quality & precinct



Source: Knight Frank

available stock.

Similarly, vacancy in the North and South regions increased by 21% and 14% respectively over the previous quarter. Vacancy in the North totalled 63,101m² and is mainly concentrated in the areas of Malaga and Wangara. Vacancy in the South totalled 132,143m², with a clear majority of its vacancy comprising secondary industrial properties.

Size & Type of Stock

There are currently four buildings available which cater for users of 8,000m² plus, with only one being considered prime accommodation. Three of the four properties are suited for warehouse uses rather than manufacturing. The review period saw 1 Butcher Street, Kwinana Beach with a floor space of 8,929m² added to the market vacancy and may be used as a manufacturing space.

There is a greater availability of options for tenants in search of smaller sized tenancies ranging from 2,000m² – 5,000m² with a total of 71 properties of which a majority of the vacancy are secondary quality. Interestingly, all of the current vacancy in the North is made up of buildings ranging from 2,000m² – 5,000m², except one building.

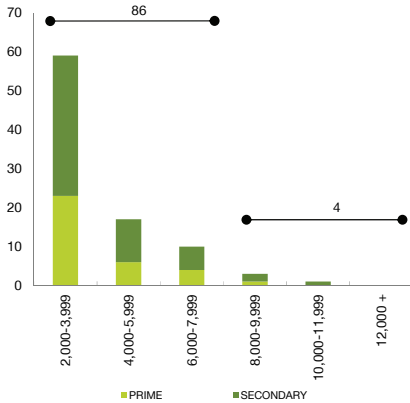
Approximately 32% of Perth's total current available stock (above 2,000m²) is considered to have a manufacturing use of which 12% are prime quality buildings. In contrast, 68% of the remaining vacancy is suited to warehouse use, of which 24% are prime quality buildings.

TABLE 1
Perth Industrial Available Space 2,000m²+ as at October 2014

Precinct	Available Space m ²	No. of Buildings	Av Asking Rent \$/m ² net	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality Prime %	Secondary
North	63,101	20	114	10,888	16,692	47%	53%
East	157,009	38	93	21,347	26,005	41%	59%
South	132,143	32	104	16,456	61,548	26%	74%
Total	352,253	90	101	48,691	104,245	36%	64%

Source: Knight Frank

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



Source: Knight Frank

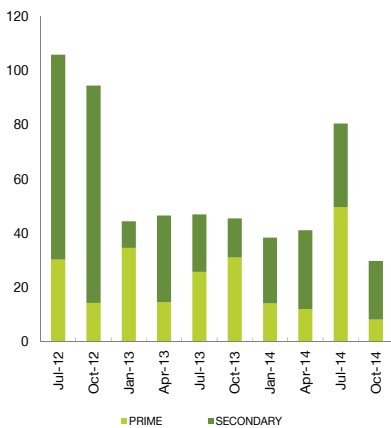
Building Take-up

During the third quarter of 2014, nine leases greater than 2,000m² (excl. D&C) were recorded by Knight Frank covering a combined area of 29,771m². This represents a 63% fall in the take-up rate compared to the previous quarter.

Despite the availability of speculative stock, all of the leases recorded occurred within existing buildings. The bulk take up of this quarter was recorded in assets under 4,500m² with 8 of the 9 properties absorbed falling within this size range.

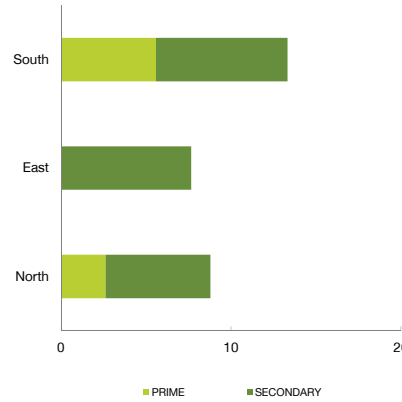
Take-up of the existing accommodation

FIGURE 4
Perth Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

FIGURE 5
Take-up 3 months to October 2014
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

was dominated by the South with 13,330m² across two prime and two secondary assets. This includes 51 Alacrity Place, Henderson and 3 Possner Way, Henderson which has been successfully leased while Unit 1 & 3, 342 Armadale Road, Jandakot and 6 Gauge Circuit, Canning Vale are currently under offer.

The North was the next most active sector with take-up of 8,780m² across one prime and two secondary properties. Unlike the second quarter of 2014, where nearly all take-up stemmed from properties in the East, the past quarter recorded the least take up from the East with 7,661m² of space absorbed across two secondary properties.

Outlook

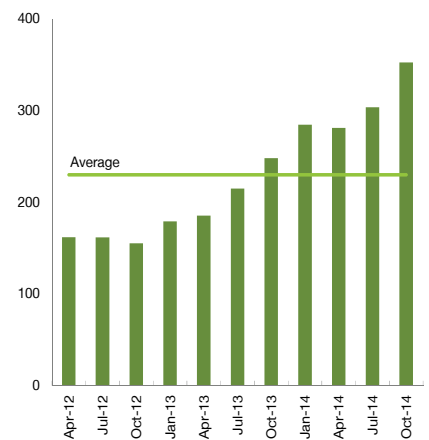
The total vacancy within Perth's industrial market (+2,000m²) recorded a significant rise (up 16%) during Q3 2014. It is expected that backfill space will continue to increase vacancy levels as more pre-leased warehouses are completed over the next 6-12 months.

In contrast, absorption levels declined from the previous quarter with the bulk of activity stemming from medium sized tenants (2,000m² - 5,000m²). Large tenants (10,000m²+) remain cautious when deciding on leasing requirements.

Tenants are spoilt for choice as supply

“Landlords are offering attractive incentives to retain existing tenants and attract new tenants to maintain and improve their level of occupancy”

FIGURE 6
Perth Industrial Market
'000m² available space



Source: Knight Frank

continues to outstrip demand with landlords offering attractive incentives to retain existing tenants and attract new tenants to maintain and improve their level of occupancy.

Amid a challenging leasing market environment with a high level of existing supply, several developers have adopted a cautious stance by deferring the construction of projects, with works to commence only when they have secured a pre-leasing commitment.



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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 2,000m². 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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