

PERTH

INDUSTRIAL VACANCY FEBRUARY 2015

Key Facts

Historical high vacancy levels reached during last quarter, recording a significant increase of 23%.

Prime vacancies increased at a significant rate, up by 52% over the past quarter to 195,142m².

The greatest increase was in the South, which has 44% of the total vacant stock.

Take-up rates rebounded over the past quarter, with 78,325m² of gross absorption recorded.



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Vacancy levels in Perth's industrial market increased to peak levels as at January 2015, recording 75% above the historical average. At the same time, take-up rates have rebounded with a sharp increase in gross absorption.

Contraction within the Perth industrial market during the year 2014 has been evident with historical high vacancy levels increasing to peak levels since our analysis began in April 2012 (161,662m²). The total available floor space (+2,000m²), as at January 2015, amounted to 431,773m², which represents a 23% increase from the last review period three months ago as at October 2014 and sits 52% higher than the vacancy twelve months ago of 284,486m². The recent vacancy level currently sits 75% above the historical average.

The greatest increases were seen in the South (up 45%) and North (up 18%) while the East recorded a small increase of 6% in vacancy compared to the previous quarter. The level of available space within warehouse and manufacturing facilities has increased over the past quarter with manufacturing increased from 112,201m² to 119,057m² (28% of total available space). Available warehouse accommodation increased from 240,052m² to 312,716m² to represent 72% of total available space.

The prime grade asset vacancy increased by 66,636m² from 128,506m² to 195,142m² over the quarter while secondary grade vacancies increased by 12,884m² from 223,747m² to 236,631m² over the quarter.

Available space is dominated by existing stock, increasing by 16% over the past quarter. However, the proportion of existing stock in the market (85% of total) decreased by 4.7% due to the increase in speculative stock under construction (up 22,156m²) and completed spec stock (up 5,945m²).

The vacancy in prime and secondary quality assets increased at a rate of 52% and 6% respectively compared to the last 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 a consolidation or closure of companies.

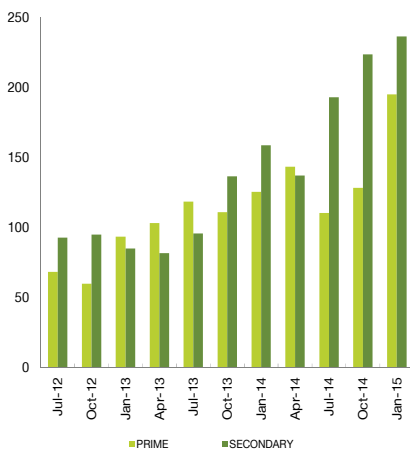
Along with the increased vacancy, take-up rates rebounded with gross absorption of 78,325m² from a low of 29,771m² recorded in the last quarter.

Quality of Stock

There has been a notable increase in the proportion of prime stock available in the market over the past quarter. The level of available prime space increased by 66,636m² (52%) over the past quarter to 195,142m², increasing its proportion of available space from 36% as at October 2014 to currently be 45% of total stock. Secondary stock however, increased by a mere 6% (12,884m²) since October 2014.

As the contraction in the resources sector continues, many companies associated with the resources sector are reluctant to commit to change during this time of economic uncertainty and opt to remain in a cost minimisation phase. Renewal of spare capacity or space extension requirements are expected to remain as lower precedence for manufacturers except for those in the construction industry which appears to be strong during present market conditions.

FIGURE 1
January 2015 Available Space
'000m² prime versus secondary space

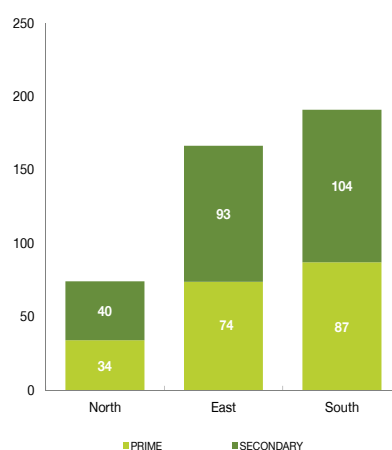


Source: Knight Frank

Distribution by Precinct

The South precinct experienced the greatest increase in the level of available industrial space, growing by 46% (58,928m²) over the past quarter and 95% (92,871m²) over the year to a total of 191,071m². This represents 44% of the Perth region total. This rise can be attributed to five new units introduced to the market over the past quarter in addition to units 1, 2 & 3 at 16 Aspiration Circuit in Bibra Lake which have been on the market since mid 2014. The total of eight units, to be completed imminently, will provide a total GLA of 16,943m². Other significant additions to the South included an 11,582m² facility at Lot 18 & 30, 20 Clarence Beach Road, Henderson located within the high profile Australian Marine Complex, adjacent to the world class Common User Facility and 9,000m² at 60 Office Road, East Rockingham.

FIGURE 2
January 2015 Available Space
'000m² by quality & precinct



Source: Knight Frank

The North precinct recorded an increase in vacant space of 11,048m² (17.5%) over the quarter or 24% over the year. Similarly vacant space in the East increased by 9,544m² (6%) over the quarter or 32% over the year. The proportion of prime and secondary stock is consistent across the market with prime levels in the South at 46% in line with the proportion of prime stock in the North (46%) and East (44%).

Size & Type of Stock

There are currently seven buildings available which cater for users of 8,000m² plus, with five located within the South precinct. Four of the seven properties are considered prime accommodation. Greater availability exists for tenants at the smaller end of the market with 10 properties ranging between 6,000m² to 8,000m² and 15 properties ranging between 4,000m² to 6,000m².

There has been a significant increase in speculative development starts over the past quarter, with speculative stock under construction more than doubling to 40,993m². There is currently 21,863m² of completed speculative space remaining available for lease, up 5,945m². Available space remains dominated by existing stock, increasing by 16% over the past quarter. This is mainly attributed to the backfill space from tenants moving to pre-committed developments in addition to occupier downsizing, contraction and consolidation.

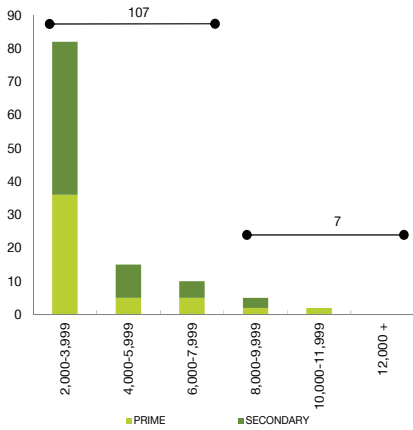
Approximately 28% of Perth's total current available stock (+2,000m²) is considered to have a manufacturing use of which 14% are prime quality buildings. In contrast, 72% of the remaining vacancy is suited to warehouse use, of which 31% are prime quality buildings.

TABLE 1
Perth Industrial Available Space 2,000m²+ as at January 2015

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	74,149	25	103	11,048	14,224	46%	54%
East	166,553	43	90	9,544	40,192	44%	56%
South	191,071	46	85	58,928	92,871	46%	54%
Total	431,773	114	91	79,520	147,287	45%	55%

Source: Knight Frank

FIGURE 3
January 2015 Available Space
No of buildings by size and quality



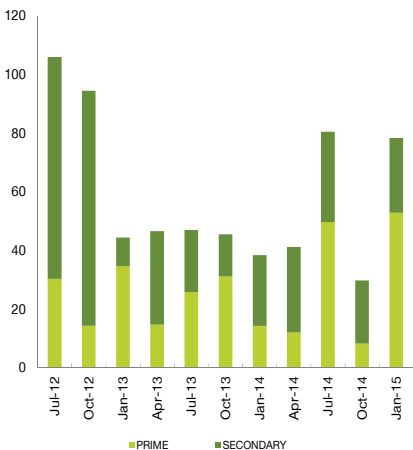
Source: Knight Frank

Building Take-up

The final quarter of 2014 has seen steady take-up levels recording an increase of 48,554m² (163%) in comparison to the last review period. Total take-up of 78,325m² across 16 properties with leases greater than 2,000m² (excl. D&C) was recorded by Knight Frank. The majority of take-up came from properties under 5,000m² with 11 of the 16 properties absorbed in this size range.

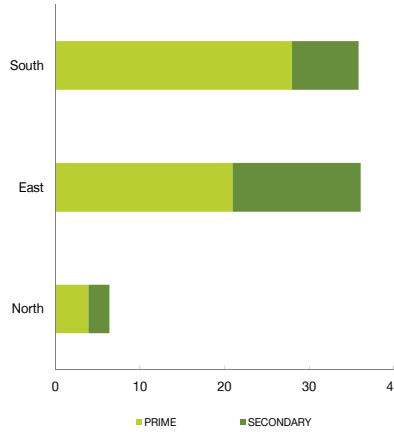
Overall, 13 of the 16 leases recorded occurred within existing buildings. Take-up of the existing accommodation was

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



Source: Knight Frank

FIGURE 5
Take-up 3 months to January 2015
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

dominated by both the East and South with 36,100m² across five prime and three secondary assets absorbed in the East while the South recorded a take-up of 35,845m² across four prime and two secondary assets. This includes the prominent 7-11 & 25-27 Gauge Circuit, Canning Vale with a floor area of 17,909m² located in the South precinct which has been successfully leased. Significant leases in the East precinct were 5 Abbott Road, Perth Airport, 4/111 Division Street, Welshpool and 436B Dundas Road, Forrestfield.

Unlike the third quarter of 2014, where the North precinct experienced a fairly active leasing market, the past quarter recorded the least take up from the North with 6,380m² of space absorbed across one prime and one secondary property.

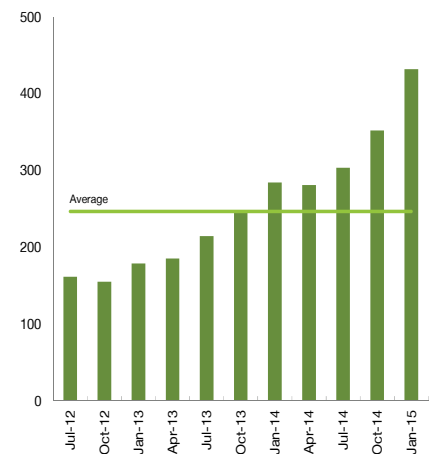
Outlook

The total vacancy within Perth's industrial market (+2,000m²) recorded a significant rise (up 23% over the past quarter) as at January 2015. The Perth industrial market has a high correlation with the resources sector where companies are currently sitting idle or downsizing, triggering downward pressure on rental rates.

Leasing incentives are expected to become more prevalent in an effort for landlords to attract and retain tenants and maintain existing face rents. Nevertheless, increasing enquiry levels during the start of 2015 are positive signs

“Leasing incentives are expected to be more prevalent in an effort for landlords to attract and retain tenants and maintain existing face rents.”

FIGURE 6
Perth Industrial Market
'000m² available space



Source: Knight Frank

that vacancy rates may stabilise in the short term.

Demand for prime and functional properties is expected to remain stable while continued decline in demand is likely for older style and obsolete buildings. There is an increasing demand from investors with redefined investment criteria aiming at fundamental value measurements. An ideal industrial investment preference is now defined as a new or refurbished prime asset class property leased to a reputable tenant on a long WALE in a core location.



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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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