

PERTH

INDUSTRIAL VACANCY APRIL 2015

Key Facts

Historical high vacancy levels reached during the last quarter, recording an increase of 6%.

Secondary vacancies increased by 8%, now making up 56% of the total vacancy.

The greatest increase was in the South (12%), which has 46% of the total vacant stock.

Take-up rates declined after a sharp increase in the prior quarter, recording a total of 45,291m² in gross absorption.



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Vacancy levels in Perth's industrial market increased by 6% over the quarter to April 2015. Vacancy in secondary grade buildings increased by 8% over the past quarter, twice the rate of prime grade buildings (up 4%).

The relatively low market confidence in Western Australia continues to be a factor impacting the local industrial market. The price of iron ore has fallen more than 60% since last year on the back of a surge in supply out of WA and cooling demand from China. A supply glut and no immediate signs of a pick-up in Chinese demand sent the key iron ore price down to \$US49 a tonne as of early April 2015.

As a result, Perth's industrial sector continued to be affected with escalating levels of vacant space in the market. The level of available industrial space (+2,000m²) continued to rise over the past quarter to sit at 453,593m² as at April 2015 (428,210m² in January 2015). This is a record high since the series began in April 2012 and sits 73% above the long term average level as well as 62% higher than the vacancy twelve months ago of 280,851m².

The quarter to April saw a relatively small increase in vacancy levels of 6% despite the addition of 109,988m² of vacant stock

to the market over the past quarter. The additional vacant stock was counter-balanced by a number of properties withdrawn from the vacancy count, with most of these properties now to be sold or leased separately into smaller units (<2,000m²) rather than as a whole.

The market remains dominated by existing space which at 409,391m² accounts for 90% of all space on the market at April 2015 while 10% of the remaining stock is made up of speculative buildings completed and spec. buildings under construction. The growth in vacancy levels over the past quarter came predominantly from increases to existing stock, except for one property currently under construction. The vacancy in prime and secondary quality assets increased at a rate of 4% and 8% respectively compared to previous quarter.

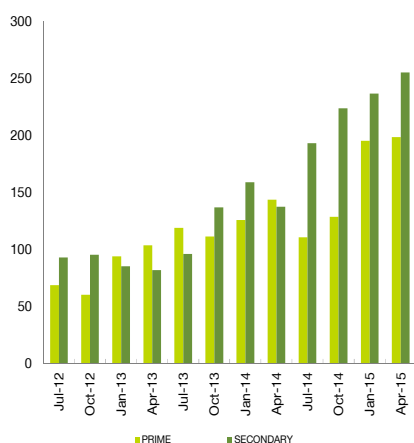
The greatest increase was seen in the South (up 12%) and East (up 9%) while the North precinct recorded a decline of -16% in vacant space attributed to take-up of 13,784m² absorbed over the past quarter.

Quality of Stock

The current available stock was predominantly made up of secondary grade assets at 56% while prime grade assets made up the remaining 44% of the overall vacancy as at April 2015.

The level of both prime and secondary available stock continued to increase over the past quarter. Prime space increased by 4% while secondary space increased by double the rate at 8% which saw an increasing number of older style secondary grade properties added to the market. This confirms the trend of tenants migrating from secondary to prime grade buildings to take advantage of the soft market for an upgrade in quality or accommodation size and to reset their rents. As the contraction in the resources sector continues, many companies associated with the resources sector are reluctant to commit to change and opt to remain in a cost minimisation phase.

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



Source: Knight Frank

Distribution by Precinct

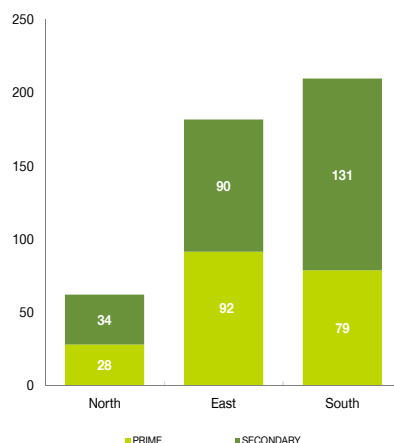
Over the past quarter, the North precinct recorded a fall in total available space by -16% to a total of 62,220m². With limited availability of stock above 2,000m² in the precinct, the North precinct recorded the lowest level of available space making up merely 14% of the total available space in Perth of which 55% are secondary grade buildings. There is only one building sized above 6,000m² available for lease. The precinct saw some steady take-up and only one building added to the market over the quarter.

The South precinct experienced the greatest increase in the level of available industrial space. Vacancy levels grew by 12% (22,160m²) over the past quarter to a total of 209,668m² with 62% of the total vacancy consisting of secondary grade buildings. This rise is attributed to two

large secondary grade properties introduced to the market over the past quarter which included 258-262 Bracks Street, North Fremantle with a 13,105m² warehouse and Lot 14 Sudlow Road, Bibra Lake with a 15,144m² warehouse available for sublease. Overall, there are 11 buildings sized above 6,000m² of which three buildings are larger than 10,000m² available in the South precinct.

Similarly, the East precinct recorded an increase in vacant space of 15,152m² (up 9%) to a total of 181,705m². The East also recorded the addition of two large prime grade properties to the market which included 300-310 Treasure Road with a 10,077m² warehouse and 4 Reid Road, Perth Airport with a 13,220m² warehouse available for sublease. Overall, there are eight buildings sized above 6,000m² available in the East of which seven buildings are prime grade accommodation and two buildings larger than 10,000m².

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



Source: Knight Frank

Size & Type of Stock

There are currently nine buildings available which cater for users of 8,000m² plus, with five located within the South and four in the East precinct. Five of the nine properties are considered prime accommodation. Greater availability exists for tenants at the smaller end of the market with 11 properties ranging between 6,000m² to 8,000m² and 15 properties ranging between 4,000m² to 6,000m².

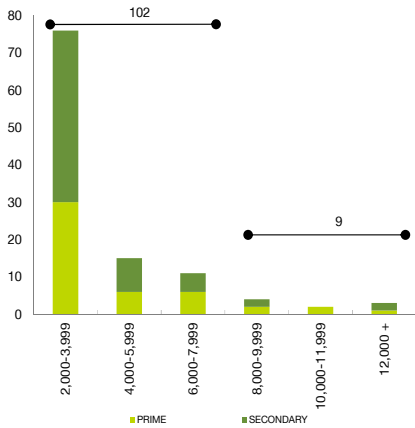
There was a significant increase in sublease space added on the market over the quarter which made up of circa 30% of the total new vacancy of 109,988m², two of which are large warehousing space of 13,220m² and 15,144m² respectively.

TABLE 1
Perth Industrial Available Space 2,000m²+ as at April 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	62,220	22	100	-11,929	22,933	45%	55%
East	181,705	44	85	15,152	33,486	50%	50%
South	209,668	45	78	22,160	116,323	38%	62%
Total	453,593	111	85	25,383	172,742	44%	56%

Source: Knight Frank

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



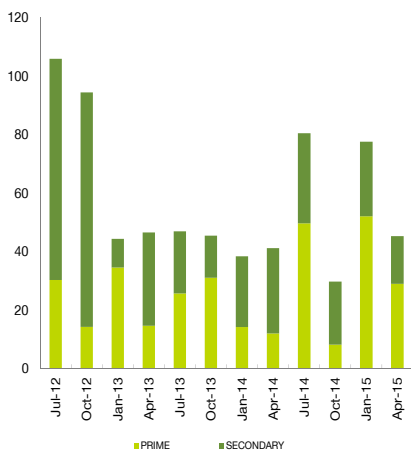
Source: Knight Frank

Approximately 27% of Perth’s total current available stock (+2,000m²) is considered to have a manufacturing use of which 56% are prime quality buildings. In contrast, 73% of the remaining vacancy is suited to warehouse use, of which 39% are prime quality buildings.

Building Take-up

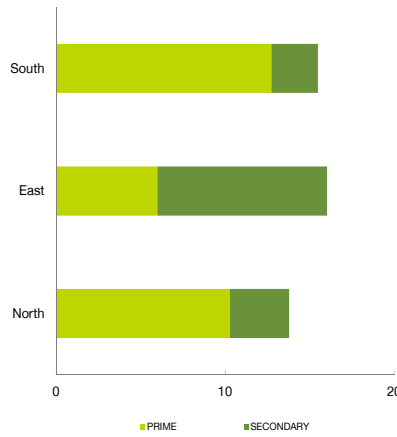
The first quarter of 2015 saw an approximately 40% decrease in take-up levels in comparison to the previous quarter. Total take-up of 45,291m² across 12 properties with leases greater than

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



Source: Knight Frank

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



Source: Knight Frank

2,000m² (excl. D&C) was recorded by Knight Frank. The majority of take-up came from properties under 5,000m² with nine of the 12 properties absorbed in this size range.

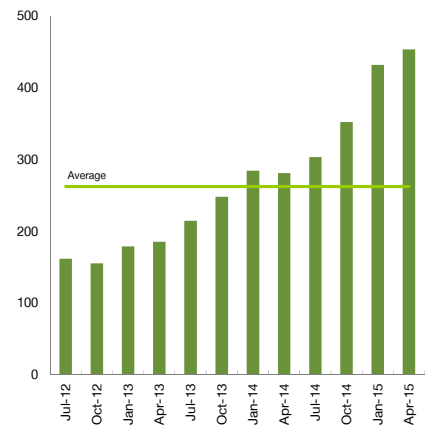
Overall, nine of the 12 leases recorded occurred within existing buildings. The take-up space recorded over the past quarter was well distributed among all three precincts.

The East precinct recorded 16,021m² across four properties while the South precinct recorded a total of 15,486m² across three properties. This was highly attributed to 9,903m² of prime manufacturing space at Site 506 Pilatus Road, Jandakot leased to oil and gas technology giant, Schlumberger, in a deal worth about \$1.3 million in annual rent making it the largest property to be leased over the past quarter. This facility has just reached practical completion and offers two separate workshops of 3,389m² and 6,514m² as well as over 30,000m² of hardstand. The North precinct recorded a total take-up of 13,784m² across four prime and one secondary grade building.

Notably, there was a higher number of sublease space being taken-up in comparison to the previous quarter. Circa 34% of the total take-up space was from the sublease market over the past quarter. This trend is expected to intensify as sublease properties continue to offer highly competitive rents and incentives in order to replace tenants.

“Subleased space made up circa 34% of the total absorption and is expected to increase.”

FIGURE 6
Perth Industrial Market
'000m² available space



Source: Knight Frank

Outlook

Over the past quarter, the total amount of available space within the Perth market (+2,000m²) increased by 6%, taking the level to a new record high and just above the 450,000m² barrier. This level is 73% above the historical average recorded for the market since April 2012.

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. The increasing secondary grade vacancy further reinforces the overall occupier trend towards quality buildings, taking advantage of the soft market conditions. 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.

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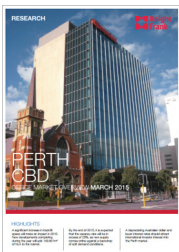
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Methodology:

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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