



# PERTH

## INDUSTRIAL VACANCY JULY 2015

### Key Facts

**Vacant industrial space in Perth increased by 22% in the July quarter** to measure 559,016m<sup>2</sup>, a series high.

**The greatest increase was in the East precinct (up 31.3%),** which has 41.1% of the total vacant industrial stock.

**There is an increasing availability of space above 8,000m<sup>2</sup>,** with 12 properties available as of July 2015.

**Take-up rates have moderated,** with 20,546m<sup>2</sup> of gross absorption recorded over the quarter.



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The Perth industrial market continued to experience an increase in vacant secondary properties, up 34% over the quarter and makes up 61% of the total industrial vacancy. Prime vacancy increased by only 8% over the quarter.

Shallow market confidence in Western Australia continues to be a factor impacting the local industrial market. Iron ore hit its lowest price this decade in July 2015 as oversupply concerns add to the economic instability from the financial crises in Greece and China. The price of iron ore has fallen more than 60% since last year caused by excess supply and cooling demand from China, pushing the price of iron ore to a record low of \$US44.79 during early July 2015, albeit back above \$US52 a tonne as at the end of July.

Perth's industrial sector has continued to be affected with escalating levels of vacant space in the market. The level of available industrial space (+2,000m<sup>2</sup>) continued to rise over the past quarter, up by 22%, to sit at 559,016m<sup>2</sup> as at July 2015 (457,169m<sup>2</sup> in April 2015). This is a record high since the series began in April 2012 and sits 97% above the long term average level as well as 84% higher than the vacancy twelve months ago of 303,562m<sup>2</sup>.

### Quality of Stock

The Perth industrial market continued to experience an increase in vacancy of secondary properties as businesses seek to improve cost efficiencies and consolidate their industrial accommodation while others take advantage of the soft market conditions for an upgrade in quality of accommodation. This is evident as the vacant industrial stock was predominantly made up of secondary quality assets at 61%, which recorded a significant increase of 34% over the quarter to July 2015. On the other hand, prime quality industrial space availability increased by a mere 8% from the last quarter, making up 39% of the overall vacancy as at July 2015.

The flight to quality trend has also led to an increase in the number of older manufacturing buildings becoming available which will potentially remain in the market for lease over a longer period of time due to limited demand.

## Distribution by Precinct

Over the past quarter, the North precinct recorded an increase in total available space by 18.9% to a total of 78,216m<sup>2</sup>. With limited availability of stock above 2,000m<sup>2</sup> in the precinct, the North precinct recorded the lowest level of available space making up just 14% of the total available space in Perth.

There is only one building sized above 6,000m<sup>2</sup> available for lease in the Northern precinct located at 23 King Edward Road, Osborne Park which offers 7,270m<sup>2</sup> of secondary manufacturing space. Over the quarter, the precinct saw five vacant warehouses added to the market, all sized between 2,000m<sup>2</sup> to 3,000m<sup>2</sup>.

The East precinct experienced the greatest increase in the level of available industrial space. Vacancy levels grew by

31.3% over the quarter to a total of 238,636m<sup>2</sup> with 59% of the total vacancy consisting of secondary grade buildings. This rise was attributed to two large secondary quality properties added to the vacancy over the past quarter which included 17-21 Adams Drive, Welshpool with 13,980m<sup>2</sup> of manufacturing space available for sublease and 44 Dowd Street, Welshpool with a 10,194m<sup>2</sup> warehouse available for lease.

Overall, the Eastern precinct distinctly dominates the market of small-medium sized, secondary quality warehouses with 93,960m<sup>2</sup> across 29 warehouses sized between 2,000m<sup>2</sup> to 6,000m<sup>2</sup> currently available in the market.

Similarly, the South precinct recorded an increase in vacant space of 32,496m<sup>2</sup> (up 15.5%) to a total of 242,164m<sup>2</sup>. The South also recorded the addition of an existing secondary quality warehouse at 4 Lodge Drive, East Rockingham

comprising a 16,000m<sup>2</sup> warehouse which makes this property one of the largest vacant industrial properties currently available in the market.

Over the quarter, the South precinct recorded 11 vacant buildings across 110,700m<sup>2</sup> sized above 6,000m<sup>2</sup> of which three buildings are prime quality and four buildings are greater than 10,000m<sup>2</sup>.

## Size & Type of Stock

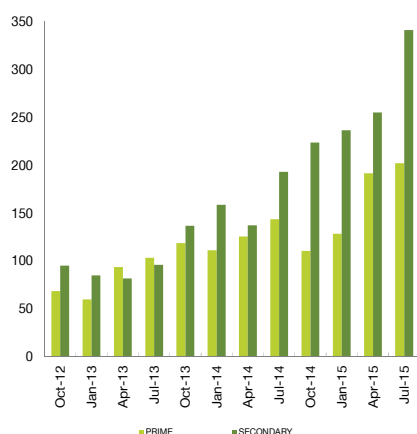
The number of buildings available which cater for users of 8,000m<sup>2</sup> plus has been steadily increasing over the year from three buildings in July 2014 to 12 buildings in July 2015, which were equally spread-out between the East and South precincts. Of these, three buildings were prime warehouses located in the East and one prime manufacturing building in each of the East and South precincts. The remaining seven buildings are secondary grade.

Similarly, there is an increasing availability of buildings sized above 10,000m<sup>2</sup> attributed to downsizing and consolidation activities within the industry. There were eight buildings in the market as of July 2015 in comparison to one building in July 2014.

Greater availability exists for tenants at the smaller end of the market with 11 properties ranging between 6,000m<sup>2</sup> to 8,000m<sup>2</sup> and 21 properties ranging between 4,000m<sup>2</sup> to 6,000m<sup>2</sup>.

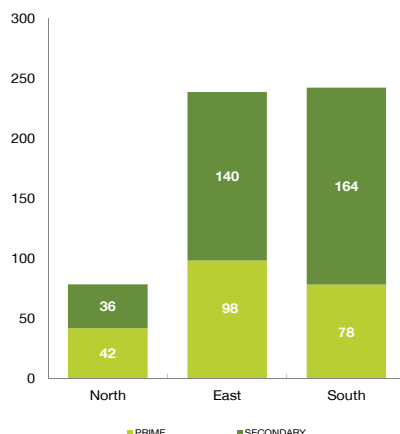
Approximately 29% of Perth's total current available stock (+2,000m<sup>2</sup>) is suited to manufacturing use of which 48% are prime quality buildings.

FIGURE 1  
July 2015 Available Space  
'000m<sup>2</sup> prime versus secondary space



Source: Knight Frank Research

FIGURE 2  
July 2015 Available Space  
'000m<sup>2</sup> by quality & precinct



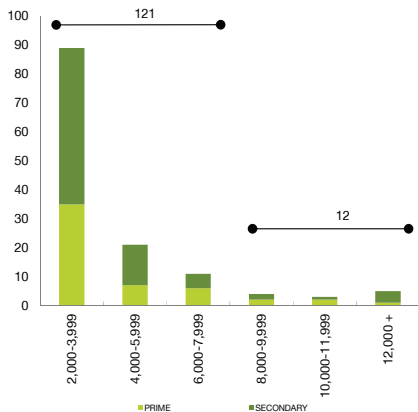
Source: Knight Frank Research

TABLE 1  
Perth Industrial Available Space 2,000m<sup>2</sup>+ as at July 2015

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	78,216	27	96	12,420	26,003	53%	47%
East	238,636	53	82	56,931	102,974	41%	59%
South	242,164	53	81	32,496	126,477	32%	68%
<b>Total</b>	<b>559,016</b>	<b>133</b>	<b>84</b>	<b>101,847</b>	<b>255,454</b>	<b>39%</b>	<b>61%</b>

Source: Knight Frank Research

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



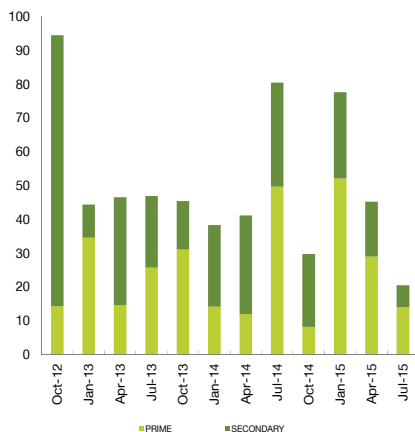
Source: Knight Frank Research

In contrast, 71% of the remaining vacancy was suited to warehouse use, of which 35% were prime quality buildings.

Sublease space continued to increase in the market with a total new vacancy of 93,469m<sup>2</sup>, two of which are sized 13,980m<sup>2</sup> and 13,220m<sup>2</sup> in the East suited for manufacturing use as well as a single 15,144m<sup>2</sup> warehouse located in the South.

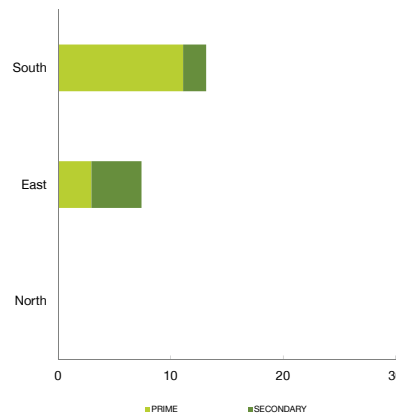
The rise in vacancy levels is also attributed to the increasing number of owner-occupied industrial space being offered for lease. The emerging trend is attributed to downsizing or consolidation of owner occupied space.

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



Source: Knight Frank Research

**FIGURE 5**  
**Take-up 3 months to July 2015**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank Research

## Building Take-up

Building absorption has been declining over the last three quarters to July 2015. Following a 42% decrease in take-up levels in the previous quarter, a further decrease of 55% was recorded during this quarter.

Total take-up of 20,546m<sup>2</sup> across 7 properties with leases greater than 2,000m<sup>2</sup> (excl. D&C) was recorded by Knight Frank. The take-up came from properties in the East and South precincts, with six of the seven properties absorbed below 4,000m<sup>2</sup> size.

The majority (64%) of absorption was recorded in the South, being 13,145m<sup>2</sup> across four properties while the remaining were absorbed in the East precinct across three properties. The North precinct recorded no take-up during the quarter.

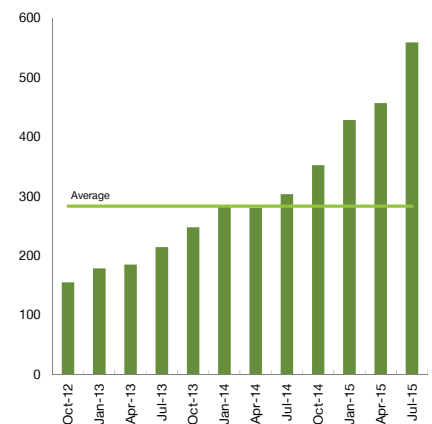
There continues to be a demand for sublease space as two of the eight properties absorbed over the past quarter were from the sublease market. This trend is expected to intensify as sublease properties continue to offer highly competitive rents and incentives in order to replace tenants.

## Outlook

Over the past quarter, the total amount of available space within the Perth

“The increasing vacancy rate is partly attributed to the increasing trend of owner-occupied industrial space being offered for lease.”

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



Source: Knight Frank Research

market (+2,000m<sup>2</sup>) increased by 22%, taking the level to a new record high and just above the 550,000m<sup>2</sup> barrier. This level is 97% 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.

Nevertheless, Western Australia continues to have strong market fundamentals being the second fastest growing state nationwide in terms of population. Improvement in labour market conditions within the retail and construction sectors is expected to have positive flow on effects through to Perth's industrial market over the coming year.



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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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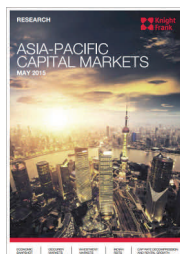
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