

# PERTH

## INDUSTRIAL VACANCY APRIL 2016

### Key Facts

**Vacant industrial space in Perth increased by 16% over the past quarter** to 647,746m<sup>2</sup>, a series high.

**The greatest increase was in the South precinct (up 18%),** which accounts for 52% of the total vacant industrial stock.

**Take-up rates have moderated,** with only 45,181m<sup>2</sup> of gross absorption recorded over the quarter.



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The Perth market continued to experience an increase in vacant industrial properties and is heavily dominated by secondary grade stock, now accounting for 76% of the total vacancy, increasing by 22% over the quarter.

The economic climate and commodities market directly affects confidence in the Perth industrial market. The price of iron ore had fallen over 70% over 2015 to a record low of \$US30 a tonne but has since lifted to \$US60 at tonne as at late April 2016. This has been caused by an excess of supply and cooling demand from China putting pressure on the iron ore price. The industrial sector continues to be impacted by macro economic factors with the contributors stimulating demand for space in the sector, including manufacturing, construction and transport and logistics.

Perth's industrial sector has continued to be affected with escalating levels of vacant space in the market. The total available industrial space (>2,000m<sup>2</sup>) continued to rise over the past quarter, up 16%, to 647,746m<sup>2</sup> as at April 2016. This is a record high since the series began in April 2012 and is 98% above the long term average as well as 42% higher than the total vacancy 12 months ago of 457,169m<sup>2</sup>.

### Quality of Stock

The Perth market currently has 152,867m<sup>2</sup> of Prime quality industrial space available to lease, this lifted nominally (1%) over the quarter demonstrating that deals have been done to lease better quality stock when it comes onto the market.

Primarily, the vacancy rate has been dominated by an influx of secondary grade buildings entering the market, which now amount to 76% of total vacant stock. There is 494,879m<sup>2</sup> of vacant B Grade space across Perth as businesses seek to minimise costs and consolidate their industrial accommodation. On the flipside businesses are also taking advantage of the softer market conditions and looking to upgrade into quality accommodation which is also evident in the gross absorption. The flight to quality trend has also led to an increase in the number of older buildings becoming available which will potentially remain on the market for lease over a longer period of time due to limited demand.

## Distribution by Precinct

The North precinct recorded a slight lift in vacant space from 56,529m<sup>2</sup> to 58,037m<sup>2</sup>. With limited availability of stock above 2,000m<sup>2</sup>, the Northern corridor continually records the lowest level of vacancy, with 9% of the total stock available in Perth. There are only two warehouses above 6,000m<sup>2</sup> available for lease in the Northern precinct—363 Scarborough Beach Road, Osborne Park, previously home to Schweppes, and 215 Balcatta Road, a 6,444m<sup>2</sup> warehouse and office complex. Both are secondary grade space. Over the past quarter, the North precinct included an additional four vacant warehouses all between 2,000m<sup>2</sup> and 2,600m<sup>2</sup>.

The East precinct accounts for 39% of

the overall vacant stock in Perth. Vacancy levels grew by 17% over the quarter to 252,708m<sup>2</sup> with 73% classified as secondary stock. This rise was attributed to eight new vacancies over the quarter. Of these eight, only one was above 8,000m<sup>2</sup>, being at 11 Carolyn Place in Forrestfield amounting to 12,795m<sup>2</sup> of industrial warehouse.

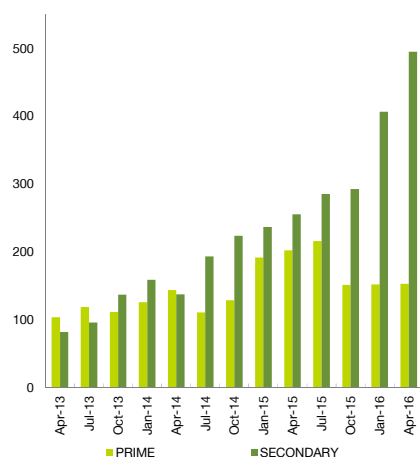
The South precinct recorded an increase in vacant space of 51,805m<sup>2</sup> (up 18%) to a total of 337,001m<sup>2</sup>. The Southern industrial suburbs distinctly dominate the market amounting to 52% of the total vacancy. Of this stock 80% is classified as secondary grade. In the South, six additional vacant properties were added over the quarter. Of the six, five are secondary grade stock. Three of these vacancies range between 11,600m<sup>2</sup> and 15,300m<sup>2</sup> and the remaining three below 4,300m<sup>2</sup>.

## Size & Type of Stock

Of the total stock currently vacant, only a small proportion (14%) is over 8,000m<sup>2</sup>. This amounts to 17 of the 123 properties available. Five of these are new to the market. The South precinct adding three of the five new listings from Bibra Lake and Kwinana Beach. The other two were located in the Eastern suburbs of Forrestfield and Welshpool. The type of stock dominating the vacancy is mostly secondary grade, with only three of the properties above 8,000m<sup>2</sup> being prime grade warehouses.

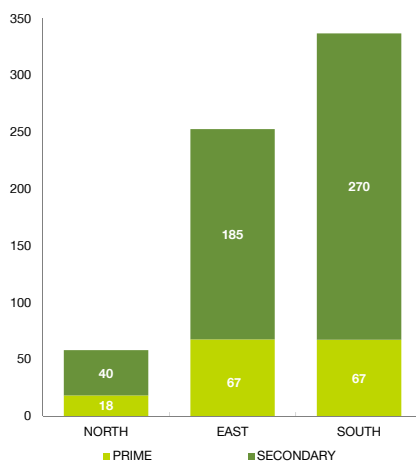
The availability of space ranging between 4,000m<sup>2</sup> to 8,000m<sup>2</sup> offers a lot more options for tenants with a total of 34 vacancies within this range. Consistent with larger spaces, there is more variety found in secondary grade stock totalling 25 properties. It is also

FIGURE 1  
**April 2016 Available Space**  
'000m<sup>2</sup> prime versus secondary space



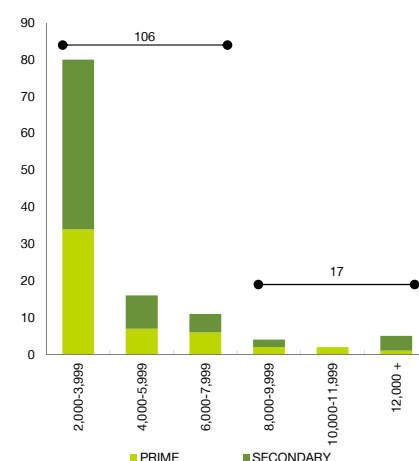
Source: Knight Frank Research

FIGURE 2  
**April 2016 Available Space**  
'000m<sup>2</sup> by quality & precinct



Source: Knight Frank Research

FIGURE 3  
**April 2016 Available Space**  
No of buildings by size and quality



Source: Knight Frank Research

TABLE 1  
**Perth Industrial Available Space 2,000m<sup>2</sup>+ as at April 2016**

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	58,037	19	96	1,508	-7,759	31%	69%
East	252,708	54	92	35,954	71,003	27%	73%
South	337,001	50	78	51,805	127,333	20%	80%
<b>Total</b>	<b>647,746</b>	<b>123</b>	<b>87</b>	<b>89,267</b>	<b>190,577</b>	<b>24%</b>	<b>76%</b>

Source: Knight Frank Research

evident that there is an increasing availability of buildings sized above 8,000m<sup>2</sup> attributed to downsizing and consolidation within the industry, with 10 buildings in the market as at April 2016, compared to only three a year earlier. Of the vacant industrial space across Perth, 17% is classified as manufacturing with the remaining 83% warehouse. Of the 109,405m<sup>2</sup> of manufacturing, only 25% is classified as prime. Similarly, the warehousing vacancy includes 32% of prime stock.

Sublease space continues to increase in the market (88,343m<sup>2</sup>), with one additional entrant for the quarter being a 12,000m<sup>2</sup> warehouse. The sublease vacancy includes four properties above 12,000m<sup>2</sup>, three between 8,000m<sup>2</sup> and 4,000m<sup>2</sup> and five between 4,000m<sup>2</sup> and 3,000m<sup>2</sup> providing a range of options to potential tenants.

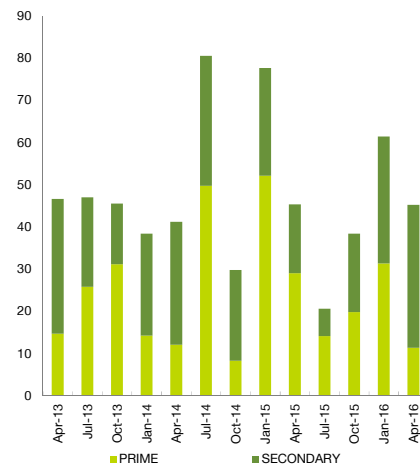
The rise in vacancy levels is also attributed to an increase in the number of owner-occupied properties being offered for lease. The current trend seen in the market is that owners are utilizing the opportunity to downsize or consolidate their space. In some cases companies are buying out competitors and not utilizing their space thereby opening it to the market for lease, all the while absorbing the business within their current space.

## Building Take-up

Building absorption had been on an upward trend since July 2015 but fell away slightly in the first quarter of 2016. This quarterly fall, of 26%, is based on the overall size in square metres of leased space, but the fall in volume of leases only fell by one from 15 to 14. Total take-up of 45,181m<sup>2</sup> across 14 properties, with leases greater than 2,000m<sup>2</sup> (excl. D&C) was recorded for the three months to April 2016. The take-up came from properties in all precincts with the majority (50%) from the East accounting for seven. Of these seven, five were secondary grade buildings. The South precinct recorded four leased buildings, all secondary grade and the North accounted for the remaining three.

FIGURE 4

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

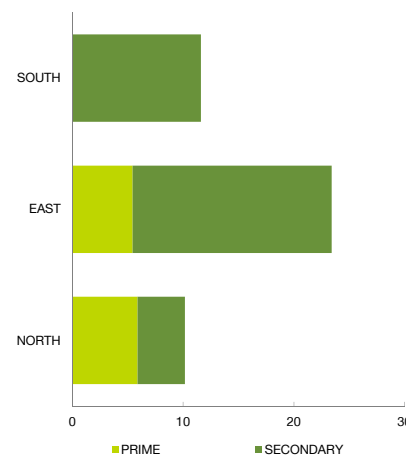


Source: Knight Frank Research

There continues to be a demand for sublease space in the market as these properties offer competitive rents and incentives in order to replace tenants. Activity in the market is also evident from pre-leasing activity that have occurred in the last 12-24 months.

FIGURE 5

### Take-up 3 months to April 2016 '000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank Research

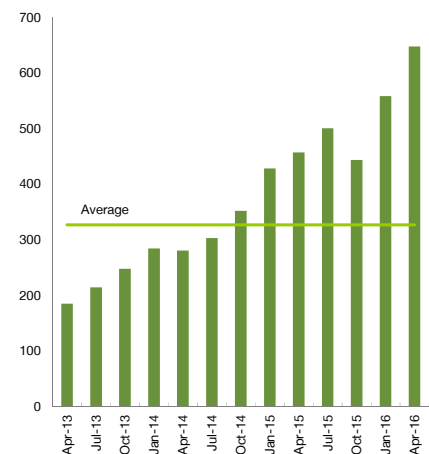
## Outlook

The Perth industrial market has shown consecutive lifts in vacancy. The market has also introduced approximately 200,000m<sup>2</sup> of newly developed pre-lease space, including a 42,000m<sup>2</sup> warehouse

“The increasing vacancy rate has been dominated by an influx of secondary grade buildings entering the market.”

FIGURE 6

### Perth Industrial Market '000m<sup>2</sup> available space



Source: Knight Frank Research

pre-leased to K-Mart in Jandakot in February. Moving forward this will continue to impact the level of backfill space where tenants relocate into new industrial space

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, 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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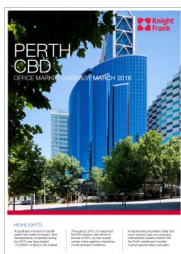
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#### Methodology:

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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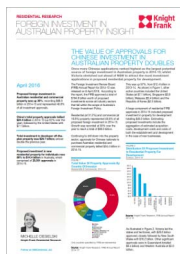
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