

# PERTH

## INDUSTRIAL VACANCY JULY 2016

### Key Facts

**Vacant industrial space in Perth increased by 6% over the past quarter** to 687,006m<sup>2</sup>, a series high.

**The greatest increase was in the North precinct (up 13%),** which accounts for 9% of the total vacant industrial stock.

**Leasing activity has moderated,** with 47,683m<sup>2</sup> of vacant space leased over the quarter.

**Owner-occupiers are expected to re-enter the market** given the low risk of debt.



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The Perth industrial market continued to experience an increase in vacant industrial properties lifting to 687,006m<sup>2</sup> as at July 2016, up 37% from 500,703m<sup>2</sup> the same time last year with additional pre-leasing activity also adding to the market

The WA economy has largely impacted the industrial market in recent years, as the economy adjusts and transitions away from the resource based industry. Leasing and sales activity within the industrial market has been weak. Vacancy in the key industrial areas has been growing consistently over the past few years with the ability to lease stock very dependant on the size, location and quality of the space available. The space currently vacant in the market is older and of a lower quality and is proving difficult to absorb as prospective tenants have a range of options. On the other hand properties that are better quality and well located are desirable and are leasing well but are currently in short supply.

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 6%, to 687,006m<sup>2</sup> as at July 2016. This is another

record high since the series began in April 2012 and is over double the long term average as well as 37% higher than the total vacancy 12 months ago of 500,703m<sup>2</sup>.

### Quality of Stock

The Perth market currently has 173,070m<sup>2</sup> of Prime quality industrial space available to lease, rising 13% over the past quarter. Secondary grade space available dominates the market with 513,936m<sup>2</sup> currently vacant, up 4% on last quarter.

Primarily, the vacancy rate has been dominated by an influx of secondary grade buildings entering the market, which now amount to 75% of total vacant stock. 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 lift in vacant space from 58,037m<sup>2</sup> to 65,769m<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 accommodation.

Over the past quarter, the North precinct

included an additional three vacant warehouses all between 2,000m<sup>2</sup> and 2,400m<sup>2</sup>.

The East precinct accounts for 38% of the overall vacant stock in Perth. Vacancy levels grew by 3% over the quarter to 260,520m<sup>2</sup> with 69% classified as secondary stock. This rise was attributed to nine new vacancies over the quarter.

Majority of the new vacant stock is restricted by quality, size and location making it difficult to lease. Of these nine, only one was above 8,000m<sup>2</sup>, being 14,326m<sup>2</sup> at 123-125 Kewdale Road.

The South precinct recorded an increase in vacant space of 23,716m<sup>2</sup> (up 7%) to a total of 360,717m<sup>2</sup>. The Southern industrial suburbs distinctly dominate the market amounting to 53% of the total vacancy. Of this stock 79%

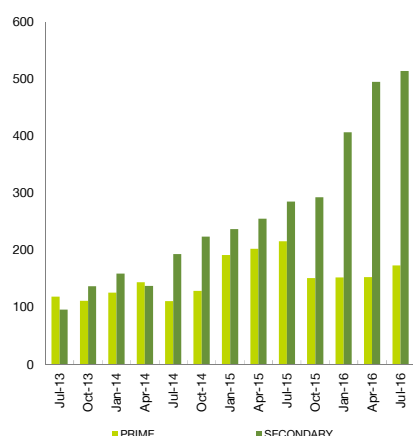
is classified as secondary grade. In the South, 12 additional vacant properties were added over the quarter. Of the 12, nine are secondary grade stock. Only two of these new listings are above 8,000m<sup>2</sup> demonstrating that it is difficult to lease good quality, well located larger industrial space.

## Size & Type of Stock

Of the total stock currently vacant, only a small proportion (15%) is over 8,000m<sup>2</sup>. This amounts to 21 of the 136 properties available. Three of these are new to the market. The South precinct adding two of the three new listings from Henderson and Malaga. The other warehouse is located in the Eastern suburb of Kewdale. The type of stock remaining vacant in the market is widely secondary stock in less desirable

FIGURE 1

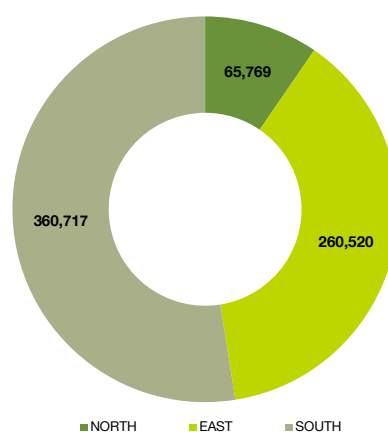
**July 2016 Available Space**  
'000m<sup>2</sup> prime versus secondary space



Source: Knight Frank Research

FIGURE 2

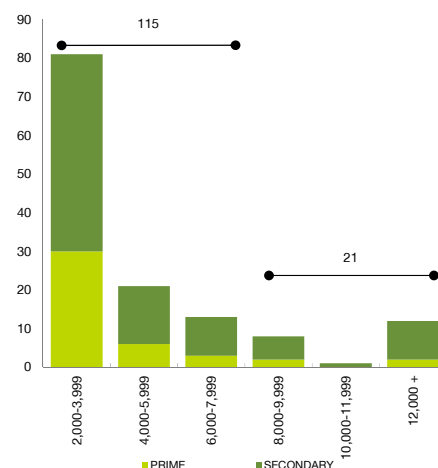
**July 2016 Available Space**  
'000m<sup>2</sup> by precinct



Source: Knight Frank Research

FIGURE 3

**July 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 July 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	65,769	21	97	7,732	-7,744	28	72
East	260,520	55	91	7,812	58,256	31	69
South	360,717	60	80	23,716	135,791	21	79
<b>Total</b>	<b>687,006</b>	<b>136</b>	<b>87</b>	<b>39,260</b>	<b>186,303</b>	<b>25</b>	<b>75</b>

Source: Knight Frank Research

locations ranging between 2,000m<sup>2</sup> to 8,000m<sup>2</sup>.

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. Of the vacant industrial space across Perth, 15% is classified as manufacturing with the remaining 85% warehouse. Of the 100,644m<sup>2</sup> of manufacturing, only 30% is classified as prime. Similarly, the warehousing vacancy includes 24% of prime stock.

Sublease space continues to increase in the market (105,178m<sup>2</sup>), with four additional entries for the quarter. The sublease vacancy includes four properties above 12,000m<sup>2</sup>, five between

“The rise in vacancy is also attributed to an increase in the number of owner-occupied properties for lease.”

4,000m<sup>2</sup> and 8,000m<sup>2</sup> and six between 2,000m<sup>2</sup> and 4,000m<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

The Perth industrial leasing activity has been fairly subdued off the back of an increase in activity in early 2016 followed by a fall in the April quarter 2016. The volume of leases secured fell from 14 deals to 12 in July 2016 whereas July quarter 2015 saw only seven leases confirmed. Owner occupiers are taking the opportunity to purchase vacant space as the cost holds less risk for them as opposed to leasing space.

The take-up came from properties in all precincts with the majority (58%) from the East accounting for seven lease deals. Of these seven, four were secondary grade buildings. The Southern precinct recorded three leased

buildings and the North accounted for the remaining two.

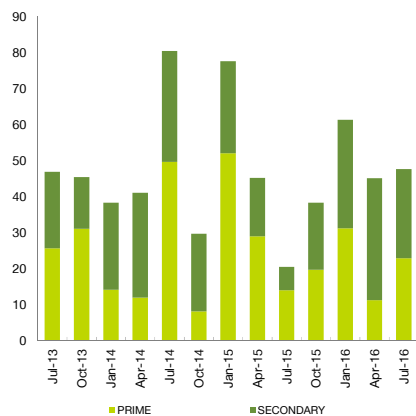
There continues to be demand for space in the market but only to the extent of good quality, well located properties. There is a strong proportion of lower grade, undesirably located, old stock that will not be absorbed in the short to mid term whereas vacancies that are larger, well located and better quality are scarce and when they become available are absorbed fairly quickly.

### Outlook

The Perth industrial market has shown consecutive lifts in vacancy. Moving forward the level of newly developed, pre-lease space will continue to impact the level of backfill space where tenants relocate into new industrial space. This will most likely see the vacancy rate remain elevated in the short to medium term.

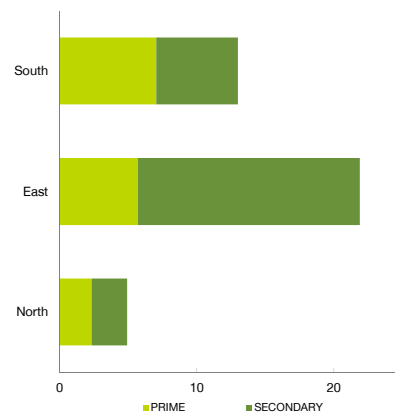
The Perth industrial market has a high correlation with the resources sector where companies are currently sitting idle or downsizing, triggering downward pressure on rental rates. Nevertheless, improvement in labour market conditions within the retail and construction sectors is expected to have positive flow on effects through to Perth's industrial market over the coming year.

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



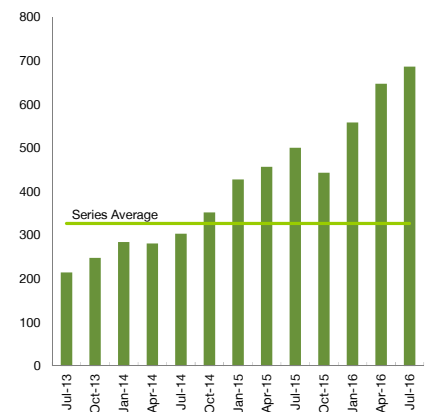
Source: Knight Frank Research

FIGURE 5  
**Take-up 3 months to July 2016**  
'000m<sup>2</sup> Est Take-up buildings (excl D&C)



Source: Knight Frank Research

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



Source: Knight Frank Research





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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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