

PERTH

INDUSTRIAL VACANCY NOVEMBER 2016

Key Facts

Vacant industrial space in Perth decreased by 22% over the past quarter to 534,329m² as at October 2016.

The greatest decline was in the South precinct (down 32%), albeit still accounts for 46% of the total vacant industrial stock.

Activity in the 2,000-5,000m² range is trending above the broader market leasing activity.

Owner-occupiers are expected to re-enter the market given the low cost of debt and the current buy vs. lease scenario.



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The Perth industrial market experienced a sharp decrease in vacant industrial properties due to various options being absorbed, either leased or sold, predominantly secondary. Leasing enquiry will pick up over the remainder of 2016.

Low market confidence in Western Australia continues to be a factor impacting the local industrial market. The ongoing effects of the mining industry directly impact the industrial sector having been an integral part in both the Western Australia and national economy. The Perth industrial market has a high correlation with the resources sector where companies are currently staying put or moving into smaller space triggering downward pressure on rental rates and increases in vacancy. Nevertheless, an 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.

Leasing and sales activity within the industrial market has been weak. Vacancy in the key industrial areas has been very dependant on the size, location and quality of the space available. The prime and super prime quality buildings remain the most desirable and continue to be in relatively short supply.

Quality of Stock

Within the Perth industrial market there is just under 540,000m² of space available for lease, of this 29% is considered prime grade stock with the remaining 71% secondary grade space. There is currently 157,263m² of prime industrial grade space available to lease on the market, which is a fall of 15,807m² since July 2016. Similarly secondary grade stock has fallen as a result of stock being leased or sold over the past quarter to approximately 377,066m² down from 513,936m².

Recently, the vacancy rate has been dominated by an influx of vacant secondary grade buildings, with the common trend being businesses upgrading. This trend will continue to provide an excess of secondary options, which will likely remain on the market for a longer period of time than prime stock, albeit enabling activity in the higher end of this lower graded stock. Notwithstanding this however, much of the secondary space is being absorbed, with many occupiers remaining cost-conscious.

Distribution by Precinct

The general trend within the industrial market was a decline in available vacant space with the exception of the North precinct which recorded a lift in vacant space from 65,769m² to 66,183m². The Northern corridor amounts to a smaller portion of the overall industrial market totalling 12% of the available stock in Perth. The type of stock available in this precinct is generally smaller size and older style warehouses. There is only one warehouses above 6,000m² available for lease in the Northern precinct—100 Mulgool Road Malaga, a 8,615m² warehouse situated on approximately 1.96 hectares. Over the past quarter, the North precinct recorded an additional six vacant warehouses and one manufacturing facility all between 2,000m² and

4,500m², offset by almost 20,000m² of gross take-up.

The East precinct accounts for 41% of the overall vacant stock in Perth. Vacancy levels fell by approximately 39,324m² over the quarter to 221,196m² with 66% classified as secondary stock. This fall was attributed to three lease deals being formalised amounting to 13,775m² of warehouse space and the remainder being sales activity or options no long being marketed for lease.

The South precinct recorded a fall in vacant space of 113,767m² (down 31%) to a total of 246,950m². The Southern industrial suburbs distinctly dominate the market amounting to 46% of the total vacancy. Of this stock 76% is classified as secondary grade. In the South, 14 additional vacant properties were added over the quarter. Of the 14, two were above 4,000m². 1028

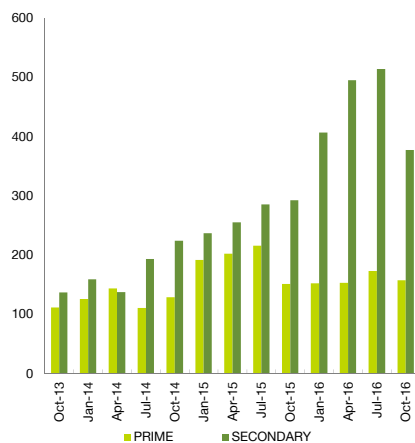
Armstrong Road Kwinana Beach is a purpose built industrial facility, with areas ranging from 5,000m²-70,000m², known as the Latitude 32 industrial zone. Secondly, 126 Bushland Ridge is a two building, industrial zoned facility. The brand new Warehouse and office space is located within the Cockburn Commercial Park area in Bibra Lake. The remaining 12 listings ranged between 2,000m² and 3,900m².

Size & Type of Stock

Of the total stock currently vacant, only a small proportion (13%) is over 8,000m². This amounts to 16 of the 122 properties available. One of these is new to the market, located in the East Industrial precinct, 41-49 Adams Drive Welshpool, which is a 9,417m² warehouse facility which can be

FIGURE 1

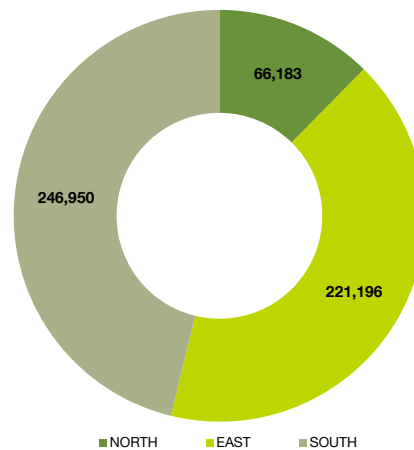
October 2016 Available Space '000m² prime versus secondary space



Source: Knight Frank Research

FIGURE 2

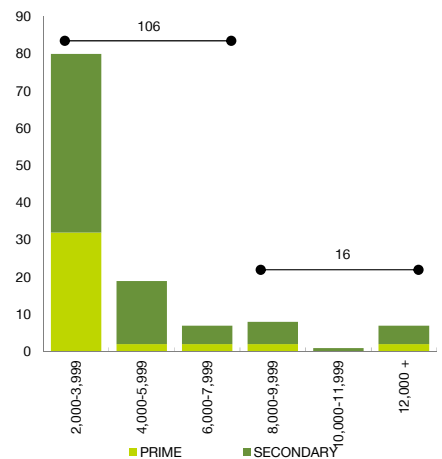
October 2016 Available Space '000m² by precinct



Source: Knight Frank Research

FIGURE 3

October 2016 Available Space No of buildings by size and quality



Source: Knight Frank Research

TABLE 1

Perth Industrial Available Space 2,000m²+ as at October 2016

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 %	Building Quality Secondary %
North	66,183	21	96	414	13,790	36	64
East	221,196	49	87	-39,324	35,926	24	66
South	246,950	52	72	-113,767	41,072	24	76
Total	534,329	122	82	-152,677	90,788	29	71

Source: Knight Frank Research

subdivided to suit tenant requirements.

The availability of space ranging between 4,000m² to 8,000m² offers a lot more options for tenants with a total of 29 vacancies within this range. Consistent with larger spaces, there is more variety found in secondary grade stock totalling 22 properties. Of the vacant industrial space across Perth, 14% is classified as manufacturing with the remaining 85% warehouse. Of the 71,515m² of manufacturing, only 28% is classified as prime. Similarly, the warehousing vacancy includes 35% of prime stock.

Sublease space continues to increase in the market (79,706m²), with one new entry for the quarter. The sublease vacancy includes two properties above 12,000m², five between 4,000m² and

8,000m² and seven between 2,000m² and 4,000m² providing a range of options to potential tenants.

The type of stock remaining vacant in the market is widely secondary stock in less desirable locations ranging between 2,000m² to 8,000m². As the level of vacant industrial space reduces it will be evident that prime grade leasing opportunities may become increasingly scarce. In the short term it is likely that more investors will act on their intuition to relocate to better located and better quality space. This will then leave the older style, lower grade, tertiary facilities vacant for some time.

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.

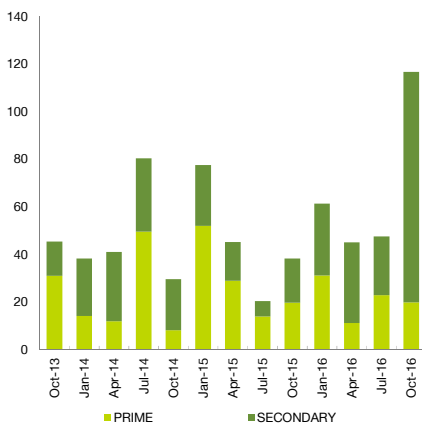
Outlook

After three consecutive quarters of rising vacancies, the Perth industrial market has shown a sharp fall of circa 150,000m² over the past quarter, driven predominantly by a fall in secondary grade options. 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 or rise in the short to medium term, albeit skewed toward secondary.

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 and this will be evident in the industrial vacancy absorption.

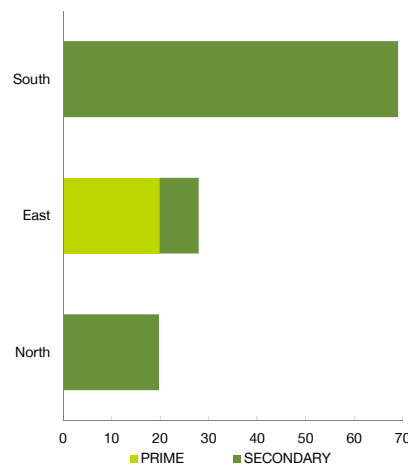
“As the level of vacant industrial space reduces it will be evident that prime grade leasing opportunities may become scarce.”

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



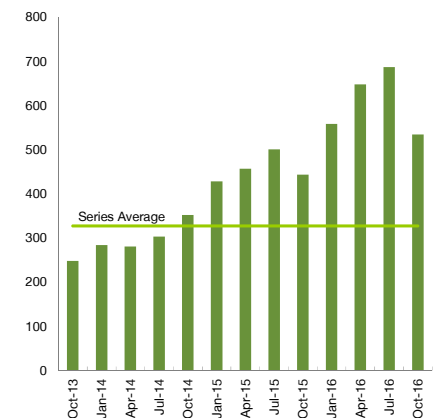
Source: Knight Frank Research

FIGURE 5
Take-up 3 months to October 2016
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank Research

FIGURE 6
Perth Industrial Market
'000m² 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 2,000m². 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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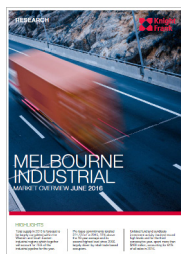
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