

- *Industrial performs well in spite of second wave*
- *Restrictions on space boost demand for ecommerce and in turn industrial*
- *2020/21 supply assured and to be concentrated in west and north*

# Melbourne Industrial

Market Report, August 2020



# INDUSTRIAL SECTOR REMAINS STRONG

*The restrictions on space brought upon by the COVID-19 pandemic has accelerated the shift to online retail, and this is having a flow-on effect on demand for industrial property in Melbourne.*

## ECOMMERCE FUELS GROWTH

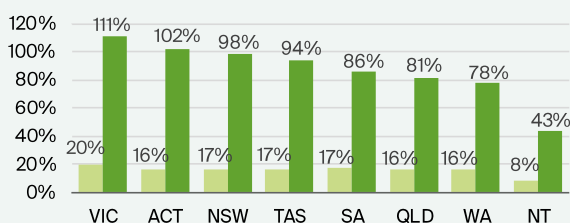
*In spite of the COVID-19 pandemic, the rise of ecommerce continues to drive growth for the industrial and logistics property market.*

While the COVID-19 pandemic is having a profound impact on the broader economy, online retail sales continue to grow, with restrictions on movement caused by the virus accelerating the recent trend away from bricks-and-mortar shopping to online shopping. And Victoria is leading the charge in online retail growth: between December 2019 and April 2020, YOY online shopping grew by 111% in the state, more than any other state.

The continued rise of ecommerce is having a flow-on effect on the industrial property market, with demand increasing from the warehousing, logistics and transport sectors. JB Hi-Fi and General Pants are but two of the major retail brands with an online presence who have recently taken up space in Melbourne's industrial market.

**Online shopping growth**  
% YoY growth by state

■ Dec-19 ■ Apr-20



Source: Knight Frank Research, Australia Post

## DEMAND DESPITE COVID

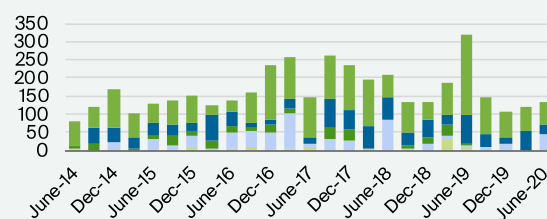
*The COVID-19 pandemic initially put the brakes on leasing activity before the market responded to the new normal and the need for essentials.*

Total leasing volume including pre-commitments in the first half of 2020 (832,573 sq m) was up on the 758,534 sq m recorded in the first half of 2019. Take-up less pre-commitments in the first half of 2020 (255,711 sq m) was on par with what was recorded in the second half of 2019 (254,859 sq m) however was down on the take-up recorded in the first half of 2019 (502,042 sq m). While take-up slowed briefly when Melbourne went into COVID-19 enforced lockdown, since the first lockdown there has been an uptick in demand for warehousing and 3P logistics to store and transport essential items such as food, DIY gardening equipment, hand sanitiser etc. And while COVID impacted transaction numbers, landlords are now more willing to come to the market to do deals, looking for less risky tenants, with better covenants.

**Melbourne Industrial Take-up**

'000 by precinct excl. Design and Construct

■ Fringe ■ North ■ East ■ South East ■ West



Source: Knight Frank Research

## NO CHANGE IN RENTS

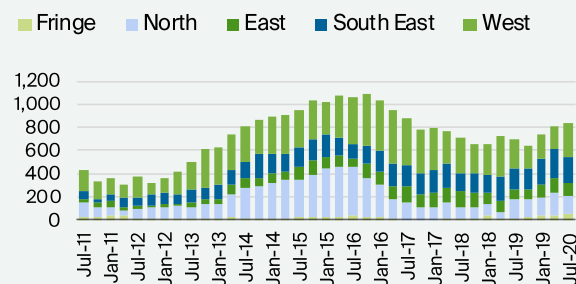
*Melbourne's industrial rents remain static as the market adjusts to recent rises in rents and the potential impact of COVID-19.*

The amount of vacant space increased over the last FY, up 19% with the increase observed equally across both prime and secondary stock. Despite the increase in vacancy and the disruption caused by the COVID pandemic, rents have largely remained stable across Melbourne's main industrial regions. The holding pattern on rents can be explained in part by stable land values and the market more broadly coming to terms with double digit increases in rents during the 2018-19 FY.

COVID, however, has played a part in incentives increasing across both prime and secondary asset classes, with landlords becoming more aggressive with incentives in a bid to attract quality tenants and get deals done.

### Melbourne Industrial Vacancy

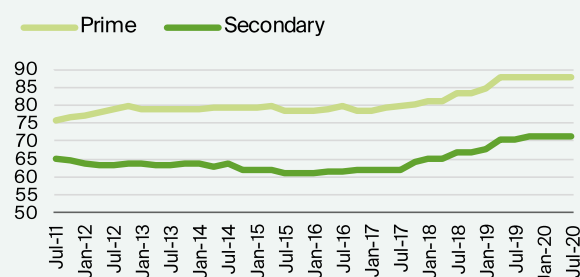
'000sqm by precinct



Source: Knight Frank Research

### Melbourne Industrial Rents

\$/sqm net rents, excl. fringe



Source: Knight Frank Research

## SUPPLY OUTLOOK STRONG

*Melbourne's record infrastructure spend is paving the way for new development in the city's industrial west and north.*

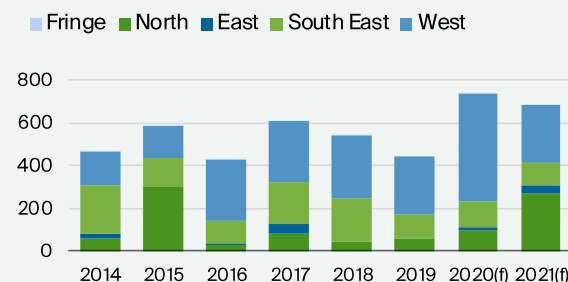
The COVID pandemic has impacted on speculative development with a number of developments put on hold, however Melbourne's industrial property market still looks assured of receiving substantial new supply over the medium term, with approaching 1.5 million sqm of new supply expected to land in the city by the end of 2021 CY.

While ecommerce is driving much of the new demand for industrial assets, Melbourne's unprecedented infrastructure spend—a record \$50 billion worth of projects commenced in 2019, and this could rise by another \$50 billion if the Suburban Rail Loop goes ahead—is profoundly altering perceptions of the city's west and north. Infrastructure projects such as the Western Roads Upgrade, West Gate Tunnel and CityLink Tulla Widening are set to open up access to the west and north regions, in turn improving access to the Port of Melbourne. Underpinned by historically lower land values, the west and north are experiencing an increase in appeal from an industrial development perspective.

Of the 1,478,036 sqm of new industrial development expected to land in Melbourne between 2020-21, 79% is expected to emanate from the west and north regions with the west accounting for over half (53%) of all new supply. Half of Melbourne's new industrial supply (49%) is pre-committed, with Uniqlo taking 46,000 sqm at Charter Hall's Truganina development in Melbourne's west, and Ford taking 51,595 sqm at MAB Corporation and Gibson's Merrifield Business Park development in Mickleham in Melbourne's north.

### Melbourne Industrial Supply

'000sqm by precinct



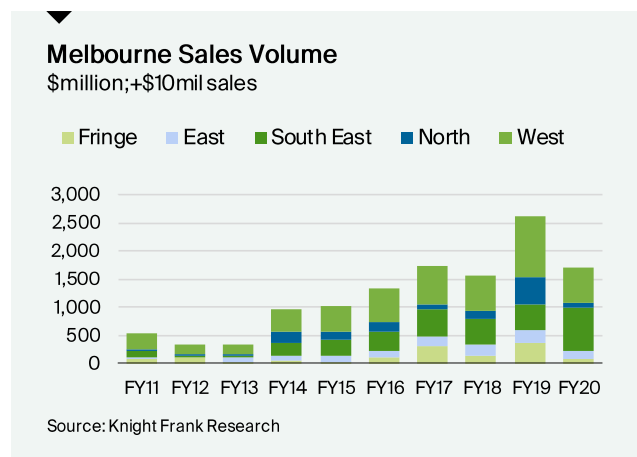
Source: Knight Frank Research / Cordells

## SOLID SALES ACTIVITY

*Transaction levels are on par with recent averages, and underlying demand for industrial investments saw prime yields fall by 70bps yoy to 5.43%.*

Industrial sales activity remained solid in FY 2019/20. While the \$1.7 billion of sales volume is down on the \$2.6 billion recorded in FY 2018/19, the amount of sales volume is on par with what we saw in 2017/18 and 2016/17. Investment volume was driven by the south east region, where the \$695 million worth of assets sold represented 39% of all industrial sales in Melbourne, and also by unlisted funds/syndicates, whose \$584 million worth of industrial acquisitions made up 32% of all sales activity.

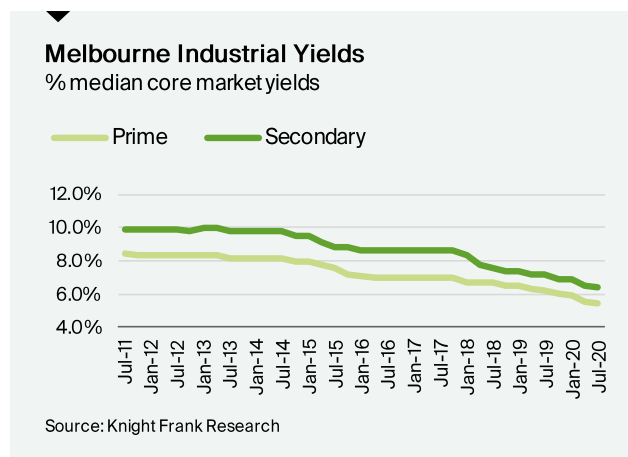
Notable sales over the last 12 months include Charter Hall Prime Industrial Fund and Allianz Real Estate acquiring 41-59 Colemans Road in Dandenong South for \$143.6 million at an initial passing yield of 4.75%, and Charter Hall Prime Industrial Fund's purchase of 51-95 Greens Road also in Dandenong South for \$100 million at an initial passing yield of 5.75%. Both were sale and lease back transactions.



The growth of ecommerce and by extension the growth in demand for warehousing and logistics assets, has resulted in recent increases in rents and land values which in turn have led to sustained yield compression within the Melbourne industrial market. Prime yields compressed by 70 bps over the last FY and secondary yields compressed by 67 bps over the same period. As evidence of the low yields being recorded for industrial property, 19-21 Brenock Park Drive in Ferntree Gully transacted for \$20.25 million at an initial passing yield of 2.72%.

While an absence of recent sales activity has made it difficult to gauge the impact, if any COVID-19 has had on yields, the sense is prime yields will hold in the short term. The expected continued exponential growth of ecommerce and an economic climate of low interest rates has made industrial a safe asset class—at this stage there has been no evidence of a decline in rents or land values—and these factors bode well for industrial yields.

Moving forwards we expect investors to seek out well located and well leased assets, typically with 5 to 10 years of leases to run with good covenants ensuring stable rental income return.



### Recent significant sales

PROPERTY	PRICE \$M	SIZE SQM	\$/SQM	PURCHASER	VENDOR	PASSING YIELD %	WALE
41-59 Colemans Rd, Dandenong S <sup>2</sup>	143.6	56,882	2,525	Charter Hall JV Allianz	Aldi Foods Pty Ltd	4.75	7.0
51-73 Lambeck Drive, Tullamarine	14.0	16,000	2,643	Charter Hall Group	BWP Trust	6.60	2.7
11-25 Wirraway Dr, Port Melbourne	32.5	7,195	4,094	GPT Group	Julliard Group	4.89 <sup>1</sup>	5.9
385-397 Francis St, Brooklyn	65.0	17,794	3,653	Time & Place	Qube Holdings	VP	VP

<sup>1</sup> Core Market Yield

<sup>2</sup> Part of the Aldi Portfolio

<sup>3</sup> Sale and leaseback with Bunnings



# CITY FRINGE

*Limited new development*

## HIGHLIGHTS

### DEMAND

PRIME RENT (\$/SQM) NET

**150**

UNCHANGED YOY

LAND VALUE:1-5HA (\$/SQM)

**1,500**

UNCHANGED YOY

PRIME YIELDS (%)

**5.00-5.75**

### SUPPLY

VACANCY (SQM)

**54,054**

19% HIGHER QOQ

PRIME VACANCY (SQM)

**7,000**

UNCHANGED QOQ

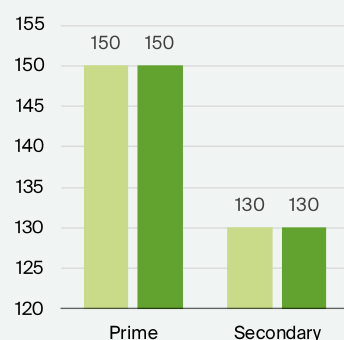
UNDER CONSTRUCTION (SQM)

-

### Fringe Rents

\$/sq m net face

Jul-19 Jul-20

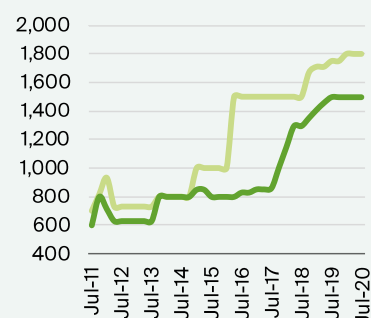


Source: Knight Frank Research

### Fringe Land Values

\$/sq m site

< 5,000 sq m 1- 5 ha

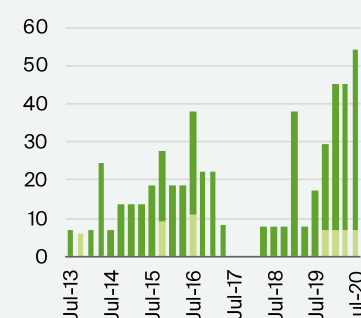


Source: Knight Frank Research

### Fringe Vacancy

'000 sq m by type

Existing A Existing B



Source: Knight Frank Research

## KEY TRENDS

- Highest vacancy in a decade, driven by rise in amount of secondary vacant stock.
- No take-up for four consecutive quarters.
- Prime yields currently sit at 5.38%, ranging between 5.00% to 5.75%.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
Opticomm Co~	18-22 Salmon St, Port Melb.	1,400	200	5
Macquarie Group~	580 Lorimer St, Port Melb.	1,200	195	6
Tekt Industries~	3G Marine Pde, Abbotsford	1,043	185	10
Red Bull~	8/331 Ingles St, Port Melb.	1,008	-	-
CSE Crosscom~	644 Lorimer St, Port Melb.	1,905	-	-

# Pre-commitment ^ Lease of speculatively developed space ~Existing space - Undisclosed

# NORTH

*Demand driven by transport and logistics*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD-20

**176,466**

37% ABOVE YTD-19

PRIME RENT (\$/SQM) NET

**83**

UNCHANGED YOY

MOST ACTIVE SECTOR

**82%**

TRANSPORT/LOGISTICS

### SUPPLY

VACANCY (SQM)

**148,098**

7% LOWER YOY

UNDER CONSTRUCTION (SQM)

**175,615**

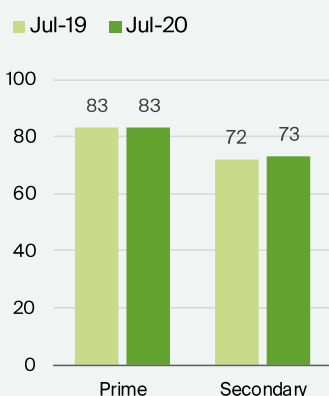
SPECULATIVE STOCK (SQM)

**100,857**

COMPLETED OR U/C

### North Rents

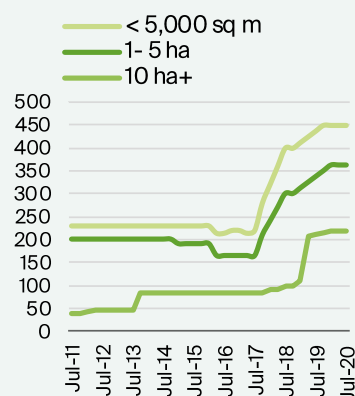
\$/sq m net face



Source: Knight Frank Research

### North Land Values

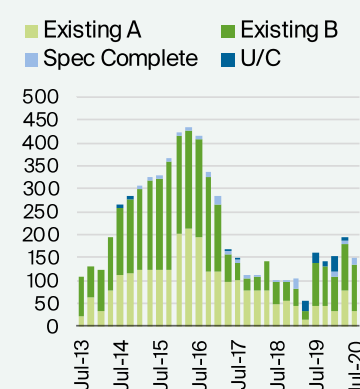
\$/sq m site



Source: Knight Frank Research

### North Vacancy

'000 sq m by type



Source: Knight Frank Research

## KEY TRENDS

- Take up is up 37% on same time last 2019, and in turn amount of vacant space is down 7%.
- Land Values (1-5 ha) increased by 7.5% in the past year.
- Significant sale was 350-356 Cooper Street, Epping at \$28M.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>Aidacare~</b>	49 Temple Dr, Thomastown	6,410	82	7
<b>Mazda#</b>	410 Cooper St, Epping	37,235	-	10
<b>UniPart Group~</b>	60 Annandale Rd, Tullamarine	4,996	-	3
<b>FJT Logistics~</b>	W-B, Reid Way, Melb. Airport	4,532	-	10
<b>Ford Australia#</b>	Donnybrook Rd, Mickleham	51,480	75	10

# Pre-commitment ^ Lease of speculatively developed space ~Existing space - Undisclosed

# EAST

*Market tightly held*

## HIGHLIGHTS

### DEMAND

PRIME RENT (\$/SQM) NET

**92**

UNCHANGED YOY

LAND VALUE:1-5HA (\$/SQM)

**420**

10% CHANGE YOY

PRIME YIELDS (%)

**5.25-6.00**

### SUPPLY

VACANCY (SQM)

**109,654**

1% BELOW 5YR AVG

UNDER CONSTRUCTION (SQM)

**53,085**

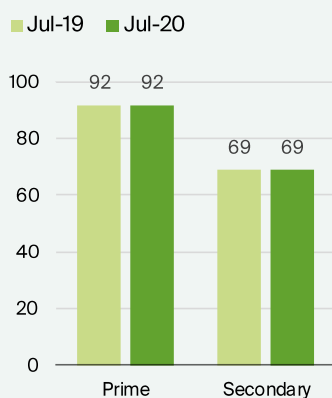
SPECULATIVE STOCK (SQM)

**38,200**

COMPLETED OR U/C

### East Rents

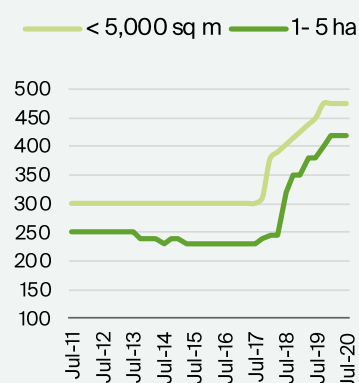
\$/sq m net face



Source: Knight Frank Research

### East Land Values

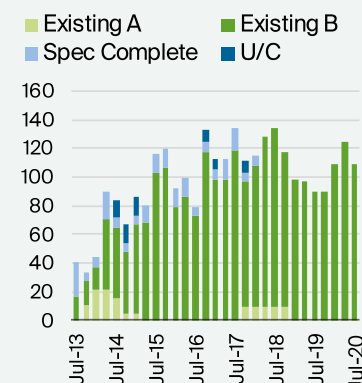
\$/sq m site



Source: Knight Frank Research

### East Vacancy

'000 sq m by type



Source: Knight Frank Research

## KEY TRENDS

- Land Values (1-5 ha) increased by 10.5% in the past year.
- Prime yields compressed 50 bps YOY, currently range between 5.25% to 6.00%.
- Significant sale was 3 Myer Place, Rowville, at \$34M.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
Oven Repair Man~	7 Market Dr, Bayswater	1,031	109	5
Essential Groups~	885 Mountain Hwy, Bayswater	4,182	-	-
KS Australia~	59 Merrindale Dr, Croydon S	3,820	-	-
ACM Parts~	1-11 McNaughton Rd, Clayton	3,296	80	3
Prydes	12 Henderson Rd, Knoxfield	12,230	101	12

# Pre-commitment ^ Lease of speculatively developed space ~Existing space - Undisclosed

# SOUTH EAST

*Demand driven by manufacturing*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD-20

**164,107**

30% ABOVE YTD-19

PRIME RENT (\$/SQM) NET

**93**

UNCHANGED YOY

MOST ACTIVE SECTOR

**36%**

MANUFACTURING

### SUPPLY

VACANCY (SQM)

**233,327**

6% LOWER QOQ

UNDER CONSTRUCTION (SQM)

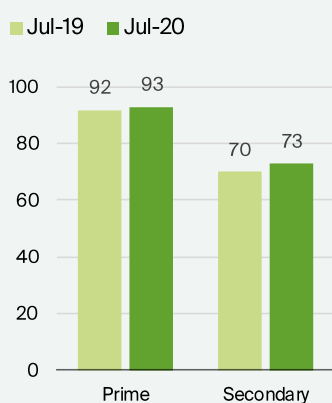
**83,648**

SPECULATIVE STOCK (SQM)

**108,102**

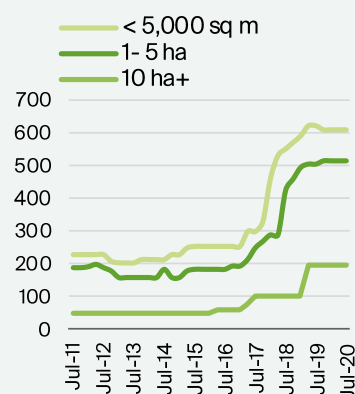
COMPLETED OR U/C

### South East Rents \$/sq m net face



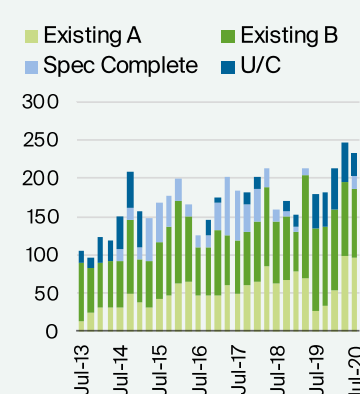
Source: Knight Frank Research

### South East Land Values \$/sq m site



Source: Knight Frank Research

### South East Vacancy '000 sq m by type



Source: Knight Frank Research

## KEY TRENDS

- Take-up 30% up on corresponding period 12 months prior.
- Significant sale was 41-59 Colemans Road, Dandenong South, at \$158.6M.
- FY transaction volume totals \$695M, accounting for 39% across the market.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
North Fork~	23 Monash Dr, Dandenong S	4,125	95	7
IVE Group^	Beyer Rd, Braeside	6,915	98	7
Vincent Cold~	102 Bridge Rd, Keysborough	8,655	-	5
Baby Bunting#	National Dr, Dandenong S	24,307	-	-
Bitani Australia~	8 Grange Rd, Morrabbin Airport	4,161	107	7

# Pre-commitment ^ Lease of speculatively developed space ~Existing space - Undisclosed



# WEST

*Substantial development pipeline*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD-20

**310,415**

29% BELOW YTD-19

PRIME RENT (\$/SQM) NET

**84**

UNCHANGED YOY

MOST ACTIVE SECTOR

**39%**

TRANSPORT & WAREHOUSE

### SUPPLY

VACANCY (SQM)

**288,890**

13% UP YTD-19

UNDER CONSTRUCTION (SQM)

**568,744**

SPECULATIVE STOCK (SQM)

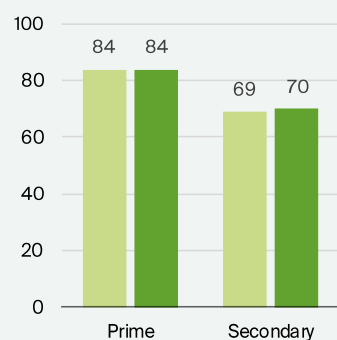
**209,024**

COMPLETED OR U/C

### West Rents

\$/sq m net face

■ Jul-19 ■ Jul-20

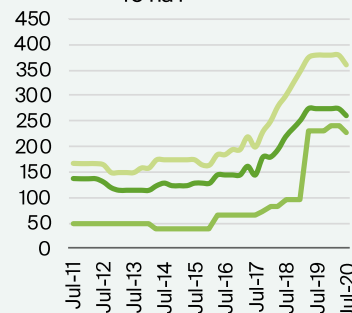


Source: Knight Frank Research

### West Land Values

\$/sq m site

— < 5,000 sq m  
— 1-5 ha  
— 10 ha+

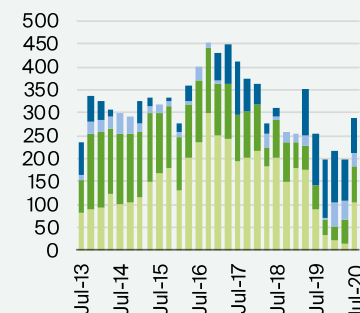


Source: Knight Frank Research

### West Vacancy

'000 sq m by type

■ Existing A ■ Existing B  
■ Spec Complete ■ U/C



Source: Knight Frank Research

## KEY TRENDS

- Represents 35% of all vacant stock across Melbourne industrial market.
- Prime yields at 5.13% as at July 2020.
- Demand driven by transport and warehousing.
- Significant sale was 385-397 Francis St, Brooklyn at \$65M.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>BrandLink^</b>	14-30 Agar Dr Truganina	12,477	83	7
<b>JB Hi-Fi^</b>	14-30 Agar Dr Truganina	18,023	83	7
<b>Petstock^</b>	21 Shiny Dr, Truganina	12,082	-	5
<b>Cargo Warehouse^</b>	131 Calarco Dr, Derrimut	5,322	85	3
<b>CEVA Logistics#</b>	8 Archer Rd, Truganina	37,307	80	6

# Pre-commitment ^ Lease of speculatively developed space ~ Existing space - Undisclosed

## DATA DIGEST

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**Prime Grade:** Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

**Secondary Grade:** Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

**Core Market Yield:** The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

**WALE:** Weighted Average Lease Expiry

**Vacancy Methodology:**

This analysis collects and tabulates data detailing vacancies (5,000m<sup>2</sup>+) within industrial properties across all of the Melbourne Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**



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