

JULY 2013

MELBOURNE INDUSTRIAL VACANCY ANALYSIS

The level of available space within the Melbourne industrial market has now increased over the past three consecutive quarters and now sits just 8% below the long term average of 541,881m². At 496,599m², the total available space is 86,091m² greater than the level recorded in April 2013, with the majority of this additional industrial space becoming available within the South East and Western precincts.

The level of prime available space has increased consistently over the past three quarters. The rise in prime space over the past quarter is largely due to the increase in backfill and sub-lease space becoming available, coupled with the commencement of five new speculative developments.

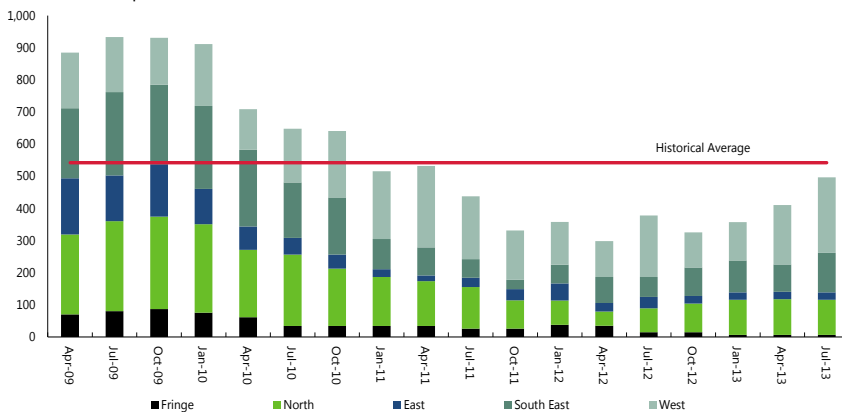
There are now nine speculative developments under construction, five of which commenced construction this quarter, adding 47,888m² of new speculative industrial supply. Additionally, one speculative project reached practical completion this quarter resulting in three speculative developments now available in the market but yet to be leased.

Table 1
Summary of Available Industrial Space – July 2013

Market	Available Space (m ²)	Number of Buildings	Av. Asking rent (\$/m ² net)	Change past quarter (m ²)	Change past 6 months (m ²)	Change past 12 months (m ²)
Precinct						
Fringe	6,800	1	70	0	0	-7,943
North	108,753	12	66	-1,803	-246	34,151
East	23,321	2	80	0	0	-12,240
South East	122,549	11	74	37,620	23,712	60,664
West	235,176	24	73	50,274	115,908	43,980
Total	496,599	50	71	86,091	139,374	118,522
Building Quality						
Prime	236,904	24	77	58,526	126,003	109,499
Secondary	259,695	26	64	27,565	13,371	9,023
Building Type						
Existing Stock	374,525	38	70	52,832	90,324	57,023
Speculative (Completed)	36,365	3	78	6,122	29,704	29,704
Spec. Under Construction	85,709	9	74	27,137	19,346	31,795

Source: Knight Frank

Figure 1
Melbourne Industrial Market
'000m² available space



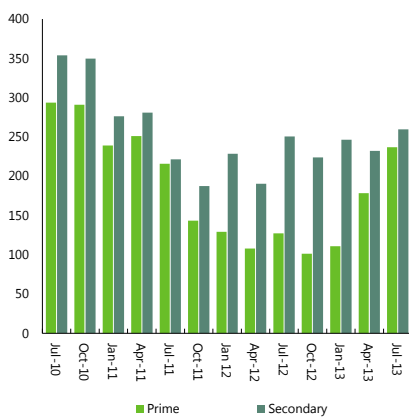
Source: Knight Frank

THERE IS
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Quality of Stock

The level of prime space available over the past quarter has increased by 58,526m² to reach 236,904m². Available prime space now accounts for 48% of total vacant accommodation, up from 43% in April 2013. The rise in existing prime space arose from an increase in sub-lease space becoming available, illustrated by Queensland Cotton and Sea Road bringing to market a further 24,903m² of industrial accommodation (both located in the West).

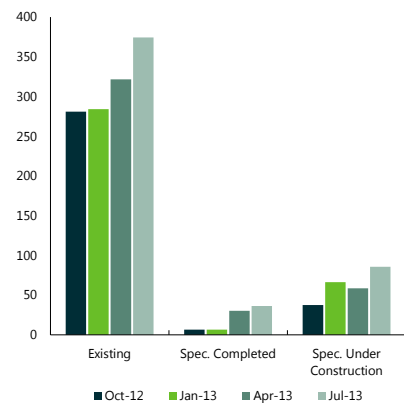
Figure 2
Melbourne Industrial Available Space '000m² by grade – July 2010 to July 2013



Source: Knight Frank

Vacant secondary space also increased over the quarter. Prime space has an average net asking rental of \$77/m² compared with \$64/m² for secondary.

Figure 3
Melbourne Industrial Available Space '000m² by type October 2012 to July 2013



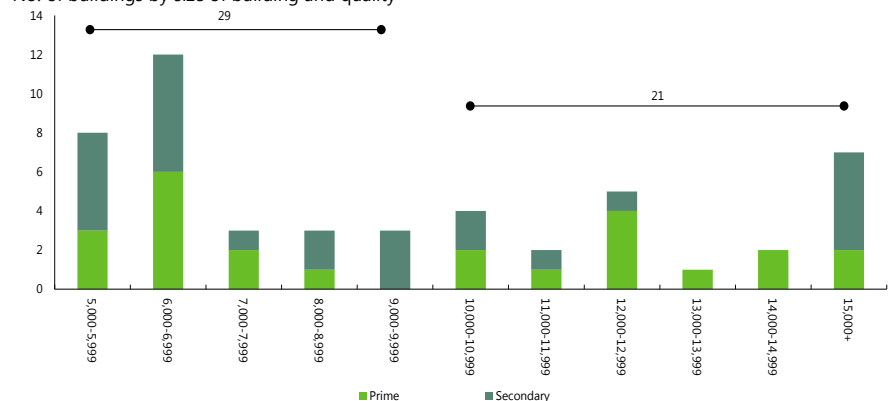
Source: Knight Frank

During the second quarter of 2013, the amount of vacant space within existing buildings increased by approximately 16%. The amount of speculative space completed but yet to be leased also increased with DEXUS's 11,854m² speculatively developed Distribution Drive, Truganina facility reaching practical completion. In addition, there is 85,709m² across nine buildings within the West and South East precincts that are currently under construction on a speculative basis.

Distribution by Precinct

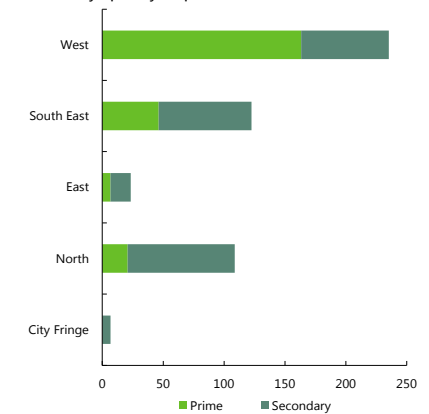
By region, the greatest amount of space available for lease is located in the Western precinct as at July 2013, with 235,176m². Of the available space within the Western precinct, 69% is classed as prime, however almost half of prime space is within speculative stock under construction. The next largest precinct by available space is the South East with 122,549m², of which 46,189m² is prime space. Prime space now accounts for 38% of total available space in the precinct, up from 18% six months ago. Over the past 12 months the South East has had only one prime grade option available to the market in the form of a 17,850m² speculatively constructed building at Atlantic Drive, Keysborough by Australand which reached practical completion in the first quarter of 2013. The East and the City Fringe precincts have remained relatively devoid of vacancy in recent quarters and currently only accounts for 5% and 1% of the total available space in the Melbourne industrial market respectively.

Figure 5
July 2013 Available Space
No. of buildings by size of building and quality



Source: Knight Frank

Figure 4
July 2013 Available Space '000m² by quality & precinct



Source: Knight Frank

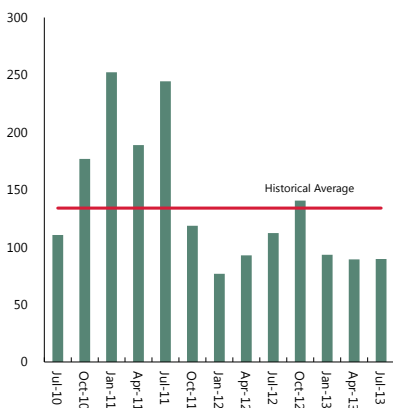
Size of Available Stock

There are currently 21 industrial options available in excess of 10,000m², with 12 of these being within prime grade accommodation. Of the nine speculative buildings currently under construction, four of them are greater than 10,000m², with developers seeking to capture the demand from the larger users currently in the market. As at July 2013, there were 29 smaller industrial options (5,000m² - 10,000m²), with only 12 of these being of prime-grade quality. With the historically high levels of speculative construction activity, coupled with good quality sub-lease and backfill space, prospective tenants looking at upgrading or expansion currently have a wealth of options available to them in stark contrast to the preceding 12 months.

Building Take-up

During the second quarter of 2013 there were eight vacant buildings above 5,000m², totalling 89,685m² which were absorbed. Three of the buildings leased were prime grade assets, one of which was partly leased prior to completion, while the remaining five were secondary grade. Knight Frank has now recorded three consecutive quarters of relatively benign take-up. Industrial property take-up recorded over the second quarter of 2013 was 33% below the long term average.

Figure 6
Melbourne Industrial Take-up
'000m² Est Take-up buildings 5,000m²+ (excl D&C)



Source: Knight Frank

Most of the take-up over the second quarter of 2013 was recorded in prime buildings in the Western precinct, accounting for 58% of total take up. United Wholesalers committed to approximately 8,000m² of speculatively developed warehouse space at 169 Australis Drive prior to completion. Albi Imports also leased 14,000m² at the same address in the fourth quarter of 2012. There is approximately 8,000m² left in the development yet to be committed to with practical completion anticipated to be around August 2013. Prime grade take-up within existing buildings included leases to Mazda, who leased the former Wethenhall Transport facility spanning 28,359m² at 33-47 Dohertys Road, Laverton North and a 16,005m² warehouse at 50 Parkwest, Derrimut, both on short term leases.

Leasing activity in the North comprised of two secondary-grade buildings totalling 13,312m². Meanwhile the South Eastern precinct's take up was also entirely of secondary properties, with 17,509m² spanning two buildings. There was no take-up in the East and Fringe precincts, with the latter typically characterised by smaller industrial units

Summary

The amount of available prime space has surpassed 200,000m² for the first time since July 2011. With increased competition from prime backfill and sub-lease space becoming vacant, the phenomenon of tenants committing to speculatively constructed industrial buildings is expected to ease with United Wholesalers the only tenant to commit to a building prior to completion during the three months to July 2013. However, Knight Frank anticipates that speculative development will continue over the second half of 2013 with several developers preparing to launch new speculative projects.

As a result of the subdued business confidence levels, many prospective tenants have postponed upgrading or expanding their operations and delaying any investment decisions. It is likely, that the upcoming Federal election will result in tenants remaining cautious in pre-committing to a new development in the short term with a preference to occupy existing options on shorter leases or prime speculative development to meet their pressing requirements.

Methodology:

This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne 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 5,000m².
2. Buildings are categorized into the below three types of leasing options:
 - o Existing Stock – existing buildings for lease.
 - o Speculative (Completed) – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
 - o Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

Data collection and analysis represents a snap shot of market vacancy as at 1 July 2013, ie. the beginning of the third quarter.

The Melbourne Industrial Property Market has been divided into 5 distinct industrial precincts, as follows:

Fringe	CBD Fringe; predominantly Port Melbourne
North	Suburbs north of the CBD on the North/East side of the Calder Freeway. Includes areas of Preston, Thomastown, Broadmeadows, Epping, Campbellfield, Somerton and Tullamarine.
East	The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon.
South East	The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham.
West	On the southern side of the Calder Freeway to include the traditional industrial areas within the west, including Altona, Laverton, Sunshine, Derrimut, Brooklyn, Ravenhall and Deer Park.

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