

FEBRUARY 2014



MELBOURNE INDUSTRIAL

Vacancy Analysis

HIGHLIGHTS

- Since mid-2012, the level of available space within the Melbourne industrial market has steadily climbed. In the three months to January 2014, Melbourne's available industrial space increased by 18,335m² to 626,848m². In comparison to January 2013, the amount of vacant industrial stock in Melbourne has increased by 269,623m².
- The building take-up remained relatively benign during the fourth quarter of 2013. The Western precinct absorbed the majority of industrial stock with 61% of total absorption across Melbourne during the last quarter, followed by the North, which accounted for 24% of the total take-up.
- The proportion of vacant prime space continued to decrease over the final quarter of 2013, falling from 49% to 46% of total vacant space. Over 2013, industrial take-up was dominated by smaller sized (5,000m²-10,000m²) properties accounting for 66% of the total absorption. In contrast, the proportion of larger vacant industrial properties (>10,000m²) rose from 41% in January 2013 to its current level of 46%.

Table 1
Melbourne Industrial Available Space 5,000m²+ as at January 2014

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 %	Secondary %
City Fringe	6,800	1	80	525	-	-	100
North	125,026	13	57	- 6,847	16,027	27.1	72.9
East	44,298	4	84	10,366	20,977	62.4	37.6
South East	123,488	12	78	25,805	24,651	52.2	47.8
West	327,236	29	70	-11,514	207,968	49.1	50.9
Melbourne Total	626,848	59	71	18,335	269,623	45.7	54.3

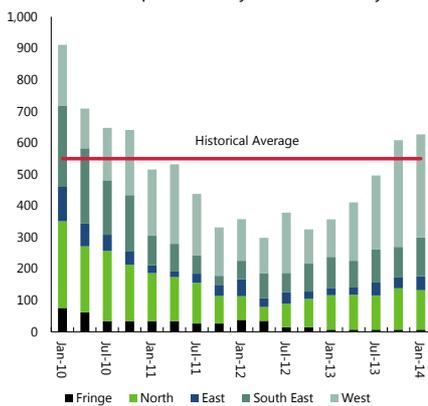
Source: Knight Frank

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

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

Since October 2012, the level of available space within the Melbourne industrial market has steadily climbed. In the three months to January 2014, Melbourne's available industrial space increased by 18,335m² to 626,848m², its highest level since October 2010. For a second consecutive quarter, vacancy levels were above (14%) the long term average of 549,496m². The amount of vacant stock has increased by 269,623m² compared to the January 2013 levels.

Figure 1
Melbourne Industrial Market
'000m² vacant space January 2010 to January 2014



Source: Knight Frank

In the three months to January 2014 available prime space contracted by 4% falling to 286,672m². In contrast, secondary space tracked upwards rising by 10% to reach 340,176m². During the quarter, the proportion of prime space decreased to 46% of total vacancy compared to 49% recorded

in October 2013. Secondary space saw a corresponding rise in its share of the total vacant space changing from 51% to 54%.

According to the Australian Industry Group's PMI*, Australian manufacturing activity continued to fall and dropped from 53.2 points in October 2013 to 47.6 points as at December 2013. The consistently lower performance of the manufacturing sector compared to the growth rate of import-export container trade at the Port of Melbourne has resulted in increased occupier demand from the logistics and distribution sector.

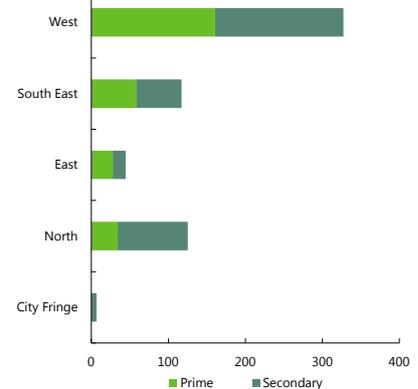
MANUFACTURING FACILITIES ACCOUNT FOR 18% OF TOTAL VACANT SPACE

Vacancies in both existing stock and speculative under-construction categories increased by 17,722m² and 613m² respectively, during the past quarter. However, the available space in speculative development largely remained unchanged. As vacancy in existing and under-construction stock has increased new construction activity has comparatively eased.

*Australian Industry Group's Performance of Manufacturing Index regards 50 points as the neutral level of performance.

Distribution by Precinct

Figure 2
January 2014 Available Space
'000m² by quality & precinct



Source: Knight Frank

Compared to the previous quarter, over the fourth quarter of 2013 the amount of available space in the West fell by 3% to 327,236m². Interestingly, of the available space in the West, 39,877m² emanated from sublease space. Vacant space in the North also reduced, falling by 5% to 125,026m².

In the same period, vacancy levels in the South East grew by 26% to 123,488m², while the East recorded a sharp climb of 31% to 44,298m². Given the higher exposure to the manufacturing sector in the South East and Eastern precincts, the average letting-up time has also increased in comparison to the other Melbourne industrial precincts.

Size & Type of Stock

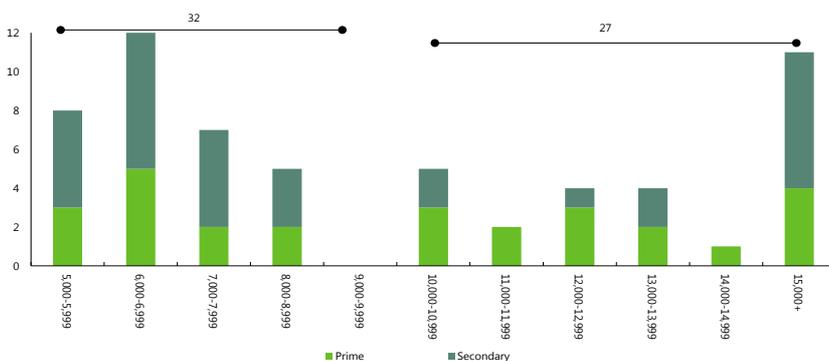
There are currently 59 buildings (+5,000m²) available across Melbourne's industrial market, of which 27 are large format (>10,000m²) industrial properties, with reasonably even proportion of prime vs secondary spaces. However stock of buildings sized below 10,000m² had almost doubled the number of secondary grade properties compared to the prime grade properties.

The West and South East had a balance of small (5,000m²-10,000m²) and large format properties offering a wide choice to potential tenants; North and City Fringe had a dominance of smaller sized properties.

The proportion of prime space compared to secondary space was relatively even in the West and South East precincts. However the available industrial space in the Northern and the City Fringe precincts was dominated by secondary space as at January 2014.

TAKE UP IN 2013 WAS 11% BELOW 2012 LEVELS AND THE LOWEST SINCE 2009

Figure 3
January 2014 Available Space
No of buildings by size of building m² and quality

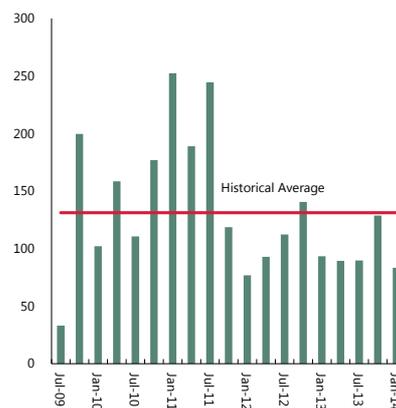


Source: Knight Frank

Building Take-up

The building take-up remained relatively benign during the fourth quarter of 2013 at 83,386m² (excl D&C) within 11 properties, a sharp decline from the 128,750m² taken-up in October 2013, and 36% below the long term average of 131,200m². In fact, the level of industrial absorption recorded during the fourth quarter of 2013 was the lowest since the fourth quarter of 2011. Nine out of 11 properties absorbed were in the size range below 10,000m².

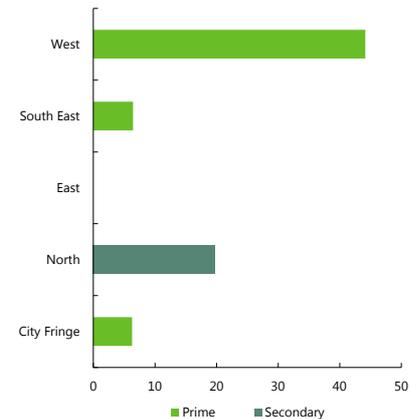
Figure 4
Melbourne Industrial Market
'000m² Take-up buildings 5,000m²+ (excl D&C)



Source: Knight Frank

The Western precinct at 50,880m² recorded the majority share (61%) of the absorption across Melbourne during the last quarter, followed by the North, which accounted for 24% of the total take-up.

Figure 5
Melbourne Industrial Take-up 3 Months to January 2014
'000m² Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Four leases totalling 31,567m² of prime grade space currently under construction were signed-up; Goodman leased approximately 13,000m² to 101 Warehousing at Dunmore Drive in Truganina while Australand leased three properties under construction to Prolife Foods and Atlas Steel both in Altona, and Transport Management Solutions in Keysborough. Overall, 76% of the take-up was within prime grade space, despite an abundance of more affordable options. Warehouse facilities dominated take-up levels, accounting for 85% of all absorption across Melbourne.

Summary

Vacancy levels continued to track upwards, a trend that has continued since October 2012. Prime space remained scarcer than the secondary space with its proportion decreasing from 49% to 46% of total available space. For the third consecutive year, absorption levels recorded in the final quarter of the year were substantially below those recorded in the third quarter. In fact, the level of take up across Melbourne in 2013 was 11% below levels recorded in 2012 and the lowest volume absorbed in a calendar year since 2009. Further rises in vacancy during 2014 is anticipated to increase pressure on landlords with vacant secondary assets to redevelop and refurbish with tenants preferring prime grade options.

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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. 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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