



APRIL 2014

MELBOURNE INDUSTRIAL

Vacancy Analysis

HIGHLIGHTS

- The level of available space within the Melbourne industrial market has continued to rise over the past quarter, a trend observed since mid-2012. In the three months to April 2014, Melbourne's available industrial space increased by 108,276m² (up 17%), to now total 735,124m².
- The first quarter of 2014 saw a total take-up of 81,494m² (excl D&C) across eight buildings greater than 5,000m², 37% below the historic average of 128,715m². Once again, take-up across Melbourne was dominated by the Western precinct, accounting for 91% of total absorption. The proportion of absorption in the West this quarter was the highest of any region on record.
- The proportion of vacant prime space has remained stable at 46% of total vacant space, representing 339,694m². With 29 prime assets available for lease, in addition to a further 39 secondary buildings, prospective tenants have a wide range of options in buildings sized above 5,000m².

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Vacancy Analysis

Table 1
Melbourne Industrial Available Space 5,000m²+ as at April 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	24,655	3	79	17,855	17,855	-	100.0
North	193,430	18	57	68,404	82,874	40.1	59.9
East	89,855	10	84	45,557	66,534	45.0	55.0
South East	119,799	12	69	-3,689	34,870	48.5	51.5
West	307,385	25	69	-19,851	122,483	53.2	46.8
Melbourne Total	735,124	68	72	108,276	324,616	46.2	53.8

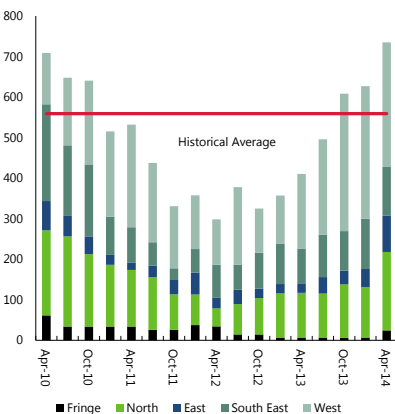
Source: Knight Frank

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%.

The first quarter of 2014 saw the total amount of space available (>5,000m²) increase by 108,276m² over the previous quarter. This rise in total vacancy resulted from a rise in secondary vacancy within existing properties and the completion of a number of speculatively built properties. The current vacancy level of 735,124m² across Melbourne's industrial space is at its highest since January 2010. As at April 2014, the current vacancy level is 32% above the long term average of 559,099m². Compared to the levels recorded twelve months ago, the amount of available stock has increased by 324,616m². In the three months to April 2014, vacant prime space grew by 18% over the previous quarter to reach 339,694m², driven by upcoming prime backfill properties becoming vacant.

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



Source: Knight Frank

For a third consecutive quarter, prime vacancy levels were higher (30%) than their long term average of 249,294m². During this period, secondary space also tracked upwards, rising by 16% to reach 395,430m².

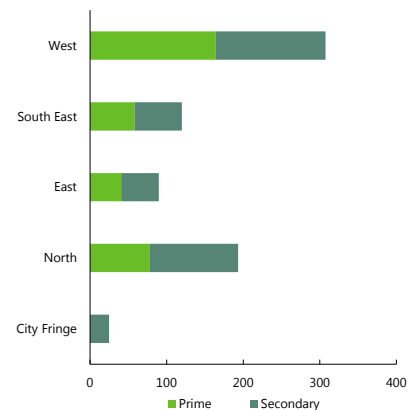
TAKE-UP IN APRIL 2014 WAS THE LOWEST SINCE JANUARY 2012

During the three months to April 2014, vacancy in existing buildings and speculatively built stock grew by 129,043m² and 12,817m² respectively when compared to the preceding quarter. During the same period, available vacant space in buildings under-construction eased by 33,584m². The current level of available space under construction accounts for only 6% of the total vacant space across Melbourne's industrial markets, the lowest proportion since January 2012.

Reflecting the easing speculative development levels, developers appear to have deferred new supply until absorption levels rise and the economic recovery is more apparent. As a result speculative development is expected to remain sporadic in the short-term.

Distribution by Precinct

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



Source: Knight Frank

For a second consecutive quarter, the amount of available space in the West reduced over the preceding quarter and currently stands at 307,385m²; though this is still higher than the other industrial precincts. However, sublease vacant space in the West has increased by 19,174m² over the previous quarter. The growth of sublease vacancy largely stemmed from tenants consolidating operations and in some cases leaving lease legacies as a result of relocating due to expansion. Sublease vacancies now account for 19% of the total available space in the Western precinct.

In the same period, the East vacancy levels almost doubled to 89,855m², resulting from a rise in secondary grade vacancy and an increase in stock under construction. The industrial vacancy in the East has now reached its highest level since January 2011.

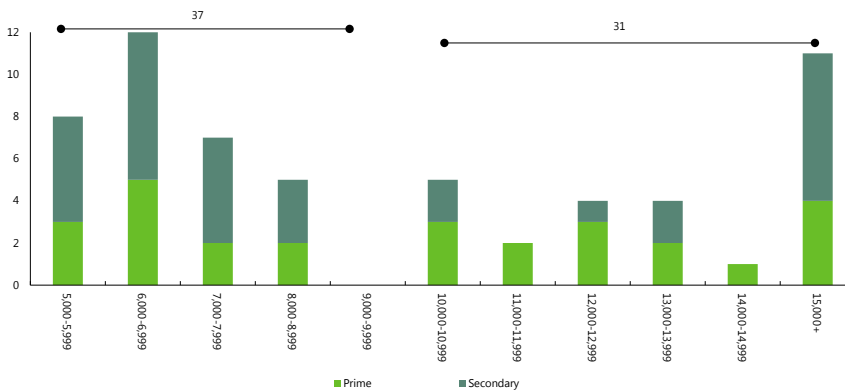
Whilst take-up levels over the quarter were soft, the outlook is more promising with active enquiries from potential tenants for industrial space (>5,000m²) across Melbourne remaining considerable. The tenant requirements within the South East (103,000m²) and West (180,000m²) account for the vast majority, especially for prime grade requirements. This in turn is expected to ease the vacancy levels in coming months.

Size & Type of Stock

Prospective tenants looking for large format (>10,000m²) industrial properties have 31 options in comparison to the 37 buildings in smaller sizes (5,000m²-10,000m²) available across Melbourne's industrial market. In total, there are 29 prime buildings as against 39 secondary grade buildings. In contrast, of the buildings sized between 5,000m² - 10,000m², 65% is classed as secondary grade.

By region, within the City Fringe and East most available options were sized between 5,000m²-10,000m². Elsewhere, of the available options in the North, West and South East, occupiers have a diverse range of available buildings.

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

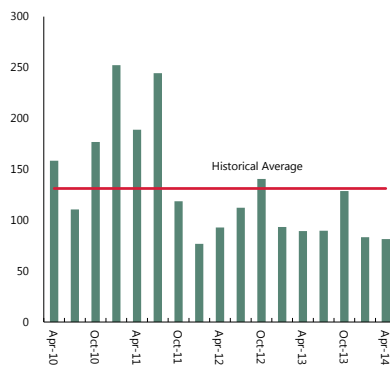


Source: Knight Frank

Building Take-up

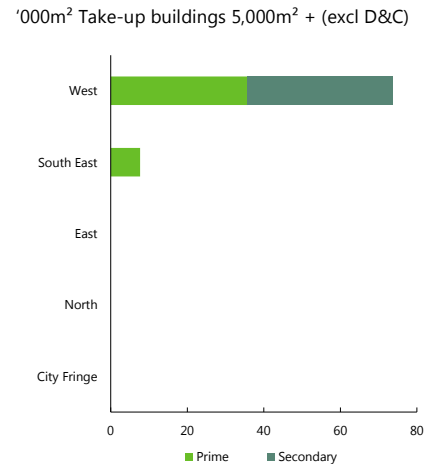
Knight Frank analysis reveals that during the first quarter of 2014, a total of 81,494m²(excl D&C) was leased in eight buildings greater than 5,000m², 37% below the historic average of 128,715m². The amount of take-up in the past quarter was in line with the absorption levels recorded over the past year, with the exception of the third quarter of 2013 when 128,750m² was absorbed. Three of the buildings leased in the first quarter of 2014 were prime grade assets, while five were secondary grade. Three out of the eight properties absorbed were large format (>10,000m²) industrial properties.

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



Source: Knight Frank

Figure 5
Melbourne Industrial Take-up 3 Months to April 2014



Source: Knight Frank

The Western precinct at 73,794m² recorded the majority (91%) of the absorption across Melbourne during the last quarter, 43% higher than its long-term average. This was followed by the South East, accounting for the remaining 9% of the total take-up.

Recent leasing transactions included Peter Stevens Motor Cycles (13,500m²) at 1 Kimpton Way in Altona, while APL Warehousing leased 13,590m² at 76 Dunmore Drive in Truganina; both still currently under-construction. Elsewhere, Goodman leased approximately 16,000m² to IPS Logistics at 50 Parkwest Drive in Derrimut. Warehouse facilities completely dominated take-up levels, accounting for all of the absorption across Melbourne's industrial precincts.

Summary

Whilst available space has grown since October 2012, looking forward the level of vacant space is expected to gradually ease. As the level of new construction activity slows coupled with a number of impending commitments, especially for prime grade options, industrial vacancy levels are projected to decline. However, secondary grade vacancy which has been tracking upwards in past twelve months is expected to remain under pressure through 2014, with tenants keen to upgrade their space.

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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 categorised 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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