

MELBOURNE INDUSTRIAL VACANCY JULY 2014

Key Facts

Total vacant space rose by 9.8% over the quarter and now measures **807,269m²** as at **July 2014**

Prime vacancy now accounts for **48%** of total availability and at **390,779m²** is at its highest level in almost **five years**

Absorption levels have been stable since January 2014 and totalled **82,107m²** during the second quarter of 2014



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Melbourne's vacant industrial space is now 807,269m², its highest level in almost five years and 38% above the historical average; while take up levels of 82,107m² were recorded for the three months to July 2014

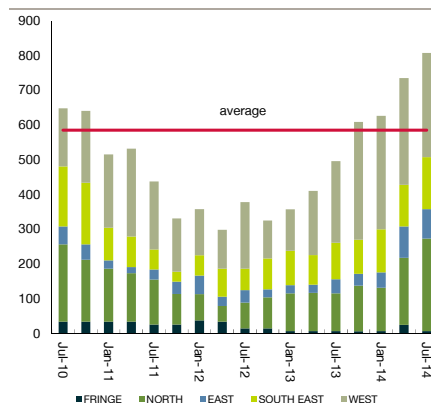
Vacant industrial stock levels in Melbourne have tracked upwards since October 2012. Available space (>5,000m²) has increased by 72,145m² in the three months to July 2014 and now measures 807,269m², which is 38% above its long term average. The total vacancy in the Melbourne industrial market is now at its highest level since January 2010.

Available stock remains dominated by existing accommodation which accounts for 84% of total vacant stock. Despite the sale of some vacant facilities sold to owner occupiers, the level of available existing space continued to increase, growing to 677,256m² up by 28,991m² in the quarter.

Speculative stock available for lease (including both under construction and completed) has also risen in the three months to July, to now measure 130,013m². Speculative space under construction grew by 20,299m² to

reach 61,771m², 27% above its long term average. Four out of the seven projects currently under construction are located in the South East. In contrast, at present there are no speculative developments under construction in the West.

FIGURE 1
Melbourne Industrial Market
'000m² available space



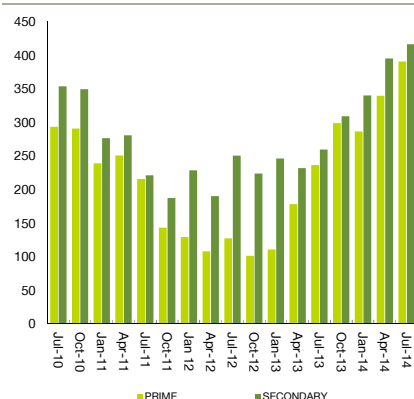
Source: Knight Frank

Quality of Stock

A rise in available space within speculative developments (both completed and under construction), resulted in vacant prime space growing by 51,085m² over the past quarter to reach 390,779m². Prime vacant space now accounts for 48% of the total available space, and is currently 56% higher than its long term average of 249,294m².

During the past quarter, secondary space also tracked upwards, rising by 5% to reach 416,490m². The rise in the secondary space was broadly driven by vacancies resulting from closures of manufacturing facilities in Victoria. Of the total vacant secondary facilities, 12 were manufacturing facilities of secondary grade quality, accounting for 31% of all secondary grade space.

FIGURE 2
July 2014 Available Space
'000m² prime versus secondary space



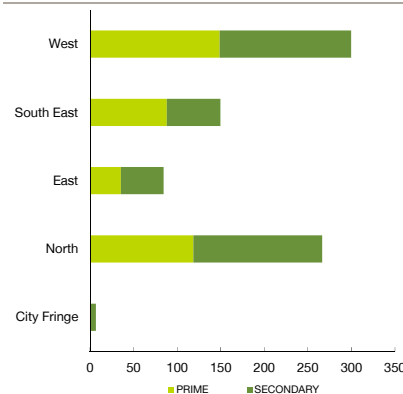
Source: Knight Frank

Distribution by Precinct

Totalling 299,825m², the majority of available stock is located in the West which accounts for 37% of the total vacant space in Melbourne as at July 2014. However, the vacancy levels in the West have consistently declined since October 2013 due to increasing tenant migration from other precincts to locations in the Western region given its proximity to major infrastructure.

Ron Crouch Transport absorbed 8,000m² of backfill space at 125 Cherry Lane in Laverton North, which was recently vacated by Scotts Transport. A recent sale still under contract for Centuria's warehouse (19,174m²) at 28 Salta Drive in Altona to an owner-occupier resulted in the withdrawal of

FIGURE 3
July 2014 Available Space
'000m² by quality & precinct



Source: Knight Frank

the vacant space previously offered for sublease.

Sublease vacancy within the Western region has decreased by 35,286m² over the preceding quarter falling to 23,765m² as at July 2014.

In contrast, available space in the Northern precinct continues to increase, rising by 38% to 266,391m², its highest level in three years. As at July 2014, the vacant stock in the North now accounts for 33% of the Melbourne's total available space. Similarly, vacancy levels in the South East were up by 25% to 149,781m² impacted by an increase in speculative stock (both completed and under construction).

In the same period, vacancy levels in the East decreased by 6%, falling to reach 84,472m². The reduction in available space in the East resulted from stable stock levels and modest take-up.

As at July 2014, available space in the City Fringe measured 6,800m². A reduction of 17,855m² over the prior quarter resulted from a modest take-up and withdrawal of space for a change of use.

Size & Type of Stock

There are currently 31 buildings available for occupiers seeking 10,000m² plus sized industrial properties. Of these, 15 are within prime accommodation; of which two facilities are under construction.

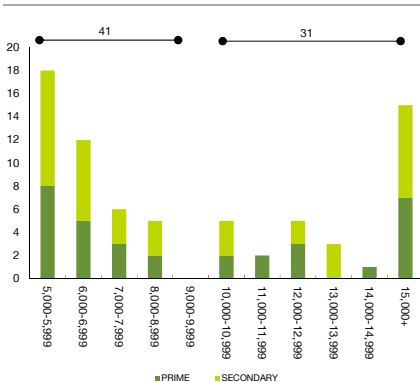
TABLE 1
Melbourne Industrial Available Space 5,000m²+ as at July 2014

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	-17,855	0	-	100
North	266,391	20	57	72,961	157,638	45	55
East	84,472	10	84	-5,383	43,771	42	58
South East	149,781	15	77	29,982	45,082	59	41
West	299,825	26	69	-7,560	64,649	50	50
Melbourne Total	807,269	72	73	72,145	311,140	48	52

Source: Knight Frank

Not surprisingly, all of these large options within prime buildings are categorised as warehouse and logistics facilities.

FIGURE 4
July 2014 Available Space
No of buildings by size and quality

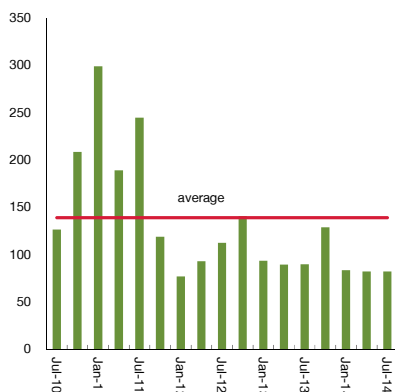


Source: Knight Frank

There is greater availability of options (41 properties) for tenants in search of smaller sized (5,000m²-10,000m²) industrial tenancies, of which 18 are categorised as prime grade quality.

By region, the West, South East and North had almost equal number of large and small sized options, whereas the East and City Fringe remained dominated by options sized between 5,000m²-10,000m². Potential tenants in search of manufacturing facilities have 13 options of which 12 are categorised as secondary grade accommodation.

FIGURE 5
Melbourne Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



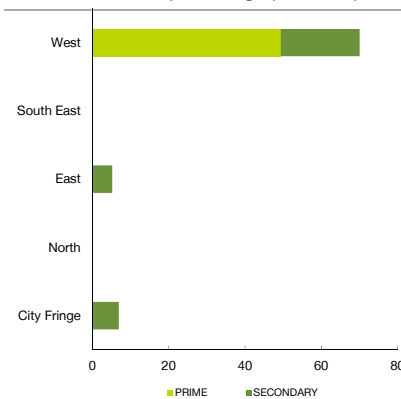
Source: Knight Frank

Building Take-up

Take-up levels remained relatively subdued with 376,322m² absorbed over the 12 months to July 2014, 34% below the historical annual average. Gross take-up over the three months to July 2014 saw 82,107m² (excl D&C) of industrial space absorbed across eight properties. Notably, gross absorption recorded over the quarter was entirely within backfill space.

Similar to the previous quarter, five out of eight properties were taken-up in options sized between 5,000m²-10,000m².

FIGURE 6
Take-up 3 months to July 2014
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

The bulk of gross absorption continues to be within the Western region, which accounted for 85% of take up during the past quarter (70,069m²). Recently Scotts Transport leased 7,486m² at 33-47 Fitzgerald Road in Laverton North.

Although demand for prime grade space continues to outpace secondary grade, with 60% of total absorption within prime assets during the past quarter, tenants remain cautious with several short term leases recorded in secondary facilities during the quarter.

Gross take up in the Eastern and City Fringe regions remains muted. Within the City Fringe, Brand Developers leased 6,855m² at 437-461 Plummer Street in Port Melbourne; while Pemara

“Warehousing and logistics are currently driving the demand for industrial space, enquiring largely for options ranging between 5,000m²-10,000m²”

Labels leased 5,183m² at 294 Ferntree Gully Road, Notting Hill in the East.

Summary

Available space within the Melbourne industrial market continues to increase, having now reached its highest level in almost five years to be 38% above the historical average. Over the quarter, backfill space has grown by 50%, while total speculative development is now 29% above its long term average.

As a result of the impending completions and tenant preferences for prime accommodation, further downward pressure is likely on asking rents, particularly for secondary grade options.

Looking ahead, as business confidence continues to recover, tenant demand is likely to improve over the remainder of 2014.

Currently, the bulk of leasing enquiry is for options sized between 5,000m² - 10,000m², with the majority within the warehousing and logistics sector.

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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 5,000 m². 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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