RESEARCH

MELBOURNE

INDUSTRIAL VACANCY APRIL 2015

Key Facts

Vacancy levels rose to 903,724m^2, albeit the growth rate has slowed to 1.5% over the quarter

Prime vacancy fell by 6%, while **secondary vacancy increased by 9%** over the past quarter

Prime space continues to outperform; secondary space has significantly longer letting up periods

Speculative development under construction accounts for **only 2.3% of the total vacancy**

MONICA MONDKAR

Analyst, Research & Consulting

Follow at @KnightFrankAu

Melbourne's industrial vacancy has continued to increase over the first quarter of 2015 to measure 903,724m^2, although the rate of the increase in vacancy has eased.

Despite historically low interest rates and a relatively stable economical environment, business confidence levels as at February 2015, were at their lowest level since May 2014. The soft business confidence conditions also curtailed tenant demand, which saw Melbourne's industrial vacancy levels (5,000m^2+) increase by 13,088m^2 to reach 903,724m^2, across 82 buildings over the three months to April 2015. Notwithstanding the rise in vacancy, Melbourne's industrial vacancy grew by only 1.5 % over the past quarter, in contrast to the 17.3% quarterly increase recorded 12 months earlier.

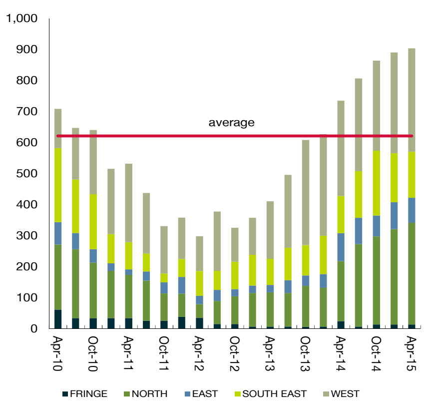
Over the past quarter, vacancy in speculative space under-construction fell by 87,662m^2 to measure 20,409m^2, now accounting for only 2.3% of the overall vacancy. The fall in vacancy within space under-construction largely comes as a result of the completion of five speculative developments as well as some successful leasing outcomes. Available space within the completed speculative stock segment increased by 41,827m^2 to reach 91,732m^2.

Melbourne's industrial vacancy continued to be dominated by existing buildings, which increased further to reach 791,583m^2, as a result of the addition of 15 buildings.

FIGURE 1

Melbourne Industrial Market

'000m² available space



Source: Knight Frank

Quality of Stock

Over the past quarter, the level of prime space reduced by 26,244m^2 (6%), falling to 415,513m^2, its first decrease since January 2014. The fall in available prime space resulted from a lack of new additions of speculative developments. In contrast, having fallen in the previous quarter, available secondary space increased by 39,332m^2 to reach 488,211m^2, its highest level since January 2010.

Tenant consolidations resulted in an increase of existing secondary space as demonstrated by Coles (6,110m^2) and Toll Transport (19,000m^2) both leaving space at Grieve Parade in Altona. While in the West, A-grade vacancy increased as a result of a number of upcoming tenant relocations including, Fisher & Paykel (8,878m^2) and Hellmann Logistics (7,576m^2) both from Derrimut.

Speculative development now under construction totals 20,409m^2, 60% below its historical average and accounts for 2.3% of the total vacancy. This fall in vacancy largely reflects the speculative stock completions coupled with an easing of new speculative construction. In addition, a number of facilities were taken-up prior to completion such as Eaton Industries' absorption of a 6,772m^2 warehouse at Lot 8, Henderson Road, Rowville. Additionally, Blue Star Print leased Australand's 6,761m^2 speculative development also prior to its completion at 70-86 Atlantic Drive, Keysborough. Australand had previously secured a pre-commitment from Adairs to lease 6,698m^2 in an adjacent warehouse at Atlantic Drive last year.

Completed speculative stock saw its vacancy rise by 46% over the past quarter due to completions in the East and South East precincts. However speculatively built stock, both completed and under construction, collectively remain 75% below its historical average.

Distribution by Precinct

Over the past quarter only two backfill options were added in the South East and one in the East. In addition to the modest take-up in the precincts, both recorded falls of 6% in their industrial vacancies. On the contrary, available space in the North climbed by 6% and the vacancy in the West rose by 3%. Melbourne's industrial vacancy remains dominated by the West with 40% of the total vacancy located in the precinct with 333,850m^2. In contrast the City Fringe precinct remained the tightest region of Melbourne industrial market.

Size & Type of Stock

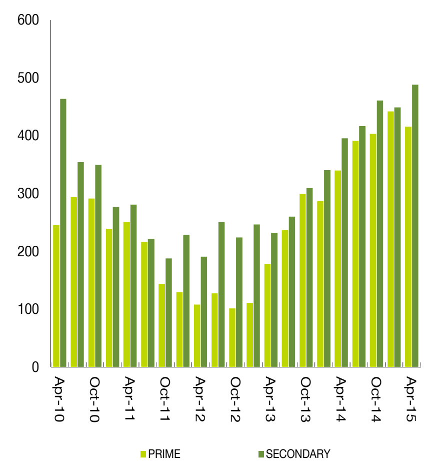
Warehousing space continues to lead vacant stock, accounting for 91% of the total vacancy with 75 options. In contrast, there are only seven buildings available for manufacturing users totalling 87,954m^2. While warehousing accommodation has remained vacant for an average of 9.7 months, manufacturing assets have been vacant for an average of 18.6 months on the market.

The number of larger buildings (>10,000m^2) has remained stable over the past quarter at 31, of which only one is under construction with three recently completed speculative developments. Prime space in larger buildings decreased by 14,094m^2 to 276,971m^2, all in warehousing accommodation.

FIGURE 2

April 2015 Available Space

'000m² prime versus secondary space

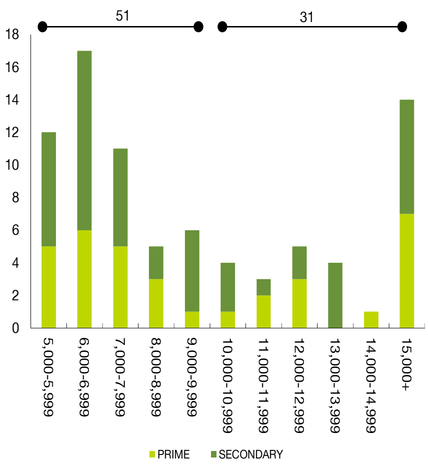


Source: Knight Frank

FIGURE 3

April 2015 Available Space

No of buildings by size and quality



Source: Knight Frank

TABLE 1

Melbourne Industrial Available Space 5,000m²+ as at April 2015

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality Prime %	Building Quality Secondary %
City Fringe	13,600	2	75	0	-11,055	0	100
North	327,644	27	57	19,584	134,214	40	60
East	80,642	9	77	-5,355	-9,213	16	84
South East	147,988	13	75	-10,013	28,189	59	41
West	333,850	31	68	8,872	26,465	55	45
Total	**903,724**	**82**	**70**	**13,088**	**168,600**	**46**	**54**

Source: Knight Frank

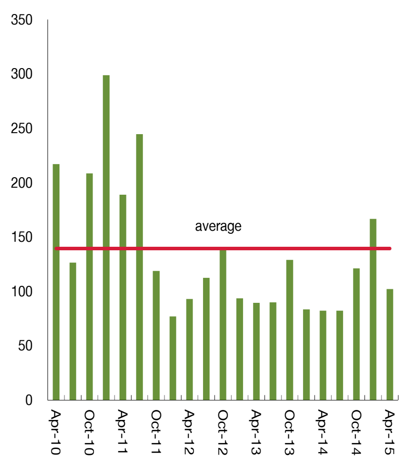
Building Take-up

The level of absorption over the first quarter of 2015 was below the historical average, which has been the general trend since October 2011. Over the past quarter, gross take-up (excl D&C) totalled 102,199m^2 across 11 buildings, of which 57% was prime space. These properties had been available for an average of 10.3 months, with absorption rates diverging between prime and secondary assets. Prime assets recorded an average letting -up period of 8.8 months, whereas secondary space was absorbed in 12.9 months on average. However letting-up timeframes remain above their historical averages for both prime and secondary properties.

Absorption of prime space has substantially outpaced secondary space since July 2013, as reflected by the gross take-up of 525,166m^2 within prime space against 330,811m^2 in secondary assets over the past eight quarters.

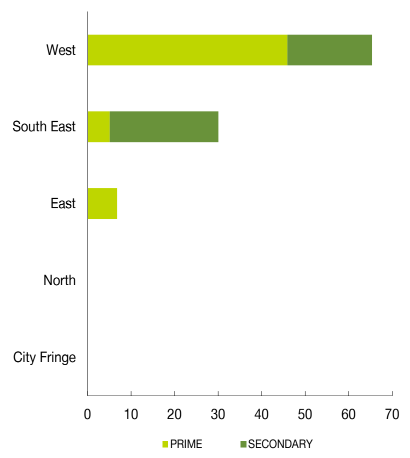
Three out of 11 buildings absorbed were leased while still under construction/prior to completion with one speculatively completed building also leased over the past quarter. In addition to the aforementioned deals to Eaton & Blue Star Print, DB Schenker signed a seven year lease on Australand's 14,330m^2 warehouse at Boundary Road, Truganina while still under construction. Signorino Tile Gallery expanded into a neighbouring tenancy (5,600m^2), which was a speculatively completed property, developed by Salta Properties at 3 Taras Avenue, Altona North.

FIGURE 4
Melbourne Industrial Take-up
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

FIGURE 5
Take-up 3 months to April 2015
'000m² Est Take-up buildings (excl D&C)



Source: Knight Frank

Take-up within existing stock accounted for 67% of the total absorption over the quarter, which also included sales of two industrial properties to owner-occupiers. Growthpoint Properties sold 306-318 Abbotts Road in Dandenong South to ABBRD and an undisclosed owner-occupier purchased 31 National Drive in Lyndhurst.

The Western region at 65,372m^2, was the only precinct which saw its absorption levels still remain above its historical average over the past quarter. Absorption levels achieved over the past quarter remain highest in the West, followed by the South East at 30,055m^2, collectively accounting for 93% of Melbourne's gross industrial absorption.

Of the space absorbed in the Western region, prime grade stock accounted for 70% of the total take-up. Pro Pac Packaging leased 5,305m^2 vacated by Schweppes at 9-19 Leakes Road, Laverton North on a five year lease. Silk Logistics absorbed a further 14,175m^2 of prime accommodation at 76 Dunmore Drive in Altona North on a short term lease.

"The West was the only precinct which saw its absorption levels still remain above the historical average."

Outlook

Melbourne's industrial vacancy has been growing since October 2012. Backfill space due to tenants relocating to newly constructed accommodation, purpose-built (D&C's) and speculatively developed facilities, continue to drive up Melbourne's industrial vacancy. Total vacancy is now at its highest level since January 2010. Although over the quarter the rate of growth in vacancy continued to ease, this may reflect that the peak for total vacancy may be in the foreseeable future.

The divergence in letting-up periods for prime assets against secondary grade properties is expected to widen further, therefore increasing pressure on secondary vacancy and rents.

Although the vacancy in completed speculative stock spiked over the past quarter, available space under construction is at its lowest level since April 2012. New speculative construction has started showing early signs of slowing down, with no additions of new buildings under speculative development over the past quarter.

In general, tenant demand is likely to improve as business confidence levels recover aided by the declining AUD and further interest rate cuts.

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.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

Melbourne CBD Office
Market Overview
April 2014

Melbourne Industrial
Top Sales Transactions
2014

Australian Apartments
Market Overview
Q1 2015

Global Capital
Markets
Q1 2015

Knight Frank Research Reports are available at **KnightFrank.com.au/Research**

RESEARCH & CONSULTING
Monica Mondkar
Analyst, Victoria
+61 3 9604 4608
Monica.mondkar@au.knightfrank.com

Richard Jenkins
Director—VIC Research
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

Matt Whitby
Group Director
Head of Research & Consulting
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

VICTORIA
James Templeton
Managing Director, Victoria
+61 3 9604 4724
James.templeton@au.knightfrank.com

INDUSTRIAL
Gab Pascuzzi
Senior Director, Head of Division
+61 3 9604 4649
Gab.pascuzzi@au.knightfrank.com

Matt Crofts
Director—Industrial
+61 3 9604 7468
Matt.crofts@au.knightfrank.com

Ben Hackworthy
Director, Business Space
+61 3 9604 4731
Ben.hackworthy@au.knightfrank.com

Adrian Garvey
Director In Charge
Eastern Office Industrial
+61 3 8545 8616
Adrian.garvey@au.knightfrank.com

VALUATIONS & CONSULTANCY
Joe Perillo
Joint Managing Director—Victoria
+61 3 9604 4617
Jperillo@vic.knightfrankval.com.au