

MELBOURNE

INDUSTRIAL VACANCY OCTOBER 2016

Key Facts

Total available space increased by 3% over the past quarter to 1,092,623m².

Prime vacant stock decreased 2.2% while vacant secondary stock levels increased.

Four speculative projects commenced, totalling 27,619m².

Gross take-up measured 159,139m² in the third quarter, 15.7% above the long term average.



KIMBERLEY PATERSON
Senior Analyst, Research & Consulting

Follow at @patersonkimberl

Despite gross take-up being at its highest level for 2016, vacant stock reached a new series high as at October 2016 underpinned by the addition of three backfill options in the West.

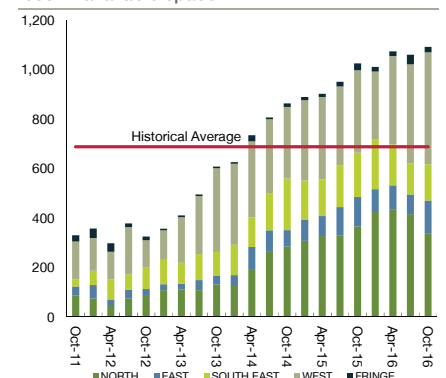
Despite higher than average leasing activity, vacant stock levels in Melbourne increased over the past quarter by 31,961m² or 3.0% to reach a new series high. Total vacancy now measures 1,092,623m² across 95 buildings (+5,000m²), 61% above its long term average.

Over the past quarter, gross take-up measured 159,139m², 15.7% above the long term average and the highest quarterly total since Q4 2014. The West recorded the highest level of leasing activity, accounting for 50% of total take-up with 81,353m² absorbed across six buildings. The rise in vacancy was underpinned by an increase in prime grade backfill options within existing stock as tenants upgraded and consolidated from multiple sites into purpose built facilities.

Existing vacant stock accounted for 93% of total vacancy as at October 2016, while completed speculative space accounted for 2.7% (29,551m²) of total vacant stock. Four speculative projects commenced in the third quarter with speculative space under construction totalling 27,619m². Vacant stock levels continue to vary considerably by

precinct. Solid leasing activity in the North and City Fringe saw vacancy decrease, while several new speculative developments under construction saw vacant stock levels in the South East and East increase. The addition of several backfill options saw vacant stock in the West increase by 12.8%.

FIGURE 1
Melbourne Industrial Market
'000m² available space



Source: Knight Frank Research

Quality of Stock

Following a slight decrease in Q2 2016, vacant stock in Melbourne increased to a new series high measuring 1,092,623m² as at October 2016.

In the prime market, a 2.2% reduction in vacant space was recorded over the past quarter, with leasing activity offsetting new supply additions. Major backfill options included the former Masters space at 364-426 Old Geelong Road in Hoppers Crossing (52,364m²) and Murray Goulburn's backfill space at 50 William Anglis Drive in Laverton North (24,669m²). Prime vacant stock currently totals 537,573m² and accounts for 49% of all vacancies across Melbourne.

In the secondary market, vacant stock increased by 8.6% in the third quarter, underpinned by the addition of nine backfill options totalling 111,715m².

Vacant secondary additions included Target's facility at 30 Taras Avenue in Altona North (40,831m²) and the Reject Shop's previous facility at 120 Link Road in Tullamarine (26,517m²). Vacant secondary space is now at its highest level since October 2015 with 555,050m² available.

Vacant completed speculative stock decreased by 52% as Frasers Property's A & B warehouse facility at Dorienus Drive in Truganina (22,798m²) was leased. Speculative built space continues to be well absorbed, with 70,559m² leased in 2016 to date, 64% above the equivalent period in 2015.

Overall levels of vacancy for speculative stock remain well below the series average of 115,925m² per quarter. Four speculative projects commenced in the third quarter with speculative space under construction totalling 27,619m². The

largest speculative project to commence construction was B2/1090-1124 Centre Road, Oakleigh South totalling 8,089m². Despite recent commencements, the amount of speculative space under construction remains 36.6% below the long term average.

Distribution by Precinct

Vacant stock levels continue to vary across the precincts. The City Fringe recorded the largest decrease in vacancy, falling 42% to 22,155m² across three buildings. For the second consecutive quarter, vacant stock in the North decreased, falling 18.6% to 338,719m² across 29 buildings. Activity in both regions was underpinned by solid leasing activity measuring 55,620m² collectively.

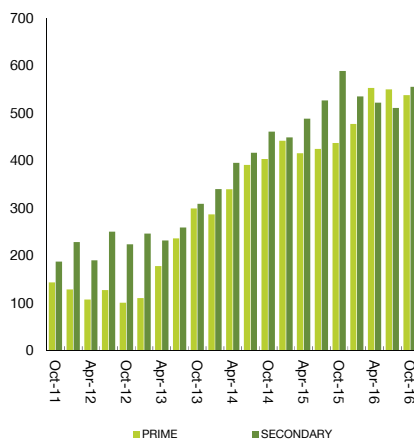
Available space in the West increased for the third consecutive quarter with vacant stock levels reaching 453,148m². Prime space accounted for 68% of vacant stock in the West over the third quarter, with 308,769m² available. Nevertheless, with no speculative construction activity, coupled with approximately 70,000m² of available space currently under offer, vacant stock levels are anticipated to decline in the West in the short term.

Vacancies in the East increased by 12.7% to 132,456m² underpinned by the addition of six secondary backfill options totalling 44,850m².

Vacant stock also increased in the South East, up 16.8% in the third quarter to measure 146,145m² as three speculative developments commenced construction.

FIGURE 2

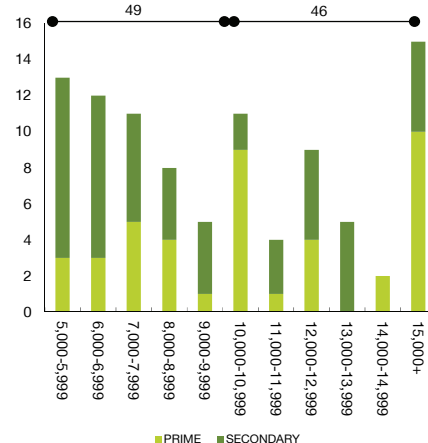
October 2016 Available Space '000m² by grade



Source: Knight Frank Research

FIGURE 3

October 2016 Available Space No. of buildings by size and quality



Source: Knight Frank Research

TABLE 1

Melbourne Industrial Available Space 5,000m²+ as at October 2016

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	22,155	3	92	-15,943	-5,645	0	100
North	338,719	29	57	-77,442	-27,806	39	61
East	132,456	14	56	52,939	12,922	11	89
South East	146,145	15	70	21,072	-32,294	56	44
West	453,148	34	60	51,335	119,938	68	32
Total	1,092,623	95	67	31,961	67,115	49	51

Source: Knight Frank Research

The three projects launched in Q3 2016 were 41-45 Evolution Drive in Dandenong South (5,118m²) and 18 & 28 Hudson Court in Keysborough (14,412m²).

Size & Type of Stock

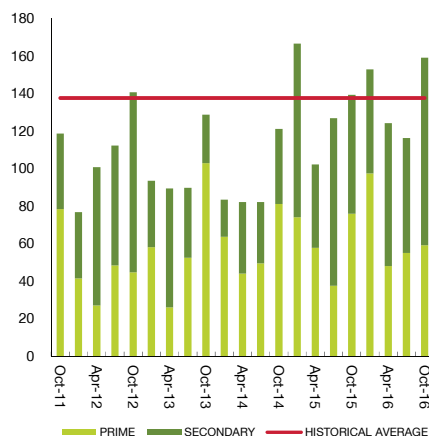
Of the 95 vacancies currently available in Melbourne, 49 are sub-10,000m² options. There are currently 46 options available for 10,000m²+ users, 56% of which are of prime quality grade. For larger 20,000m²+ users there are 10 options available, four of which are in the West.

Building Take-up

Gross take-up totalled 159,139m², 15.7% above the long term average of 137,560m² and the highest quarterly total since Q4 2014. Year-to-date take-up of 399,678m² is 8.5% ahead of the equivalent period in 2015.

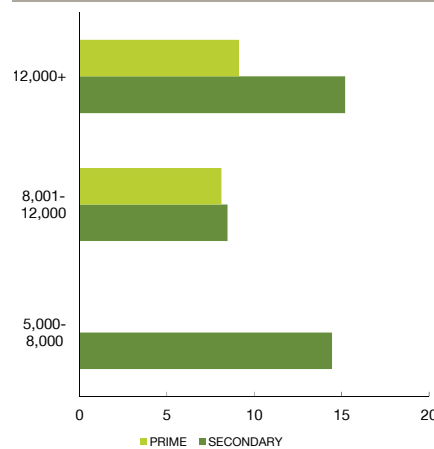
Prime gross take-up recorded a moderate increase over the quarter, up 7.3% to measure 59,059m². One notable leasing transaction was Toyota leasing 22,798m² at Frasers Property's A & B warehouse facility at Doriemus Drive in Truganina for a three year term paying c.\$75/m² net. Prime space accounted for 37% of take-up in the third quarter, of which 22,798m² was within speculative space.

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



Source: Knight Frank Research

FIGURE 5
Letting-up Period by Size & Grade
Average no. of months — October 2016



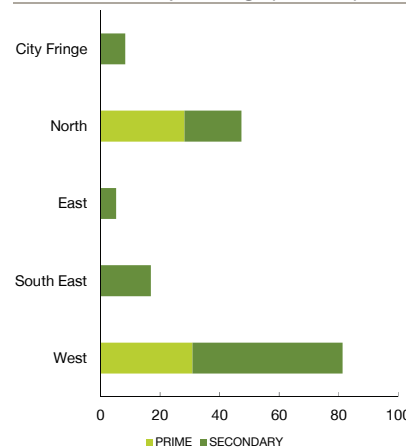
Source: Knight Frank Research

Above average levels of take-up were recorded in the secondary market, with 100,080m² absorbed across nine buildings. Volumes were 45% above the long term average of 68,940m² and the highest quarterly total since Q2 2011. The largest transaction included Rural Carrying Co. leasing a 27,656m² facility at 33-47 Dohertys Road in Laverton North on a five year term paying \$65/m² net.

The properties leased had been available for an average of 11.1 months, made up of 8.3 months for prime and 12.7 months for secondary space.

Strong leasing activity in existing stock continued over the second quarter,

FIGURE 6
Take-up 3 months to October 2016
'000m² est Take-up buildings (excl D&C)



Source: Knight Frank Research

“Secondary space accounted for 63% of gross take-up over the quarter, totalling 100,080m².”

accounting for 85% of total gross absorption.

By region, the West recorded the highest level of leasing activity measuring 81,353m², accounting for 51% of total take-up. Take-up in the North measured 47,332m² across four buildings, the highest quarterly total since April 2013, while take-up in the South East was relatively subdued totalling 16,930m², the lowest level since April 2014. Activity was fairly even across both the East (5,236m²) and the City Fringe (8,288m²) regions.

Outlook

Despite recent speculative commencements, speculative construction levels are expected to remain relatively low in the medium term. The pre-commitment market remains competitive as tenants continue to upgrade and relocate into purpose built facilities.

In regards to vacancy, some upward pressure is anticipated over the medium term, underpinned by a combination of elevated backfill vacancy and additional properties likely to come on line from early 2017 relating to the automotive industry.

Nevertheless, the recent decline in interest rates, combined with improved business confidence levels, will continue to support retail spending and housing construction levels maintaining solid tenant demand for industrial space. This is particularly evident in the West, with several large vacancies in excess of 20,000m² currently under offer.

RESEARCH & CONSULTING

Kimberley Paterson

Senior Analyst, Victoria
+61 3 9604 4608
Kimberley.paterson@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 Industrial
+61 3 8545 8616
Adrian.garvey@au.knightfrank.com

VALUATIONS & CONSULTANCY

Michael Schuh

Joint Managing Director—Victoria
+61 3 9604 4726
mschuh@vic.knightfrankval.com.au

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



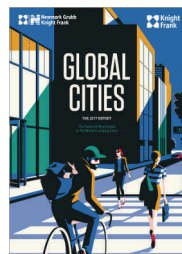
Melbourne Industrial Market Overview
June 2016



Melbourne CBD Office Market Overview
September 2016



St Kilda Road Office Market Brief
September 2016



Global Cities
The 2017 Report

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

Important Notice

© Knight Frank Australia Pty Ltd 2016 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

