

MELBOURNE INDUSTRIAL VACANCY Q1 2019

Appetite for speculative developments drives vacancy higher

- Despite experiencing an increase in take-up over the last 3 months, total vacancy in Melbourne’s industrial market increased by 8% over Q1 2019. Prior to this quarter, the vacancy rate had been in decline for 12 months.
- The increase in vacancy was largely driven by a rise in speculative development in the west, with projects under construction adding to vacant space. Low vacancy and rising rents have created this appetite for speculative developments.
- Currently there are a number of speculative developments in the pipeline, in particular in the West where sites are more readily available. Approx. 95,000 sq m of speculative development is estimated to hit the market by H2 2019 and we anticipate this stock will be well received by the market.
- The rise in vacancy was also caused by secondary vacant space increasing by 20% this quarter as tenants migrated from older warehouses to newly built, strategically located buildings. This was particularly the case in the south east and the west.
- Absorption increased by 46% over the previous quarter but remained constant on a YoY basis. Prime leasing space represented 69% of total take-up.

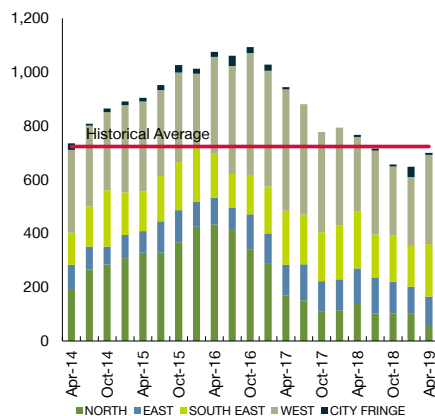


FINN TREMBATH
Associate Director

TABLE 1
Melbourne Industrial Available Space ≥ 5,000m² for Q1 2019

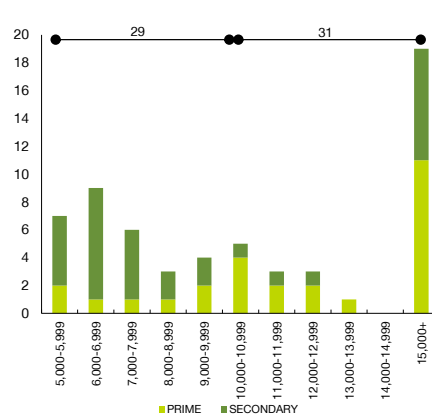
Precinct	Available Space (sq m)	No. of Buildings	Avg. Asking Rent (\$/sq m net)	Change Past Qtr (sq m)	Change Past Year (sq m)	Building Quality Prime %	Building Quality Secondary %
City Fringe	7,711	1	120	-30,340	0	0	100
North	55,915	7	84	-47,405	-85,319	66	34
East	108,670	9	77	10,172	-19,469	0	100
South East	195,835	18	77	43,973	-17,636	27	73
West	330,996	25	78	75,477	55,627	81	19
Total	699,127	60	87	51,877	-66,797	51	49

FIGURE 1
Q1 2019 Available Space
'000 (sq m)



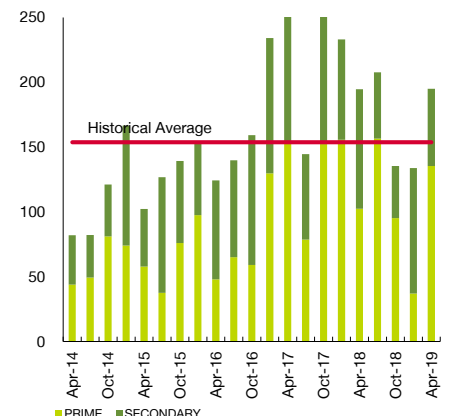
Source: Knight Frank Research

FIGURE 2
Q1 2019 Available Space by Size
No. of buildings by size and quality



Source: Knight Frank Research

FIGURE 3
Melbourne Industrial Take-up
'000 sq m estimate take-up (excl. D&C)

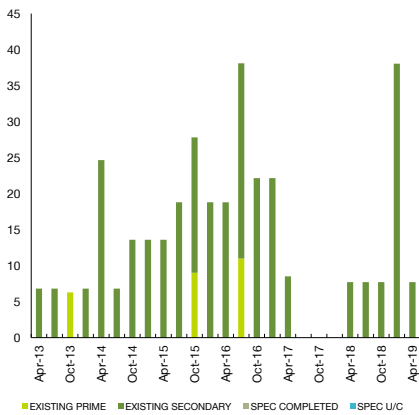


Source: Knight Frank Research

City Fringe

- Supply remains tight in the Fringe area, although there is no respite in demand for commercial buildings.
- Vacancy declined in Q1 2019, with only a backfill property with 7,711 sq m of space at 541 Graham Street, Port Melbourne available for lease.

FIGURE 4
City Fringe Available Space
'000 sq m space by type



Source: Knight Frank Research

FIGURE 5
City Fringe Annual Take-up
12 months to April 2019

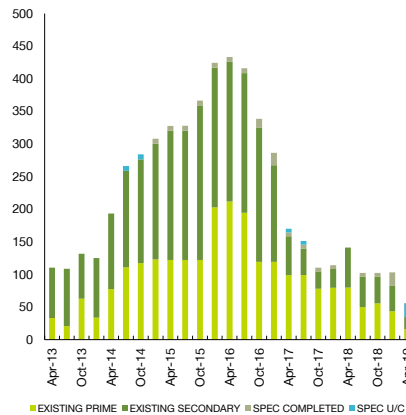


Source: Knight Frank Research

North

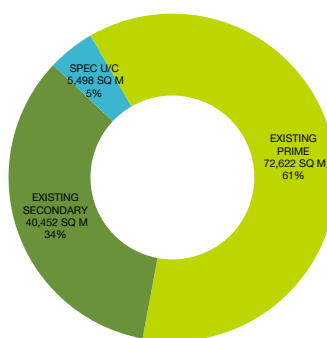
- Q1 2019 saw subdued leasing activity with take-up limited to a 10,099 sq m facility in Somerton by ICS.
- 151 Property commenced construction at the Biodiversity Business Park Project with 15,572 sq m of space in the pipeline.
- Vacancy is expected to remain tight in the next quarter.

FIGURE 6
North Available Space
'000 sq m space by type



Source: Knight Frank Research

FIGURE 7
North Annual Take-up
12 months to April 2019

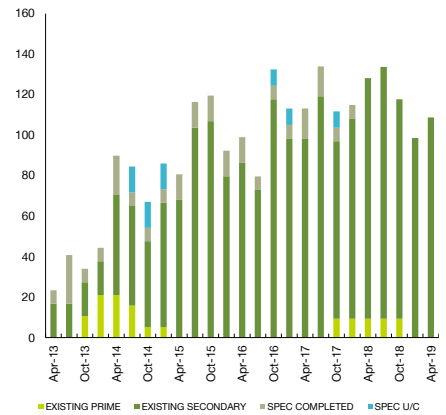


Source: Knight Frank Research

East

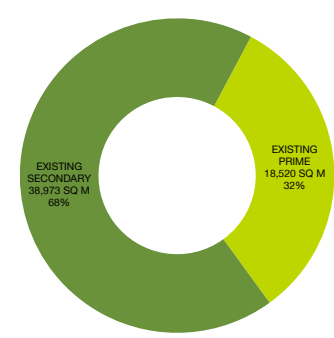
- Secondary space went up slightly by 10% in the East to 108,670 sq m representing 16% of total vacancy across all precincts.
- Take-up was concentrated at Caribbean Park in Scoresby where tenants such as Rust-oleum absorbed available space of 9,260 sq m.

FIGURE 8
East Available Space
'000 sq m space by type



Source: Knight Frank Research

FIGURE 9
East Annual Take-up
12 months to April 2019

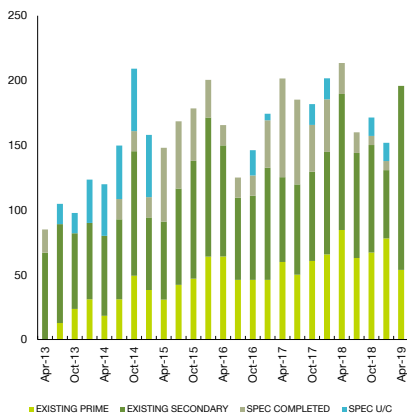


Source: Knight Frank Research

South East

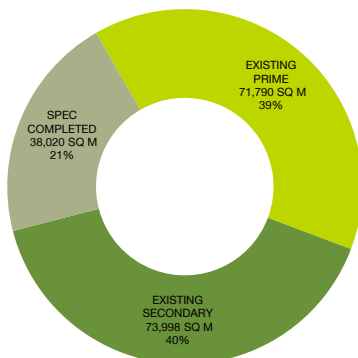
- Q1 2019 saw tenants take-up prime properties in the area including a spec-lease by IVE Group of a 14,144m² facility in the Braeside Industrial Estate.
- Frasers Property has purchased 41.3 Ha of land in Dandenong South and also plans to add to its Braeside Industrial Estate with stage 2 of the speculative construction to start in Q2 2019.

FIGURE 10
South East Available Space
'000 m² space by type



Source: Knight Frank Research

FIGURE 11
South East Annual Take-up
12 months to April 2019

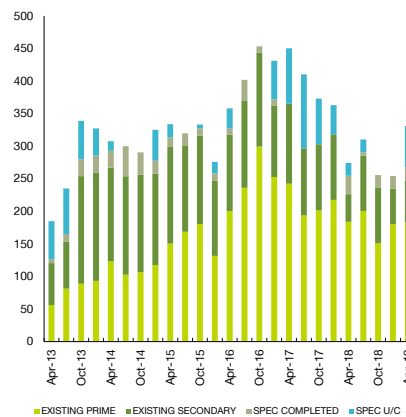


Source: Knight Frank Research

West

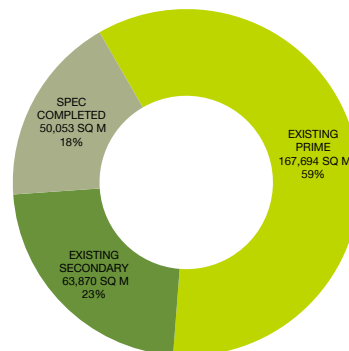
- Absorption remains high for prime space primarily due to demand from logistics and e-commerce companies including a 52,364m² facility leased in this quarter.
- Developers have committed to add 9 prime warehouses with an avg. lettable area of 15,000 m² in Truganina by Q4 2019.

FIGURE 12
West Available Space
'000 m² space by type



Source: Knight Frank Research

FIGURE 13
West Annual Take-up
12 months to April 2019



Source: Knight Frank Research

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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 sq m. 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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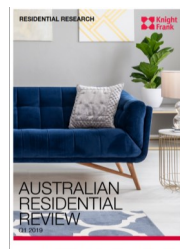
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