

MELBOURNE INDUSTRIAL VACANCY Q1 2020

Vacancy declines despite COVID-19 storm clouds

- In spite of the COVID-19 crisis, total vacancy in Melbourne's industrial market contracted by 10% on a QoQ basis to 688,409 sq m in Q1-20. Vacancy declined due to continued demand for prime stock with the amount of prime vacant space declining by 16% over the last quarter.
- That said, as the year unfolds, vacancy for the Melbourne industrial market is tipped to edge higher as tenants experiencing a decline in demand and in turn cashflow headwinds, strive for optimum utilization of excess space.
- Take-up for the current quarter totaled 120,477 sq m, 11% higher compared to the last quarter, although still below the historical average. Prime properties accounted for 78% of total take-up, with sustained demand for buildings in the 5,000 to 10,000 sq m space, lead by logistics providers, manufacturers and e-commerce occupiers.
- Longer term, the 'resilient' Melbourne industrial market is anticipated to maintain its recent strong performance with consumer spending shifting away from bricks and mortar retail stores to online platforms. This transformation would accelerate the need for industrial space as large format retailers deploy rapid online order fulfilment technologies on a substantial scale.



FINN TREMBATH
Associate Director



KANWAL SINGH
Research Analyst

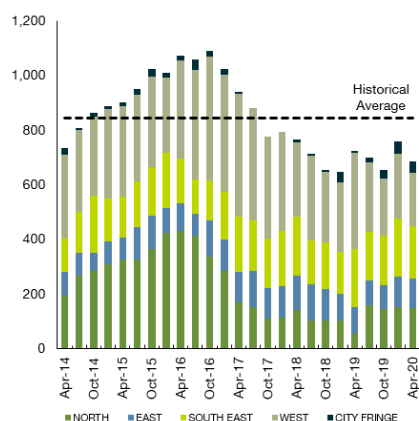
TABLE 1

Melbourne Industrial Available Space ≥ 5,000sq m for Q1 2020

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	45,309	5	120	0	37,598	15%	85%
North	148,098	8	81	-5,611	93,380	32%	68%
East	109,143	9	79	0	12,473	0%	100%
South East	193,726	18	84	-20,380	-20,095	58%	42%
West	192,133	17	83	-46,376	-160,918	87%	13%
Total	688,409	57	87	-72,367	-37,562	48%	52%

FIGURE 1

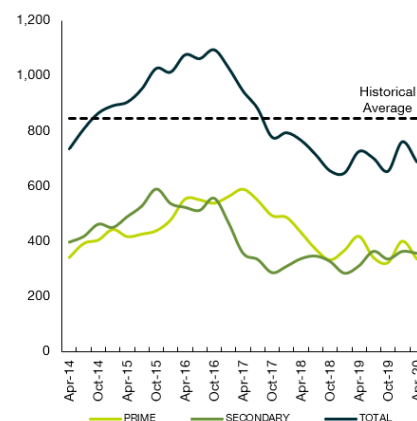
Industrial Available Space By Region In '000 sq m



Source: Knight Frank Research

FIGURE 2

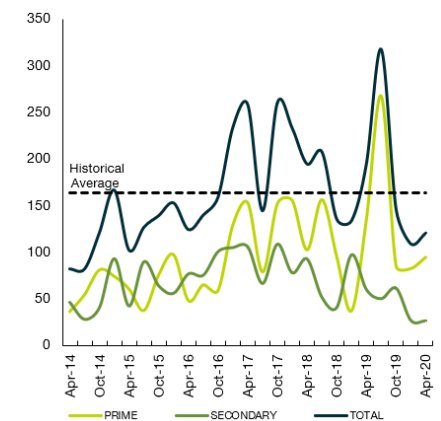
Industrial Vacancy by Type In '000 sq m



Source: Knight Frank Research

FIGURE 3

Industrial Take-up by Type Excl. D&C; in '000 sq m



Source: Knight Frank Research

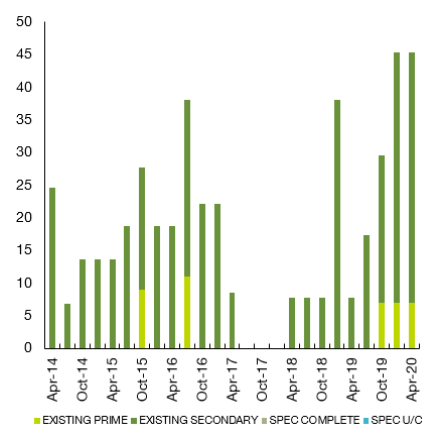
City Fringe

- Available stock in the Fringe precinct sits at 45,309 sq m, with no new building being added to the existing vacancy in the last 3 months.
- Lack of prime stock in the Fringe precinct has resulted in limited leasing prospects for potential tenants.

FIGURE 4

Vacancy By Type – City Fringe

In '000 sq m

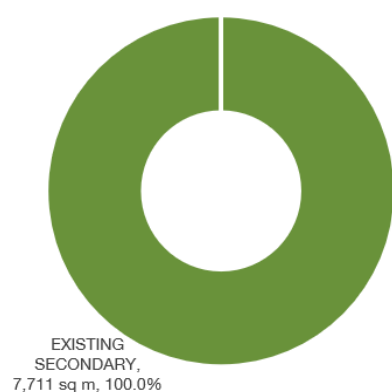


Source: Knight Frank Research

FIGURE 5

Absorption by Type – City Fringe

Take-up: 12 months to April 2020



Source: Knight Frank Research

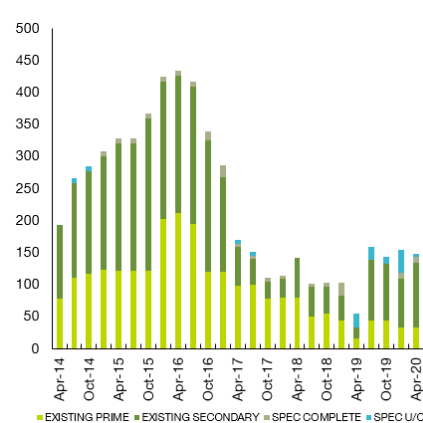
North

- Vacancy in the North precinct has dropped by 4% over the last quarter, with only 6 properties in the 10,000 sqm+ space available for leasing.
- With the availability of large scale industrial units, the North precinct is well positioned to cater to the manufacturing sector, as calls grow for essential manufacturing to be revived in the country.

FIGURE 6

Vacancy By Type—North

In '000 sq m

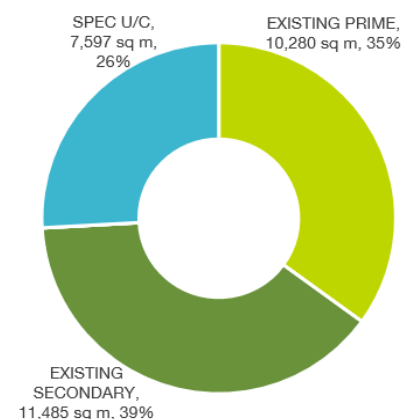


Source: Knight Frank Research

FIGURE 7

Absorption by Type—North

Take-up: 12 months to April 2020



Source: Knight Frank Research

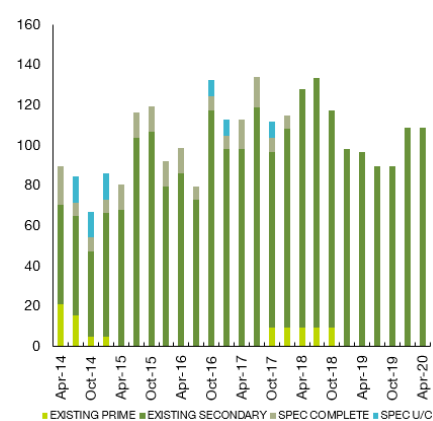
East

- Vacant stock levels remained unchanged at 109,143 sq m for the current quarter.
- Leasing is expected to pick-up as much needed prime stock of approx. 38,200 sq m will get injected into the precinct through ESR's Clayton Business Hub at McNaughton Road, Clayton.

FIGURE 8

Vacancy By Type—East

In '000 sq m

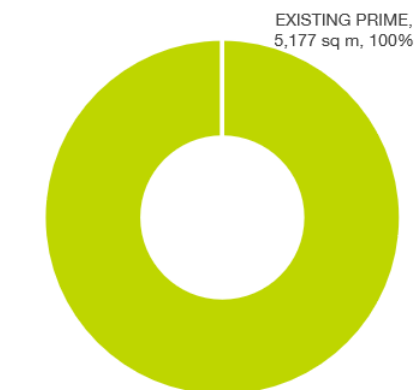


Source: Knight Frank Research

FIGURE 9

Absorption by Type—East

Take-up: 12 months to April 2020

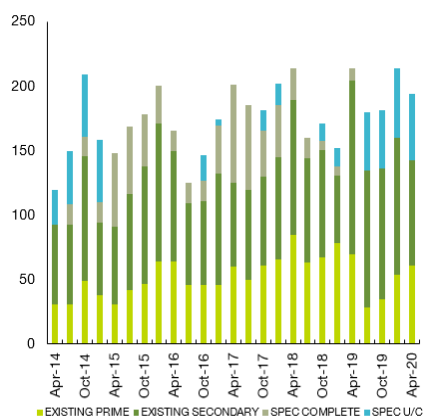


Source: Knight Frank Research

South East

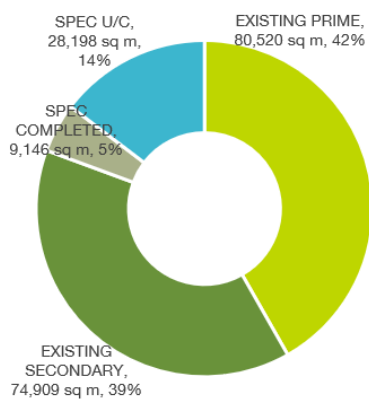
- South East witnessed a 10% decrease in vacancy over Q1-20, largely due to a 23% decline in secondary stock levels as a number of properties under 10,000 sq m were absorbed.
- Tenant demand continued for properties across the precinct, with 35,545 sq m leased during Q1-20, including Melrose Health leasing a 6,789 sq m existing warehouse in Keysborough.

FIGURE 10
Vacancy By Type—South East
In '000 sq m



Source: Knight Frank Research

FIGURE 11
Absorption by Type—South East
Take-up: 12 months to April 2020

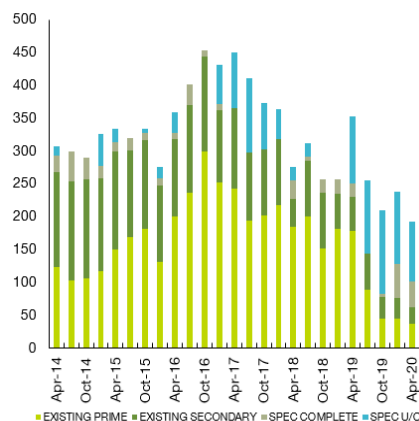


Source: Knight Frank Research

West

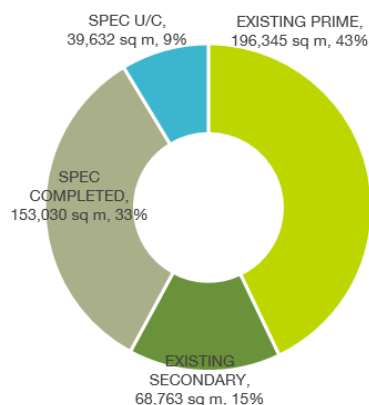
- Available space decreased by 19% during the current quarter to 192,133 sq m, as a result of heightened demand originating from 3PL operators.
- Take-up in the West totaled 65,419 sq m, headlined by EFM Logistics leasing 22,430 sq m in a Logos spec development in Altona and Auspac Logistics leasing 14,917 sq m in Derrimut.

FIGURE 12
Vacancy By Type—West
In '000 sq m



Source: Knight Frank Research

FIGURE 13
Absorption by Type—West
Take-up: 12 months to April 2020



Source: Knight Frank Research



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RESEARCH & CONSULTING

Finn Trembath

Associate Director, Victoria
+61 3 9604 4608

Finn.Trembath@au.knightfrank.com

Kanwal Singh

Research Analyst, Victoria
+61 3 9604 4627

Kanwal.singh@au.knightfrank.com

Ben Burston

Partner, Chief Economist
+61 2 9036 6756

Ben.Burston@au.knightfrank.com

INDUSTRIAL

Gab Pascuzzi

Partner, Head of Division
+61 3 9604 4649

Gab.Pascuzzi@au.knightfrank.com

Joel Davy

Partner
+61 3 9604 4674

Joel.Davy@au.knightfrank.com

Adrian Garvey

Director
+61 3 8545 8616

Adrian.Garvey@au.knightfrank.com

Marco Sandrin

Director
+61 3 9604 4731

Marco.Sandrin@au.knightfrank.com

Brent Glassford

Director
+61 3 9604 4683

Brent.Glassford@au.knightfrank.com

NATIONAL

James Templeton

Partner, Managing Director
+61 3 9604 4724

James.Templeton@au.knightfrank.com

VALUATION & ADVISORY

Michael Schuh

Partner, Joint Head of Valuation & Advisory
+61 3 9604 4726

Mschuh@vic.knightfrankval.com.au

VICTORIA

James Templeton

Partner, Managing Director
+61 3 9604 4724

James.Templeton@au.knightfrank.com

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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