MELBOURNE

INDUSTRIAL VACANCY FEBRUARY 2018

Key Facts

Total available space increased by 2.8% over Q4 2017 to measure 798,585 sq m.

Prime vacant stock decreased by 1.9% while secondary vacant stock increased by 11%.

Speculative space under construction accounted for 8.7% of available stock.

Annual take-up levels were 26.8% ahead of volumes recorded in 2016.

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Following four consecutive quarters of declining vacancy, Melbourne's industrial vacancy increased by 2.8%, as above-average levels of backfill options came online in the South East and West.

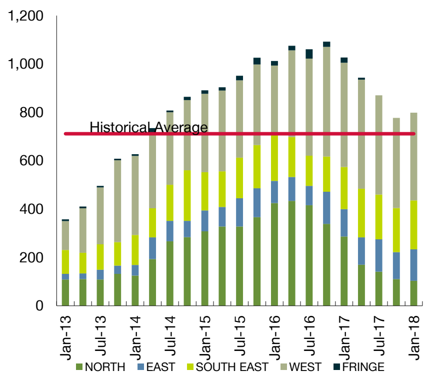
Over the final quarter of 2017, industrial vacancy in Melbourne increased by 2.8%, or 21,715 sq m, bringing total vacant stock to measure 798,585 sq m across 78 buildings. This was the first rise in vacancy since Q3 2016. The West accounted for nearly half of total vacant stock. Vacancy levels now sit 12.2% above the series average.

Existing vacant stock accounted for 85.4% of total vacant stock, while vacant completed speculative stock accounted for 5.9%. Speculative stock under construction accounted for the remaining 8.7%. One new speculative development commenced construction over Q4 2017, with speculative space under construction totalling 69,149 sq m.

The rise in vacancy was underpinned by above-average levels of backfill space across all precincts, except in the City Fringe, which had no vacancy for the third consecutive quarter.

Gross take-up fell by 22.0% over Q4 2017 to measure 182,265 sq m across 17 buildings. The largest transaction across all precincts was in the South East, with 21,000 sq m sublet from Woolworths at 2/98 South Park Drive, Dandenong South. Leasing activity was the most active in the West, accounting for nearly half of total take-up. On an annual basis, gross take-up in 2017 was 26.8% ahead of volumes recorded in 2016.

FIGURE 1
Melbourne Industrial Market
'000 sq m available space



Source: Knight Frank Research

Quality of Stock

Despite the rise in overall vacancy in Melbourne, prime vacant stock decreased for the third consecutive quarter. Prime vacant stock fell by 1.9% over Q4 2017 to measure 482,793 sq m, its lowest level since Q4 2015. This was underpinned by strong take-up levels and limited additions to existing vacant stock. The largest backfill option to come online was the former Toyota Boshoku Australia space at 235-239 Boundary Road, Laverton North (19,875 sq m), which ceased operations following Toyota's manufacturing exit from Australia in October 2017.

Nevertheless, prime vacant stock accounted for the majority of total vacant stock at 60.5% as tenants continue to upgrade and consolidate from multiple sites into purpose-built facilities.

Secondary vacant stock increased for the first time since Q4 2016, up by 11% to measure 315,792 sq m, as approximately 103,000 sq m of existing vacant stock was added to the market over Q4 2017. Major backfill options to come online included Dixie Cummings' backfill space at 20 Holloway Drive, Bayswater (21,567 sq m) and AIW Printing's backfill space at 26-30 Parson Avenue, Springvale (15,878 sq m).

Vacant completed speculative stock fell slightly by 2.5% to measure 47,323 sq m as three speculative buildings were leased and only one speculative development completed construction in Q4 2017. Nevertheless, vacant completed speculative stock continued to be well-absorbed throughout 2017, with a total of 83,995 sq m leased, despite the growing pre-commitment market.

Speculative stock under construction fell by 26.7% to measure 69,149 sq m. One new speculative development commenced construction over Q4 2017 at 93-103 Pacific Drive, Keysborough (8,745 sq m). The West accounted for 65% of speculative stock under construction, while the East and South East accounted for 11.7% and 23.3% respectively.

Although speculative space under construction decreased, approximately 70,000 sq m of new speculative developments across the Melbourne industrial market are anticipated to commence construction over the next six months.

Distribution by Precinct

Vacancy levels varied across the five precincts over Q4 2017. For the third consecutive quarter, the City Fringe had no vacant options above 5,000 sq m.

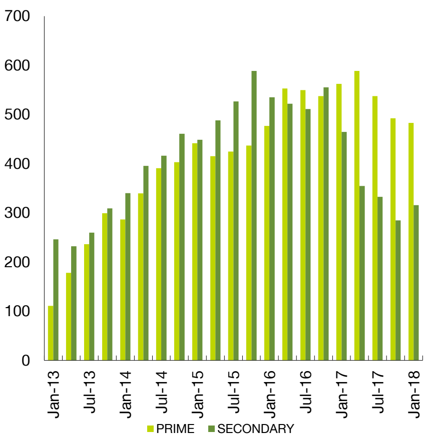
Vacancy in the North declined for the seventh consecutive quarter, falling by 6.9%, or 19,373 sq m, over Q4 2017 to measure 110,559 sq m, its lowest level since Q3 2012. This brings the North's annual fall in vacancy in 2017 to 67,039 sq m. The continuous decline has been supported by a lack of new speculative developments, improvements in existing and new infrastructure to Northern industrial pockets, and competitive rentals and incentive levels offered by both private and institutional landlords.

The West recorded a slight fall in vacancy, down by 2.7% to measure 362,992 sq m, following above-average levels of take-up. Prime space accounted for 72.3% of vacant space in the West, with approximately 45,000 sq m being speculative space under construction.

FIGURE 2

January 2018 Available Space

'000 sq m by grade

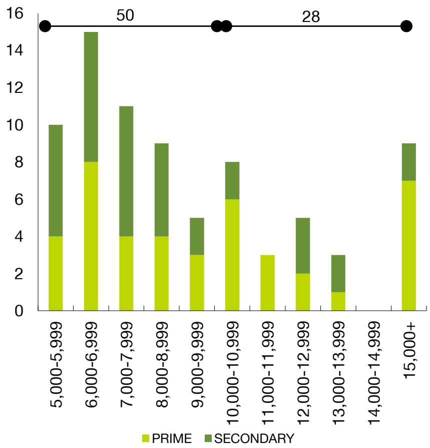


Source: Knight Frank Research

FIGURE 3

January 2018 Available Space

No. of buildings by size and quality



Source: Knight Frank Research

TABLE 1

Melbourne Industrial Available Space 5,000 sq m+ as at February 2018

Precinct	Available Space (sq m)	No. of Buildings	Av Asking Rent $/sq m net	Change Past Qtr (sq m)	Change Past Year (sq m)	Building Quality Prime %	Building Quality Secondary %
City Fringe	0	0	N/A*	0	-22,155	0	0
North	102,954	9	80	-7,605	-183,484	72	28
East	131,061	13	79	19,373	17,971	18	82
South East	201,578	24	78	19,886	27,252	61	39
West	362,992	32	72	-9,939	-67,967	72	28
Total	**798,585**	**78**	**77**	**21,715**	**-228,383**	**60**	**40**

Source: Knight Frank Research *no vacancy

Vacancy in the East increased by 17.3% to measure 131,061 sq m as three backfill options, totalling 43,445 sq m, came online over Q4 2017.

In the South East, vacancy increased by 10.9% to measure 201,578 sq m as a total of 52,964 sq m vacancies came online, outweighing strong take-up levels.

Size & Type of Stock

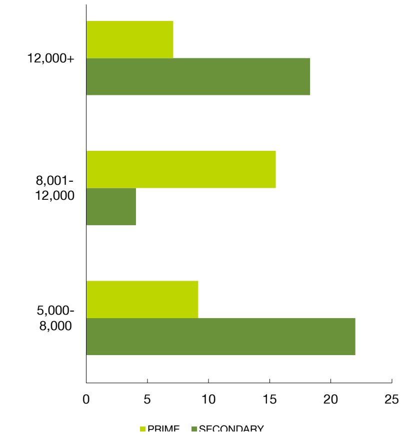
Of the 78 vacancies available in Melbourne's industrial market as at Q4 2017, 50 were sub-10,000 sq m options. There were 28 options available for 10,000 sq m+ users, 19 of which were prime quality grade. For larger 20,000sq m+ users, there were six options available, four of which are located in the West.

Building Take-up

Gross take-up recorded a 22.0% decrease over Q4 2017, with 182,265 sq m across 17 buildings leased. Nevertheless, take-up levels remained 29.4% above the series average. The properties leased had been available for an average of 12.7 months, made up of 10.6 months for prime space and 14.8 months for secondary space.

On an annual basis, gross take-up in 2017 was 26.8% ahead of volumes recorded in 2016, totalling 812,134 sq m across 78 transactions, the highest annual total since 2010.

FIGURE 5
Letting-up Period by Size & Grade
Av no. of months by size (sq m) — January 2018



Source: Knight Frank Research

Prime-gross take-up fell by 22.0% over Q4 2017 to measure 182,265 sq m after reaching a series high in Q4 2017. Despite this, gross take-up accounted for 59% of total take-up and levels remained 29.4% above the series average. Notable transactions included Woolworths subletting their space 2/98 South Park Drive, Dandenong South (21,000 sq m) and Cummins Transport leasing 200 Australis Drive, Derrimut (11,687 sq m).

In the secondary market, gross take-up fell by 30.0% over Q4 2017 to measure 74,777 sq m, although levels remained 8.5% above the series average. The largest transaction was 12-30 Toll Drive, Altona North (13,945 sq m), which sold to Pickles Auction for owner-occupancy. This brings the number of the industrial auctioneer's sites to four, the other three located in Tullamarine and Sunshine.

"Prime vacant stock fell to its lowest level since Q4 2015, underpinned by strong take-up levels and limited additions to existing vacant stock."

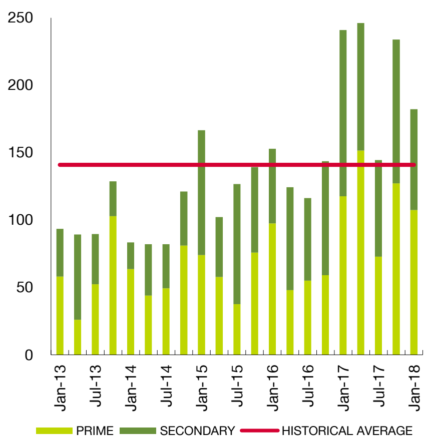
Leasing activity in existing stock was strong in Q4 2017, accounting for 82.3% of total absorption. Gross take-up of speculative stock continued to increase, totalling 32,329 sq m, up from 28,622 sq m in Q3 2017.

By precinct, the West dominated take-up levels, with 88,707 sq m leased over Q4 2017, representing 48.7% of total take-up. The seven buildings leased were on average 12,700 sq m in size. Notable transactions included CTI Logistics leasing Spec B, Archer Road, Truganina (15,228 sq m). Additionally, SKM Recycling leased Building A in Brooklyn Business Park (12,725 sq m), its second lease in 2017.

Take-up in the North totalled 26,463 sq m, or 15.1% of total take-up, with three buildings leased over Q4 2017. The largest transaction was Qube Logistics leasing BSF1, 155 Union Road, Somerton (16,320 sq m). In the East and South East, take-up totalled 14,193 sq m and 51,902 sq m respectively, representing 7.8% and 28.5%.

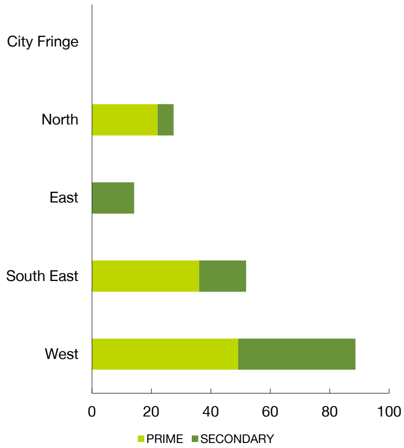
On an annual basis, the West (50.0%) accounted for the majority of leasing activity in 2017, followed by the South East (21.8%), the North (19.3%), the East (7%) and the City Fringe (1.9%).

FIGURE 4
Melbourne Industrial Take-Up
'000 sq m est Take-up buildings (excl. D&C)



Source: Knight Frank Research

FIGURE 6
Take-up 3 Months to January 2018
'000 sq m est Take-up buildings (excl. D&C)



Source: Knight Frank Research

Outlook

Solid tenant demand for industrial space will continue throughout 2018, brought on by the low interest rate environment and improved business confidence levels, which support retail spending and housing construction levels.

The fast-growing e-commerce and transport & logistics sectors will also boost tenant demand for industrial space, particularly speculative space as it is able to cater for a broader range of potential tenants, given the shorter letting-up period. (The average letting-up period as at Q4 2017, is 12.7 months, as shown in Figure 5.)

Nevertheless, there will continue to be strong demand for purpose-built facilities as tenants upgrade and consolidate from multiple sites, and seek greater efficiency from automation. Recent pre-commitments include those from Simplot and Dulux.

There are a number of major transport infrastructure projects currently under construction across Melbourne, which will improve travel time and reduce congestion, enhancing productivity across all industrial sectors over the long term. This includes the $6.7 billion West Gate Tunnel project and the $1.8 billion Public-Private Partnership to upgrade and maintain arterial roads in the West. Both projects are expected to complete in 2022.

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 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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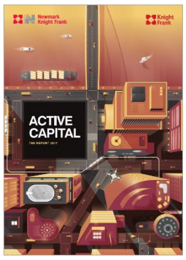

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