

MELBOURNE INDUSTRIAL VACANCY OCTOBER 2018

Low vacancy and strong rental growth encourage speculative developments

- Total vacant space in Melbourne’s industrial market fell by 8.2% over Q3 2018, driven by strong demand from various industries, including Manufacturing and Retail Trade, and limited vacancy additions from both existing and speculative space. By grade, prime vacancy fell by 11%, while secondary vacancy fell by 6%.
- Vacancy is now at its lowest since Q4 2013. This, coupled with rising rents and growing demand for prime buildings, has prompted developers to increase the level of speculative construction.
- Prime vacant space has been well absorbed over the year, as tenants seek prime buildings to improve warehouse efficiency and to be located closer to major arterial roads. Prime take-up in 2018 has been well above (at least 25% higher) the historical average of 68,210 sq m.
- Given limited vacancy additions, the ratio of prime vacant space to secondary vacant space has narrowed to 50:50.
- Speculative developments currently in the pipeline are concentrated in the West and parts of the South East, where development sites are more readily available. Given the strong demand for prime space, we anticipate speculative developments to be well received by the market.

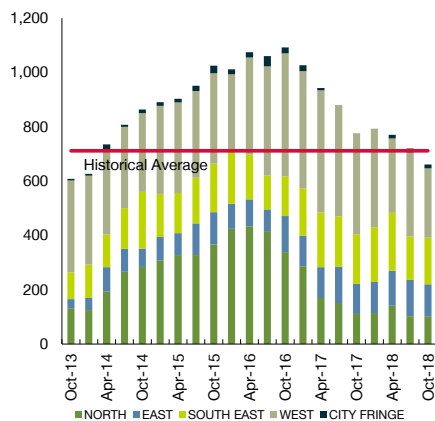


JANE WONG
Research Analyst

TABLE 1
Melbourne Industrial Available Space 5,000 sq m+ as at October 2018

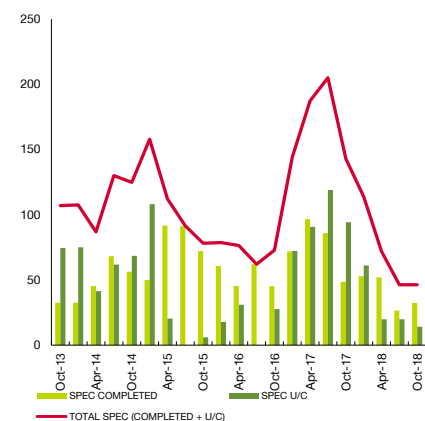
Precinct	Available Space (sq m)	No. of Buildings	Av Asking Rent (\$/sq m Net)	Change Past Qtr (sq m)	Change Past Year (sq m)	Building Quality Prime %	Building Quality Secondary %
City Fringe	14,000	1	120	0	14,000	0	100
North	102,475	12	80	186	-8,084	60	40
East	117,685	9	80	-16,000	5,997	8	92
South East	171,327	20	79	11,423	-10,365	52	48
West	255,539	20	75	-54,776	-117,392	67	33
Total	661,026	62	87	-54,169	-115,844	50	50

FIGURE 1
October 2018 Available Space
'000 sq m



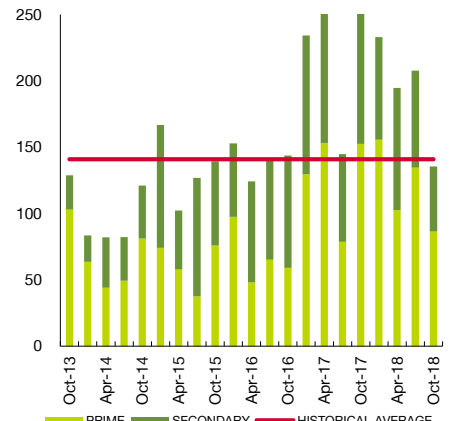
Source: Knight Frank Research

FIGURE 2
Speculative Space
'000 sq m



Source: Knight Frank Research

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

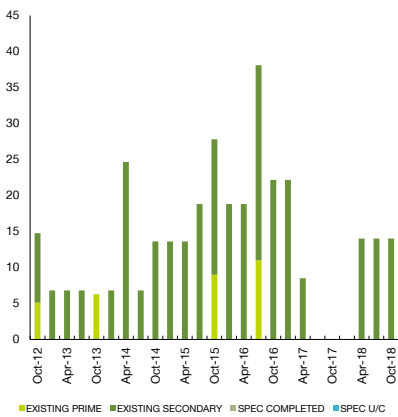


Source: Knight Frank Research

City Fringe

- Demand remains concentrated for sub-1,000 sq m space.
- The Port of Melbourne recently launched 16.9 ha of new industrial land in the form of development sites or hardstand. This will lift the port's industrial capacity over the next two to three years as well as its ability to accommodate large format industrial users.

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 October 2018

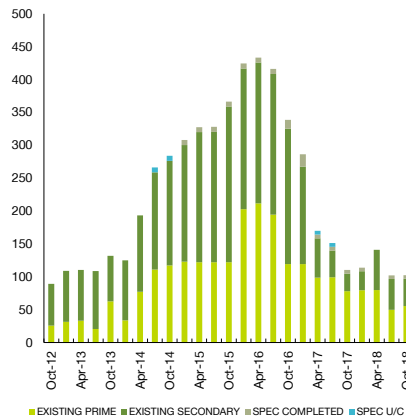


Source: Knight Frank Research

North

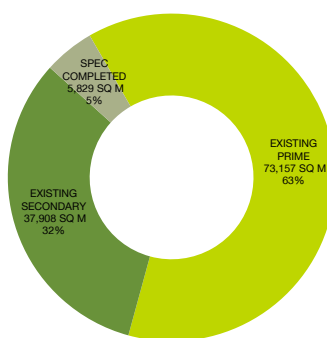
- Demand generated from Australia's rebounding Manufacturing sector has been much catered to by the North.
- The North has become a tightly held precinct, mostly due to the limited supply of industrial land.
- The former Ford site at Campbellfield is being offered for sale as a 40 ha Industrial 1 Zone development site.

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



Source: Knight Frank Research

FIGURE 7
North Annual Take-up
12 months to October 2018

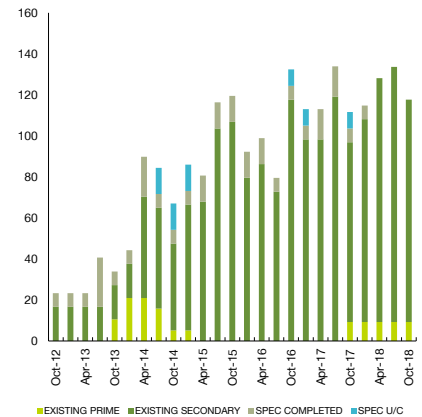


Source: Knight Frank Research

East

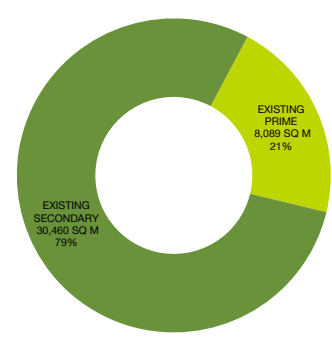
- The East is one of only two precincts to have 15,000 sq m+ space available. The other precinct is the West.
- Take-up activity in Q3 2018 stemmed from the purchase of 800 Wellington Road, Rowville (8,140 sq m) for owner occupation.

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



Source: Knight Frank Research

FIGURE 9
East Annual Take-up
12 months to October 2018

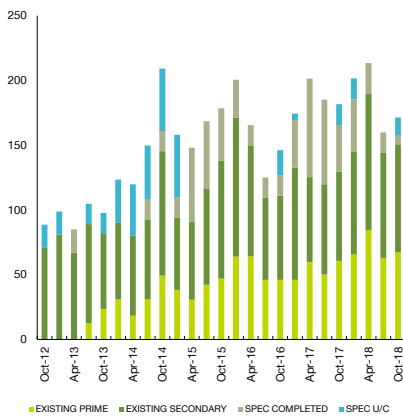


Source: Knight Frank Research

South East

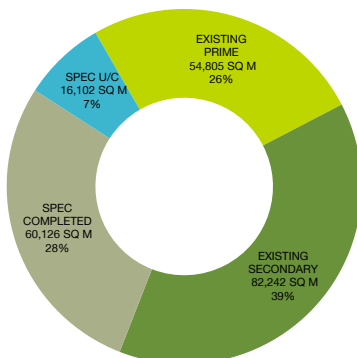
- The South East was the only precinct in Q3 2018 to have speculative construction begin, in Frasers Property's Braeside Industrial Estate, which was purchased as a development site at the start of the year.
- Over Q3 2018, tenants in the Manufacturing, Construction Retail Trade and Electricity, Gas, Water & Waste Services industries occupied space.

FIGURE 10
South East Available Space
'000 sq m space by type



Source: Knight Frank Research

FIGURE 11
South East Annual Take-up
12 months to October 2018

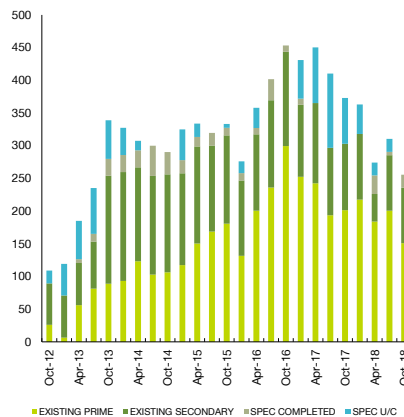


Source: Knight Frank Research

West

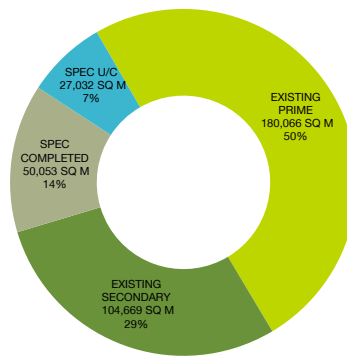
- 150,000 sq m of speculative space is anticipated to come on line over the next 12 months.
- The repurposing of industrial land in the inner West, such as in Brooklyn, will see tenants being pushed out into other suburbs within the West.
- Leasing activity over Q3 2018 was dominated by the Retail Trade industry.

FIGURE 12
West Available Space
'000 sq m space by type



Source: Knight Frank Research

FIGURE 13
West Annual Take-up
12 months to October 2018



Source: Knight Frank Research

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Methodology:

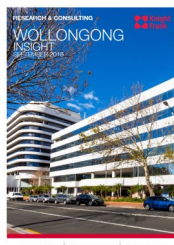
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Melbourne Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 5,000 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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