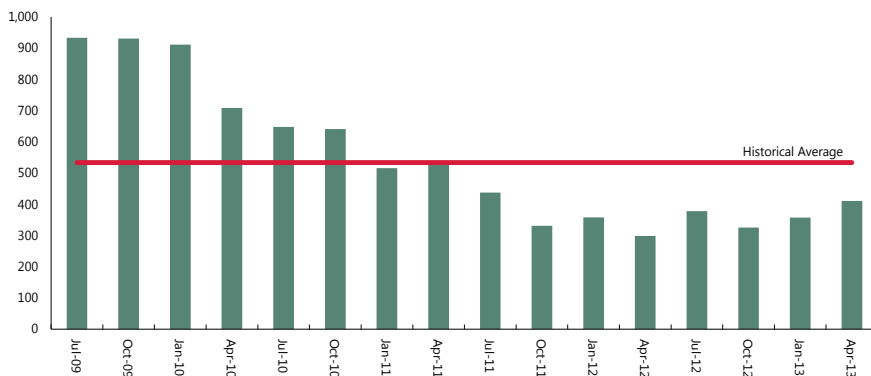# APRIL 2013

MELBOURNE INDUSTRIAL
VACANCY ANALYSIS

The level of available space within the Melbourne industrial market has increased over the first quarter of 2013. At 410,508m² the total available space is 53,283m² greater than the January 2013 level, but remains 23% below the historical average of 533,280m².

Over the first quarter of 2013, the level of prime available space has increased, while the level of secondary available space decreased slightly. The rise in prime space is due to a combination of factors namely; tenant relocation, tenants consolidating from multiple locations and an increase in speculatively developed projects.

There are currently five speculative developments under construction, two of which have commenced this quarter, accounting for 24,662m² of industrial accommodation. A number of speculative developments have commenced within the Western and South Eastern precincts over the past two quarters; however in recent years, the majority of spec builds have been committed to prior to completion.

Table 1
Summary of Available Industrial Space – April 2013

Market	Available Space (m²)	Number of Buildings	Av. Asking rent ($/m² net)	Change past quarter (m²)	Change past 6 months (m²)	Change past 12 months (m²)
Precinct						
Fringe	6,800	1	75	0	-7,943	-27,843
North	110,556	12	66	1,557	21,050	66,217
East	23,321	2	80	0	0	-14,002
South East	84,929	9	73	-13,908	-3,685	14,738
West	184,902	15	68	65,634	75,777	72,952
Total	**410,508**	**39**	**69**	**53,283**	**85,199**	**112,062**
Building Quality						
Prime	178,378	15	76	67,477	77,043	70,432
Secondary	232,130	24	65	-14,194	8,156	41,630
Building Type						
Existing Stock	321,693	31	68	37,492	40,657	63,198
Speculative (Completed)	30,243	3	85	23,582	23,582	13,622
Spec. Under Construction	58,572	5	72	-7,791	20,960	35,242

Source: Knight Frank
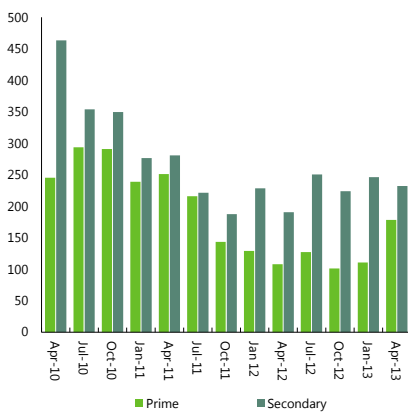
Figure 1
Melbourne Industrial Market
'000m² available space

Source: Knight Frank

THERE IS 410,508M² OF VACANT INDUSTRIAL SPACE ACROSS 39 BUILDINGS; THIS IS 23% BELOW THE HISTORICAL AVERAGE

RESEARCH

Quality of Stock

The level of prime space available over the past quarter has increased by 67,477m² to be 178,378m². Available prime space now accounts for 43% of total vacant accommodation, up from 31% in January 2013. The increase in existing prime space came as a result of backfill space being vacated by tenants such as Border Express, BevChain and Wettenhall bringing to market a total of 56,201m² of prime grade space across three buildings.

Figure 2
Melbourne Industrial Available Space
'000m² by grade – April 2010 to April 2013

Source: Knight Frank

Vacant secondary space has fallen slightly as tenants have absorbed available space with the prime options limited. This prime space has an average net asking rental of $76/m² compared with secondary space at $65/m².

Figure 3
Melbourne Industrial Available Space
'000m² by type July 2012 to April 2013

Source: Knight Frank

During the first quarter of 2013, the amount of vacant space within existing buildings increased by approximately 13%. The amount of speculative space completed but yet to be leased also increased with two speculative developments reaching practical completion in the form of a 5,732m² building at 260 Fairbairn Road, Sunshine West and Australand's 17,850m² building at 166-180 Atlantic Drive, Keysborough within The Key Industrial Estate. Currently there is 58,572m² across five industrial buildings, all of which are located within the Western precinct, that are being speculatively developed. One further building currently under construction by Australand was committed to before completion; DB Schenker leased the 14,030m² industrial building at 89 Drake Boulevard, Altona.

Distribution by Precinct

By region, the greatest amount of space available for lease is located in the Western precinct as at April 2013, with 184,902m². Of the available space within the Western precinct, 65% is classed as prime, however approximately half of this space is within speculative stock under construction. The South East remains dominated by secondary stock, with only one prime grade option in the form of a 17,850m² speculative development by Australand that was recently completed within The Key Industrial Estate, Keysborough. Within the City Fringe, larger options remain scarce, with only one industrial option available above 5,000m².

Figure 4
Melbourne Industrial Available Space
'000m² by quality & precinct – April 2013
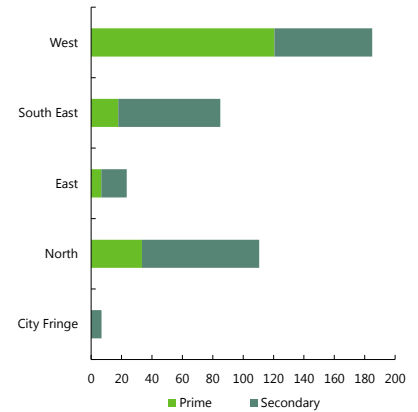
Source: Knight Frank

Size of Available Stock

There are currently 18 industrial options available in excess of 10,000m², with nine of these being within prime grade accommodation. Of the five speculative buildings currently under construction, four of them are greater than 10,000m², with developers seeking to capture the demand from the larger users currently in the market. As at April 2013, there was 21 smaller industrial options (5,000m² - 10,000m²), with only six of these being of prime-grade quality. Construction activity has picked up over the latter half of 2012, and is anticipated to continue through 2013 with developers responding to the limited prime grade industrial accommodation options available to prospective tenants.

Figure 5
Melbourne Industrial Available Space
No of buildings by size of building m² and quality – April 2013
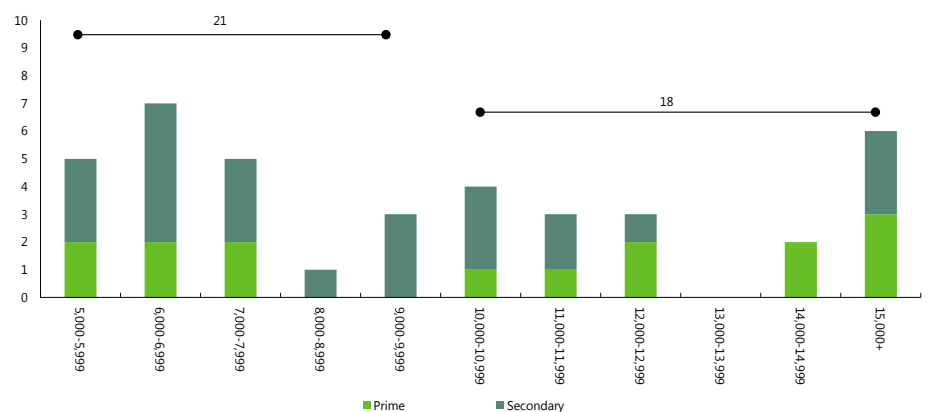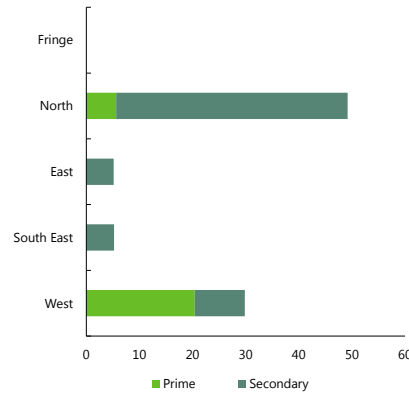

Source: Knight Frank

Building Take-up

During the first quarter of 2013 there were 10 vacant buildings above 5,000m², totalling 89,349m² which were absorbed. Three of the buildings leased were prime grade assets, one of which was leased prior to completion. The level of new supply has increased in response to the limited availability of vacant existing prime grade assets which has inhibited take up over the course of 2012.

Figure 6
Melbourne Industrial Take-up
'000m² Est Take-up buildings 5,000m²+ (excl D&C)
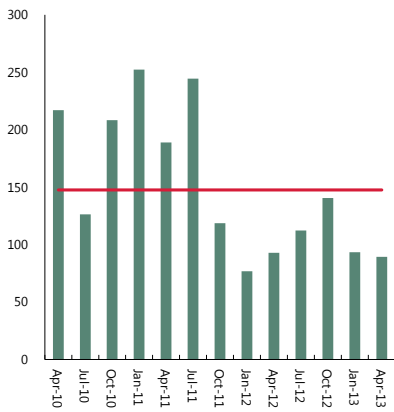
Source: Knight Frank

Figure 7
Melbourne Industrial Take-up 3 months to April 2013
Estimated Take-up buildings 5,000m²+ (excl D&C)

Source: Knight Frank

Most of the take-up over the first quarter of 2013 was recorded in secondary buildings across the North, East, South East and West (63,359m² or 71%). Reflecting the limited prime space available, the remaining 29% of take up was recorded in prime stock, with the majority located in the Western precinct. There was no take-up in the City Fringe area for buildings above 5,000m², a precinct typically characterised by smaller industrial units sub 1,500m² in size.

Summary

The level of building take-up recorded by Knight Frank was slightly lower than the previous quarter with 89,349m² absorbed. Leasing activity is often occurring before buildings have become vacant; particularly with larger tenants, reflecting the relatively low vacancy levels. The level of available space is expected to gradually increase in 2013, from record lows recorded in 2012, as speculative activity increases, mainly on the back of adjacent D&C developments (e.g. Fastline and Toll both at Truganina).

The shortage of available prime options has likely contributed to the increase in speculative construction. The proportion of speculative development is relatively high when compared to historical averages, with stock under construction accounting for 14% of total available stock. Although speculative construction levels have increased, it is anticipated that the phenomenon of tenants absorbing space prior to completion is expected to continue given the limited quality options available. Recent tenants who have leased stock under construction prior to completion include DB Schenker, Nippon Express, Able Imports and Nu-Pure.

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 categorized into the below three types of leasing options:
   o *Existing Buildings* – existing buildings for lease.
   o *Speculative Buildings* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
   o *Spec. Under Construction* – buildings for lease which are being *speculatively* constructed and will be available for occupation within 12 months.
Data collection and analysis represents a snap shot of market vacancy as at 1 April 2013, ie. the beginning of the second quarter.

The Melbourne Industrial Property Market has been divided into 5 distinct industrial precincts, as follows:

Fringe	CBD Fringe; predominantly Port Melbourne
North	Suburbs north of the CBD on the North/East side of the Calder Freeway. Includes areas of Preston, Thomastown, Broadmeadows, Epping, Campbellfield, Somerton and Tullamarine.
East	The East comprises areas of Mount Waverley, Clayton, Mulgrave, Rowville, Scoresby, Bayswater and Croydon.
South East	The South East comprises areas of Moorabbin, Springvale, Braeside, Dandenong South, Hallam, Lyndhurst, Carrum Downs, Cranbourne and Pakenham.
West	On the southern side of the Calder Freeway to include the traditional industrial areas within the west, including Altona, Laverton, Sunshine, Derrimut, Brooklyn, Ravenhall and Deer Park.

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