

Commercial Research

BETWEEN THE LINES

Perth Industrial
Sub 5,000sqm leasing market

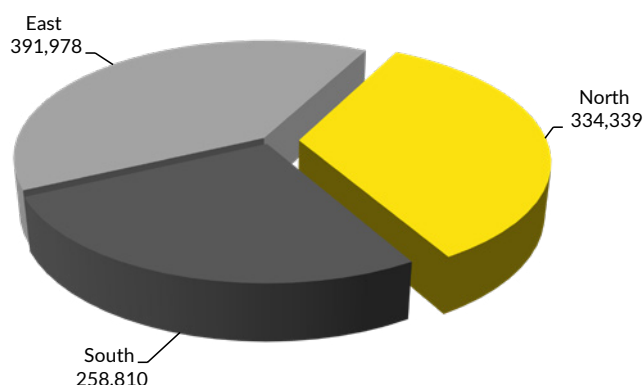
April 2018



The positive movements for the Western Australian economy regarding employment, business investment, exports and commodity prices seen in late 2017 has continued (albeit at a slow rate) into 2018. While these improvements are positive, there are still a number of indicators such as retail trade, wage growth, housing prices which need to improve to be confident in saying “the bad times are behind us”.

WA continues to lose people to the eastern states, although at a lesser rate than two years ago which has slowed population growth. However, improving sentiment which has been heavily driven by increased construction including infrastructure starts may mark an approached return to normality.

Perth Industrial vacancy (sub 5,000sqm) By precinct (sqm)

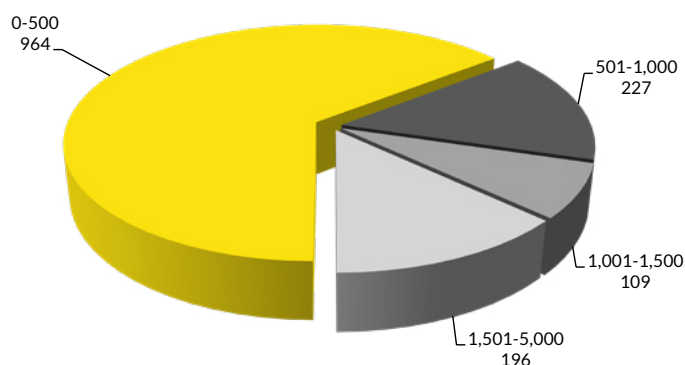


Source: Ray White Commercial

Over the last six months there has been a strong improvement recorded in the take up of industrial stock across the Perth market. Ray White Commercial's analysis of vacant industrial stock has resulted in 985,127sqm, of vacant stock in the sub 5,000sqm size range which is actively being marketed, falling in the sub 1million size range after vacancies of up to 1.1million were recorded in 2017.

The current split of vacancies across region has remained very similar to the 2017 results albeit the quantum of available space has reduced. This year we see East of the city represent 391,978sqm (down from 453,778sqm last year) or 39.79% followed by the North accounting for 334,339sqm (down from 375,230sqm) being 33.94% of the total pool of vacancies. The North represents 809 properties heavily weighted to the sub 500sqm size range which brings the average size to just 419sqm smaller than the results seen six months ago. The South continues to maintain the smallest vacancy with 258,810sqm of vacant stock recording just over a quarter of all stock with a greater proportion in the larger size ranges, the more affordable nature of this location has also aided in keeping this vacancy level lowered.

Perth Industrial vacancy (sub 5,000sqm) By size range, no. properties vacant



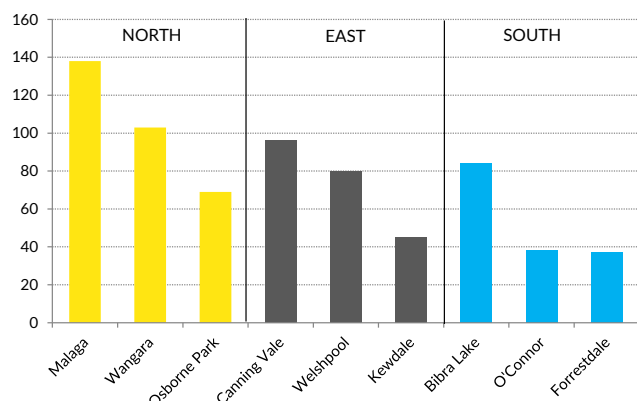
Source: Ray White Commercial

The recent vacancy analysis has highlighted a total of **1,496 properties currently listed for lease across the Perth metropolitan area.** This is up compared to the September 2017 period where 1,392 properties were recorded and heavily dominated by a growth in the sub 500sqm size category. There are currently 964 separate offerings in the sub 500sqm size range. Of these the greatest number are within the North precinct totalling 96,888sqm of stock or 77.53% of all vacant listings in the region. This increase could be attributed to a number of tenancies capitalising on favourable rental terms and upgrading to larger facilities in anticipation of business growth.

The East also features a strong proportion of sub 500sqm vacancies however the 1,501-5,000sqm size range offer more than a quarter of all listings in this region. This is further emphasised by the East featuring the largest average vacant tenancy of 1,116sqm. Historically the South precinct features the greatest number of larger vacancies, while this continues to make up a large proportion of available stock; there has been an increase in the sub 1,500sqm size ranges resulting in a slight decline in the average vacancy size of 784sqm this period.

Highest vacancy suburbs per region

By no. vacancies

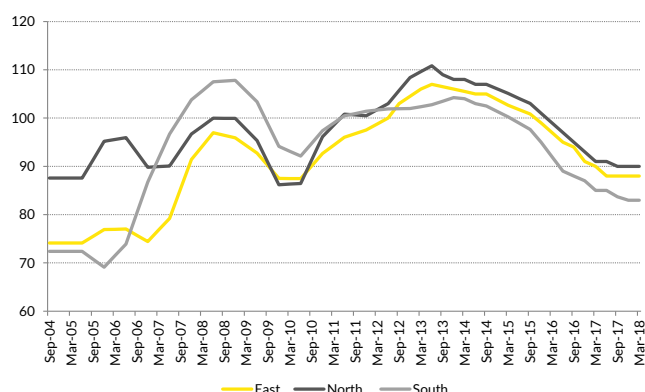


Source: Ray White Commercial

We have continued to see the volume of vacancies at a higher rate in the East due to the number in the larger size categories, yet the North precinct continues to be hampered by high numbers of vacancies within the smaller size category of sub 500sqm. Malaga is a prime example of this, with 138 known vacancies totalling 82,035sqm keeping the average lease size at just 599sqm, encouraging however is that this is an 11.54% reduction in properties on the market compared to last period. Wangara features 103 vacancies (down from 112) with an average size of 582sqm followed by Osborne Park with 69 vacancies with a larger average of 940sqm. The East is home to a greater component of the 1,500–5,000sqm size range with locations such as Canning Vale, Welshpool, Kewdale and Belmont achieving high vacancies. Kewdale while offering less number of vacancies achieves the largest average property size at 1,801sqm, followed by Canning Vale (1,246sqm) and Welshpool (1,145sqm), worthy of note is the large number of vacancies also in Belmont, totalling 37,478sqm the average size of these tenancies are smaller at 1,041sqm. The South has a broad size mix of vacancies across all size ranges, Bibra Lake features the greatest number of vacancies with total vacancy of 83,770sqm with the average size for the suburb at 997sqm however, this period we have seen an increase in vacancies listed in Forrestdale, however most of these being small in size resulting in the average vacancies of 534sqm.

Industrial Net Face Rents

\$/sqm



Source: Ray White Commercial

We have started to see improvement in the vacancy position across all regions of Perth; this has been aided by landlords adjusting their rental expectations over the last few years to the current rate which has been acceptable by many tenants.

Owners which had prolonged issues with occupancy have had no choice but to adjust their expectations historically however with take up improving and market sentiment uplifts this could be the turning point for the market. Rents have remained stable over the last six months and are anticipated to remain stagnant going forward until vacancy levels return back to normalised levels over the next few years. Over the last 12 months however there still has been a reduction felt with the East down -2.22% to \$88/sqm followed by North falling by -1.10% to average \$95/sqm. The Southern region continues to feature the most affordable space (and least vacant) with average prime net face rent of \$84/sqm a -2.35% decline in the last 12 months.

Many owners have now shown flexibility of price, lease term while offering creative and more substantial incentives, this has been the major driver in securing tenants over the last six months. While there has been some turnaround in sentiment this has yet translated into a push to expand or increase business numbers, although we have witnessed occupier's future proofing their accommodation while rents are at this depressed state.

The current results of the Perth Industrial survey have been encouraging. Improved take up across all regions has resulted in an improvement in overall vacancy volume, while the number of marketed properties may be up; this is due to a growth in the sub 500sqm sector. After rents falling for four consecutive years, stability which has been witnessed over the last six months is a positive sign for the Perth industrial sector.

Owners and tenants are now coming together to find feasible solutions regarding rent and other incentives which fosters business and employment growth which will be the catalyst for improving economic performance for WA. Sentiment is up and confidence will soon follow if major indicators such as exports, commodity prices and business expansion follow their current trajectory which will further support the reducing unemployment rate as well as growth of other key measures for the state.

Research **KNOW HOW**

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