

Commercial Research

Between the Lines

—
Perth Industrial
Sub 5,000sqm leasing market

September 2016

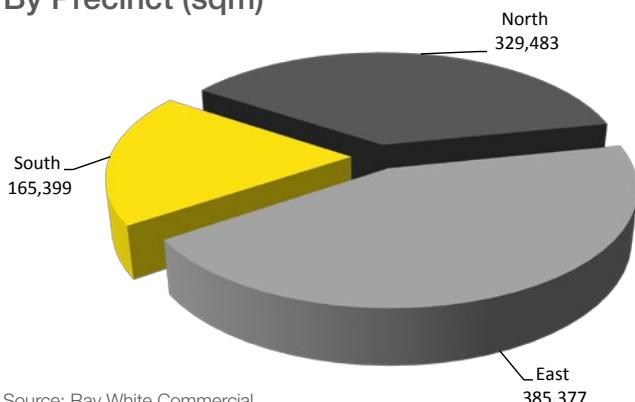


The Perth Industrial market has not been immune to the broader challenges which the Western Australian economy is currently facing.

With GSP rates for the state sub 2% and the outlook for this to remain stable, there is no clear catalyst to suggest improvement in the commercial property markets.

The industrial market has been under extreme pressure for the past few years given the rapid and sizeable decline in the mining and manufacturing sectors and with little expectation of growth in these sectors in the short term the market will continue to be hampered by this limited demand. Encouragingly however the outlook for some market sectors such as health care, hospitality and tourism, while will assist in improving the broader unemployment rate for the state albeit not positively impact the industrial market.

Perth Industrial Vacancy (sub 5,000sqm) By Precinct (sqm)

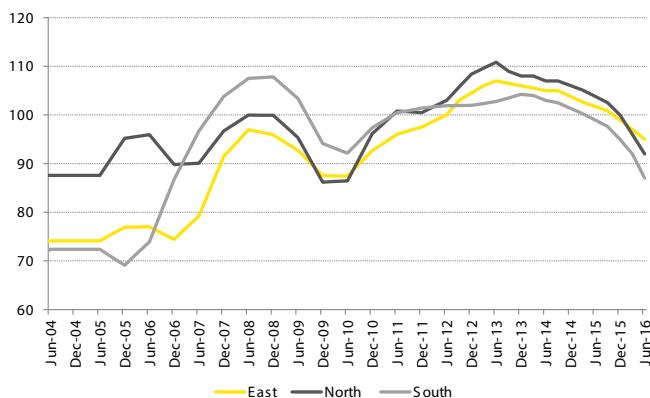


With over 880,000sqm of vacant industrial stock across the Perth metropolitan area, sentiment continues to be at a record low. Demand for stock either to purchase or rent has diminished as investment in industry has declined; the strong take up of prior years' appear to have gone where strong interest in purchasing property by SMSF's taking advantage of low interest rates has now stalled.

Similarly, owner occupier businesses who previously may have purchased premises are now looking more to the competitive longer term leasing options during this time of compression in capital values. Positively, new supply completions have been close to non-existent over the past two years allowing the take up of this existing glut of vacant space.

There has been some change in location of vacant stock over the last six months with the East now overtaking the North as home to the greatest volume of vacancies 385,377sqm. This market is has vacancies split across all size ranges however, like all markets the total number of vacancies is strongly made up of the sub 500sqm and 500–1,000sqm size range most notably in Canning Vale and Welshpool. The South represents the smallest number of vacant spaces (229) however has strong representation of the small space users (sub 500sqm) represented by 144 properties and totalling over 40,000sqm. While the North now represents 329,483sqm of vacant stock (second to East) this market is home to the largest number of sub 500sqm properties for lease (283) representing 81,829sqm with over 33,000sqm located in Malaga alone.

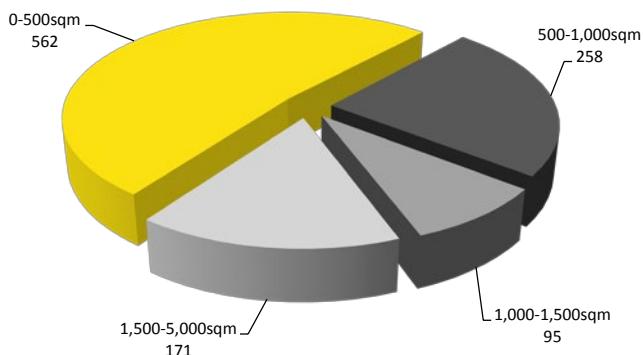
Industrial Net Face Rents \$/sqm Prime



After the highs in rent during mid 2013 where rents ranged broadly between \$100 to \$120/sqm, the industrial market has been responding to high vacancies with a swift reduction in face rents over the last two years. The South and North precincts recording the greatest fall of 12.07% and 11.38% respectively over a one year period. South now recording average prime net face rents of \$87/sqm followed by \$92/sqm in the North, the East precinct faring better falling 6.62% to \$95/sqm. Incentives were emerging in the marketplace during 2015 however, given the continued decline in face rents, incentives have not been as evident this year across the board. Incentives continue to have their place in the market and are restricted more so for larger prime vacancies and in those locations of high vacancy and lesser demand. Encouragingly though is the acceptance of fixed reviews in new leases with most new agreements accompanied by annual 3%–4% increases over a terms between 2 and 5 years which brings average rates back up to more normalised levels over the next couple of years.

Perth Industrial vacancy (sub 5,000sqm)

By Size Range, No. Properties Vacant



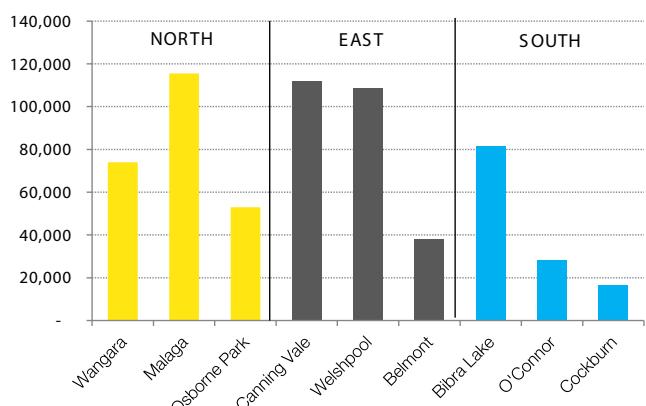
Source: Ray White Commercial

The Perth industrial market recovery has been hampered by limited demand and a high volume of vacant space across all precincts and size ranges. Vacant space of larger space users has been well publicised, however the smaller end of the market given its greater number of vacancies will ensure recovery is a somewhat drawn out process. The sub 500sqm size range currently has 562 space options for lease; this high volume of choice for tenants has been the catalyst for face rental declines as well as strong increases in incentives. With such high volume of stock available to the market, tenants are in the unique position of taking their time in their decision making process as well as being “picky” in regard to location, size, quality and lease terms pressuring owners to accept what would previously been viewed as unacceptable terms. There is a further 258 leasing options in the 500-1,000sqm size range making small tenants options even wider, and a further 266 vacancies between 1,000–5,000sqm.

North is home to the greatest number of leasing options in the sub 500sqm size range while the East has a greater split across all size ranges, yet represents more than half of all the 1,500–5,000sqm sized vacancies.

Highest Vacancy Suburbs per Region

By sqm

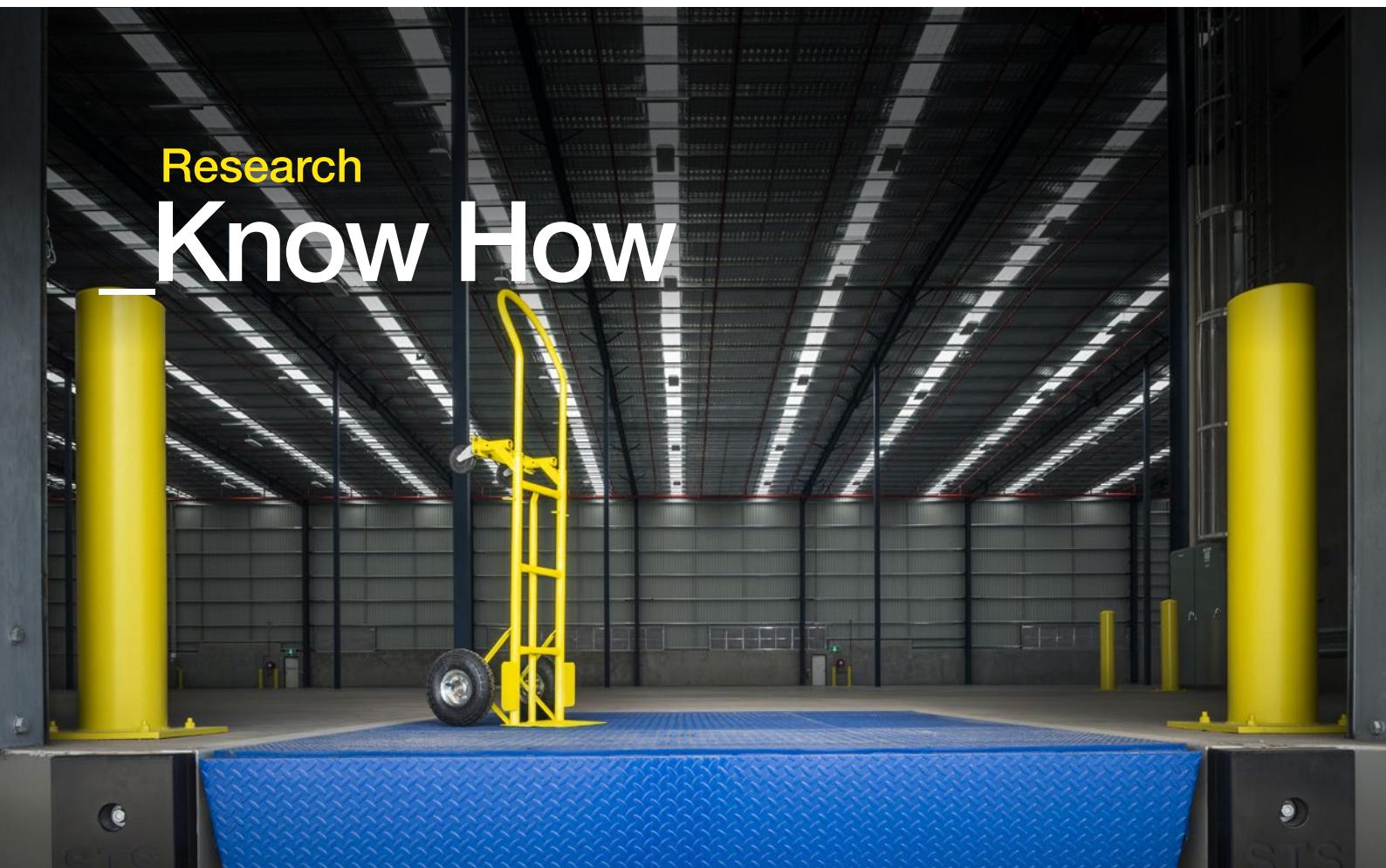


Source: Ray White Commercial

Over the last six months there has been some shift in the location of vacant spaces across the Perth Industrial market. While the North continues to be home to a high number of vacancies, larger spaces available in the East has now highlighted this location as home to the greatest vacant space. The key suburbs which have witnessed the greatest vacancies in the North continues to be Malaga, this market has 117 leasing options in the sub 500sqm category alone or 190 in total across the sub 5,000sqm size range. While Wangara offers another 97 leasing options and Osborne Park represents 87 more, close to 53,000sqm in total. The East has a larger component of larger vacancies with Canning Vale representing 110,000sqm with an average size of 1,082sqm, similarly Welshpool has over 108,000sqm available, averaging 1,045sqm in size. The South continues to represent the smallest portion of vacancies, most of which is centred in the Bibra Lake location, this market has a total of 81,433sqm vacant represented by 83 properties resulting in an average area of sub 1,000sqm brought down by the 40 vacancies in the sub 500sqm size range. The remainder of vacancies across the South is well split across the rest of the market with O’Connor and Cockburn Central slightly higher in total vacancies yet other markets such as Jandakot and Rockingham also feature close to 10,000sqm of vacant space.

Research

Know How



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