



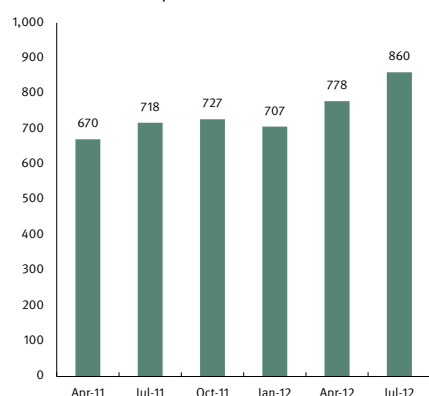
# RESEARCH

## JULY 2012 SYDNEY INDUSTRIAL VACANCY ANALYSIS

### Knight Frank

The three months to July 2012 saw the Sydney industrial market record a second consecutive quarterly rise in available space. Total vacancy increased by 81,721m<sup>2</sup> to 859,992m<sup>2</sup>. Prime vacancies remain low in a relative sense accounting for only 32% of the total vacancy figure.

Figure 1  
Sydney Industrial Market  
'000m<sup>2</sup> available space

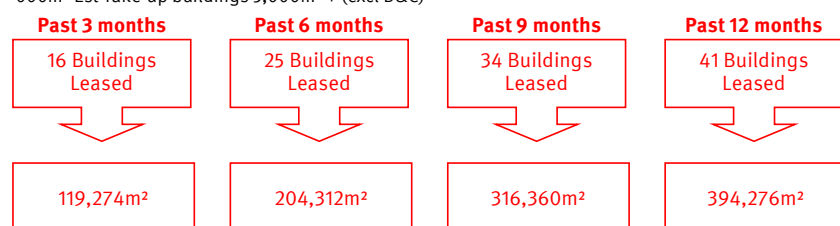


Source: Knight Frank

While recent leasing activity and gross take up (excl. D&C's) has shown steady improvement, it has not been sufficient to outweigh the small number of large vacancies that have come to the market and underpinned the rise in total vacancies. Examples include the BIG W backfill space in Greystanes, new vacancies at Yennora

Figure 2  
Sydney Industrial Market

'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Table 1  
Summary of Available Industrial Space – July 2012

Market	Available Space (m <sup>2</sup> )	Number of Buildings	Av. Asking rent (\$/m <sup>2</sup> net)	Change past quarter (m <sup>2</sup> )	Change past 6 months (m <sup>2</sup> )	Change past 12 months (m <sup>2</sup> )
<b>Precinct</b>						
Outer West	405,124	26	93	51,042	103,457	109,666
South West	205,972	18	93	35,849	48,255	54,060
Inner West	170,905	16	99	-3,821	-35,219	-55,985
South	77,991	7	127	-1,349	36,783	34,656
<b>Total</b>	<b>859,992</b>	<b>67</b>	<b>98</b>	<b>81,721</b>	<b>153,276</b>	<b>142,397</b>
<b>Building Quality</b>						
Prime	273,000	21	114	38,530	91,058	59,756
Secondary	586,992	46	90	43,191	62,218	82,641
<b>Building Type</b>						
Existing Stock	803,290	62	96	91,345	152,762	
Speculative (Completed)	12,506	1	117	6,086	-14,914	
Under Construction	44,196	4	112	-15,710	15,428	

Source: Knight Frank

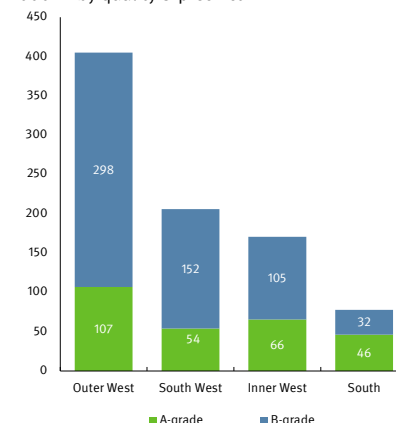
Distribution Centre and a large sub-lease in Minto. The above examples accounted for 123,804m<sup>2</sup> of new vacant space added to the market in 2012.

Across the precincts, the Inner West has performed well with vacant space declining 55,985m<sup>2</sup> over the last 12 months. While vacancies in the South have increased in the last year, this has largely been a result of 29,907m<sup>2</sup> Ingram Micro backfill space. However this is under Heads of Agreement

and should contribute to a material vacancy reduction in the next quarter. The Outer West and South West account for the majority of vacancies with both regions experiencing a rise in vacant space over the past year.

Figure 3  
July 2012 Available Space

'000m<sup>2</sup> by quality & precinct



Source: Knight Frank

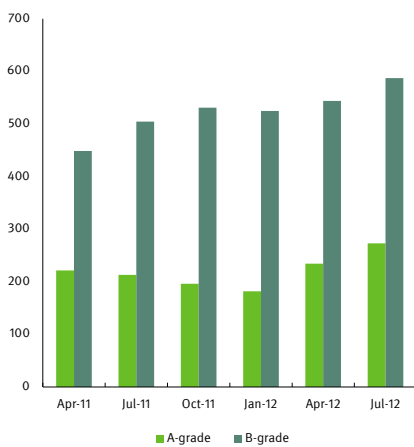


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## Quality of Stock

As at July prime vacancies totalled 273,000m<sup>2</sup> compared with 586,992m<sup>2</sup> for secondary. While the proportion of prime vacancies at 32% is similar to that recorded in the April quarter, the weighting has increased from the 26% recorded in January 2012.

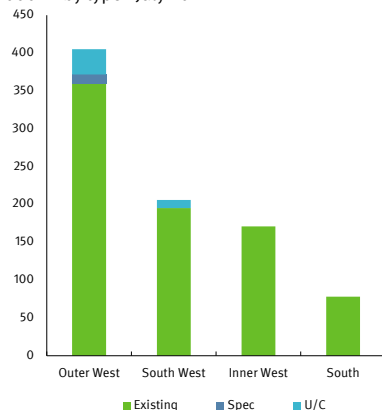
Figure 4  
Sydney Industrial Available Space  
'000m<sup>2</sup> by grade - April 2011-July 2012



Source: Knight Frank

Although the majority of new vacancies by number that have come to the market have been secondary grade, the increase in prime vacancies over 2012 has largely been driven by a small number of large assets. Two backfill vacancies amounting to 66,089m<sup>2</sup> (Greystanes and Matraville) have stemmed from moves to D&C premises, while in the South West 37,564m<sup>2</sup> of sub lease space has been made available in Minto.

Figure 5  
Sydney Industrial Available Space  
'000m<sup>2</sup> by type - July 2012



Source: Knight Frank

Speculative stock continues to be well received by the market. Over the last nine months, 73,662m<sup>2</sup> of speculative stock has been absorbed across seven new lease deals. Currently only 12,506m<sup>2</sup> of completed speculative development remains available for lease. However this has not seen downward pressure on total prime vacancies, as a number of new speculative projects have commenced construction with 44,196m<sup>2</sup> available as at July. The majority of these projects are located in the Outer West, and are predominantly being developed by the well capitalised REITs such as DEXUS and Goodman.

## Distribution by Precinct

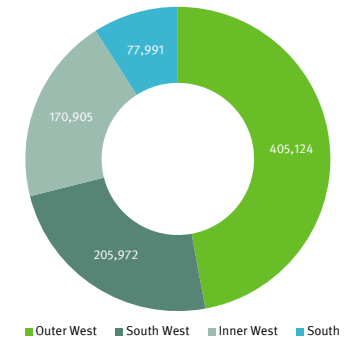
The market with the most available space is the Outer West with 405,124m<sup>2</sup> of vacancies. Of this, 106,994m<sup>2</sup> is prime grade with 61,037m<sup>2</sup> made up from four existing buildings. The balance of prime vacancy is made up of speculative developments (12,506m<sup>2</sup> completed speculative and 33,451m<sup>2</sup> speculative under construction).

While in recent quarters prime vacancies have been the lowest in the South West, the large 37,564m<sup>2</sup> sub-lease vacancy in Minto has seen prime vacancies increase to 54,039m<sup>2</sup> out of a total of 205,972m<sup>2</sup>. Despite some tenant upgrades to more modern premises during the quarter, the resulting backfill space was outweighed by strong take up that saw secondary vacancies decrease by 7,030m<sup>2</sup> during the July quarter.

For a fourth successive quarter, the Inner West has exhibited a decline in vacant space, with total vacancies now measuring 170,905m<sup>2</sup>. There has been a steady flow of leases in the range of 5,000 to 10,000m<sup>2</sup>, mostly by logistics users, that has driven this reduction.

The South region remains the precinct with the lowest amount of vacant stock. Although prime vacant stock levels are greater than secondary as at July, a large multi-national is believed to have signed a Heads of Agreement for the 29,907m<sup>2</sup> of Ingram Micro backfill space, which would result in a significant reduction of prime vacancy.

Figure 6  
July 2012 Available Space  
'000m<sup>2</sup> by precinct

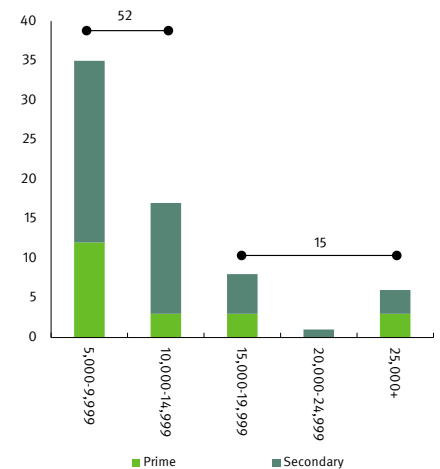


Source: Knight Frank

## Size of Available Stock

Analysis of the size of industrial vacancies in 5,000m<sup>2</sup> intervals (refer Figure 7) shows that there is a greater availability of options for tenants at the smaller end of the market. Only 15 large options in excess of 15,000m<sup>2</sup> currently exist, of which six are prime grade. In conjunction with relatively firmer demand from larger tenants, this lack of options has underpinned the success of larger speculative projects that have progressed over the last 18 months. By comparison, 52 vacant options exist below 15,000m<sup>2</sup>.

Figure 7  
July 2012 Available Space  
No of buildings by size of building m<sup>2</sup> and quality



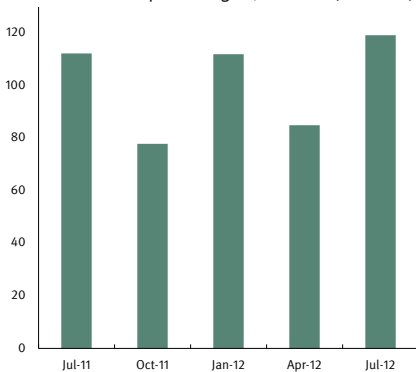
Source: Knight Frank



## Building Take-up

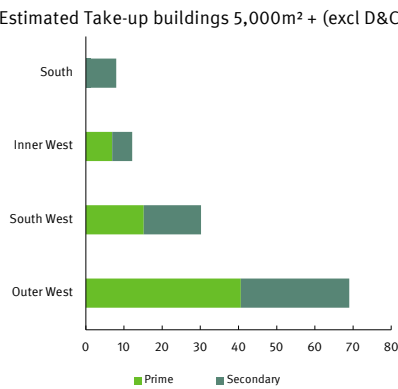
Deal velocity showed strong improvement during the second quarter with Knight Frank estimating that 16 buildings greater than 5,000m<sup>2</sup> (excl. D&C's) were leased covering an area of 119,274m<sup>2</sup>.

Figure 8  
Sydney Industrial Take - up by quarter  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Figure 9  
Sydney Industrial Take-up 3 months to July 2012  
Estimated Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Despite the majority of leasing enquiry in the market seeking modern facilities, the lower levels of prime vacancy has meant that prime take up has only narrowly outperformed

secondary. Over the past 12 months, 56% of the 394,276m<sup>2</sup> of gross absorption has been accounted for by prime stock.

## Summary

Although some further pending backfill space will become available over the second half of 2012, the resulting vacancies are not forecast to be as significant as those in the first half. Combined with the steady improvement in leasing activity, as well as some new deals in Heads of Agreement stage, the level of vacant space is forecast to reduce over the next two quarters, particularly for prime grade.

### Methodology:

This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Sydney 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 5,000m<sup>2</sup>.
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 *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 July 2012, the beginning of the third quarter.

### The Sydney Industrial Property Market has been divided into 4 distinct industrial precincts, as follows:

<b>Inner West</b>	<b>West of Concord Road to Cumberland Highway including the suburbs of Silverwater, Rydalmere, Auburn, Lidcombe, Rosehill, Regents Park, Chullora</b>
<b>Outer West</b>	<b>West of Cumberland Highway including the suburbs of Wetherill Park, Smithfield, Eastern Creek, Erskine Park, Arndell Park, Huntingwood, Greystanes, Blacktown, Seven Hills, Kings Park, Marayong</b>
<b>South</b>	<b>Located South of the CBD including the suburbs of Alexandria, Botany, Banksmeadow, Mascot, Roseberry, Matraville, Hillsdale, Waterloo</b>
<b>South West</b>	<b>Predominantly made up of precincts surrounding the M5 and Hume Highway including the suburbs of Liverpool, Moorebank, Prestons, Ingleburn, Bankstown, Milperra, Minto, Smeaton Grange, Campbelltown</b>

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