

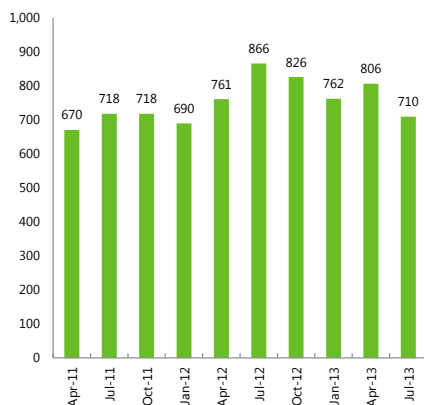
# JULY 2013 SYDNEY INDUSTRIAL VACANCY ANALYSIS

A lack of new supply completions and several large leasing deals in the last three months has seen Sydney industrial vacancy decline to its lowest level since the beginning of 2012. Total vacancies (+5,000m<sup>2</sup>) amount to 709,517m<sup>2</sup>, which is 18% below the peak recorded in July 2012.

Gross take up (excl. D&C's) of 220,576m<sup>2</sup> was recorded during the quarter, which is the highest amount since the series began at the beginning of 2011. However this figure was driven by some large lease deals at four assets (totalling 154,072m<sup>2</sup>) and therefore the headline figure is considered to exaggerate the strength of current leasing conditions.

The amount of vacant stock has broadly been declining for the past 18 months. However with approximately 200,000m<sup>2</sup> of pre-lease supply anticipated to complete in the second half of 2013, there is likely to be some upward pressure on vacancy as resulting backfill enters the market.

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

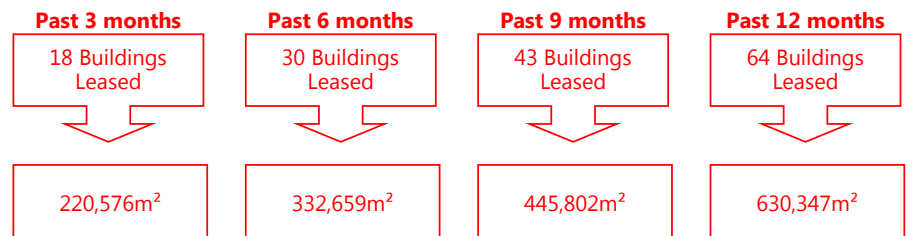


Source: Knight Frank

Table 1 Summary of Available Industrial Space – July 2013						
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	344,416	28	99	-55,621	-49,184	-77,864
South West	119,639	14	96	-53,397	-33,827	-71,113
Inner Central West	183,935	20	107	4,322	18,190	20,931
South	61,527	8	135	8,011	12,350	-28,137
<b>Total</b>	<b>709,517</b>	<b>70</b>	<b>105</b>	<b>-96,685</b>	<b>-52,471</b>	<b>-156,183</b>
<b>Building Quality</b>						
Prime	305,355	34	121	5,640	425	15,199
Secondary	404,162	36	89	-102,325	-52,896	-171,382
<b>Building Type</b>						
Existing Stock	614,156	61	103	-96,727	-56,798	-177,686
Speculative (Completed)	53,150	6	116	-15,809	396	41,148
Spec. Under Construction	42,211	3	117	15,851	3,931	-19,645

Source: Knight Frank

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



Source: Knight Frank

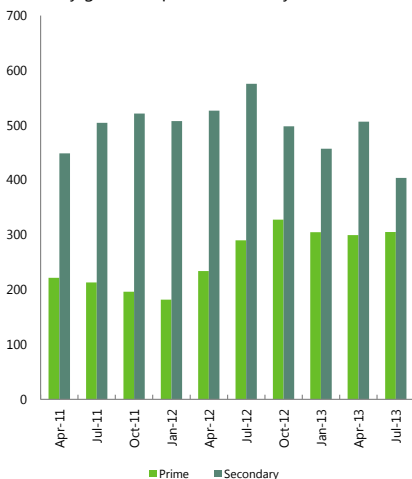
Excluding the gross take-up from the four assets that accounted for the majority of leasing activity, gross take-up measured only 66,504m<sup>2</sup>. This figure represents a relatively softer level of underlying demand with the majority of businesses continuing to behave in a conservative manner.

71% of gross take up stemmed from secondary stock. This result was predominantly driven by strong leasing activity at Yennora Distribution Centre, where a mixture of new leases with both existing and new tenants was achieved.

## Quality of Stock

As at July 2013 prime vacancies totalled 305,355m<sup>2</sup> compared with 404,162m<sup>2</sup> for secondary. This marked an increase in the proportion of vacancies consisting of prime stock to 43% given the stronger absorption of secondary stock. Although this is the highest proportion since the time series began, it is unlikely to remain as high over the coming year. This is due to the majority of backfill space anticipated to enter the market over 2013 consisting of secondary stock as well as some of the recent leases been taken out on relatively shorter lease terms.

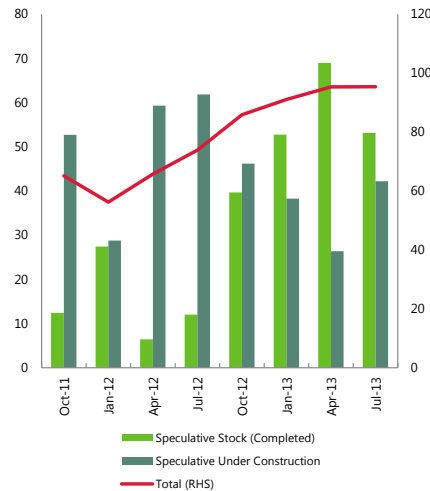
Figure 3  
Sydney Industrial Available Space  
'000m<sup>2</sup> by grade - April 2011 to July 2013



Source: Knight Frank

Of the 305,355m<sup>2</sup> of prime stock available, 95,361m<sup>2</sup> or 31% is made up of speculative stock as shown in Figure 4 (both completed and under construction). This amount is almost identical to the figure last month following three speculative leases being offset by the commencement of Australand's 15,840m<sup>2</sup> speculative development at Eastern Creek. The recovery in demand from sub 10,000m<sup>2</sup> users continues to be reflected in average lease sizes. In the first half of 2012, average lease sizes for speculative stock was almost 11,000m<sup>2</sup>, however this has almost halved in 2013.

Figure 4  
Speculative Stock  
'000m<sup>2</sup> - October 2011 to July 2013



Source: Knight Frank

## Distribution by Precinct

As at July, vacant stock in the Outer West totalled 344,416m<sup>2</sup> or 48.5% of the total Sydney figure. The amount of vacant stock is considerably lower compared to a year ago, during which time vacancy has declined by 77,864m<sup>2</sup>, albeit with this figure boosted by some recent leases of relatively short duration. Prime vacant stock amounts to 130,477m<sup>2</sup>, however 69% of this consists of either completed speculative stock or speculative stock under construction.

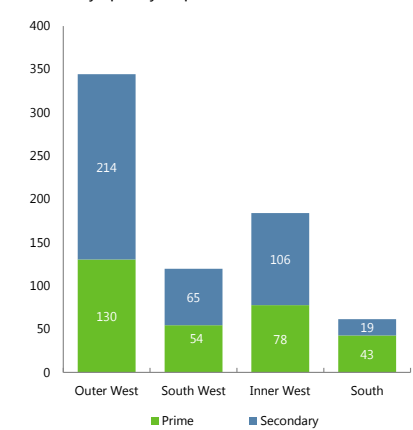
Several large leasing deals amounting to gross take-up of 85,513m<sup>2</sup> saw vacant stock in the South West decline by 53,397m<sup>2</sup> during the quarter. South West vacant stock amounts to 119,639m<sup>2</sup>, of which 54,438m<sup>2</sup> is prime quality.

Vacant stock levels in the Inner Central West measure 183,935m<sup>2</sup>. The Inner Central West is the only region to record a vacancy increase over both the last quarter and year. Quarterly leasing activity was softest in this region with the only leases recorded being sub 5,000m<sup>2</sup> and therefore outside the scope of this report.

The South region remains the precinct with the lowest amount of vacant stock, which currently measures 61,527m<sup>2</sup>. Although this

represents an increase of 8,011m<sup>2</sup> compared to the April quarter, the figure is 28,137m<sup>2</sup> lower compared to a year ago. The recent increase was a result of some forthcoming vacancies in August offsetting 15,733m<sup>2</sup> of gross take-up.

Figure 5  
July 2013 Available Space  
'000m<sup>2</sup> by quality & precinct

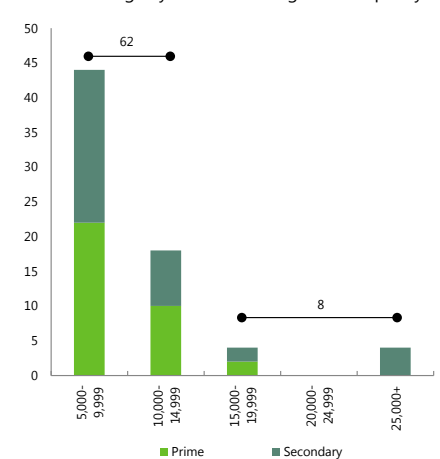


Source: Knight Frank

## Size of Available Stock

Indicative of the lack of modern, large buildings available for lease, only two prime vacancies exist in excess of 15,000m<sup>2</sup>. Six options of this size exist in the secondary space. There is a greater availability of options for tenants at the smaller end of the market with 62 options smaller than 15,000m<sup>2</sup> (of which 32 are prime).

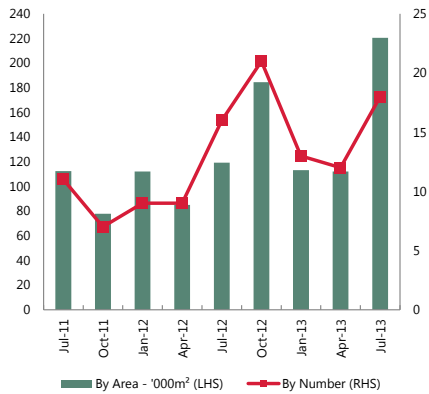
Figure 6  
July 2013 Available Space  
No of buildings by size of building m<sup>2</sup> and quality



Source: Knight Frank

**Building Take-up**

Figure 7  
Sydney Industrial Take - up by quarter  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)

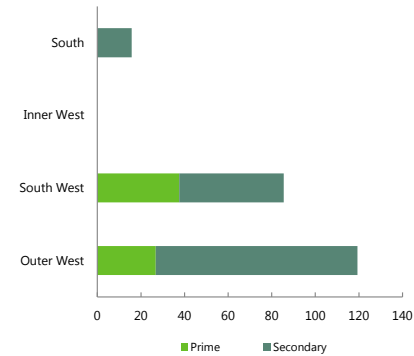


Source: Knight Frank

During the July quarter, 18 leases greater than 5,000m<sup>2</sup> (excl. D&C's) were recorded covering an area of 220,576m<sup>2</sup>. However removing the impact of several large lease

deals, tenant demand continues to track in line with the modest levels recorded in previous quarters. Tenants still appear relatively cautious with the majority of lease expiries being renewed as opposed to tenants relocating to new premises.

Figure 8  
Sydney Industrial Take-up 3 months to July 2013  
Estimated Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

**Summary**

Approximately 200,000m<sup>2</sup> of pre-lease supply is anticipated to be added to the market in the second half of 2013. The majority of resulting backfill space will stem from secondary buildings, which is likely to see a rise in secondary vacancies as the year progresses. This trend will favour the outlook for prime rents compared to secondary and this is already being borne out with softer secondary rental growth and some instances of negative re-leasing spreads in secondary assets where landlords have sought to secure tenants. With leasing conditions being particularly tight for large, prime leasing options, larger users will continue to look to the pre-lease market to satisfy new space requirements.

**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> (ex. D&C).
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 available 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 July 2013, ie. the beginning of the third quarter.

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

<b>Inner Central West</b>	West of Concord Road to Cumberland Highway including the suburbs of Silverwater, Rydalmere, Auburn, Lidcombe, Rosehill, Regents Park, Chullora
<b>Outer West</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>South</b>	Located South of the CBD including the suburbs of Alexandria, Botany, Banksmeadow, Mascot, Roseberry, Matraville, Hillsdale, Waterloo
<b>South West</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

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