

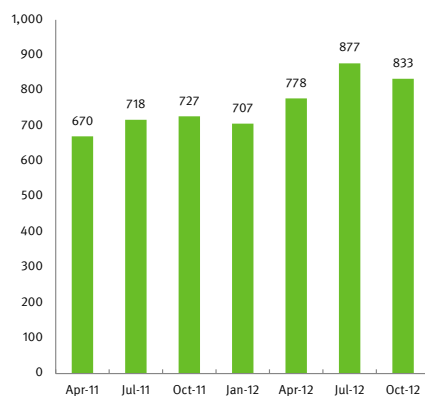


# OCTOBER 2012 SYDNEY INDUSTRIAL VACANCY ANALYSIS

## Knight Frank

A strong increase in leasing activity during the three months to October 2012 saw the Sydney industrial market record a 5.0% decrease in available space to 833,180m<sup>2</sup>. Although still low in a relative sense, the proportion of vacancies consisting of prime stock increased to 38% compared to 33% the previous quarter. This was a result of strong secondary take up in addition to the commencement of some further speculative construction, some prime sub lease space and some new prime vacancies in the Inner West region. This resulted in an increase in prime vacancies and a reduction in secondary vacancies.

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



Source: Knight Frank

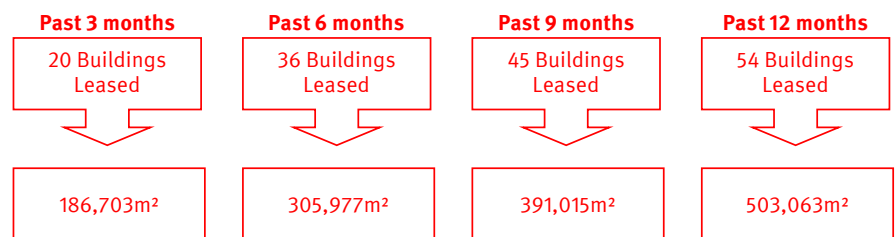
The steady improvement in leasing activity and gross take up (excl. D&C's) recorded last quarter has continued. The October quarter recorded gross take up of 186,703m<sup>2</sup>, which was the largest quarterly take up figure recorded since the series began in July 2011. Demonstrating the improved leasing momentum, 61% of gross take up in the past year has consisted of leasing deals over the past six months.

Table 1  
Summary of Available Industrial Space – October 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	413,328	26	96	-8,952	59,848	99,721
South West	172,350	14	92	-12,677	23,172	11,541
Inner West	176,391	19	106	5,681	1,665	-45,524
South	71,111	9	116	-27,825	-29,174	40,481
<b>Total</b>	<b>833,180</b>	<b>68</b>	<b>101</b>	<b>-43,773</b>	<b>55,511</b>	<b>106,219</b>
<b>Building Quality</b>						
Prime	316,031	28	116	25,875	82,163	119,868
Secondary	517,149	40	90	-69,648	-26,652	-13,649
<b>Building Type</b>						
Existing Stock	759,107	61	99	-43,988	47,162	97,267
Speculative (Completed)	38,618	4	110	26,616	32,198	26,198
Under Construction	35,455	3	117	-26,401	-23,849	-17,246

Source: Knight Frank

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



Source: Knight Frank

Across the precincts, the South showed the largest fall in vacancies, declining 27,825m<sup>2</sup>. The South West and Outer West also recorded falls in vacant stock, declining 12,677m<sup>2</sup> and 8,952m<sup>2</sup> respectively. In the Outer West, the relatively modest decline was despite the region recording the highest gross take up (97,507m<sup>2</sup> or 52.2% of quarterly total), with

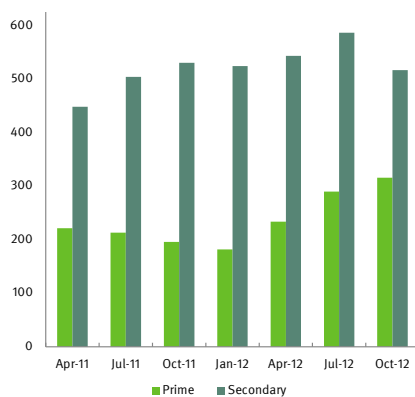
new speculative development and some prime sub lease space offsetting the take up somewhat. The only precinct to record an increase in vacancies was the Inner West, where vacant stock increased 5,681m<sup>2</sup> to 176,391m<sup>2</sup>.



## Quality of Stock

As at October prime vacancies totalled 316,031m<sup>2</sup> compared with 525,205m<sup>2</sup> for secondary. The proportion of vacancies which are prime grade has steadily increased for three consecutive quarters. The weighting has increased from the 26% recorded in January 2012 to currently measure 38%.

Figure 3  
Sydney Industrial Available Space  
'000m<sup>2</sup> by grade - April 2011-October 2012

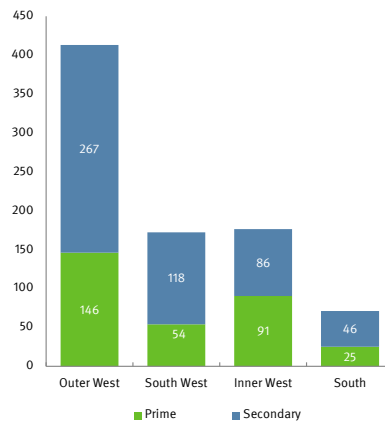


Source: Knight Frank

The source of the rise in prime vacant stock has been the Outer West and Inner West regions. In the former, the first half of 2012 was impacted by some large backfill vacancies, however the most recent quarter was driven by the commencement of 30,140m<sup>2</sup> of speculative construction by DEXUS at Templar Road, Erskine Park in addition to a large sub lease of 18,600m<sup>2</sup>. In the Inner West, five new prime vacancies entered the market in the October quarter.

Speculative stock continues to be well received by the market. Over the last year, 103,587m<sup>2</sup> of speculative stock has been absorbed across twelve new lease deals. A number of speculative projects have completed during the last quarter taking the level of completed speculative development available for lease to 38,618m<sup>2</sup> (12,002m<sup>2</sup> previous quarter). However this was offset by speculative projects under construction still available for lease declining from 61,856m<sup>2</sup> to 35,455m<sup>2</sup>.

Figure 4  
October 2012 Available Space  
'000m<sup>2</sup> by quality & precinct



Source: Knight Frank

## Distribution by Precinct

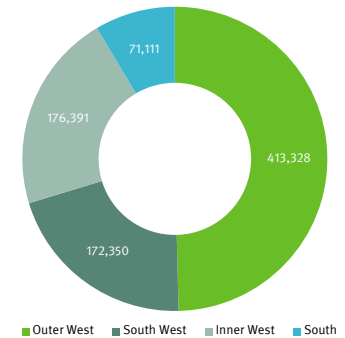
The market with the most available space is the Outer West with 413,328m<sup>2</sup> of vacancies. Of this, 146,238m<sup>2</sup> is prime grade with 82,910m<sup>2</sup> made up from five existing buildings. The balance of prime vacancy is made up of speculative developments (33,188m<sup>2</sup> completed speculative and 30,140m<sup>2</sup> speculative under construction).

In the South West, prime vacancies remain dominated by a large 37,564m<sup>2</sup> sub lease, which accounts for 70% of prime vacancies. Recorded leasing deals over the quarter, however, were all made up of secondary buildings, which underpinned a 12,667m<sup>2</sup> fall in vacant stock.

After recording four successive quarterly falls in vacant space, the Inner West saw a reversal in trend with vacant stock increasing by 5,681m<sup>2</sup>. The increase was driven by a 25,004m<sup>2</sup> increase in prime space. 18,963m<sup>2</sup> of gross take up of secondary stock offset this somewhat.

The South region remains the precinct with the lowest amount of vacant stock. Following a large prime deal in Matraville, prime vacancies now amount to a particularly tight 25,161m<sup>2</sup>. Secondary vacant stock is higher at 45,950m<sup>2</sup>, with approximately half of this located in Kingsgrove.

Figure 5  
October 2012 Available Space  
'000m<sup>2</sup> by precinct

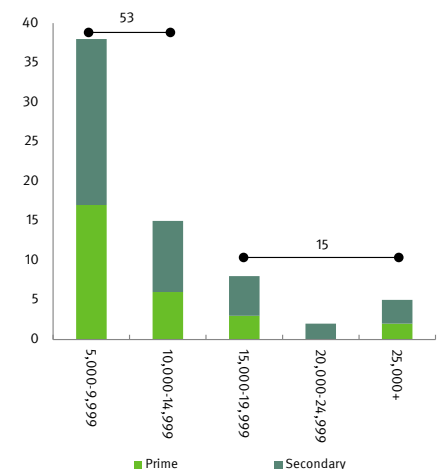


Source: Knight Frank

## Size of Available Stock

Analysis of the size of industrial vacancies in 5,000m<sup>2</sup> intervals (refer Figure 6) 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 five 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, 53 vacant options exist below 15,000m<sup>2</sup>.

Figure 6  
October 2012 Available Space  
No of buildings by size of building m<sup>2</sup> and quality



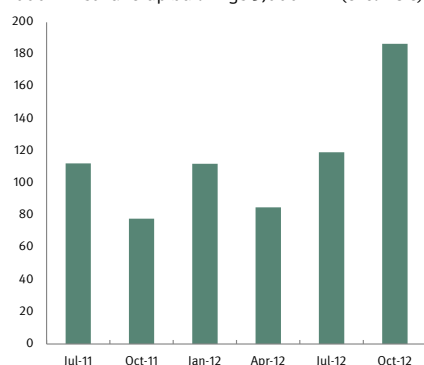
Source: Knight Frank



## Building Take-up

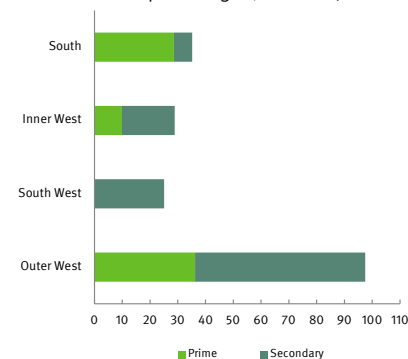
Deal velocity showed strong improvement during the October quarter with Knight Frank estimating that 20 buildings greater than 5,000m<sup>2</sup> (excl. D&C's) were leased covering an area of 186,703m<sup>2</sup>.

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

Figure 8  
Sydney Industrial Take-up 3 months to October 2012  
Estimated Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

Gross take up was predominantly driven by secondary assets despite the majority of leasing enquiry in the market seeking modern facilities. While the larger quantity of secondary options was partly the reason for

this, it was also driven by some tenants now seeking cheaper storage options with shorter lease terms (to increase flexibility).

## Summary

After the increase in vacant stock recorded in the first half of 2012, the October quarter was more positive with the level of vacant stock declining. The improved momentum that has been generated in deal activity is expected to help further continue this trend over the remainder of 2012 with several current vacancies already under offer. Some pending backfill space is likely to offset this impact somewhat, although not to the extent exhibited by new backfill space earlier in the year.

## 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 *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 October 2012, the beginning of the fourth 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>

### Derek Erwin

Managing Director - Parramatta  
+61 2 9761 1836  
0409 828 790  
Derek.erwin@au.knightfrank.com

### Tony Gargaro

Managing Director - Parramatta  
+61 2 9761 1835  
0407 800 000  
Tony.gargaro@au.knightfrank.com

### Eugene Evgenikos

National Director, Industrial  
+61 2 9036 6769  
0427 77 88 99  
Eugene.evgenikos@au.knightfrank.com

## Knight Frank Research

### Nick Hoskins

Associate Director, Research NSW  
+61 2 9036 6766  
Nick.hoskins@au.knightfrank.com

### Matt Whitby

National Director, Head of Research and Consultancy  
+61 2 9036 6616  
Matt.whitby@au.knightfrank.com

[www.knightfrank.com.au](http://www.knightfrank.com.au)