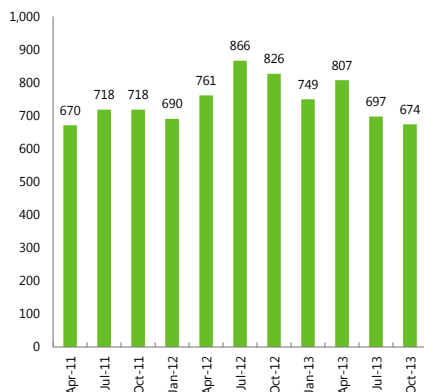


OCTOBER 2013 SYDNEY INDUSTRIAL VACANCY ANALYSIS

The steady down trend in Sydney vacancy levels since mid-2012 continued in the October quarter with vacant stock (+5,000m²) declining 23,143m² to 673,754m². This reflects a 22% decline since the peak recorded in July 2012.

Gross take-up moderated considerably during the quarter measuring only 71,769m². By comparison 220,576m² was recorded in the July quarter, while the average rate since the series began in July 2011 has been circa 120,000m². It is noted that the July quarter take-up was exaggerated somewhat given the impact of a small number of large, significant deals. Excluding these, there does not appear to have been the deterioration in underlying momentum that the headline figure suggests, but rather a continuation of steady behaviour by tenants. However, post the Federal election, signs of improving leasing conditions have emerged with approximately 60,000m² of vacant stock currently under offer, of which 90% is prime quality. This is expected to underpin an increase in prime take-up leading into the Christmas period.

Figure 1
Sydney Industrial Market
'000m² available space



Source: Knight Frank

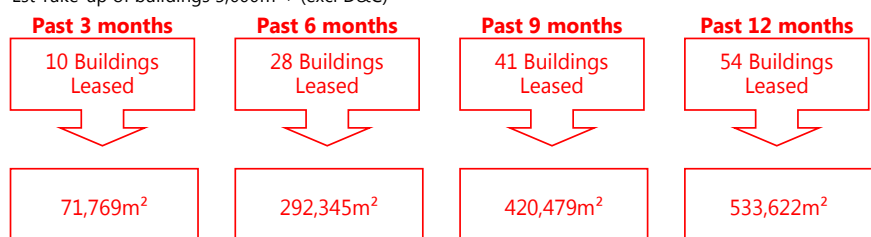
Table 1 Summary of Available Industrial Space – October 2013						
Market	Available Space (m ²)	Number of Buildings	Av. Asking rent (\$/m ² net)	Change past quarter (m ²)	Change past 6 months (m ²)	Change past 12 months (m ²)
Precinct						
Outer West	314,810	26	98	-29,606	-98,611	-110,277
South West	107,367	14	100	348	-53,049	-70,708
Inner Central West	177,556	18	107	-6,379	-2,057	16,460
South	74,021	10	122	12,494	20,505	12,182
Total	673,754	68	104	-23,143	-133,212	-152,343
Building Quality						
Prime	290,139	34	118	-15,216	-9,576	-37,651
Secondary	383,615	34	90	-7,927	-123,636	-114,692
Building Type						
Existing Stock	597,245	59	104	-4,291	-114,402	-143,020
Speculative (Completed)	49,838	6	117	-3,312	-19,121	10,163
Spec. Under Construction	26,671	3	110	-15,540	311	-19,486

Source: Knight Frank

The amount of new vacant stock that became available during the quarter was particularly low at only 43,841m². This is approximately one third of the average amount of new vacancies that usually become available each quarter. While this contributed to the lower vacancy figure, it is largely a reflection of the lower leasing volumes that has reduced the natural churn in the larger end of the leasing market.

A number of new developments are scheduled to complete in the final quarter of 2013 and early 2014. This is expected to see a number of backfill options become available in the next few quarters. The majority of the limited amount of backfill that has hit the market so far in 2013 has comprised secondary buildings, however potential backfill in the next two quarters is a mixture of both prime and secondary.

Figure 2
Sydney Industrial Market
Est Take-up of buildings 5,000m²+ (excl D&C)

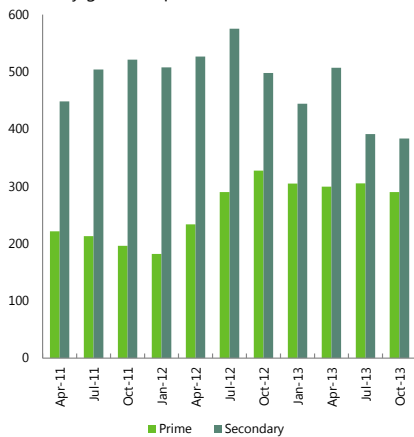


Source: Knight Frank

Quality of Stock

As at October 2013 prime vacancies totalled 290,139m² compared with 383,615m² for secondary. The level of prime vacancies has remained stubbornly elevated over 2013 with the majority of gross take-up consisting of secondary stock. This has occurred despite the majority of tenant enquiry seeking prime grade facilities. This is a likely reflection of relatively low confidence levels that has seen a number of tenants take cheaper, short term leases in secondary assets with intentions of making more permanent, long term decisions once confidence increases. With the confidence reading from the NAB September Business Survey reaching its highest level in 3½ years, there is scope for prime leasing enquiry to start translating into improved take-up in coming quarters. With the majority of leases currently under negotiation consisting of prime stock, there is evidence of this trend already emerging.

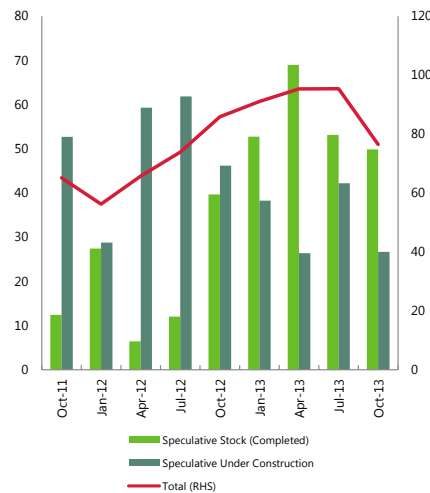
Figure 3
Sydney Industrial Available Space '000m² by grade - April 2011 to October 2013



Source: Knight Frank

Of the 290,139m² of prime stock available, 76,509m² or 26% is made up of speculative stock as shown in Figure 4 (both completed and under construction). This represents a decline of 18,852m² from the July quarter, which is the first quarterly fall since January 2012. Underpinning this fall was a combination of some speculative vacancies being leased as well as fewer new speculative projects progressing to the construction stage.

Figure 4
Speculative Stock '000m² - October 2011 to October 2013



Source: Knight Frank

Distribution by Precinct

As at October, vacant stock in the Outer West totalled 314,810m² or 41% of the total Sydney figure. The October quarter saw vacant stock decline by 29,606m², which was predominantly a result of speculative stock absorption. The relative cost of brand new facilities in the Outer West compared to existing facilities in regions closer to the CBD remains a strong attraction for tenants to the region.

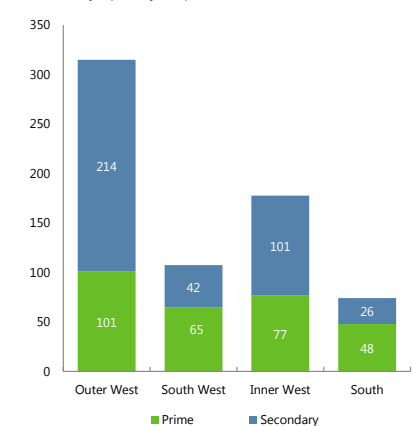
Vacancies in the South West have broadly held steady and currently measure 107,367m². With approximately 15,000m² of stock currently under negotiation, vacancies are likely to reduce in the short term before some vacancy pressure in 2014 with several tenant departures scheduled for the second quarter next year.

Vacant stock levels in the Inner Central West measure 177,556m². Leasing deals in excess of 5,000m² have been extremely limited in 2013 with the region recording the least amount of gross absorption amongst the four Sydney regions. However with approximately 17,000m² of leases under negotiation, the fourth quarter is expected to be an improvement on the year thus far.

The South region remains the precinct with the lowest amount of vacant stock, which currently measures 74,021m². This is marginally higher than the average level

recorded since the start of 2012, although with three buildings in excess of 5,000m² under negotiation, vacant stock levels are expected to reduce quickly. Currently, two thirds of vacant space is prime grade including one speculative project.

Figure 5
October 2013 Available Space '000m² by quality & precinct

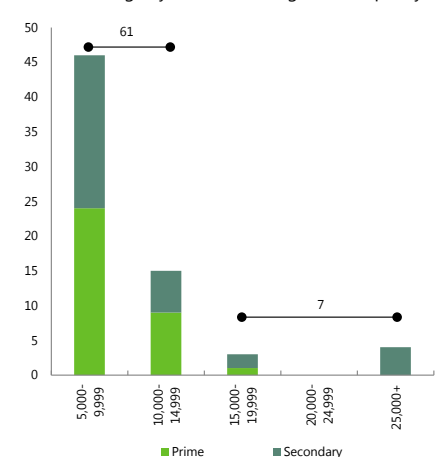


Source: Knight Frank

Size of Available Stock

Indicative of the lack of modern, large buildings available for lease, only one prime vacancy exists in excess of 15,000m². 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 61 options smaller than 15,000m² (of which 33 are prime).

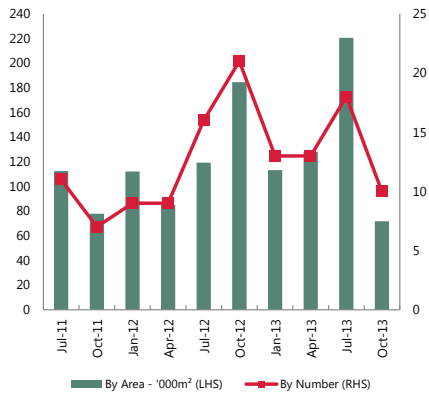
Figure 6
October 2013 Available Space No of buildings by size of building m² and quality



Source: Knight Frank

Building Take-up

Figure 7
Sydney Industrial Take-up by quarter
'000m² Est Take-up buildings 5,000m² + (excl D&C)

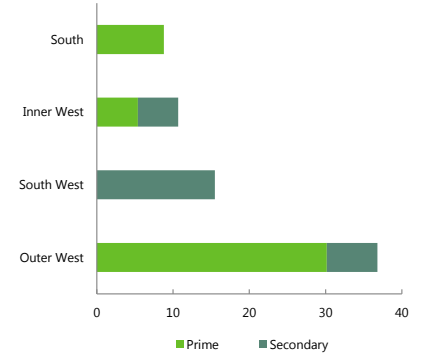


Source: Knight Frank

Leasing activity was steady in the October quarter with 10 leases greater than 5,000m² (excl. D&C's) being recorded covering an area of 71,769m². Although this indicated a

decline in activity from the July quarter, removing the impact of a few large lease deals from the July quarter indicates that the decline was not the sharp fall in underlying demand that the headline figure suggests.

Figure 8
Sydney Industrial Take-up 3 months to October 2013
Estimated Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Summary

Given the relatively softer gross take-up since mid-2013, the continuation of the downward trend in vacancy levels has been an encouraging result. Stronger business confidence post the federal election is providing scope for leasing demand to show some improvement, while the volume of stock under negotiation is also providing a positive sign. For several quarters, we have been anticipating the effect on vacant stock levels from a number of pre-lease development completions. Earlier in the year, vacancy pressure was expected to commence from the third quarter, however more clarity on completion dates indicates it will more likely be the next two quarters. The prime component of backfill is expected to be counter balanced by relatively firmer leasing enquiry for prime stock that is starting to translate into deal flow.

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 5,000m² (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 October 2013, ie. the beginning of the fourth quarter.

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

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