

APRIL 2014

SYDNEY
INDUSTRIAL

Vacancy Analysis

HIGHLIGHTS

- Vacant industrial property levels in Sydney increased 11,200m² in the April quarter to measure 668,765m² in total. The modest 1.7% increase was a relatively good result given gross take-up continues to track below trend.
- Gross take-up (excl. D&Cs) for the April quarter measured 80,709m², which is 31% below the average level since the series began in 2011. Alleviating soft leasing demand, however, has been a number of owner occupiers acquiring sub 8,000m² buildings on a vacant possession basis.
- Comparatively firmer tenant demand for prime grade facilities remains evident in the take-up data with 67% of gross absorption since mid-2013 consisting of prime grade stock (nine months gross take-up of 174,692m² prime vs 84,331m² for secondary). This trend has seen a sharp drop in the amount of speculative stock available for lease, with the bulk of product having been absorbed.

Table 1
Sydney Industrial Available Space 5,000m²+ as at April 2014

Precinct	Available Space	No. of Buildings	Av Asking Rent	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality	
	(m ²)		\$/m ² net			Prime %	Secondary %
Outer West	316,672	25	98	11,416	-96,749	28.8	71.2
South West	91,924	12	98	-4,466	-68,492	56.4	43.6
Inner West	153,771	15	116	-10,341	-17,493	66.3	33.7
South	106,398	12	149	14,591	52,882	81.4	18.6
Sydney Total	668,765	64	112	11,200	-129,852	49.6	50.4

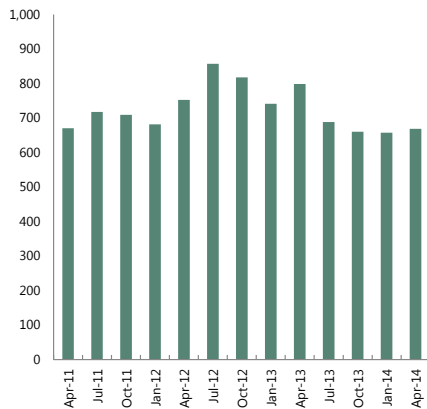
Source: Knight Frank

Prime: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10%-20%.

Vacant industrial stock levels in Sydney have held relatively steady over the past 12 months. In the April quarter a modest increase of 11,200m², or 1.7%, was recorded. Vacant stock (+5,000m²) now measures 668,765m², which is 22% below the peak recorded in July 2012. Despite a number of vacancies currently under offer, the vacancy rate is likely to experience some upward pressure in the next six months given several forthcoming backfill options set to enter the market unless tenant demand improves.

Figure 1
Sydney Industrial Market
'000m² available space



Source: Knight Frank

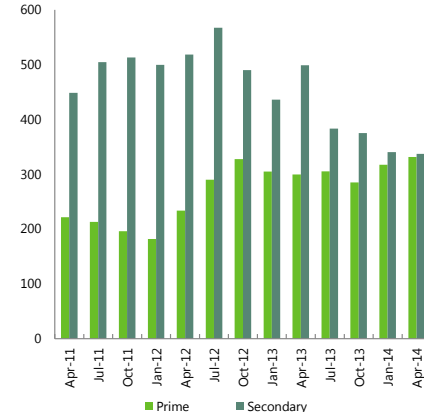
There is currently keen buying interest from owner occupiers. In the last six months, six assets amounting to approximately 40,000m² have been withdrawn from the vacancy count after being acquired on a vacant possession basis for owner occupation. This trend is likely to continue given the depth of active enquiry in the market and the ability

for owner occupiers to acquire business premises via a self managed superannuation fund (SMSF). Another trend exerting downward pressure on supply has been rezoning in inner Sydney markets, which in many cases is changing the highest and best use to residential. Demand from developers for such redevelopment opportunities is substantially strong at present.

Quality of Stock

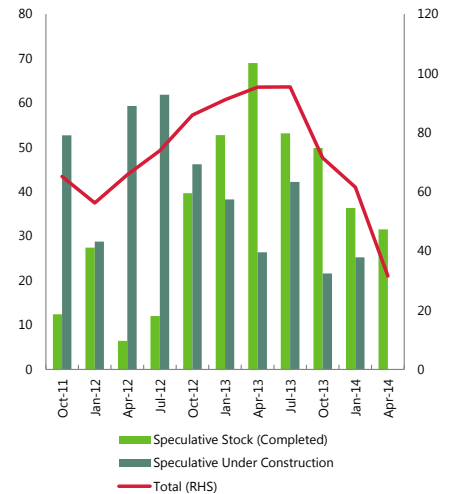
As at April 2014 prime vacancies totalled 331,668m² compared with 337,097m² for secondary. The proportion of total vacancies made up of prime stock is now at its highest level since the series began. It is noted, however, that the prime figure includes some older buildings in the South Sydney market that have been considered prime due to clearance and functional attributes.

Figure 2
Sydney Industrial Available Space
'000m² by grade - April 2011 to April 2014



Source: Knight Frank

Figure 3
Speculative Stock
'000m² - October 2011 to April 2014



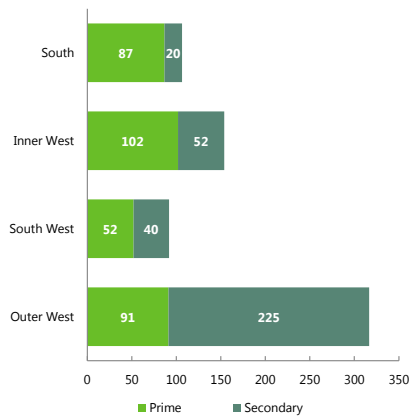
Source: Knight Frank

Speculative stock available for lease (including both under construction and completed) has fallen substantially since the middle of 2013 to now measure 31,536m². Around one third of this currently under offer. The fall in speculative availability partly reflects some successful leasing outcomes, however also reflects a lack of new speculative developments commencing. While some projects are earmarked to imminently progress, in most cases an adjoining anchor tenant will be necessary prior to commencement.

Distribution by Precinct

The majority of vacant stock is located in the Outer West, which accounts for 47% of the total Sydney figure. Options are more limited in the South and South West, which contribute only 16% and 14% respectively to the total figure. Tenant migration to outer ring locations with close proximity to major infrastructure has seen a relative outperformance in the Outer West and South West regions in terms of vacancy falls. Over the past 12 months, these regions have experienced a decline in vacant stock to the tune of 96,749m² and 68,492m² respectively. Comparatively, the Inner central West has recorded only a modest decline of 17,493m², while in the South vacant stock has increased by 52,882m².

Figure 4
April 2014 Available Space
'000m² by quality & precinct

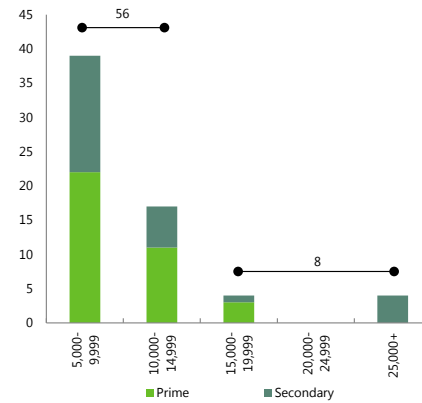


Source: Knight Frank

Size & Type of Stock

Following some backfill options entering the vacancy count, three prime vacant buildings now exist in excess of 15,000m². There are a further five secondary options of this size. The distribution of large vacancies by precinct is relatively in line with respective market sizes. There is a greater availability of options for tenants at the smaller end of the market with 56 options smaller than 15,000m² (of which 33 are prime).

Figure 5
April 2014 Available Space
No of buildings by size of building m² and quality

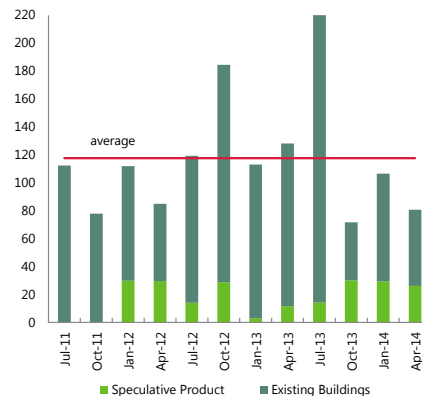


Source: Knight Frank

Building Take-up

Gross take-up in the first quarter amounted 80,709m². This included 9 leases greater than 5,000m² (excl. D&C's) covering an area of 65,098m² with the residual comprising assets acquired on a vacant possession basis. The bulk of gross absorption since mid-2013 has consisted of prime grade stock (nine months gross take-up of 174,692m² prime vs 84,331 for secondary). Coupled with pre-lease activity, which is not included in these absorption figures, prime demand is substantially outpacing that for secondary. This had not been the case in the preceding 12 months, when a number of tenants behaved cautiously and utilised cheaper secondary options with shorter lease terms.

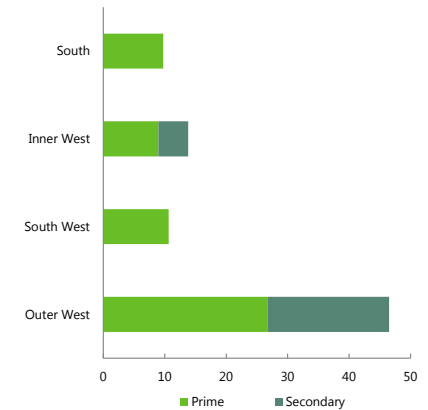
Figure 6
Sydney Industrial Take-up
'000m² Est Take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

As per Figure 6, the take up of speculative stock has been relatively firm over the past three quarters after some soft results in the prior three quarters. However limited availability of such product, given the run down in speculative construction activity, is likely to see a reduction in speculative take-up in coming quarters.

Figure 7
Sydney Industrial Take-up 3 months to April 2014
'000m² Est take-up buildings 5,000m² + (excl D&C)



Source: Knight Frank

Summary

Despite challenging leasing conditions, vacant stock levels in Sydney have been relatively well contained given low levels of new supply. However with the imminent completion of several pre-lease projects in the next two quarters, there is the potential for some unleased backfill to place pressure on vacancy levels should demand conditions not improve. Currently, the bulk of leasing enquiry is for smaller sub 2,000m² options, however there is scope for improvement over the course of 2014. The strong house price appreciation in NSW coupled with historically low interest rates has underpinned a strong housing supply response with NSW dwelling approvals as at February up 38.7% yoy. According to Deloitte Access Economics, housing investment is expected to average 12.3% growth over 2014 and 2015. Further support will also extend from the imminent ramping up of state government infrastructure expenditure.

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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. 2. Buildings are categorized into the below three types of leasing options. A) Existing Buildings – existing buildings for lease. B) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. C) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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