



SYDNEY INDUSTRIAL VACANCY JULY 2014

Key Facts

Sydney Industrial available space measures 770,014m², a 12.6% increase on the April quarter.

Gross take-up in the July quarter measured 98,276m², which is circa 17.2% below the series average.

Absorption of prime stock has outpaced secondary by a factor of two to one over the past 12 months (excl. D&C's).



Nick Hoskins
Associate Director - NSW Research

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New speculative projects and several backfill options entering the market have outweighed relatively modest leasing take-up in the July quarter with a resultant rise in available space in the Sydney Industrial market.

The commencement of a number of new speculative developments has resulted in available space within the Sydney Industrial market (5,000m²+) moving to a 15 month high of 770,014m² as at July. This is slightly above the average level since the series began in April 2011 and represents a 12.6% increase on the April 2014 quarter. Several pre-lease developments that have recently reached completion also added to the vacancy increase in the form of backfill space that has now become available for lease.

Despite a number of macro drivers for the NSW market such as retail spending and housing activity posting strong growth in 2014, leasing conditions continue to remain relative modest. Gross take-up in the July quarter measured 98,276m², which is circa 17.2% below the series average and marks the fourth successive

quarter of below average take-up. It is noted that the absorption figure continues to be boosted by some vacant possession sales to owner occupiers.

There is a clear tenant preference for prime stock, which has accounted for 66% of gross take-up over the past 12 months (excl. D&C's). By location, 53% of take-up over the past 12 months has occurred in the Outer West, while additional deal activity in the region has also been achieved in the pre-lease market given land availability. It is noted, however, that land supply is expected to start seeing some of the pre-lease demand move into the North West and South West regions in the short to medium term. Demand in the Outer West region also continues to be supplemented by a steady flow of lease deals being achieved for speculative product.

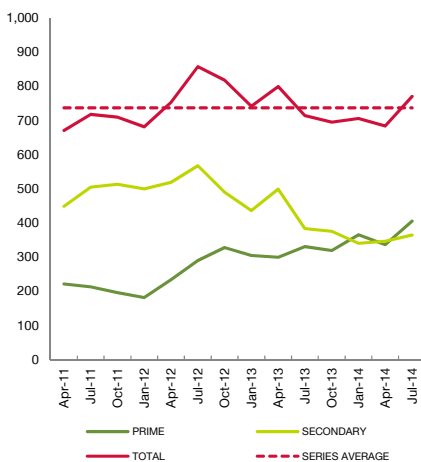
Quality of Stock

As at July 2014 prime vacancies totalled 405,263m² compared with 364,751m² for secondary. Although boosted by 93,332m² of speculative stock available for lease (including both under construction and completed), this is the highest level of vacant prime stock measured since the series began. It also reflects a sharp turnaround from the 2011 and 2012 period, during which time prime vacancies were more sparse and only accounted for 33% of the total.

Speculative Stock

A number of new speculative projects commenced during the quarter resulting in a sharp rise in the amount of speculative stock available for lease.

FIGURE 1
Sydney Industrial Market
'000m² available space by quality



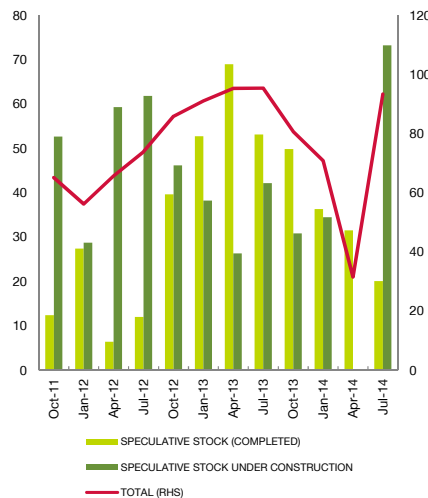
Source: Knight Frank

These projects are predominantly located in the Outer West, specifically at Eastern Creek and Huntingwood, but also in the South West, at Minto.

While almost 74,000m² of speculative stock commenced construction during the quarter, approximately 30,000m² is earmarked to additionally commence in the coming quarter. This marks a distinct turnaround after the reduction in speculative activity during the previous 12 months (refer Figure 2).

With over 100,000m² of speculative stock having been absorbed over the past 12 months, the Sydney market has demonstrated a strong capacity to absorb built for lease product. Although tenant preferences for prime stock at competitive rentals in outer ring markets close to major transport nodes is supporting leasing demand for

FIGURE 2
Speculative Stock
'000m² - October 2011 to July 2014



Source: Knight Frank

speculative product, total supply levels are also being conducive. Gross supply of industrial projects (in excess of 5,000m²) is forecast to measure 412,015m² in 2014, which, although relatively in line with 2013, is 29% below the 10 year average and continues a period of relatively low development levels.

However the recent surge in activity has been enabled by precincts such as Eastern Creek and Huntingwood being close to fully developed. This has allowed developers to progress speculative buildings with limited competition from pre-lease options within those particular markets, while also allowing developers to control the design of the facility. As a result, many of these developments comprise stand-alone buildings as opposed to the previous few years where the majority of speculative projects have comprised space adjoining an anchor tenant in the same building.

Distribution by Precinct

The majority of vacant stock is located in the Outer West, which accounts for 49% of the total Sydney figure. Options are more limited in the South and South West, which contribute only 16% and 15% respectively to the total figure. However it is noted that each of these regions have several pending vacancies which are expected to be added into the vacancy count in the October quarter.

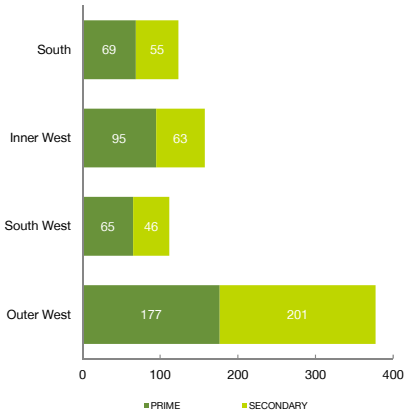
All four regions experienced a rise in vacant stock during the quarter (refer Table 1). However, were it not for the

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at July 2014

Precinct	Available Space m ²	No. of Buildings	Av Asking Rent \$/m ² net	Change Past Qtr (m ²)	Change Past Year (m ²)	Building Quality	
						Prime %	Secondary %
Outer West	377,264	31	100	45,755	7,592	46.8	53.2
South West	111,677	12	107	19,753	4,658	58.5	41.5
Inner West	157,533	17	117	3,763	-18,053	60.1	39.9
South	123,540	12	149	17,142	62,013	55.6	44.4
Sydney Total	770,014	72	113	86,412	56,210	52.6	47.4

Source: Knight Frank

FIGURE 3
July 2014 Available Space
'000m² by quality and precinct



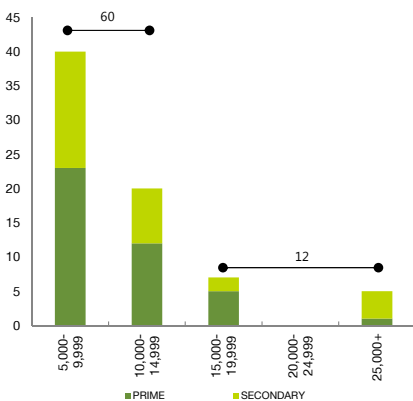
Source: Knight Frank

impact of new speculative stock, vacant stock would have reduced in the Outer West. The Inner Central West has been the only precinct to record a fall in available space over the past 12 months, falling 10% to 157,533m².

Size & Type of Stock

The number of larger vacant buildings (15,000m²) increased to 12 in the July quarter compared to 8 in the previous quarter following several larger backfill options entering the vacancy count. There is a greater availability of options for tenants at the smaller end of the market with 60 options smaller than 15,000m² (of which 35 are prime).

FIGURE 4
July 2014 Available Space
No of buildings by size and quality



Source: Knight Frank

Building Take-up

Gross take-up in the first quarter amounted 98,276m². This included 9 leases greater than 5,000m² (excl. D&C's) in addition to two vacant possession acquisitions by owner occupiers. The bulk of gross absorption continues to comprise prime grade stock, which has accounted for 66% of take-up over the past year (259,346m² prime vs 130,967m² for secondary).

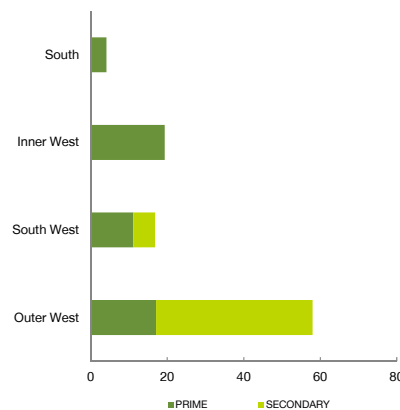
In terms of volume, take-up levels remain slightly below average. Anecdotal evidence suggests a slight moderation post-election, although it is noted that relatively firm enquiry exists for sub 2,000m² leasing options.

Outlook

With some further speculative supply in addition to several pending vacancies forecast to be added to the vacancy count in the October quarter, the market will be looking to an improvement in leasing absorption to prevent a further increase in the level of available space. Nevertheless, it is likely that any increase would be more modest than the sharp rise in the July quarter given additional new speculative projects will not be as numerous.

Led by the lift in housing construction and retail spending, the macro drivers

FIGURE 5
Take-up 3 months to July 2014
'000m² Est Take-up buildings (excl D&C)

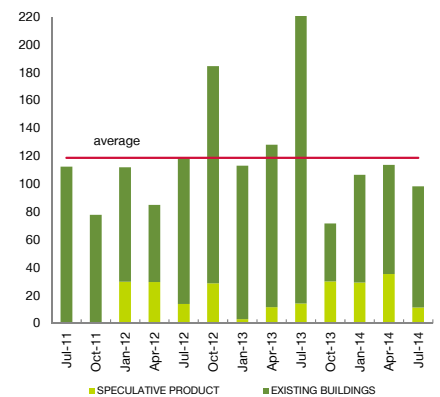


Source: Knight Frank

“macro drivers are starting to provide the basis for an improvement in tenant demand, although this is yet to materialise in deal activity”

for the NSW industrial market are starting to provide the basis for an improvement in tenant demand, although this is yet to materialise in leasing deal activity. This likely reflects business conditions, which are currently tracking below their long run average, although it is noted that the June NAB Monthly Business Survey observed a solid improvement in the transport & utilities, retail and wholesale sectors, which are key users of industrial property.

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



Source: Knight Frank

RESEARCH

Nick Hoskins

Associate Director - NSW Research
+61 2 9036 6766
Nick.Hoskins@au.knightfrank.com

Matt Whitby

National Director - Head of Research &
Consulting Services
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

INDUSTRIAL AGENCY CONTACTS

Eugene Evgenikos

National Director, Industrial
+61 2 9036 6769
Eugene.Evgenikos@au.knightfrank.com

Derek Erwin

Managing Director - West Sydney
+61 2 9761 1836
Derek.Erwin@au.knightfrank.com

Arland Domingo

Head of Industrial - Greater Western
Sydney
+61 2 9761 1812
Arland.Domingo@au.knightfrank.com

Alex Jaafar

Director - Industrial South West
+61 2 9761 1814
Alex.Jaafar@au.knightfrank.com

Paul Mileto

Director - Industrial South West
+61 2 9761 1894
Paul.Mileto@au.knightfrank.com

Michael Wydeman

Director - Head of Business Space
+61 2 9028 1127
Michael.Wydeman@au.knightfrank.com

Methodology:

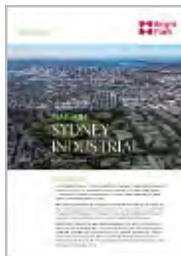
This analysis collects and tabulates data detailing vacancies within industrial properties across all of the Sydney Industrial Property Market. The analysis only includes building vacancies which meet the following criteria. 1. The sample data includes buildings with a minimum floor area of 5,000m². 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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