



# SYDNEY

## INDUSTRIAL VACANCY OCTOBER 2014

### Key Facts

**Sydney Industrial available space (5,000m<sup>2</sup>+) measures 784,371m<sup>2</sup>, a 2014 YTD increase of 8.0%.**

**Gross take-up in the July quarter measured an above average 166,398m<sup>2</sup>.**

**Prime stock accounted for 59% of gross take-up** over the past 12 months (excl. D&C's).



**NICK HOSKINS**  
 Director—NSW Research  
 Follow at @KnightFrankAu

Available space remained relatively unchanged in the October quarter. However the steady increase in gross take-up over the past 12 months is providing evidence of leasing enquiry starting to translate to higher deal volumes.

Available space within the Sydney Industrial market (5,000m<sup>2</sup>+) increased a very modest 1.5% in the October quarter to now measure 784,371m<sup>2</sup>. Although this represents an 18 month high, the rate of increase has moderated with the majority of new vacancies being a result of tenant churn, as opposed to the addition of new speculative developments as was the case in the previous quarter.

Earlier in the year, the strong house price growth being experienced across Sydney, which has been supporting retail spending and housing activity, was appearing to lay the basis for an improvement in leasing conditions in the form of higher enquiry levels. This now appears to have translated into a pick-up in gross take-up, which, after

trending upwards over the past year, measured 166,398m<sup>2</sup> in the October quarter. This is the first quarter of above average gross take-up since July 2013.

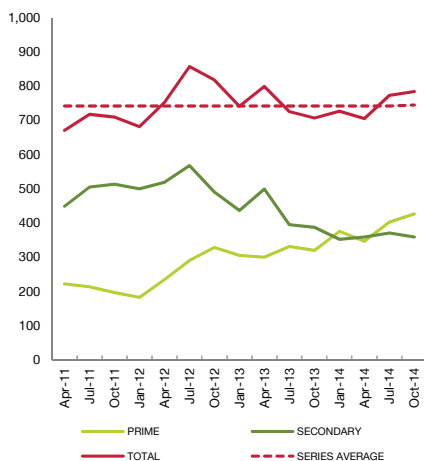
It is noted, however, that this figure was boosted by 43,200m<sup>2</sup> of vacant possession sales to owner occupiers. Excluding the impact of such sales indicates underlying leasing demand akin to the average rate over the past three years. This is consistent with anecdotal feedback from agents of demand still being inconsistent at this stage of the cycle. The trend of owner occupiers buying assets, however, has also resulted in a number of sub-lease vacancies entering the market given the need to assign the lease from the previous premises.

## Quality of Stock

As at October 2014 prime vacancies totalled 425,877m<sup>2</sup> (54% of total) compared with 358,494m<sup>2</sup> for secondary. Boosted by 86,191m<sup>2</sup> 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 in 2011. 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.

However it is worth noting that tenant preference for prime stock is demonstrated by the 59% of gross take-up over the past 12 months constituting prime stock. This figure excludes D&C's, which indicates an even higher proportion of leasing activity constituting prime grade assets.

FIGURE 1  
**Sydney Industrial Market**  
'000m<sup>2</sup> available space by quality



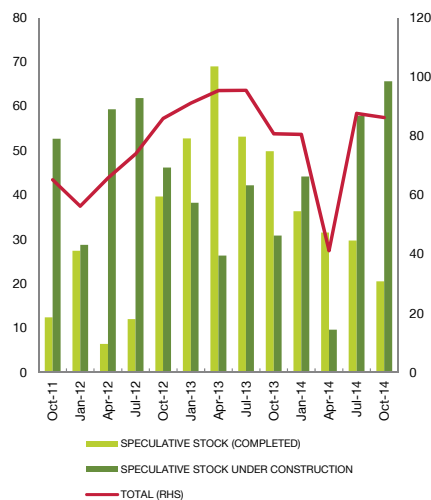
Source: Knight Frank

## Speculative Stock

Following a sharp pick-up in the July quarter, speculative stock levels have remained relatively steady over the October quarter and measure 86,191m<sup>2</sup>. The majority (65,659m<sup>2</sup>) remains under construction and will mostly complete in early 2015. With several projects earmarked to be progressed in the forthcoming quarter, speculative stock levels are expected to remain at similar levels to current in the near term.

Over the past 12 months, 101,375m<sup>2</sup> of speculative stock has been absorbed. Of this amount, the average duration between construction commencement and lease has been 4.1 quarters.

FIGURE 2  
**Speculative Stock**  
'000m<sup>2</sup> - October 2011 to October 2014



Source: Knight Frank

## Distribution by Precinct

The Outer West region experienced the largest fall in vacancy during the October quarter, declining by 15% to 314,558m<sup>2</sup> after accounting for almost half of the gross take-up across Sydney. However, this sharp fall in vacancy is expected to partially reverse in the next three months with several backfill options anticipated to be added to the vacancy count in addition to some new speculative projects that are likely to progress.

All other regions experienced a rise in vacancy during the quarter, however the largest increase was recorded in the South, where available space has increased by 69,053m<sup>2</sup> so far in 2014. While much of this increase has resulted from backfill space stemming from pre-leased projects, it is noted that a number of vacancies in the region are only available for lease on a short-term basis. These limits on lease duration are due to medium term plans by owners to reposition assets for adaptive re-use, and residential redevelopment.

## Size & Type of Stock

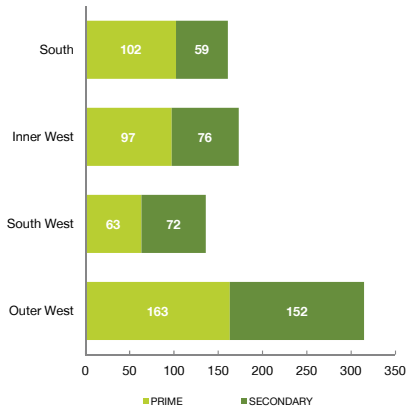
Of the 78 vacancies currently available in the market, the majority consist of sub-10,000m<sup>2</sup> options, totalling 51 (of which 29 are prime). Few options exist at the large end of the market with only four options above 20,000m<sup>2</sup>, of which only one is prime grade (refer Figure 4).

TABLE 1  
**Sydney Industrial Available Space 5,000m<sup>2</sup>+ as at October 2014**

Precinct	Available Space m <sup>2</sup>	No. of Buildings	Av Asking Rent \$/m <sup>2</sup> net	Change Past Qtr (m <sup>2</sup> )	Change Past Year (m <sup>2</sup> )	Building Quality Prime %	Building Quality Secondary %
Outer West	314,558	29	100	-56,931	-34,808	51.8	48.2
South West	135,798	15	99	12,583	21,989	46.6	53.4
Inner West	173,155	19	116	18,630	3,948	56.2	43.8
South	160,861	15	150	37,321	86,839	63.6	36.4
<b>Total</b>	<b>784,371</b>	<b>78</b>	<b>113</b>	<b>11,603</b>	<b>77,968</b>	<b>54.3</b>	<b>45.7</b>

Source: Knight Frank

**FIGURE 3**  
**October 2014 Available Space**  
'000m<sup>2</sup> est. by area and quality



Source: Knight Frank

## Building Take-up

Gross take-up in the October quarter amounted 166,398m<sup>2</sup>. This was the strongest outcome since the July quarter in 2013. While there has been a modest improvement in leasing demand, it is noted that the take-up figure was materially boosted by a number of assets being acquired by owner occupiers. Such acquisitions accounted for 26%, or 43,200m<sup>2</sup> of the total take-up figure.

By location, 58% 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. 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.

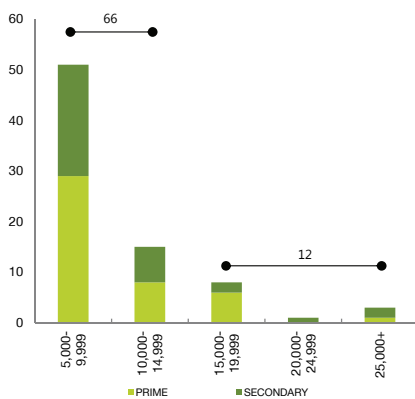
## Outlook

Approximately 70,000m<sup>2</sup> of stock comprising either pending tenant departures in early 2015 or likely speculative development starts, is currently being monitored and may be added to the vacancy count next quarter if not leased prior. As a result, vacant stock levels are expected to remain slightly above average in early 2015. Nevertheless, the steady improvement in gross take-up is expected to limit any increase.

Although housing construction and retail spending remain supportive of a continual improvement in leasing activity, it is noted that conditions are likely to remain somewhat inconsistent given the recent pull back in business conditions index surveys. However with the relative outperformance of conditions in the transport sector, it is likely that growth will continue to be underpinned by logistics oriented tenants.

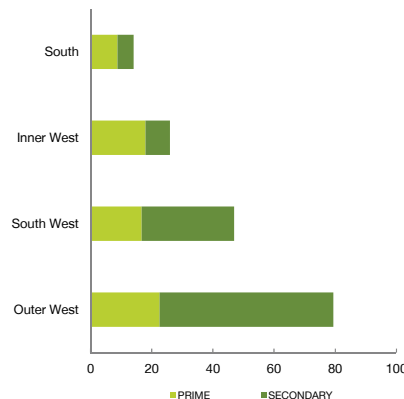
“The Outer West experienced the largest fall in vacancy during the October quarter, declining by 15% to 314,558m<sup>2</sup>”

**FIGURE 4**  
**October 2014 Available Space**  
No. of buildings by size and quality



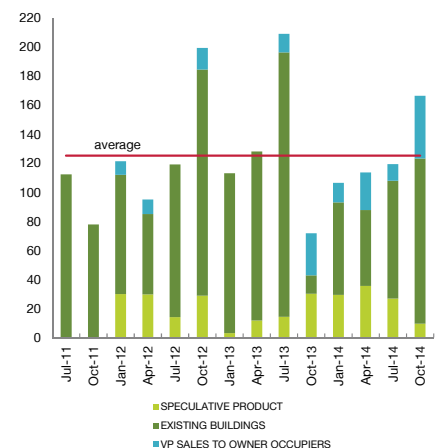
Source: Knight Frank

**FIGURE 5**  
**Take-up 3 months to October 2014**  
'000m<sup>2</sup> est. take-up buildings (excl. D&C)



Source: Knight Frank

**FIGURE 6**  
**Sydney Industrial Take-up**  
'000m<sup>2</sup> take-up buildings 5,000m<sup>2</sup>+ (excl. D&C)



Source: Knight Frank



**RESEARCH & CONSULTING**

**Nick Hoskins**

Director, NSW  
+61 2 9036 6766  
Nick.Hoskins@au.knightfrank.com

**Matt Whitby**

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

**NSW**

**David Morris**

Managing Director - Sydney West  
+61 2 9761 1818  
David.Morris@au.knightfrank.com

**Richard Horne**

Managing Director - NSW  
+61 2 9036 6622  
Richard.Horne@au.knightfrank.com

**INDUSTRIAL**

**Eugene Evgenikos**

Head of Industrial Investments  
+61 2 9036 6769  
Eugene.Evgenikos@au.knightfrank.com

**Derek Erwin**

Senior Director  
+61 2 9761 1836  
Derek.Erwin@au.knightfrank.com

**Alex Jaafar**

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

**Paul Mileto**

Director  
+61 2 9761 1894  
Paul.Mileto@au.knightfrank.com

**Michael Wydeman**

Director - 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 5,000m<sup>2</sup>. 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.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

**RECENT MARKET-LEADING RESEARCH PUBLICATIONS**



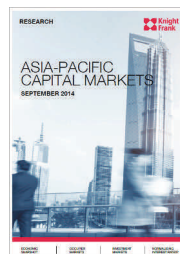
Sydney Apartments Residential Brief Q3 2014



Sydney CBD Office Market Overview September 2014



Parramatta Office Market Brief September 2014



Asia Pacific Capital Markets September 2014

Knight Frank Research Reports are available at [KnightFrank.com.au/Research](http://KnightFrank.com.au/Research)

© Knight Frank 2014 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.

