



# SYDNEY

## INDUSTRIAL VACANCY FEBRUARY 2015

### Key Facts

**Sydney Industrial available space (5,000m<sup>2</sup>+) increased 18.1% in 2014 to 857,882m<sup>2</sup>.**

**Improving leasing take-up, particularly in the Outer West,** likely to result in vacancies stabilising, or potentially reducing, in coming quarters.

**Prime stock accounted for 66.3% of gross take-up** over the final quarter of 2014 (excl. D&C's).



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

Leasing demand has posted two consecutive quarters of take-up (excl. D&C's) above the series average. However an above average amount of vacant stock entering the market has resulted in a two year high for available space.

As at January 2015, Sydney industrial vacant space (5,000m<sup>2</sup>+) amounted to 857,882m<sup>2</sup>. This amount of space is 14.0% above the series average after increases on both a quarterly and annual basis (7.0% and 18.1% respectively). Underpinning the increase in vacancies was an above average volume of new leasing options entering the market. Vacant stock levels have now increased for three successive quarters.

Although supply/development of new stock is yet to return to pre-GFC levels, approximately half of new pre-leases are currently stemming from developers moving tenants from existing buildings as opposed to lease deals satisfying new expansionary demand. This trend reflects the drive for consolidation and operational efficiencies that come with the benefits of new facilities in prime locations. Nevertheless, this trend

has been a contributing factor behind the rise in the vacancy rate.

After showing signs of improvement in the October quarter, the level of gross take-up (excl. D&C's) in the January quarter showed continued momentum with take-up measuring 145,142m<sup>2</sup>. Activity was particularly strong in the Outer West where a lack of completed speculative stock has resulted in a number of existing buildings being absorbed.

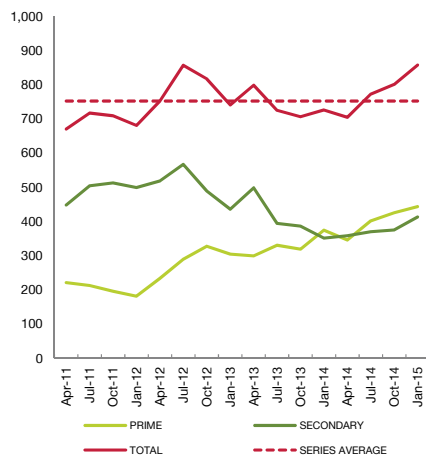
It is expected that vacancy levels should start to stabilise over the first half of 2015. Supporting this outlook is the 84,000m<sup>2</sup> of vacant stock that is currently under offer, while the amount of imminent/forthcoming vacancies currently being tracked has reduced compared to 2014. The majority of these have either already been added to the vacancy list or been leased.

## Quality of Stock

As at January 2015 prime vacancies totalled 444,270m<sup>2</sup> (51.8% of total) compared with 413,613m<sup>2</sup> for secondary. Although boosted by 85,318m<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.

There is a clear tenant preference for prime stock as demonstrated by 61% 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

Despite the progression of a further 36,352m<sup>2</sup> of speculative projects in the January quarter, overall levels of vacant speculative space remained broadly stable given the absorption of 35,632m<sup>2</sup> of such product. As at January, speculative stock available for lease measured 85,318m<sup>2</sup>. The majority (71,845m<sup>2</sup>) remains under construction. Over the past 12 months, 107,655m<sup>2</sup> of speculative stock has been absorbed.

## Distribution by Precinct

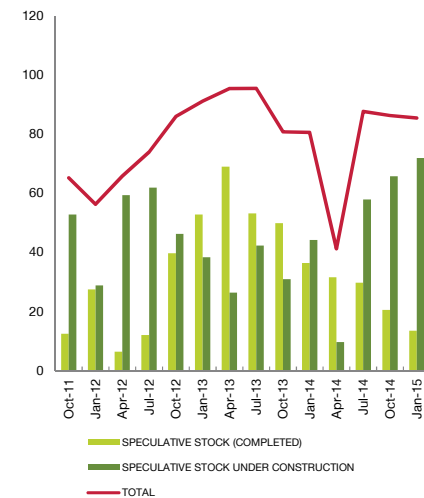
The bulk of vacancies exist in the Outer West, where 380,717m<sup>2</sup> of vacant space is located, equivalent to 44.4% of the Sydney total. Although Outer West vacancies increased by 17,975m<sup>2</sup> during 2014, the region experiencing the commencement of 86,998m<sup>2</sup> of speculative development during that

period. This amount is expected to reduce in the next quarter given a number of options currently under offer.

Vacancies are relatively low in the South West region at 119,532m<sup>2</sup>. Low interest rates continue to support vacant possession sales to owner occupiers, a trend that has resulted in such sales accounting for almost half of gross take-up in calendar year 2014.

Tenant migration continues to impact the Inner Central West with vacant stock increasing 34,541m<sup>2</sup> over 2014 to 198,653m<sup>2</sup>. Vacant stock is tending to have relatively long leasing periods with the majority of owners in the region focussed on renewing leasing for existing tenants. However, Industrial rezoning to residential within Inner Sydney industrial markets has helped alleviate the overall impact of modest leasing demand on vacancy levels.

FIGURE 2  
**Speculative Stock**  
'000m<sup>2</sup> - October 2011 to January 2015



Source: Knight Frank

The largest increase in vacant space during 2014 was in the South region, where a 67,173m<sup>2</sup> rise was recorded. While part 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

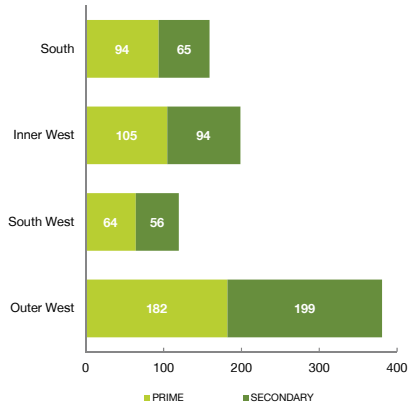
Of the 84 vacancies currently available in the market, the majority consist of sub-10,000m<sup>2</sup> options, totalling 56. Reflecting the consolidation of occupiers into new, more efficient facilities, 36 of these are

TABLE 1  
**Sydney Industrial Available Space 5,000m<sup>2</sup>+ as at January 2015**

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	380,717	31	97	40,945	17,975	47.8	52.2
South West	119,532	16	94	-16,266	11,604	53.5	46.5
Inner Central West	198,653	22	116	33,833	34,541	52.6	47.4
South	158,981	15	147	-1,880	67,173	59.0	41.0
<b>Total</b>	<b>857,882</b>	<b>84</b>	<b>110</b>	<b>56,632</b>	<b>131,293</b>	<b>51.8</b>	<b>48.2</b>

Source: Knight Frank

**FIGURE 3**  
**January 2015 Available Space**  
'000m<sup>2</sup> est. by area and quality



Source: Knight Frank

prime. Few options exist at the large end of the market with only seven options above 20,000m<sup>2</sup>, of which only two are prime grade (refer Figure 4).

### Building Take-up

Gross take-up in the January quarter amounted 145,142m<sup>2</sup>, which continued the improvement in leasing volumes over the course of 2014. Tenants in the construction and logistics industries have underpinned a number of enquires, however enquiry from larger tenants in other sectors has been more inconsistent.

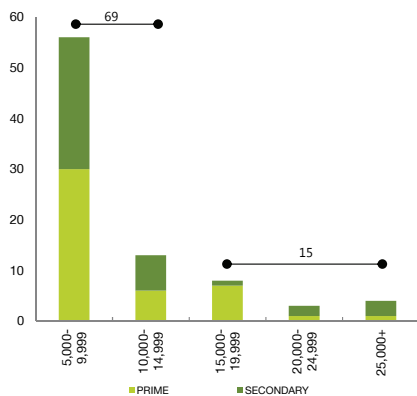
The structural trend of tenant migration to outer ring locations has been reflected during 2014 by gross take-up trends amongst the regions. The Outer West has accounted for 56% of take-up over the past 12 months. While additional deal activity in the region has also been achieved in the pre-lease market, it is noted 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

With a number of macro tailwinds from the NSW economy (population growth, new home construction, retail spending and new infrastructure), there are improving signs for leasing conditions in the Sydney market. Anecdotal feedback from agents suggests leasing enquiry so far in 2015 appears to have improved with momentum in gross take-up/absorption expected to continue in coming quarters. The circa 84,000m<sup>2</sup> of space under offer supports this outlook and suggests vacant stock levels should start to stabilise with the potential for some retracement.

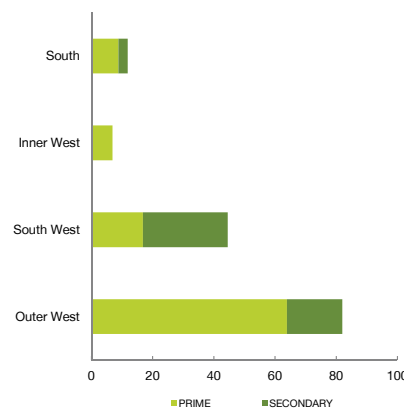
“momentum in gross take-up/absorption is expected to continue in coming quarters... with circa 84,000m<sup>2</sup> of space under offer”

**FIGURE 4**  
**January 2015 Available Space**  
No. of buildings by size and quality



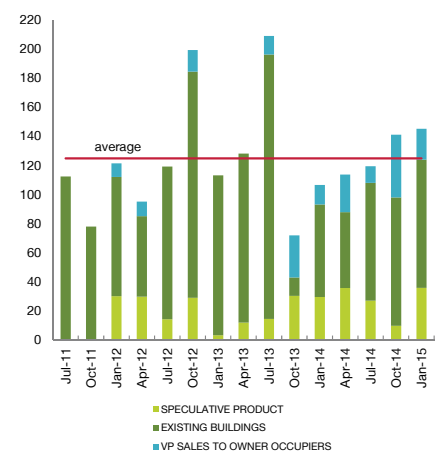
Source: Knight Frank

**FIGURE 5**  
**Take-up 3 months to January 2015**  
'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 Research  
+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

**INDUSTRIAL**

**Eugene Evgenikos**

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

**David Morris**

Managing Director - Sydney West  
+61 2 9761 1818  
David.Morris@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 Industrial Market Brief  
November 2014



Australian CBD & Non-CBD Office Top Transactions  
2014



Australian Retail Investment Market  
February 2015



Global Capital Markets  
Q1 2015

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.

