RESEARCH

SYDNEY

INDUSTRIAL VACANCY APRIL 2015

Key Facts

Sydney Industrial available space (5,000m²+) declined by 2.2% in the April quarter to 796,156m².

The majority of vacancies comprise prime stock (58.3%). Secondary vacancies are now at their lowest point since the series began.

Gross take-up in the April quarter amounted to 165,941m², the highest result since the July quarter in 2013.

NICK HOSKINS

Director—NSW Research

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The steady upward trend in leasing deal volumes has continued with the third consecutive quarter of take-up (excl. D&C's) above the series average. This is resulting in some stabilisation in vacant stock levels after the increase in 2014.

The first quarter of 2015 saw the continuation of steady improvement in leasing volumes being recorded in the Sydney market. Gross absorption (excl D&C's) for the three months measured 165,941m², which was the third consecutive quarter of above average gross take-up. As a result, vacant stock fell for the first time in 12 months, with available space declining to 796,156m² in the three months to April.

The Outer West recorded the largest decline in available space during the quarter, declining by 42,709m². This was followed by the South region, which reduced by 9,452m², however a number of buildings currently under offer indicates further falls will be recorded in the coming quarter. The volume of imminent/forthcoming vacancies currently being tracked has also fallen, which provides scope for available space to fall again in the second quarter.

Despite the presence of a number of headwinds to the broader economy, the pick-up in leasing volumes is consistent with a number of positive macro drivers supporting industrial demand at a state level. As at February, NSW retail sales and dwelling approvals posted year-on-year growth of 5.6% and 33.9% respectively with both figures outpacing the national average. These conditions are being reflected in business surveys with business conditions in NSW the highest amongst the mainland states.

Nevertheless, it is noted that the headline take-up figures likely overstate the improvement in underlying organic demand to a degree due to a number of leasing deals stemming from larger institutional owners moving tenants amongst portfolio assets. Anecdotal feedback from agents also indicates demand above 5,000m² still remains patchy whereas demand is more consistent for small and medium sized facilities, where the bulk of enquiries currently exist.

Quality of Stock

The divergent trend being exhibited by prime and secondary vacant stock levels over the past three years continued in the first quarter with prime vacancies recording another rise, while secondary vacancies declined to their lowest level since the time series began in 2011. The proportion of total vacancies constituting prime stock now measures 58.3%, which is a series high.

While this trend is at odds with dynamics in the leasing market, where approximately 60% of leasing deals have comprised prime stock in the past year, it largely reflects the impact of supply. New supply in 2014 added to the Sydney market (5,000m²+) measured 420,572m², which although being 25% below the 10 year average, has still been sufficient to result in a number of A-grade backfill vacancies that organic demand has not been able to absorb.

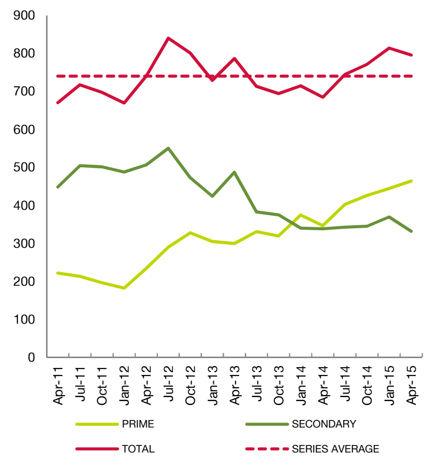
The amount of speculative stock available for lease declined in the quarter to 58,348m², of which 26,740m² is still under construction. The majority of 5,000m²+ speculative projects are being developed by larger institutions. Although the leasing of such product has been relatively successful, with almost 100,000m² of speculative stock absorbed in the past 12 months, it is noted that a number of leases have stemmed from the shuffling of tenants between portfolio assets of the developer. This trend reflects the drive for consolidation and operational efficiencies that come with the benefits of new facilities in prime locations.

Distribution by Precinct

The only region to record a decline in vacancy over the past 12 months has been the Outer West. This region currently has 293,552m² of vacancies across 23 different buildings, which has resulted in vacancies being 11.8% below the series average. This average size of vacancies measures 12,763m², which is 39.6% larger than the Sydney ex. Outer West average of 9,138m². Of all the larger, 10,000m²+ vacancies throughout Sydney, half are located within the Outer West.

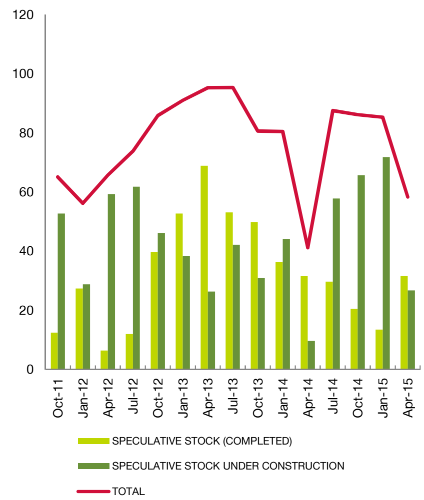
Although the South region has experienced a rise in vacant stock since 2013 following a number of backfill options entering the market and the relocation of tenants from buildings that

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



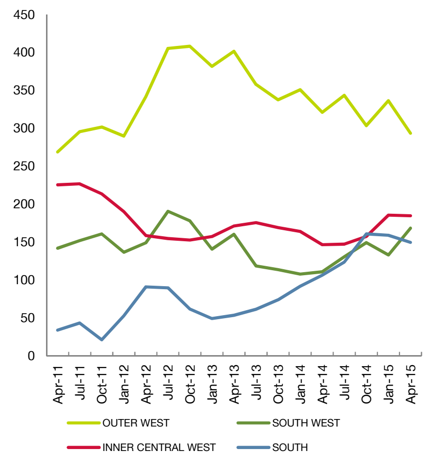
Source: Knight Frank

FIGURE 2
Speculative Stock
'000m² - October 2011 to April 2015



Source: Knight Frank

FIGURE 3
Location of Vacant Stock
'000m² available space by region



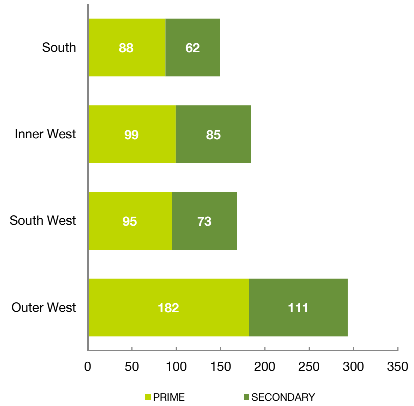
Source: Knight Frank

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at April 2015

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality	
						Prime %	Secondary %
Outer West	293,552	23	107	-42,709	-27,586	62.0	38.0
South West	168,363	21	98	35,222	57,401	56.6	43.4
Inner Central West	184,713	20	117	-957	38,105	53.7	46.3
South	149,529	14	146	-9,452	43,131	58.7	41.3
Total	**796,156**	**78**	**114**	**-17,895**	**111,052**	**58.3**	**41.7**

Source: Knight Frank

FIGURE 4
April 2015 Available Space
'000m² est. by area and quality



Source: Knight Frank

have undergone change of use, the past six months have shown signs of stabilising. Vacant stock fell 9,452m² in the quarter to 149,529m², however there is a further 23,970m² currently under offer suggesting further vacancy falls by mid 2015. While these offers partially reflect leasing demand, some stem from buyers in both owner occupier and residential development capacities. It is also 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.

The South West was the only region to record a rise in vacancies in the first quarter with an increase of 35,222m² in available space. However, despite this, quarterly gross take-up has been above average since the middle of 2014 and suggests vacancies should stabilise over the next six months. The region has also been a large beneficiary of low interest rates supporting vacant possession sales to owner occupiers, a trend that is expected to continue.

Tenant migration continues to impact the Inner Central West with vacant stock increasing 38,105m² over the past 12 months to 184,713m². Vacant stock is tending to have relatively long leasing down-time 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.

Building Take-up

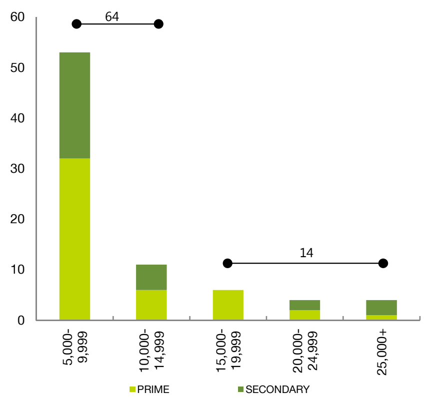
Gross take-up in the quarter to April amounted to 165,941m², which continued the improvement in leasing volumes over the past 18 months. The structural trend of tenant migration to outer ring locations is being reflected by gross take-up trends amongst the regions with the Outer West region accounting for 54.2% of gross take-up (excl D&C's) over the past year. While additional deal activity in the region has also been achieved in the pre-lease market, it is noted that limited 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.

> "The proportion of total vacancies constituting prime stock now measures 58.3%"

Outlook

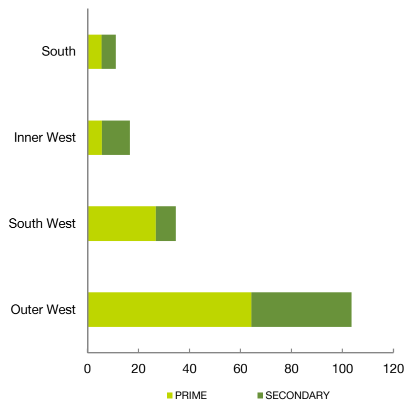
With factors such as housing construction and the progression of a number of infrastructure/transport projects set to support industrial demand in 2015, the momentum in leasing activity is anticipated to be sustained in coming quarters. Coupled with a number options currently under offer, vacant stock is expected to reduce again in the next quarter, notwithstanding the impact of some potential speculative projects that may be progressed.

FIGURE 5
April 2015 Available Space
No. of buildings by size and quality



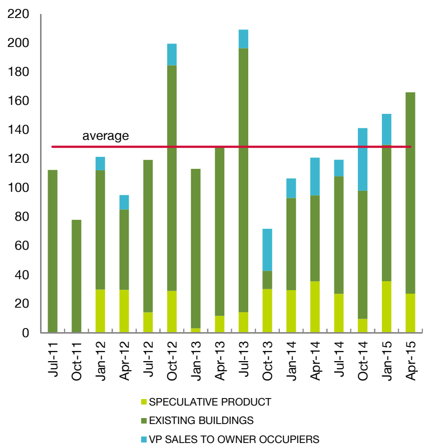
Source: Knight Frank

FIGURE 6
Take-up 3 months to April 2015
'000m² est. take-up buildings (excl. D&C)



Source: Knight Frank

FIGURE 7
Sydney Industrial Take-up
'000m² take-up buildings 5,000m²+ (excl. D&C)



Source: Knight Frank

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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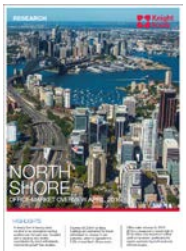

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RESEARCH & CONSULTING

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

Peter Hanzis
Associate Director
+61 2 9761 1811
Peter.Hanzis@au.knightfrank.com

David Hall
Senior Sales & Leasing Executive
+61 2 9761 1888
David.Hall@au.knightfrank.com

Chris Brophy
Senior Sales & Leasing Executive
+61 2 9761 1858
Chris.Brophy@au.knightfrank.com

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