RESEARCH

# SYDNEY
## INDUSTRIAL VACANCY JULY 2015

### Key Facts

**Sydney Industrial available space (5,000m²+) declined by 27.9%** in the July quarter to 573,672m².

**The Outer West underpinned the decline in vacancies** with the region now having the lowest amount of vacant stock, albeit hail damage induced.

**Gross take-up in the July quarter amounted to a series high of 265,994m²**, while underlying demand was 17% above trend excluding hail damage induced leasing.


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While improving take-up volumes have been placing downward pressure on vacant stock levels in 2015, the trend has been exacerbated by April's hail damage with vacancies falling sharply to a series low.

The impact of Sydney's hailstorm in late April, that resulted in a number of wide span industrial buildings sustaining critical damage, has resulted in a material drop in stock available for lease. During the July quarter, vacant stock levels declined by 222,485m² to 573,672m², which is the lowest level since the series began at the beginning of 2011. With the damage predominantly concentrated in the Huntingwood area, the bulk of the vacancy decline was in the Outer West.

Total take-up was also a series record, measuring 265,994m². However, of this total amount, 106,000m² was a direct result of tenants impacted by hail damage. The bulk of this leasing activity involved relatively short term lease terms of 12 to 15 months, and therefore some of the sharp fall in the vacancy figure will unwind over the course of the next year as damaged facilities are repaired.

Excluding hail damage related leases, take up measured 159,994m². This measure of underlying demand was relatively inline with the above average take-up recorded in the April quarter (165,941m²) and confirmed that the improving conditions in the leasing market have continued.

It is noted, however, that a number of tenants with forthcoming lease expiries, who were expected to move, ended up renewing leases at existing premises given the contraction in alternative options. As such, the underlying take-up figure is considered to be a relative improvement from the first quarter. This trend also reduced some of the natural churn in the market, which resulted in only 54,546m² of new vacancies entering the market during the quarter compared to the long run average of 137,300m². However with almost 60,000m² of accommodation/space under offer and some new speculative stock set to imminently progress, a more normal volume of new vacancies are likely to become available in the third quarter.

## Quality of Stock

The amount of vacant prime space measures 313,491m² as at July 2015. Although this is the lowest amount since October 2013, prime vacant space still accounts for the majority of the Sydney total at 55%. Secondary space has fallen to its lowest level in the series at 260,181m². Although at odds with dynamics in the leasing market, where the majority of demand comprises prime stock, this declining trend of secondary stock has also reflected numerous vacant possession sales to owner occupiers (refer 'Building Take-up').

The amount of speculative stock under construction has fallen since the high levels recorded at the end of 2014. Although several projects are earmarked for likely progression in the forthcoming quarter, speculative stock under construction currently measures 23,150m² compared to the 71,845m² recorded in the final quarter of 2014. With 54,400m² of speculative stock having been absorbed already in 2015, this has resulted in total speculative stock (both under construction and completed) falling to 37,408m², which is the lowest amount in the series.

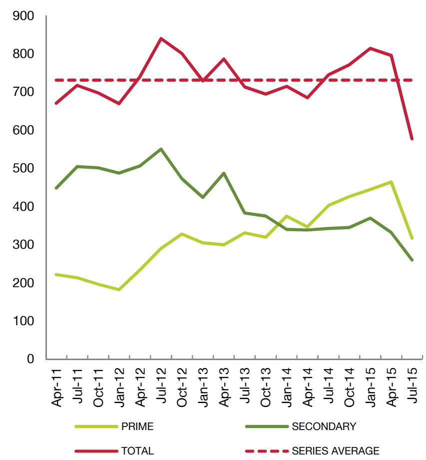
Although the leasing of speculative product has been relatively successful, with 109,837m² of speculative stock absorbed in the past 12 months, it is noted that a number of leases have stemmed from the shuffling of tenants between portfolio assets of the developer. This trend reflects the drive for consolidation and operational efficiencies that come with the benefits of new facilities in prime locations.

## Distribution by Precinct

Due to the focal point of hail damage centring on the Huntingwood precinct, the Outer West recorded the largest fall in vacant stock during the quarter, declining 169,273m² to now measure 124,279m². This represents 21.5% of the Sydney total, which is substantially less than the series average of 44.2%. While this proportion is expected to increase in coming quarters as some of the hail impact unwinds, there has nevertheless been a consistent downward trend in Outer West vacancies that has been present since 2013.

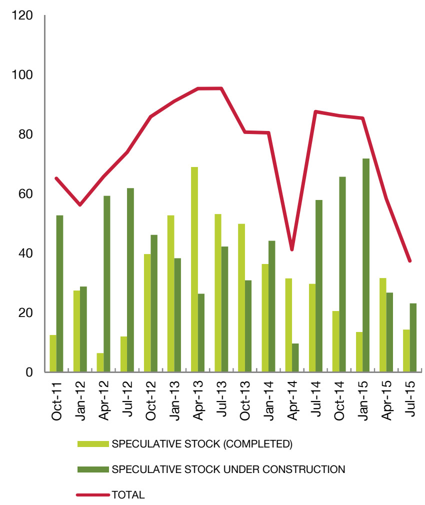
The South West and Inner Central West both recorded vacancy falls in the July quarter, declining by 23,065m² and 35,385m² respectively. However, the

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



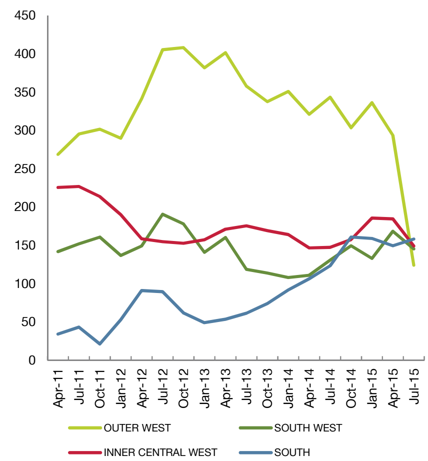

**Source:** Knight Frank Research

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




**Source:** Knight Frank Research

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



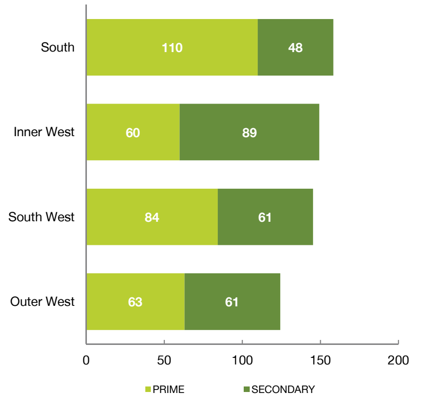

**Source:** Knight Frank Research

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

| Precinct | Available Space m² | No. of Buildings | Av Asking Rent $/m² net | Change Past Qtr (m²) | Change Past Year (m²) | Building Quality Prime % | Building Quality Secondary % |
|---|---|---|---|---|---|---|---|
| Outer West | 124,279 | 11 | 103 | -169,273 | -219,054 | 51 | 49 |
| South West | 145,298 | 18 | 99 | -23,065 | 14,583 | 58 | 42 |
| Inner Central West | 149,328 | 17 | 112 | -35,385 | 1,967 | 40 | 60 |
| South | 154,767 | 15 | 155 | 5,239 | 31,228 | 69 | 31 |
| **Total** | **573,672** | **61** | **117** | **-222,485** | **-171,276** | **55** | **45** |

**Source:** Knight Frank Research

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




**Source:** Knight Frank Research

South region recorded a modest rise, increasing by 5,239m² to 154,767m² with the increase reflecting a new speculatively built facility commencing construction. Although the region now has the highest amount of vacant stock, the headline figure is considered to overstate the underlying amount of space in the region given approximately 30,000m² is currently under offer to a mix of tenants and developers, while medium term development plans by several owners has resulted in some space only being available for short term lease.

## Building Take-up

The measured improvement in leasing activity of existing buildings continues with take-up volumes recording four consecutive quarters of above average absorption. Gross absorption (excl D&C's and the hail induced short term leases) in the 12 months to July measured 618,079m², which is 19% above the 12 month rolling average. Prime leasing has accounted for 57% of gross take-up, which represents closer to 75% of total leasing activity when accounting for pre-lease demand.

Historically low interest rates continue to underpin strong demand from owner occupiers looking to acquire vacant possession buildings for owner occupation purposes. Such sales have amounted to 102,668m² over the past year, which accounts for 14.2% of the total gross absorption figure. Owner occupier demand has comprised an even higher proportion of secondary take-up, accounting for 27.7% of the 12 month figure. This has been a result of the majority of demand being focussed on sub 7,500m² secondary buildings.

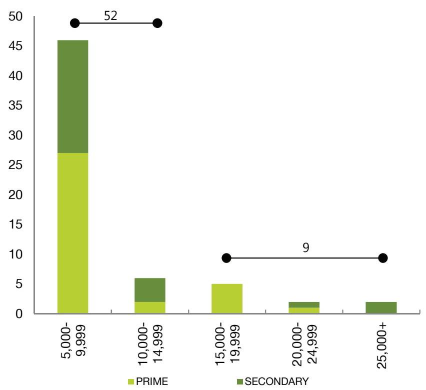
## Outlook

With the supply of new industrial space still tracking below the 10 year average, the improvement in leasing absorption indicates that available space will come under further downward pressure in the coming quarter. Leasing demand is expected to remain well supported by retail sales continuing to grow above the national average, the sharp lift in housing activity that is likely to see elevated construction persist into the medium term and the positive impact of State Government plans to reallocate $20 billion to infrastructure projects.

> "Gross absorption (excl D&C's and hail induced short term leasing) in the 12 months to July was 19% above the 12 month rolling average"

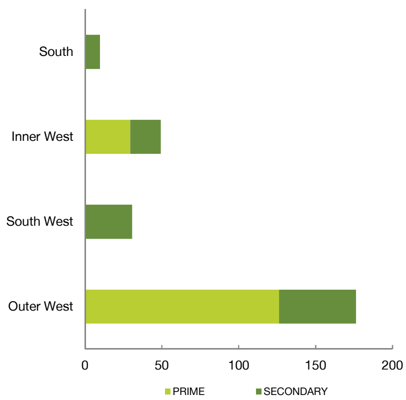
However, notwithstanding these factors, it is likely that over the medium term (6 to 18 months), there will be a degree of normalisation in total vacancy as some of the hail damage impact unwinds when damaged premises come back on line. Nevertheless, assuming current take-up volumes are sustained, the vacancy is likely to remain below the series average.

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



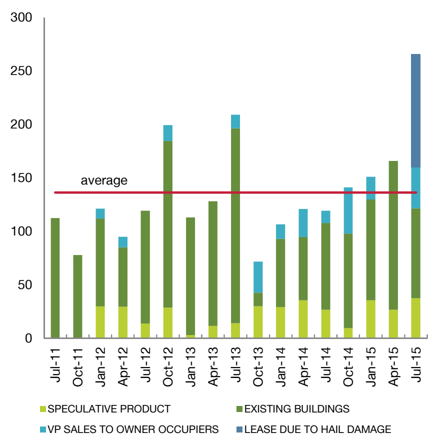

**Source:** Knight Frank Research

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




**Source:** Knight Frank Research

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




**Source:** Knight Frank Research

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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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