



SYDNEY

INDUSTRIAL VACANCY OCTOBER 2015

Key Facts

Sydney Industrial available space (5,000m²+) declined by 12% in the October quarter to a series low of 502,337m².

Occupier demand continues to prove resilient with gross take-up in the October quarter amounting to 175,389m², which is 32% above trend.

Speculative supply and the re-entry of hail damaged stock will provide some upward pressure on vacancies in 2016.



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Vacant stock declined to a new series low as at October. While an anticipated increase in leasing options is set to enter the market in 2016, above average leasing activity sees the market relatively well placed to digest this stock.

Leasing activity in Sydney continues to outperform the national average with the third quarter of 2015 recording the fifth successive period of above average take-up. Gross take-up (excl. D&C's) measured 175,389m², a rate 32% above the series average. The drive for consolidation and operational efficiencies continues to underpin a clear tenant preference for prime stock, with 70.5% of this absorption comprising prime stock. Take-up figures are expected to remain strong into 2016 with approximately 40,000m² of accommodation/space currently being under offer.

As a result of positive tenant demand, the decline in vacant stock levels, that commenced at the beginning of 2015, albeit with a hail damaged induced acceleration in the middle of the year, has continued in the October quarter. Vacant stock levels have now declined to 502,337m², which is the lowest level since the series began at the beginning of 2011.

It is anticipated that vacant stock levels will experience some upward pressure in 2016 given the advent of a number of speculative projects (refer 'Speculative Stock' commentary, page 2) and the gradual unwinding of hail damaged stock re-entering the market. In anticipation of this, a number of landlords, who own assets with mid-2016 lease expiries, have become more proactive and started marketing facilities with availabilities of up to nine months away. (Note that such assets are not included in the vacancy data as pending vacancies are only included when the tenant departure is less than three months away.)

The low amount of available stock has continued to reduce some of the natural churn in the market. Only 87,287m² new vacancies entered the market during the quarter compared to the long run average of 134,174m². However with speculative stock set to increase, a more normal volume of new vacancies are likely to become available over the next six months.

Quality of Stock

The amount of vacant prime space measures 279,196m² as at October 2015. Although this is the lowest amount since April 2012, prime vacant space still accounts for the majority of the Sydney total at 56%. Secondary space has fallen to its lowest level in the series at 223,141m². 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.

Speculative Stock

The amount of unleased speculative stock (both completed and under construction) is close to a series low at 43,639m². This is a relatively moderate amount in the context of historical take-

up rates of speculative stock, which measures 88,844m² per annum. The largest speculative project to progress during the quarter was a 20,489m² facility by DEXUS at Greystanes (1 Litton Close), due for completion in April 2016.

However, speculative activity is forecast to ramp up considerably during the next six months with a range of developers expected to imminently progress new projects. Currently, approximately 125,000m² of such speculative projects are being tracked, with developers mostly comprising institutions. However, several large privates are starting to show an interest in following suit.

In addition to the relatively favourable improvement in tenant demand, there are several factors motivating this development trend. Firstly, with the bulk of western Sydney land supply unlikely to

be readily developable within the next three years due to factors such as zoning and acquisition lead times, current land owners with appropriately zoned land have an opportunity to be active players in the supply cycle when competition is broadly limited to select group of land holders. Also, the substantial yield compression that has been recorded in investment markets has meant that developing new assets is representing a feasible alternative for many institutions to grow funds under management, as opposed to acquiring existing stock.

Distribution by Precinct

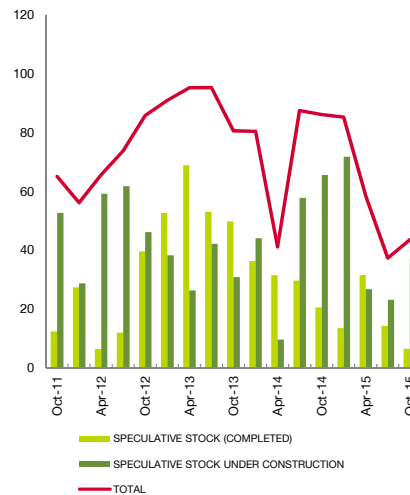
The Outer West region was the only area to record a vacancy increase during the quarter, however given the large hail induced fall in the previous quarter,

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



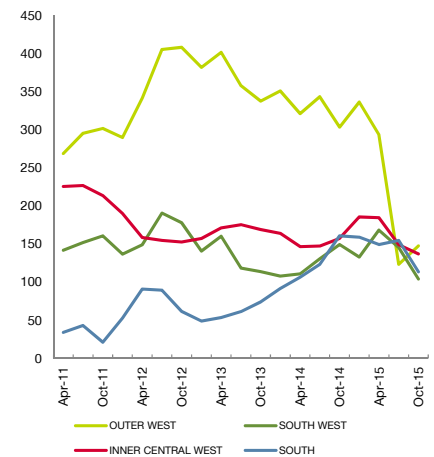
Source: Knight Frank Research

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



Source: Knight Frank Research

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



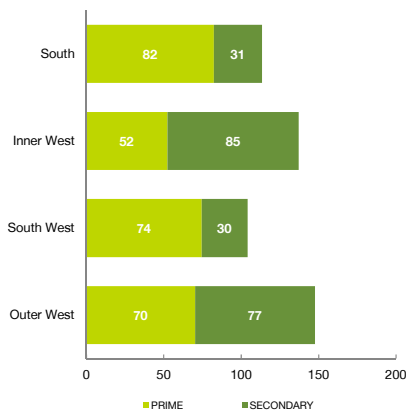
Source: Knight Frank Research

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

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 %	Building Quality Secondary %
Outer West	147,640	13	102	24,201	-155,825	48	52
South West	104,093	14	103	-41,205	-45,314	72	28
Inner Central West	137,126	18	111	-12,202	-20,531	38	62
South	113,478	12	160	-41,289	-47,383	73	27
Total	502,337	57	117	-70,495	-269,053	56	44

Source: Knight Frank Research

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



Source: Knight Frank Research

vacancy levels remain well below those recorded historically. In the South region, available space declined by 41,289m², the most of all the regions. One of the key reasons behind this fall was that a number of secondary industrial facilities that were sold to developers for change of use purposes with delayed settlements of up to two years have recently settled. This has resulted in a number of tenant displacements materialising into subsequent leasing deals. Several of the vacancies were part leased with the residual vacant space being sub-5,000m² and therefore falling outside the parameters for inclusion in the vacancy count. Partly as a result of this, a number of circa 4,000m² vacancies exist in the

market, however are not included in the headline data.

The South West and Inner Central West both recorded vacancy falls in the October quarter, declining by 41,205m² and 12,202m² respectively. This now sees the South West experiencing the region's lowest recorded amount of vacant stock. Aside from improving leasing volumes, the trend also reflects the region being a significant beneficiary of the low interest rates that have supported vacant possession sales to owner occupiers, a trend that is expected to continue.

Size & Type of Stock

Of the 57 vacancies currently available in the market, the majority consist of sub-10,000m² options, totalling 44. The 10,000m²+ options are relatively evenly distributed amongst the regions. This is limiting the choice for users looking for larger options within particular precincts.

Outlook

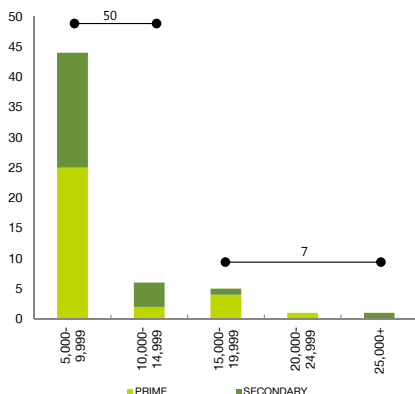
The generally positive outlook for the NSW economy as it continues to benefit from low interest rates is expected to see a continuation of the positive leasing momentum that has been generated so far in 2015. Demand is anticipated to remain most pronounced in the prime

“developing new assets is representing a feasible alternative for many institutions to grow funds under management”

market, particularly given enquiry amongst 3PL groups, who remain the most active part of the market.

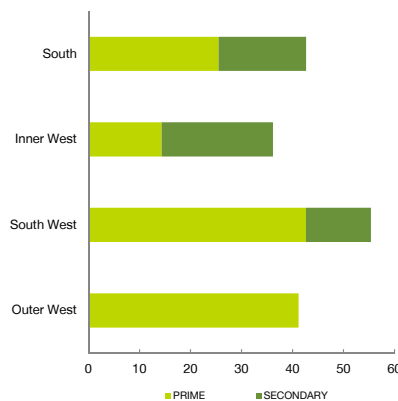
The outlook for speculative development activity and the gradual re-entry of hail damaged stock into the market stock count will provide some upward pressure on 2016 vacancy rates. However, when considered in the context of historical rates of speculative absorption, the improving tenant demand and, in particular, the relatively active enquiry levels from 3PL groups, it is expected that the vacancy rate will remain below the average level recorded since the series inception.

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



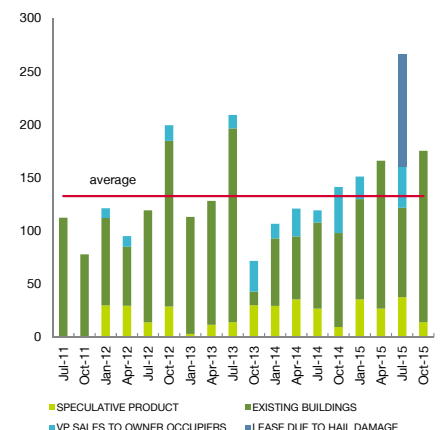
Source: Knight Frank Research

FIGURE 6
Take-up 3 months to October 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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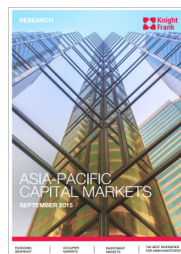
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