



SYDNEY

INDUSTRIAL VACANCY FEBRUARY 2016

Key Facts

Sydney industrial available space (5,000m²+) declined by 1.8% in the January quarter to a new series low of 493,130m².

Gross take-up in the January quarter measured 145,762m², which remains well above the longer term average.

While prime stock accounts for the bulk of vacancies at 57%, there remains a clear tenant preference for prime stock.



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Following a series low in October, vacant stock levels declined further in the three months to January, underpinned by solid leasing demand which recorded its sixth consecutive period of above average take-up.

Despite the presence of several headwinds to the broader Australian economy, New South Wales (NSW) and in particular Sydney continues to show steady growth and confidence which is supporting industrial demand across Sydney. Vacant industrial stock levels in Sydney have declined over the past quarter, reducing by 9,208m² (or 1.8%) over the three months to January 2016. Vacant stock (+5,000m²) now measures 493,130m² across 54 buildings, which is its lowest level since the series began in early 2011. On an annual basis, vacant stock levels have declined by 320,922m², albeit with a large share of this stemming from hail damaged stock which was withdrawn from the count in late April. Vacancies have also been kept low by a lack of backfill options as tenants move from sites that undergo change of use to residential.

The January quarter saw the continuation of solid leasing activity within the Sydney market, remaining well above the national average. Gross absorption (excl D&C's) for the three months to January 2016 measured

145,762m². Despite being moderately below the 175,389m² recorded for the October quarter, it was the sixth consecutive quarter of above average gross take-up. Activity was particularly strong in the Outer West where a lack of completed and under construction speculative stock has resulted in a number of sub 8,000m² vacancies being filled.

Notwithstanding the bulk of recent leasing activity being focused on prime grade stock, the level of vacant prime industrial space increased slightly over the period (1.3% increase). This was brought about by 95,259m² of prime stock additions over the quarter. Alternatively, a large reduction of secondary space in the Inner West saw total secondary stock drop by 5.7% to its lowest level on record (210,430m²).

In a sign of growing confidence amongst developers, there are a number of speculative projects which are anticipated to commence over the next three months as a select group of land holders look to capitalise on a period of weak supply.

Quality of Stock

As at January 2016, prime vacancies across Sydney totalled 282,699m², up 1.3% from 279,196m² in October. Alternatively, vacant secondary stock levels declined 5.7% to 210,430m² (from 223,141m²) over the period. While prime vacancies remain below the historical average of 312,712m², secondary stock levels are at the lowest point since the Knight Frank series began in early 2011.

Despite this, there remains a clear tenant preference for prime stock where 65% of gross take up during the quarter constituted prime stock. Additions to vacancy over the January quarter was predominantly in the form of prime stock where 95,259m² was added, over double the 40,814m² additions recorded for the secondary market.

Even with the progression of 37,240m² in speculative projects (both completed and under construction) during the January quarter, overall levels of vacant speculative space remains low, particularly in comparison to current absorption levels and the series average of 70,361m² per quarter (speculative projects). The largest speculative project to progress in recent months was Stockland's 28,800m² facility at Ingleburn (41-47 Stennett Road) which is due for completion in Q4 2016.

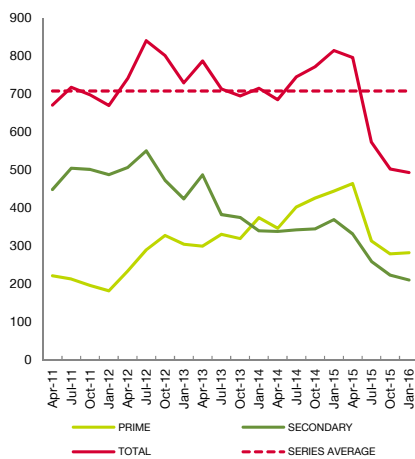
While the commencement of speculative projects are well below historical levels, the number of speculative projects is set to increase significantly throughout 2016 where over 140,000m² of supply is sitting in the pipeline. While a large share of this stems from institutions, there are several privates looking to capitalise on current strong tenant demand conditions.

Distribution by Precinct

The South West was the only region to record a vacancy increase during the January quarter as a number of new additions totalling 74,614m² were only partially offset by 37,010m² of gross take-up.

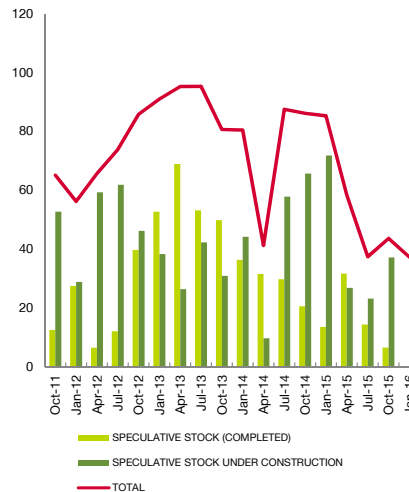
The South region experienced the largest fall in vacancy during the final quarter, declining by 20% (albeit off a low base) to 90,765m² after gross take-up across the region measured 29,813m². However, this sharp fall in vacancy is expected to be partially reversed over the next three to six months with several backfill options anticipated to be added to the vacancy count. It is noted that a number of these vacancies will only be for lease on a short term basis as owners begin medium term plans for residential redevelopment.

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



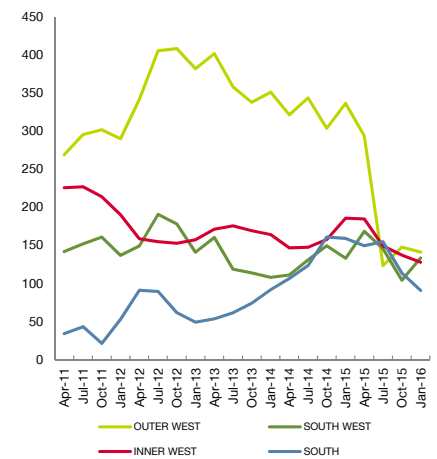
Source: Knight Frank Research

FIGURE 2
Speculative Stock
'000m² - October 2011 to January 2016



Source: Knight Frank Research

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



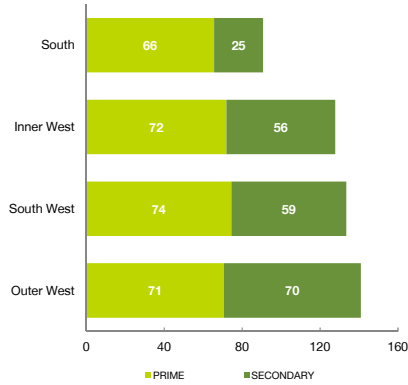
Source: Knight Frank Research

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at January 2016

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	141,019	14	95	-6,621	-195,241	50	50
South West	133,514	15	91	29,421	373	56	44
Inner Central West	127,831	15	115	-9,295	-57,838	56	44
South	90,765	10	159	-22,713	-68,216	72	28
Total	493,130	54	111	-9,208	-320,922	57	43

Source: Knight Frank Research

FIGURE 4
January 2016 Available Space
'000m² est. by area and quality



Source: Knight Frank Research

For the Inner West and Outer West regions, more moderate declines in overall vacancies was recorded at -9,295m² and -6,621m² respectively.

Building Take-up

Gross take-up in the January quarter amounted to 145,762m² which was the sixth consecutive quarter of above average gross take-up. Although it has slightly eased in recent quarters, the gravitation of industrial businesses towards outer ring locations has continued with gross take-up in the Outer West accounting for the bulk of Sydney's gross absorption, measuring 49,327m² (or 34%) during the January quarter. On an annual basis, the Outer West

accounted for 49% of gross take-up over the year to January 2016.

Elsewhere, gross take-up over the past three months was fairly even across the remaining regions, ranging from 29,612m² in the Inner West to 37,010m² in the South West (South measured 29,813m²). Notably, 51,639m² of gross take-up over the period stemmed from speculative projects (both completed and under construction), further accentuating the clear preference for newer and prime stock.

Size & Type of Stock

Of the 54 vacancies currently available in the market, the majority consists of sub-10,000m² options, totalling 39 (or 72%). There are currently 15 options available for 10,000m²+ users, 60% of which exists within the secondary market. For larger 20,000m²+ users, there are just two options available (refer Figure 5) which in conjunction with October 2015 (also two) is the lowest number since the series started in 2011.

Outlook

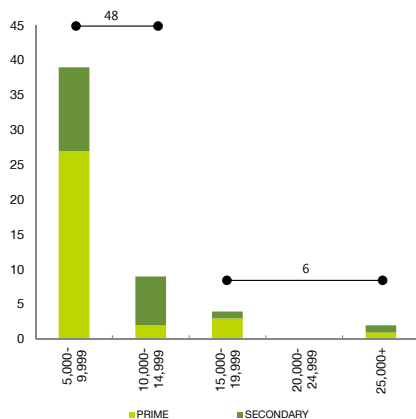
Despite recent indications of more patchy growth within the Australian economy, NSW is poised to remain the standout driver for national growth, underpinned by a significant pipeline of infrastructure works. This coupled with buoyed

“The Outer West remains the most sought after region for industrial users, accounting for 50% of gross take-up over the year to January 2016”

confidence amongst tenants is expected to translate into continued positive leasing momentum over the next 12 months, particularly from 3PL groups and housing related occupiers who remain the most active part of the market.

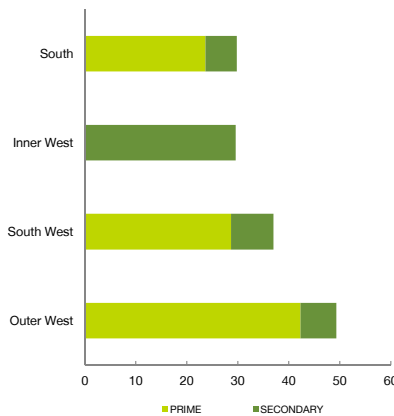
The development of speculative stock is also expected to rise in 2016 as continued downward pressure on yields encourages institutions to develop new stock to meet investment mandates as opposed to purchasing existing assets. Despite the potential for an increase in speculative stock and vacancies stemming from backfill options, it is expected that industrial vacancies will remain well below historical levels over the next six months.

FIGURE 5
January 2016 Available Space
No. of buildings by size and quality



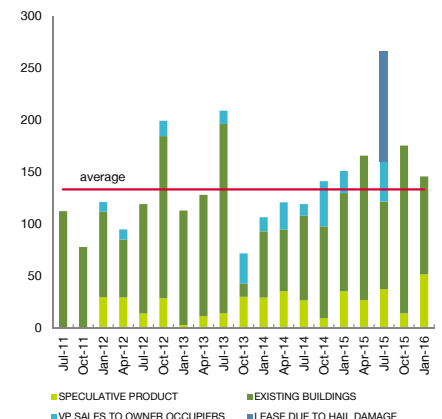
Source: Knight Frank Research

FIGURE 6
Take-up 3 months to January 2016
'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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