



SYDNEY

INDUSTRIAL VACANCY APRIL 2016

Key Facts

Sydney industrial available space (5,000m²+) declined by 1.9% in the quarter to April to 482,820m².

Gross take-up measured 190,337m² during the quarter to April, well above the longer term average.

Despite prime stock accounting for 92% of gross take-up during the past quarter, it represents 60.6% of current vacancies



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Solid leasing activity has continued with the seventh consecutive quarter of above average take-up (excl. D&C's) recorded. This has resulted in vacant stock levels (5,000m²+) declining 1.9% to a series low of 482,820m².

Industrial leasing activity in Sydney continues to outperform the national average, with the first quarter of 2016 representing the seventh successive period of above average take-up. Gross take-up (excl. D&C's) measured 190,337m² over the past quarter, a rate 35% above the series average. The drive for operational efficiencies continues to underpin a clear tenant preference for prime stock, with 92% of absorption over the past three months comprising prime stock, the highest level since the series began in 2011. Similarly, with road and rail infrastructure projects being largely concentrated in Sydney's West including the \$3.6 billion Western Sydney Infrastructure Plan, the Outer West region accounted for the majority of gross absorption over the quarter, measuring 83,404m² (44% of total).

As a result of above average leasing demand, vacant stock levels (+5,000m²) have continued to decline, reducing by 9,156m² (or 1.9%) over the past quarter. Vacant stock now measures 482,820m² across 53 buildings, surpassing the previous

series low recorded in January this year. A lack of backfill options coming onto the market as they are redeveloped to alternative uses has also been a catalyst for the series low vacant stock levels. Despite solid leasing demand for prime facilities, 60.6% of current vacancies are in the form of prime stock.

Vacant stock levels continue to vary considerably by precinct, where the addition of several large leasing options in the Outer West including DHL's backfill space at 227 Walters Road, Arndell Park (17,733m²) has resulted in vacant stock levels increasing 22.7% in the region over the quarter to total 193,445m² (up from 157,609m²). At the same time, a large reduction in vacant stock levels was recorded for both the Inner West and South regions as solid gross take-up was met with limited new additions.

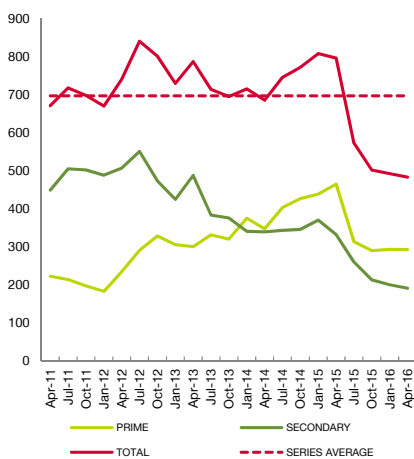
At present, there is 59,602m² of speculative industrial stock under construction, including the recent addition of Stockland's speculative 89 Quarry Road, Erskine Park project (11,690m²).

Quality of Stock

The amount of vacant prime space across Sydney (+5,000m²) currently measures 292,391m² as at April 2016, on par with the level recorded three months prior. Although prime stock remains at its lowest level since April 2012, prime vacant space still accounts for the majority of the Sydney total at 60.6%. A fall in vacant stock was recorded in the secondary market, down 4.6% from the previous quarter to a new series low of 190,429m².

Although at odds with dynamics in the leasing market, where the majority of demand comprises prime stock, the declining trend of secondary stock has also reflected a lack of secondary backfill options coming onto the market as they are redeveloped to alternative uses. This trend has been most prevalent in the South and Inner West regions.

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

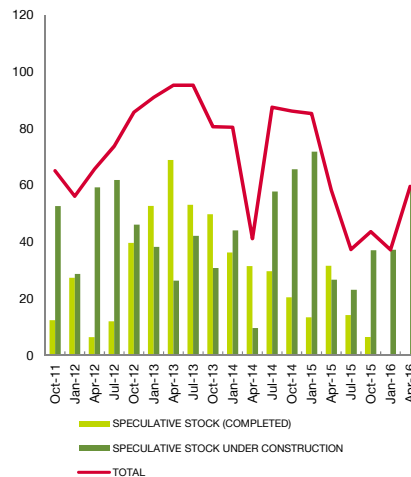


Source: Knight Frank Research

The amount of unleased speculative stock currently measures 59,602m², all of which is under construction with no vacant completed speculative stock available. Over the first three months of 2016, there were three speculative developments added to the vacancy count including Stockland's 89 Quarry Road, Erskine Park facility (11,690m²) and DEXUS's E3, Quarry, 2 Basalt Road, Greystanes project (9,500m²). Even with the progression of 30,802m² in speculative projects during the April quarter, overall levels of vacant speculative space remains low, majority of which stems from Stockland's 41-47 Stennett Road, Ingleburn project.

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 servicing, speculative development is anticipated to increase throughout 2016 as a select group of land holders progress new projects.

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



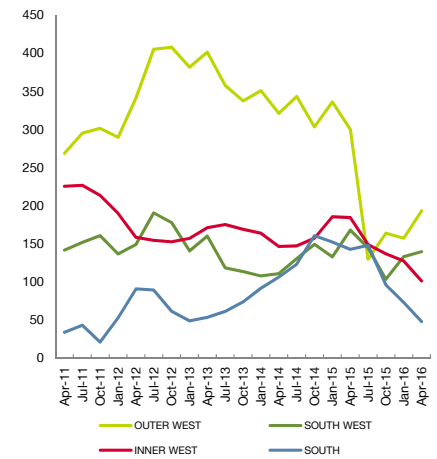
Source: Knight Frank Research

Distribution by Precinct

The western regions of the Outer West and South West both recorded an increase in vacant stock levels over the past three months, while large falls were recorded in the South and Inner West regions over the same period.

For the Outer West, the addition of several large backfill leasing options including DHL at 227 Walters Road, Arndell Park (17,733m²) has resulted in vacant stock levels increasing 22.7% to 193,445m². Likewise, Schweppes's backfill space at 376 Newbridge Road, Moorebank (9,773m²) amongst others has increased vacant stock in the South West by 4.9% to 139,754m² over the past quarter. In the South region, available space declined by 34.3% to 48,185m² as solid gross take-up including 2 Military Road,

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



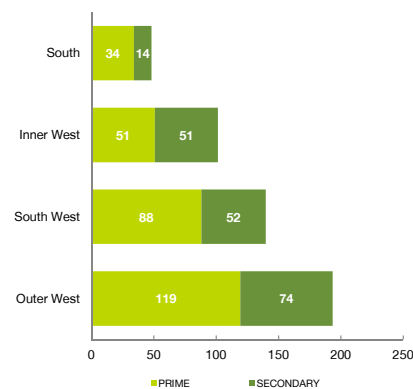
Source: Knight Frank Research

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at April 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 | 193,445 | 18 | 81 | 35,836 | -106,665 | 62 | 38 |
| South West | 139,754 | 16 | 84 | 6,516 | -28,333 | 63 | 37 |
| Inner Central West | 101,436 | 12 | 97 | -26,395 | -83,277 | 50 | 50 |
| South | 48,185 | 7 | 161 | -25,113 | -94,778 | 71 | 29 |
| Total | 482,820 | 53 | 96 | -9,156 | -313,052 | 61 | 39 |

Source: Knight Frank Research

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



Source: Knight Frank Research

Matraville (18,013m²) was met with no 5,000m²+ additions. Conversions to residential, including the ex Jewel of India space at 683 Gardeners Road, Mascot is continuing to limit leasing options in the South as industrial stock is withdrawn from the market.

Solid leasing activity of 51,097m² in the Inner West region offset 21,787m² of new vacancy additions over the past quarter, resulting in a 20.6% reduction in available space over the period. This now sees vacant stock levels in the Inner West being at their lowest level since the series began in 2011, measuring 101,436m².

Building Take-up

Strong leasing activity for existing buildings has continued over the first quarter of 2016 with take-up recording its seventh consecutive quarter of above average absorption. Gross absorption (excl D&C's) in the three months to April 2016 measured 190,337m², a rate 35% above the series average. Prime leasing has accounted for 92% of gross take-up over the period, 25,442m² of which was for under construction speculative stock, highlighting the drive for operational efficiencies and demand for modern stock.

In terms of location, the Outer West continues to underpin leasing demand, accounting for 44% of gross take-up (or 83,404m²) as four 10,000m²+ options were leased during the first quarter of 2016. Similarly, the Inner West recorded its strongest three month gross take-up on record (since the KF series began) where gross absorption totalled 51,097m² for the period, supported by Building 1 at 20 Worth Street, Chullora (15,695m²).

Elsewhere, leasing demand over the past three months was more moderate, with the recent leasing of DEXUS's 2 Military Road, Matraville (18,013m²) driving gross take-up of 22,113m² in the South region. For the South West, gross take-up of 33,723m² was recorded for the same period, below the levels recorded for the past two quarters.

Size & Type of Stock

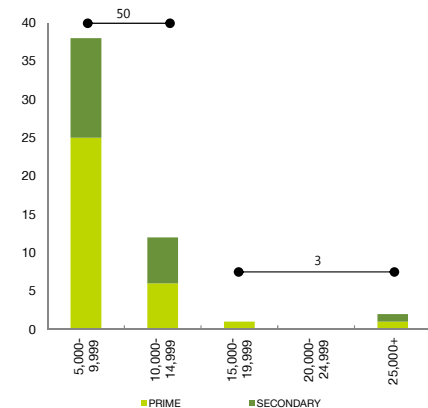
Of the 53 vacancies currently available in the market, the majority consist of sub-10,000m² options, totalling 38. There are just 15 options sized above 10,000m²+, the majority of which are concentrated in the Outer West. A lack of larger options in other regions, particularly the South region is limiting the choice for users.

Outlook

The generally positive outlook for the NSW economy is expected to see a continuation of the solid leasing activity. Demand has continued to arise from 3PL and consumer goods groups while there are a number of large briefs in the market which should crystallise into gross absorption throughout 2016. Additions to speculative development are anticipated over the coming quarters, however with a number of options currently under offer, vacant stock levels are expected to remain well below the series average over the medium term.

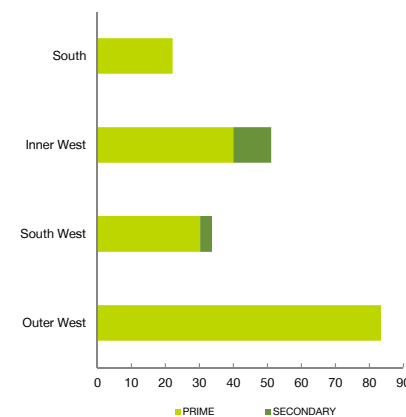
With a lack of options in inner ring locations, coupled with a large number of sites being highly fragmented and not suitable for larger users, further businesses are likely to be forced to look further afield for suitable premises. This is particularly true in the South region where vacant stock levels are 57% below the series average.

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



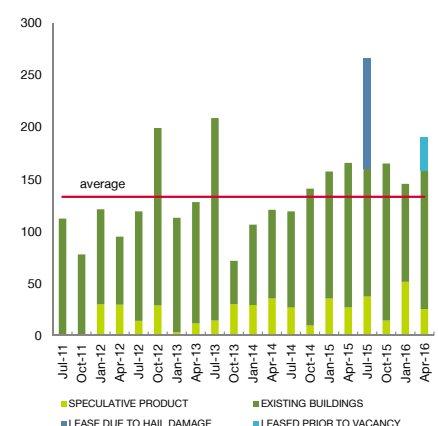
Source: Knight Frank Research

FIGURE 6
Take-up 3 months to April 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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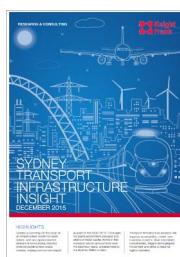
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