



SYDNEY

INDUSTRIAL VACANCY JULY 2016

Key Facts

Sydney industrial available space (5,000m²+) increased by 3.7% in the quarter to July to total 477,636m².

Gross take-up measured 223,119m² during the quarter to July, significantly above the longer term average.

Speculative developments continue to be progressed as institutions take advantage of solid leasing demand and a lack of forthcoming supply.



LUKE CRAWFORD
Senior Research Analyst

Follow at @KnightFrankAu

Despite gross take-up being at its highest level in the past 12 months and 54% above the series average, the addition of some large leasing options in the Inner West has led to a moderate increase in vacant stock levels over the quarter.

Supported by growth in dwelling construction and retail sales, coupled with a jobs market which has underpinned national employment growth for the past two years, the Sydney industrial market continues to go from strength to strength. The recent positive performance has also been brought about by a significant pipeline of infrastructure works, both underway and planned, and continued stock withdrawals for other uses which has forced industrial users to look for an alternative premises.

Over the past quarter, gross take-up across Sydney (excl. D&C's) measured 223,119m², 54% above the long term series average. Highlighting the recent leasing momentum currently being experienced in the Sydney market, this was the eighth consecutive quarter of above average take-up. Recent leasing activity has been driven by consumer goods and 3PL sectors who continue to seek modern facilities which offer operational efficiencies. As a result, 67% of gross take up over the past quarter was for prime stock, well above the historical series average of 58%.

Despite recent leasing activity, vacant stock levels have increased over the past quarter, currently measuring 477,636m² (+5,000m²), representing a 3.7% increase over the past quarter. The catalyst behind the pick-up in the vacancy was brought about by a large increase in the Inner West market where the addition of the ex Dick Smith space at 2-34 Davidson Street, Chullora (18,114m²) and the ex William Enterprise Group space at 7-11 Ferndell Street, South Granville (14,516m²) amongst others led to an increase in vacant stock entering the market. Elsewhere, diminishing stock levels as buildings are withdrawn for other uses in South Sydney continues to limit vacancies and leasing options in the area, while solid take-up in the South West offset the new additions over the past quarter. A small increase in available space in the Outer West was recorded.

Developers continue to progress speculative developments, highlighted by the recent addition of Mirvac's Calibre Eastern Creek project (18,970m²). At present, there is 65,710m² of vacant speculative industrial stock across Sydney (both completed and under construction).

Quality of Stock

For the first time since April 2015, prime vacancies increased over the past quarter, underpinned by significant recent additions in the Inner West region. As at July 2016, vacant prime space across Sydney (+5,000m²) currently measures 332,389m², an increase of 23% over the previous quarter. Prime vacancies currently account for 70% of all vacancies across Sydney, considerably above the series average of 47%. However, the average time on the market for prime stock currently measures 6.6 months, emphasising the quick letting up periods currently being experienced for prime space.

For the secondary market, a 24% reduction in vacant space was recorded over the past quarter with leasing activity outstripping new additions over the

period. Vacant secondary space (+5,000m²) currently totals 145,247m². Highlighting the drive for operational efficiencies and a clear tenant preference for prime stock, the average time on the market for secondary stock measures 11.1 months, well above that for prime.

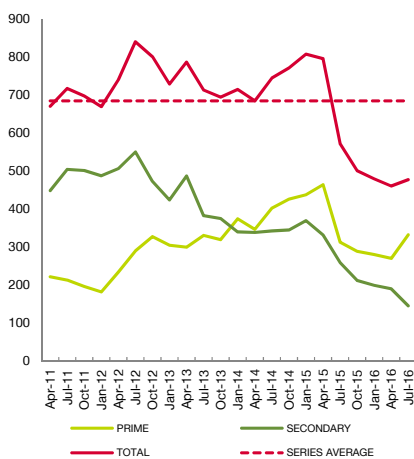
Despite the recent progression of Mirvac's Calibre Eastern Creek project (18,970m²), the amount of unleased speculative stock (both completed and under construction) remains low. Currently, unleased speculative stock (+5,000m²) totals 65,710m² across Sydney, and is made up of four facilities, the largest being Stockland's 35 Stennett Road, Ingleburn project (28,800m²). However, there have been a number of enquiries for this space. The DEXUS E3 Quarry project at Greystanes (9,500m²) remains vacant and has recently reached practical completion.

Distribution by Precinct

The Inner West was the only region to record a material increase in vacant space over the past quarter, increasing 44% over the period to 128,920m². The addition of several large backfill leasing options in the area was the catalyst behind the rise, underpinned by the three vacancy additions sized above 15,000m². This included the ex Dick Smith space at 2-34 Davidson Street, Chullora (18,114m²) and the ex William Enterprise Group (voluntary administration) space at 7-11 Ferndell Street, South Granville (14,516m²).

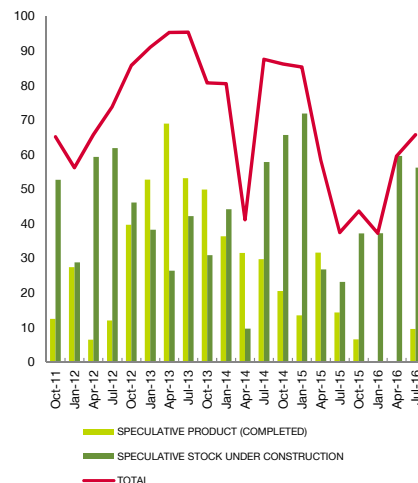
Vacancies in the Outer West increased by just 0.6% to 184,576m² over the past quarter as solid leasing demand offset the 61,346m² of new additions over the same period. Notable recent additions includes

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



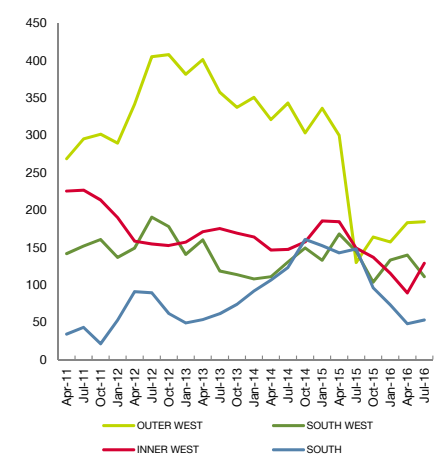
Source: Knight Frank Research

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



Source: Knight Frank Research

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



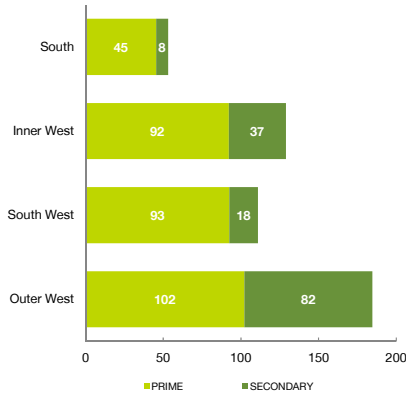
Source: Knight Frank Research

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at July 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	184,576	16	92	1,163	54,579	55	45
South West	110,994	9	102	-28,760	-34,028	83	17
Inner Central West	128,920	13	107	39,630	-20,408	72	28
South	53,146	7	159	4,961	-95,055	86	14
Total	477,636	45	109	16,994	-94,912	70	30

Source: Knight Frank Research

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



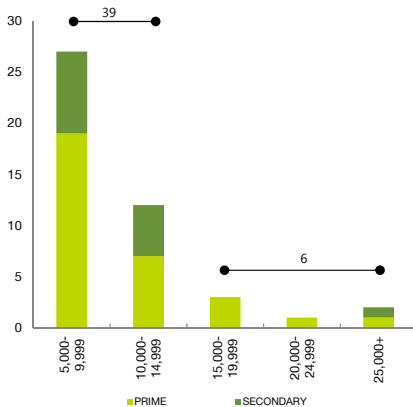
Source: Knight Frank Research

Linfox's backfill space at 5-7 Murtha Street, Arndell Park (25,255m² for both warehouse A and B).

In the South West region, vacant stock levels declined 20.6% to 110,994m² over the quarter, as several secondary grade assets were leased, despite 40,633m² in new vacancy additions.

Stock levels continue to remain low in the South region as buildings are withdrawn for other uses, leaving displaced tenants seeking to remain in the area with limited leasing options. However, a 10.3% increase in vacant space was recorded over the past quarter (albeit off a low base) to 53,146m².

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



Source: Knight Frank Research

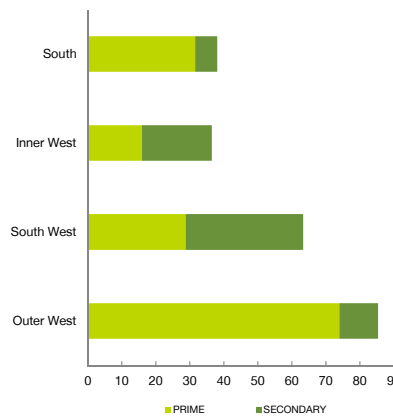
Building Take-up

Gross absorption (excl D&C's) in the three months to July 2016 totalled 223,119m², which was the highest rate of take-up since the July 2013 quarter (excluding the July 2015 quarter where approximately 106,000m² of space was absorbed following the hail damage caused in the Anzac Day storm). This rate of take-up is 54% above the series average and represents the eighth consecutive quarter of above average take-up (see Figure 7). Prime space accounted for 67% of gross take-up over the period, while 26,647m² of speculative space was leased over the quarter.

By region, recent leasing demand was strongest in the Outer West, representing 38% of gross take-up over the quarter (or 85,324m²), underpinned by 227 Walters Road, Arndell Park (17,733m²) where DHL has decided to stay on and remain at the site. A large pick up in leasing activity was recorded over the past quarter in the South West where 63,325m² of take-up was recorded. Notably, secondary grade assets accounted for 55% of take-up in the region over the period.

Elsewhere, leasing demand in the Inner West and South regions measured 36,427m² and 38,043m² respectively over the past quarter, with leasing activity in both regions being concentrated in sub 10,000m² options.

FIGURE 6
Take-up 3 months to July 2016
'000m² est. take-up buildings (excl. D&C)



Source: Knight Frank Research

Size & Type of Stock

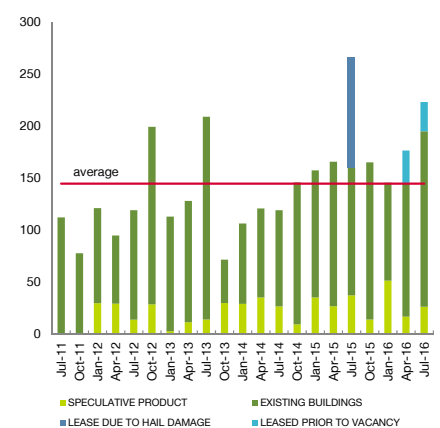
There are currently 45 vacancies currently available, down from 51 in the previous quarter. Of the current vacancies available in the market, 60% (by number) are for sub 10,000m² options, while a further 12 are sized between 10,000m² and 15,000m². There are only six vacancies sized above 15,000m² across all markets, which is directing big box demand into the pre-commitment market instead and cements our expectation for a further pick-up in speculative builds.

Outlook

A continuation of solid leasing conditions is expected, supported by ongoing requirements from 3PL and consumer goods groups and more recently from pharmaceutical/medical groups.

In regards to vacancy, some upward pressure is expected over the coming quarters from a combination of increased speculative development activity and the re-entry of some large existing leasing options. In response to solid leasing demand and a lack of forthcoming supply, a number of institutions are looking to progress speculative projects, including Goodman's Oakdale Central project at Eastern Creek and GPT's Eastern Creek Drive, Eastern Creek and 18-24 Abbott Road, Seven Hills facilities. Charter Hall, Stockland and Frasers are also looking to speculatively development projects over the coming months.

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



Source: Knight Frank Research



RESEARCH & CONSULTING

Luke Crawford

Senior Research Analyst
+61 2 9036 6629
Luke.Crawford@au.knightfrank.com

Matt Whitby

Group Director
Head of Research & Consulting
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

INDUSTRIAL

Tim Armstrong

Head of Industrial, NSW
+61 2 9761 1871
Tim.Armstrong@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 9733 0186
Alex.Jaafar@au.knightfrank.com

Terry Hassan

Director - South West
+61 2 9733 0187
Terry.Hassan@au.knightfrank.com

Michael Wydeman

Director - Business Space
+61 2 9028 1127
Michael.Wydeman@au.knightfrank.com

Peta Antoniou

Director - Head of South Sydney
+61 2 9036 6749
Peta.Antoniou@au.knightfrank.com

James Reeves

Director - South Sydney Industrial
+61 2 9036 6789
James.Reeves@au.knightfrank.com

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.

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Sydney Industrial Market Brief
June 2016



Melbourne Industrial Market Overview
June 2016



Western Sydney Industrial Land Insight
July 2015



The Wealth Report 2016

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2016 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

