



# SYDNEY

## INDUSTRIAL VACANCY FEBRUARY 2017

### Key Facts

**Sydney industrial available space (5,000m<sup>2</sup>+) decreased by 3.6% over the past quarter to 530,185m<sup>2</sup>.**

**Gross take-up measured 236,907m<sup>2</sup> during the quarter to January, 60% above the longer term average.**

**Gross take-up of speculative developments over the past quarter was at its highest level since the series began, totalling 90,431m<sup>2</sup>.**



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Following a quarter of weak gross take-up in October, leasing demand returned to significant levels in the final quarter of 2016, up to 60% above the series average, aided by several buildings being leased prior to vacancy.

The Sydney industrial market continues to go from strength to strength, supported by a buoyant labour market off the back of a spate of infrastructure projects and broadening tenant demand as a diverse mix of businesses seek new or expansionary space. These favourable conditions have continued to show in the leasing market, with gross take-up over the three months to January 2017 being close to record highs. Industrial take-up (excl. D&C's) in the final quarter of 2016 totalled 236,907m<sup>2</sup>, a rate 60% above the series average and followed a quarter of weak absorption in the three months prior.

Leasing activity was particularly strong in the Outer West region over the past quarter, representing 53% of gross take-up over the period. Contributing to this result was Weir Minerals leasing 15,182m<sup>2</sup> at 74-94 Newton Road, Wetherill Park and solid demand for speculative space. Reflective of demand, in the final quarter of 2016 there was an uptick in the number of deals being leased prior to vacancy, measuring 74,954m<sup>2</sup>.

Notwithstanding solid leasing conditions, Sydney industrial vacancy levels remained relatively unchanged with the previous quarter as several large leasing options which entered the market offset demand. As at January 2017, industrial vacant space in Sydney (5,000m<sup>2</sup>+) totals 530,185m<sup>2</sup>, down 3.6% from the levels recorded three months prior. Included in this was the addition of Sharpe's backfill space at 1 Huntingwood Drive, Huntingwood (21,366m<sup>2</sup>).

Developers continue to progress speculative developments, taking advantage of strong leasing conditions. Currently, there is just 7,545m<sup>2</sup> of speculative industrial stock under construction and vacant, stemming solely from 145 Lenore Drive, Erskine Park. However, with businesses continuing to gravitate towards new prime space, supply has been met with solid demand as 90,431m<sup>2</sup> of speculative stock was leased over the past quarter (both under construction and completed) including Mirvac's 60 Wallgrove Road, Eastern Creek (18,970m<sup>2</sup>) and Stockland's 35 Stennett Road, Ingleburn (28,800m<sup>2</sup>) facilities.

## Quality of Stock

Prime vacant stock has decreased to 314,686m<sup>2</sup> over the past quarter, down 12% from 358,126m<sup>2</sup> in October. Prime vacancies currently account for 59% of all vacancies across Sydney, well above the series average of 47%. However indicative of demand, the average time on the market for prime stock is currently sitting at 6.7 months, emphasising the quick letting up periods currently being experienced for prime space.

The level of secondary space has continued to fluctuate quarter to quarter with an increase of 14% over the final quarter of 2016 and is currently at its highest level since the July 2015 quarter. This result stemmed from new secondary vacant additions far outstripping demand over the three month period. As at January 2017, vacant space in the secondary market (+5,000m<sup>2</sup>) measures

215,499m<sup>2</sup>, up 14% from the previous quarter. Average letting up periods for secondary stock is slightly higher than prime at 7.5 months, however this is influenced by a number of properties which have been on the market for some time including Goodman's 149 McCredie Street, Smithfield facility (14,133m<sup>2</sup>).

Available speculative stock across Sydney now totals 7,545m<sup>2</sup>, which is the lowest level since the series began in 2011. However, we note that this is the result of solid leasing demand, particularly prior to project completion rather than developers not progressing sites as 90,431m<sup>2</sup> was absorbed over the past quarter. The only speculative project currently under construction and available for lease is 145 Lenore Drive, Erskine Park (7,545m<sup>2</sup>). Off the back of recent leasing success, this will give developers confidence to progress new sites, particularly without the need for an adjoining pre-commitment.

## Distribution by Precinct

In the final quarter of 2016, both the Outer West and South precincts experienced moderate rises in vacant stock levels as several large leasing options entered the market. For the Outer West, vacant stock currently totals 253,918m<sup>2</sup>, representing an increase of 1.2% over the previous quarter. The addition of the ex Sharpe backfill space at 1 Huntingwood Drive, Huntingwood (21,366m<sup>2</sup>) and the ex Byron Group space at Goodman's Holroyd Distribution Centre, 45 Britton Street, Smithfield (17,073m<sup>2</sup>) were the catalysts behind the rise.

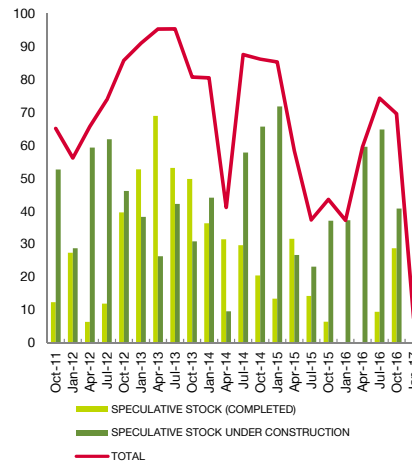
The addition of several leasing options at 149-165 Mitchell Road, Alexandria coupled with 21-23 O'Riordan Street, Alexandria (7,515m<sup>2</sup>) saw vacant space in the South increase to 60,891m<sup>2</sup>, which is its highest level in 12 months.

FIGURE 1  
Sydney Industrial Market  
'000m<sup>2</sup> available space by quality



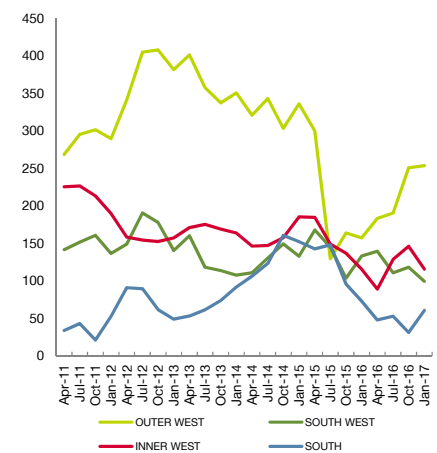
Source: Knight Frank Research

FIGURE 2  
Speculative Stock  
'000m<sup>2</sup> - October 2011 to January 2017



Source: Knight Frank Research

FIGURE 3  
Location of Vacant Stock  
'000m<sup>2</sup> available space by region



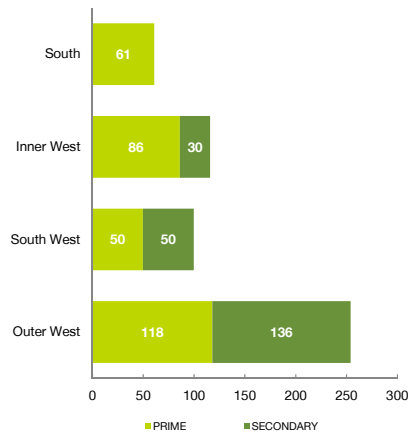
Source: Knight Frank Research

TABLE 1  
Sydney Industrial Available Space 5,000m<sup>2</sup>+ as at January 2017

Precinct	Available Space m <sup>2</sup>	No. of Buildings	Av Asking Rent \$/m <sup>2</sup> net	Change Past Qtr (m <sup>2</sup> )	Change Past Year (m <sup>2</sup> )	Building Quality Prime %	Building Quality Secondary %
Outer West	253,918	23	106	3,026	96,309	46	54
South West	99,621	10	104	-18,901	-33,617	50	50
Inner Central West	115,755	12	112	-30,586	70	74	26
South	60,891	6	174	29,634	-12,407	100	0
<b>Total</b>	<b>530,185</b>	<b>51</b>	<b>115</b>	<b>-16,827</b>	<b>50,355</b>	<b>59</b>	<b>41</b>

Source: Knight Frank Research

**FIGURE 4**  
**January 2017 Available Space**  
'000m<sup>2</sup> est. by area and quality



Source: Knight Frank Research

Vacant levels in the Inner West declined to 115,755m<sup>2</sup> in the final quarter of 2016 as solid leasing demand offset the 20,266m<sup>2</sup> of new vacancy additions over the period including The Smith's Snackfood Company backfill space at 1a, 21-23 South Street, Rydalmere (7,617m<sup>2</sup>).

The South West recorded a 16% reduction in available space, currently totalling 99,621m<sup>2</sup> of vacant space across 10 buildings. This reduction was due to limited new additions over the period, with just 20 Williamson Road, Ingleburn (12,047m<sup>2</sup>) and 71-75 Marigold Street, Revesby (10,177m<sup>2</sup>) being added to the vacant count.

## Building Take-up

Gross absorption, excluding D&C, returned to significant levels in the final quarter of 2016 with 236,907m<sup>2</sup> absorbed across 23 buildings. This was some 60% above the long term average take-up levels and over double the rate recorded in the October 2016 quarter. In sync with trends experienced earlier in the year, prime space represented 88% of gross take-up over the period. Similarly, with several significant speculative builds being leased over the period, gross take-up of speculative stock was at its highest level since the KF series begun in 2011, measuring 90,431m<sup>2</sup> for the quarter. This result was underpinned by Mirvac's 60 Wallgrove Road, Eastern Creek (18,970m<sup>2</sup> - leased to CEVA) and Stockland's 35 Stennett Road, Ingleburn (28,800m<sup>2</sup>) warehouse, which was leased in two parts.

The properties taken-up had been available for an average of 7.1 months, made up of 7.1 months for prime and 7.0 months for secondary space, indicating solid leasing success for well located secondary stock. By precinct, the Outer West accounted for 53% of gross take-up over the past quarter as strong tenant migration from other precincts continues to occur. Alternatively, the South West and Inner West accounted for 25% and 22% of gross take-up respectively over the same period while no lease deals (5,000m<sup>2</sup>+) were recorded in the South region in the final quarter of 2016.

## Size & Type of Stock

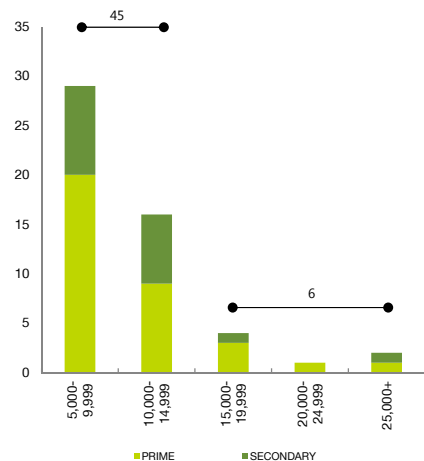
Over the three months to January 2017, the number of vacant industrial buildings remained steady at 52 buildings. By size, 55% (28 options) of the total number of vacancies are for sub 10,000m<sup>2</sup> spaces. Available options between 10,000m<sup>2</sup> and 15,000m<sup>2</sup> total 17 while there are just six available options sized above 15,000m<sup>2</sup> buildings, four of which are located in the Outer West region.

## Outlook

Leasing conditions are expected to remain steady throughout 2017, particularly in the face of modest levels of new supply. In 2017, industrial development across Sydney is expected to total just over 600,000m<sup>2</sup>. Although this is above the levels recorded in recent years, they remain well below the heights recorded pre-GFC. This coupled with a continuation of above average take-up is expected to contain any blow-out to vacancy levels as a number of back-fill options come to the market.

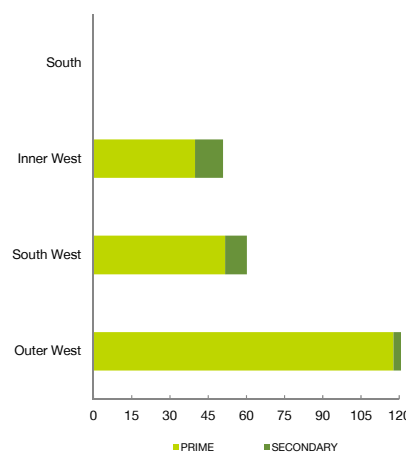
With speculative builds continuing to lease well, an upswing in speculative development is earmarked over the coming two quarters as a select group of developers look to capitalise on a period of moderate supply. Notably, these projects are concentrated in the Outer West region and includes GPT's Lot 2012 Eastern Creek Drive, Eastern Creek facility.

**FIGURE 5**  
**January 2017 Available Space**  
No. of buildings by size and quality



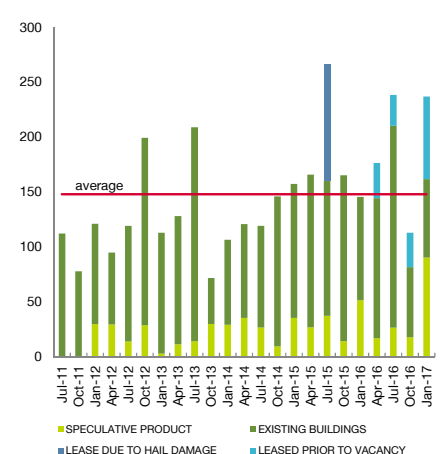
Source: Knight Frank Research

**FIGURE 6**  
**Take-up 3 months to January 2017**  
'000m<sup>2</sup> est. take-up buildings (excl. D&C)



Source: Knight Frank Research

**FIGURE 7**  
**Sydney Industrial Take-up**  
'000m<sup>2</sup> take-up buildings 5,000m<sup>2</sup>+ (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 5,000m<sup>2</sup>. 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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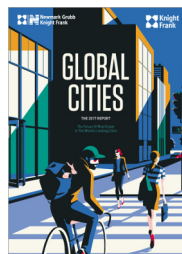
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