



# RESEARCH

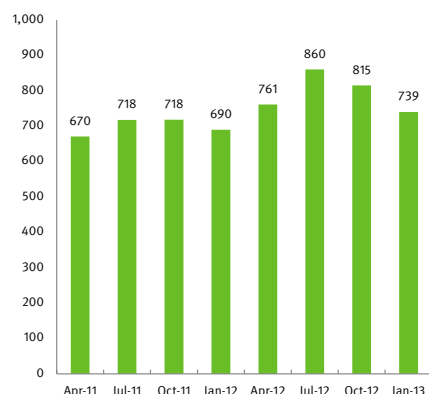
## FEBRUARY 2013 SYDNEY INDUSTRIAL VACANCY ANALYSIS

### Knight Frank

The three months to January 2013 saw a continuation of steady leasing activity with gross take up (excl. D&C's) of 118,777m<sup>2</sup>. While this level of take up was relatively in line with the average rate during 2012, a lack of new leasing options coming to the market saw a second consecutive quarterly decline in the amount of vacant space. As at January 2013, available space measured 739,487m<sup>2</sup>, a 14% decline compared to the peak in vacancies recorded in July 2012.

This trend had been anticipated to play out given the first half of 2012 saw some large pre-committed facilities reach completion with the resulting backfill causing a jump in the level of vacant space. However with supply falling in the second half of 2012 the impact of backfill space has been less pronounced allowing the level of vacant stock to decline. With the outlook for supply levels in 2013 anticipated to remain subdued, it is likely that further downward pressure will be exerted on vacant stock levels over the coming year that will reduce leasing options available to tenants.

Figure 1  
Sydney Industrial Market  
'000m<sup>2</sup> available space

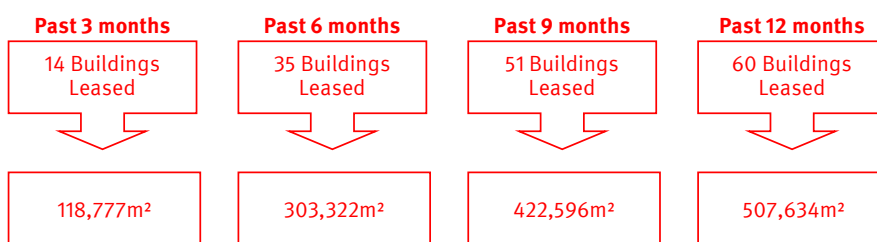


Source: Knight Frank

Table 1 Summary of Available Industrial Space – January 2013						
Market	Available Space (m <sup>2</sup> )	Number of Buildings	Av. Asking rent (\$/m <sup>2</sup> net)	Change past quarter (m <sup>2</sup> )	Change past 6 months (m <sup>2</sup> )	Change past 12 months (m <sup>2</sup> )
<b>Precinct</b>						
Outer West	388,283	27	97	-31,487	-33,997	86,616
South West	147,741	12	92	-24,609	-37,286	10,969
Inner West	147,410	16	103	-13,686	-15,594	-51,008
South	56,053	8	114	-5,786	-33,611	3,172
<b>Total</b>	<b>739,487</b>	<b>63</b>	<b>100</b>	<b>-75,568</b>	<b>-120,488</b>	<b>49,749</b>
<b>Building Quality</b>						
Prime	300,854	27	115	-21,619	10,698	118,912
Secondary	438,633	36	88	-53,949	-131,186	-69,163
<b>Building Type</b>						
Existing Stock	653,770	54	98	-80,770	-132,347	20,220
Speculative (Completed)	47,437	6	113	7,762	35,435	20,017
Under Construction	38,280	3	113	-2,560	-23,576	9,512

Source: Knight Frank

Figure 2  
Sydney Industrial Market  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

All precincts recorded a fall in vacant space throughout the quarter, with the biggest reduction recorded in the Outer West (31,487m<sup>2</sup>) followed by the South West (24,609m<sup>2</sup>). However, on an annual basis, the Inner West is the only precinct to have a

lower level of vacant space compared to a year earlier with vacant stock declining 51,008m<sup>2</sup>. The tightest precinct, the South has been relatively stable over the past year with vacant stock rising a modest 3,172m<sup>2</sup>.

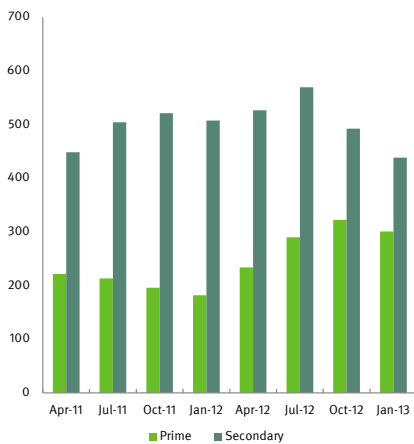


# RESEARCH

## Quality of Stock

As at January prime vacancies totalled 300,854m<sup>2</sup> compared with 438,633m<sup>2</sup> for secondary. This was the first time in 12 months that prime vacancies recorded a decline. The proportion of vacancies which are prime grade has steadily increased for four consecutive quarters. The weighting has increased from the 26% recorded in January 2012 to currently measure 41%. However the rate of increase slowed over the quarter with only a minor increase compared to October when the impact of some prime backfill vacancies, a rise in speculative activity and relatively stronger leasing take up of secondary stock were more pronounced.

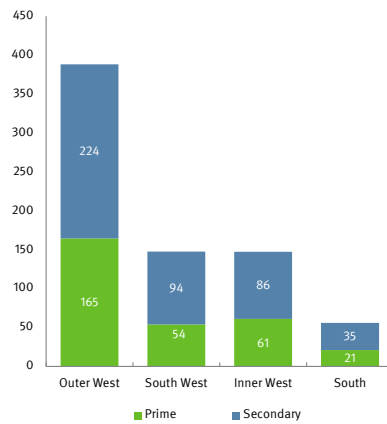
Figure 3  
Sydney Industrial Available Space  
'000m<sup>2</sup> by grade - April 2011 to January 2013



Source: Knight Frank

Of the 300,854m<sup>2</sup> of prime stock available, 85,717m<sup>2</sup> or 28.5% is made up of speculative stock (both completed and under construction). This is marginally higher than the 80,515m<sup>2</sup> recorded in October 2012. Although at least one speculative option is currently under offer, the forecast commencement of circa 20,000m<sup>2</sup> of speculative activity in the coming quarter is expected to keep the level of available speculative stock relatively stable.

Figure 4  
January 2013 Available Space  
'000m<sup>2</sup> by quality & precinct



Source: Knight Frank

## Distribution by Precinct

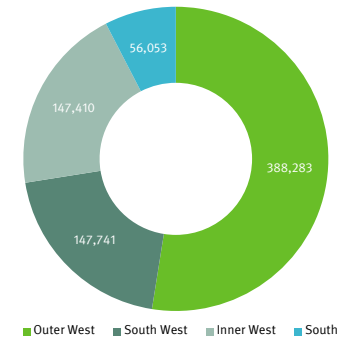
The market with the most available space is the Outer West with 388,283m<sup>2</sup> of vacancies. Of this, 164,507m<sup>2</sup> is prime grade. With the vast majority of speculative activity concentrated in the Outer West, 46% of Outer West prime vacancies consist of either completed speculative stock or speculative stock under construction.

In the South West, prime vacancies remain dominated by a large 37,564m<sup>2</sup> sub lease, which accounts for 70% of prime vacancies. Recorded leasing deals over the quarter, however, were all made up of secondary buildings, which underpinned a 24,609m<sup>2</sup> fall in vacant stock.

Compared to other precincts, the Inner West has recorded the largest decline in vacancy levels over the past two years. The 147,410m<sup>2</sup> of vacancies represents a 40% decline from two years earlier. The decline has been most notable for secondary stock, where the precinct has benefitted from tenants looking for relatively cheaper storage and warehousing options.

The South region remains the precinct with the lowest amount of vacant stock. Of the 56,053m<sup>2</sup> of vacant stock in the South, only 21,156m<sup>2</sup> consists of prime stock. Secondary vacant stock amounts to 34,897m<sup>2</sup>, with 39% of this located in Kingsrove.

Figure 5  
January 2013 Available Space  
'000m<sup>2</sup> by precinct

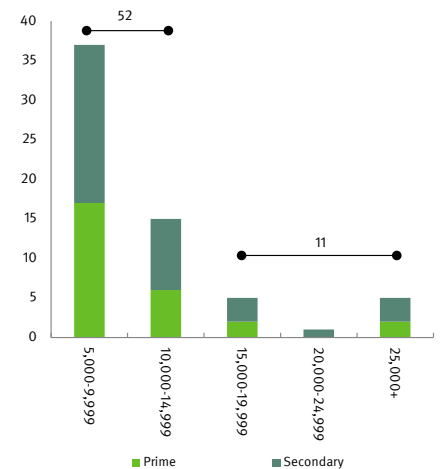


Source: Knight Frank

## Size of Available Stock

Analysis of the size of industrial vacancies in 5,000m<sup>2</sup> intervals (refer Figure 6) shows that there is a greater availability of options for tenants at the smaller end of the market. Only 11 large options in excess of 15,000m<sup>2</sup> currently exist, of which four are prime grade. In conjunction with relatively firmer demand from larger tenants, this lack of options has underpinned the success of larger speculative projects that have progressed over the last 18 months. By comparison, 52 vacant options exist below 15,000m<sup>2</sup>.

Figure 6  
January 2013 Available Space  
No of buildings by size of building m<sup>2</sup> and quality

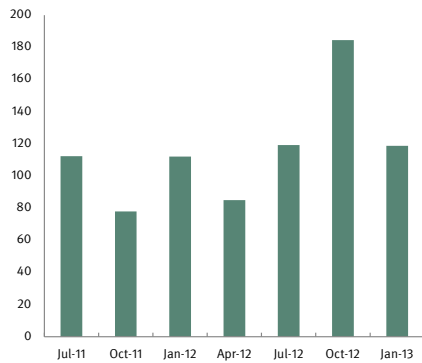


Source: Knight Frank



## Building Take-up

Figure 7  
Sydney Industrial Take - up by quarter  
'000m<sup>2</sup> Est Take-up buildings 5,000m<sup>2</sup> + (excl D&C)

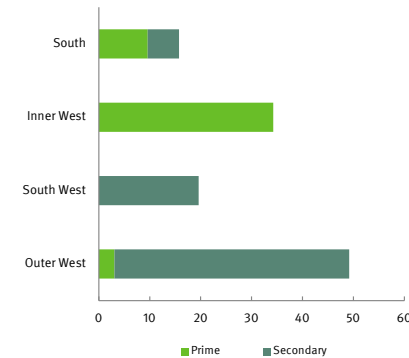


Source: Knight Frank

Deal velocity was slightly down compared to the strong level recorded in the October quarter. Nonetheless, Knight Frank estimates that 14 buildings greater than 5,000m<sup>2</sup> (excl.

D&C's) were leased covering an area of 118,777m<sup>2</sup>. This figure was very similar to the quarterly average recorded over 2012. 61% of gross take up in the quarter to January 2013 constituted absorption of secondary stock.

Figure 8  
Sydney Industrial Take-up 3 months to January 2013  
Estimated Take-up buildings 5,000m<sup>2</sup> + (excl D&C)



Source: Knight Frank

## Summary

After the increase in vacant stock recorded in the first half of 2012, two successive quarters of declining vacant stock has seen a tightening leasing market. With supply anticipated to decline in 2013, vacant stock levels are also likely to continue reducing to the benefit of rental levels. After the relatively modest rates of prime rental growth recorded over 2012, growth is expected to improve in 2013, particularly for larger assets, where leasing availabilities are most scarce. The shortage of large options is expected to see bigger users look to the pre-lease market to satisfy new space requirements with a likely upturn in supply levels to occur in 2014.

## 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> (ex. D&C).
2. Buildings are categorized into the below three types of leasing options
  - o *Existing Buildings* – existing buildings for lease.
  - o *Speculative Buildings* – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
  - o *Under Construction* – buildings available for lease which are being speculatively constructed and will be available for occupation within 12 months.

Data collection and analysis represents a snap shot of market vacancy as at January 2013, the beginning of the first quarter.

## The Sydney Industrial Property Market has been divided into 4 distinct industrial precincts, as follows:

<b>Inner West</b>	<b>West of Concord Road to Cumberland Highway including the suburbs of Silverwater, Rydalmere, Auburn, Lidcombe, Rosehill, Regents Park, Chullora</b>
<b>Outer West</b>	<b>West of Cumberland Highway including the suburbs of Wetherill Park, Smithfield, Eastern Creek, Erskine Park, Arndell Park, Huntingwood, Greystanes, Blacktown, Seven Hills, Kings Park, Marayong</b>
<b>South</b>	<b>Located South of the CBD including the suburbs of Alexandria, Botany, Banksmeadow, Mascot, Roseberry, Matraville, Hillsdale, Waterloo</b>
<b>South West</b>	<b>Predominantly made up of precincts surrounding the M5 and Hume Highway including the suburbs of Liverpool, Moorebank, Prestons, Ingleburn, Bankstown, Milperra, Minto, Smeaton Grange, Campbelltown</b>

### Derek Erwin

Managing Director – West Sydney  
+61 2 9761 1836  
0409 828 790  
Derek.erwin@au.knightfrank.com

### Tony Gargaro

Senior Director – West Sydney  
+61 2 9761 1835  
0407 800 000  
Tony.gargaro@au.knightfrank.com

### Eugene Evgenikos

National Director, Industrial  
+61 2 9036 6769  
0427 77 88 99  
Eugene.evgenikos@au.knightfrank.com

## Knight Frank Research

### Nick Hoskins

Associate Director, Research NSW  
+61 2 9036 6766  
Nick.hoskins@au.knightfrank.com

### Matt Whitby

National Director, Head of Research and Consultancy  
+61 2 9036 6616  
Matt.whitby@au.knightfrank.com

[www.knightfrank.com.au](http://www.knightfrank.com.au)