



SYDNEY

INDUSTRIAL VACANCY FEBRUARY 2018

Key Facts

Sydney industrial available space (5,000 sq m) decreased by 6.0%, to 384,216 sq m, still well below the series average of 628,627 sq m.

Outer and South West precincts dominate the level of available space accounting for 71% of total available stock.

Take up in the South and Inner West has been constrained to 12,920 sq m due to the limited supply of available stock.

Available speculative stock currently totals 42,700 sq m, well above the series average of 25,522 sq m.



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New additions over the quarter has stemmed largely from speculative developments reaching practical completion, taking the total available speculative stock to 42,700 sq m.

The Sydney Industrial market remains positive and prosperous on the back of the NSW Government's infrastructure projects and strong economic conditions. The State economy grew by 3% in the twelve months to September 2017 whilst the NAB business conditions index is at its highest point since July 2017.

The positive business conditions and economic outlook have been a catalyst for the number of speculative developments on the market from large institutions. Available speculative stock currently totals 42,700 sq m, the highest in 4 years, including Stockland's Coopers Paddock at Warwick Farm (17,005 sq m), Mirvac's Calibre Estate (20,000 sq m) and Goodman's 415 Pembroke Road, Minto (5,695 sq m).

Available stock has decreased by 6% over the quarter to measure 384,216 sq m, and still well below the series average of 628,627 sq m. Across all precincts there was minimal movement in available stock with no precinct recording any change of more than 2% except Outer West decreasing by 13.3%.

Throughout Q4 2017, 114,982 sq m of new vacant stock was added to the market, located primarily across the South West (52%) Outer West (38% of new stock). Furthermore, with multiple developments reaching completion or under construction over the quarter, speculative supply now totals 42,700sq m.

The bulk of absorption over the quarter came from the South West and Outer West precincts, which saw 41,668 sq m and 64,293 sq m leased of the total 118,881 sq m. Additionally, 52,660 sq m was leased prior to vacancy. Notable pre-commitment deals include AM Solutions committing to 31,515 sq m at Charter Hall's 36 Huntingwood Drive, Huntingwood and Volvo committing to 11,798sq m at Logos' 34 Yarrunga Street, Prestons.

With over 120,000 sq m of speculative stock earmarked for potential progression over the next twelve months, Knight Frank Research anticipates that vacancy levels across the Sydney market may rise in the short term.

Prime stock dominating available space

Prime vacant stock has decreased by 9.1% over the quarter to total 263,328 sq m, and an 11.1% decline over the past 12 months. Prime stock continues to dominate the level of available space, accounting for 69% of total stock, up from 58% twelve months prior. Notable prime stock that came to market includes 340 Victoria Street, Wetherill Park (7,198 sq m), 34-38 Anzac Avenue, Smeaton Grange (7,325 sq m) and 33-45 James Erskine Drive, Erskine Park (5,888 sq m). This highlights the larger proportion of quality stock on the market rather than the lack of demand as the average time on the market for prime vacant stock currently averages 5.2 months compared to 6.7 months in the previous corresponding period.

Available secondary stock has remained relatively static over the past quarter increasing 1.6% to 120,888 sq m, accounting for 31% of total available stock.

Secondary stock additions of 22,828 sq m stemmed from 12 Birnie Avenue, Lidcombe (11,205 sq m), and building 2A at Stockland's Yennora Distribution Centre (11,623 sq m). The average time on the market for secondary stock sits at 10.7 months. However, the average time on the market is skewed due to Warehouse C 149 McCredie Street, Smithfield and 11-21 Forge Street, Blacktown, both being on market for over two years.

With a number of speculative developments reaching practical completion and commencing construction over the past quarter, available speculative stock currently totals 42,700 sq m, well above the series average of 25,522 sq m. New developments include Stockland's Warehouse 3A (9,022 sq m), 3B (7,983 sq m) at Coopers Paddock, Warwick Farm and Mirvac's Warehouse 3 (20,000 sq m) at Calibre Estate, Moorebank. A further 120,000 sq m of speculative developments is earmarked for potential progression over the next 12 months.

Majority of vacant stock in Outer and South West

Following a quarter of substantial increases in vacant stock across the Outer West precinct, available stock decreased by 13.3% over the last quarter of 2017 to reach 157,446 sq m. In comparison to 12 months prior, available stock has declined by 37.1% which has been attributed to solid tenant demand. New additions to the market include 43 Newton Road, Wetherill Park (10,908 sq m) and Stockland's building 2A at Yennora Distribution Centre (11,623 sq m).

The Inner West precinct recorded 92,797 sq m of vacancy, a slight decline of 1.8% over the quarter, and well below the series average of 150,183 sq m. The only new stock added this quarter came from 12 Birnie Avenue, Lidcombe (11,205 sq m). With limited stock in the Inner West tenants are opting to renew rather than relocate which is driving the low vacancy levels.

FIGURE 1
Sydney Industrial Market
'000sq m available space by quality



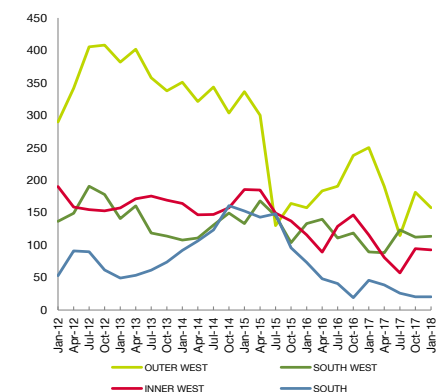
Source: Knight Frank Research

FIGURE 2
Speculative Stock
'000sq m - January 2012 to January 2018



Source: Knight Frank Research

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



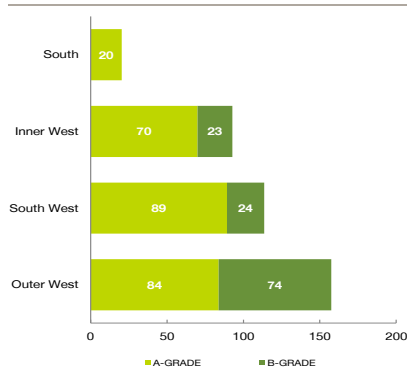
Source: Knight Frank Research

TABLE 1
Sydney Industrial Available Space 5,000sq m+ as at January 2018

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	157,446	18	106	-24,072	-92,807	53	47
South West	113,659	12	112	1,397	24,215	78	22
Inner West	92,797	9	115	-1,715	-22,958	75	25
South	20,314	2	170	0	-25,623	100	0
Total	384,216	41	113	2,389	-108,138	69	31

Source: Knight Frank Research

FIGURE 4
January 2018 Available Space
'000sq m est. by area and quality

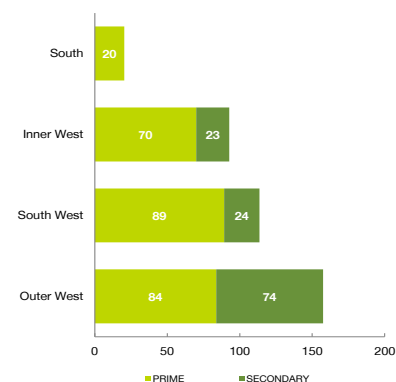


Source: Knight Frank Research

Available stock in South Sydney remained unchanged at its lowest level on record of 20,314 sq m. No new stock or large leasing deals this quarter were recorded in the precinct. The only available stock stemmed from 12,790 sq m across the Discovery Cove Industrial Estate, Banksmeadow and 14 Baker Street, Banksmeadow (7,524 sq m).

The South West experienced a minimal increase in available stock over the quarter of 1.2% to 113,659 sq m. The majority of new stock in the precinct stemmed from the speculative development at Warehouse 3A and 3B at Stockland's Coopers Paddock (17,000 sq m) along with Unit 1 2 Greenhills Avenue (10,182 sq m), Moorebank coming available. The surge in new stock over the past 12 months has been fuelled by infrastructure works and construction of the Moorebank Intermodal, which is seen as an opportunity looking forward.

FIGURE 5
January 2018 Available Space
No. of buildings by size and quality



Source: Knight Frank Research

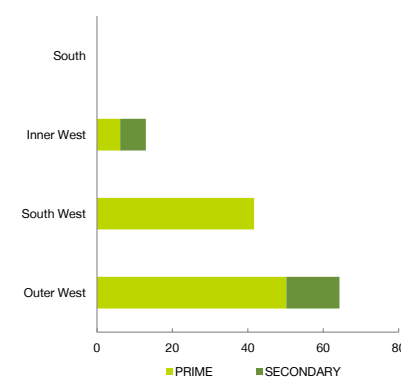
Pre-commit market remains active

Gross absorption, excluding D&C, increased 95% over the quarter to measure 118,881 sq m. Whilst being well below the series average of 146,387 sq m over 50,000 sq m was leased in the pre-commitment market. Notable pre-commitments include AM Solutions agreeing to occupy 31,500 sq m at Charter Hall's 36 Huntingwood Drive, Huntingwood and Volvo to occupy 11,798 sq m, at 34 Yarrunga Street, Prestons. The properties leased this quarter had an average time on the market of 7 months for prime stock and 9 months for secondary stock.

The majority of leasing activity has been in the prime market, accounting for 82% of the total take-up over the period. There was an uptick in take up in the speculative market following no lease deals in the previous corresponding period. Silk Logistics leased c25,400 sq m at GPT's lot 2012 Eastern Creek Drive shortly after practical completion. Additionally, 6,288 sq m at Dexus' 9 Dolerite Way has been leased. We anticipate take up in the speculative market to continue with a number of large tenant requirements in the market to potentially absorb the 120,000 sq m earmarked for development over the next 12 months.

By precinct, the Outer West and South West precincts dominated take up, representing 54% and 35% respectively. Notable deals include WSI Logistics occupying 20,000 sq m at 36 Gow Street, Padstow and Monde Nissin leasing 10,344 sq m at 146-156 Warren Road,

FIGURE 6
Take-up 3 months to January 2018
'000sq m est. take-up buildings (excl. D&C)



Source: Knight Frank Research

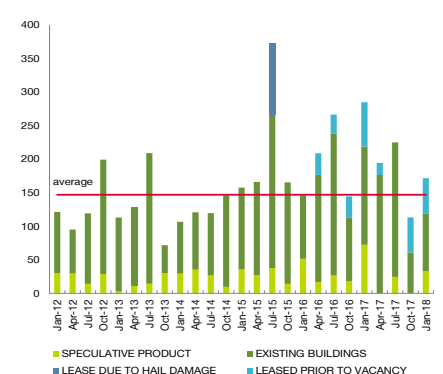
Smithfield. Additionally, Protecta Group will lease 6,120 sq m at 13 Rachel Close, Silverwater, whilst 9 Carter Street has been leased on a short term basis, these deals account for 11% of total absorption. South Sydney recorded no major lease deals (5,000 sq m+) for the quarter due to the lack of availability.

Speculative developments and infrastructure set to influence future pipeline

As a number of speculative developments are expected to come to the market during 2018, including Dexus' Dolerite Way (31,000 sq m), Goodman's Erskine Park Road (31,000 sq m) and Stockland's Ingleburn Logistics Park (37,000 sq m), this will likely see a rise in prime vacancy levels. Whilst the pre-commitment market remains robust, in addition to a number of large tenant enquiries in the market, vacancy levels are expected to be kept below the historical average.

Major infrastructure works, namely the Western Sydney Airport and Moorebank Intermodal, which will improve accessibility to the South West region, are expected drive activity in the region in both the leasing market and development of new stock as tenants look to be located elsewhere from the traditional Outer West region.

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



Source: Knight Frank Research

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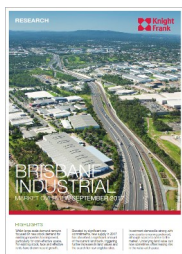
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Methodology:

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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