



SYDNEY

INDUSTRIAL VACANCY JULY 2017

Key Facts

Sydney industrial available space (5,000m²+) decreased by 20.5% during Q2 to its lowest level on record of 314,490m².

Gross take-up measured 237,453m² during the quarter to July 2017, a 35% increase on the previous quarter.

Available speculative stock currently totals 26,850m², with an average letting up period of 1.6 months.



MARCO MASCITELLI
Research Analyst

Follow at @KnightFrankAu

Strong leasing activity saw gross absorption levels reach a 12 month high of 237,453m², this continued to drive down total available stock to a record low of 314,490m².

The NSW Government recent budget announcement has forecast continued annual growth and an average annual \$2 billion budget surplus over the next four years. In conjunction with the planned \$72.7 billion worth of major infrastructure works for NSW, the state's strong economic outlook continues to strengthen and shape the future of the Sydney industrial market.

The Government's revenue raising has been fuelled by a buoyant property market with increased revenue from stamp duty and land taxes coupled with its asset recycling program, which includes the partial long term lease of Ausgrid and Endeavour Energy. The successful revenue raising has aided the Government's infrastructure boom with the construction of numerous projects including WestConnex, Western Sydney Airport, Moorebank Intermodal and WSIP. These favourable conditions have been evident in the leasing market with gross take-up for the quarter at 237,453m², the highest in 12 months.

On the back of strong leasing activity, the vacancy has reached its lowest level on record of 314,490m², down 20.5% from the previous quarter and a 35% decline YoY. Minimal additions to the Outer West precinct and no new stock added to the market in South Sydney, contributed to the steep decline. Additionally, urban renewal of industrial zoned land continued to drive vacancy levels down in the Inner West. Limited supply coupled with increased demand has driven available stock in that precinct to its lowest level on record of 65,235m².

Speculative developments continue to be well received by the market with 24,495m² of take up over the quarter. The average letting up period of 1.6 months for speculative builds demonstrates the strong demand in the market. With speculative stock being so well received by the market, developers continue to build their pipelines with over 200,000m² of speculative stock anticipated to come to market over the next 12-18 months.

Quality of Stock

Prime vacant stock has decreased to its lowest level in five years of 217,493m², 18% lower from the previous quarter. This represents 69% of the total available stock, which is significantly above the series average of 48%. The higher proportion of vacant prime stock on the market is an indication of the higher quality of stock across the market rather than low demand for prime space. The average time on market for prime stock is 6.8 months, less than half the time on market for secondary stock.

Secondary stock has declined for the third consecutive quarter down 25% to 96,997m² of available stock. Below average additions of secondary stock (25,067m²) in conjunction with strong secondary stock absorption (57,303m²) over the quarter continued to drive down the availability of secondary stock.

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

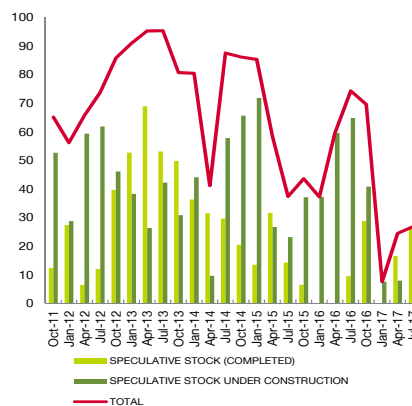


Source: Knight Frank Research

The average time on the market is 14.3 months, significantly higher than prime stock. This is due to a number of outliers including Goodman's property at 149 McCredie Street, Smithfield which has been on the market for an extended period of time.

Available speculative stock currently totals 26,850m² solely stemming from GPT's project at Lot 2012 Eastern Creek Drive, which is due for practical completion in Q3 2017. The average letting up period is currently 1.6 months with over 70% (by number) of speculative developments being leased prior to practical completion (PC), highlighting the strong demand. It is expected that the supply of new speculative developments will increase over the next 12-18 months with over 200,000m² of projects already being monitored for potential progression. Notably, the pipeline includes speculative supply from Mirvac's Calibre Estate, Goodman's Oakdale Industrial Estate and Stockland's Stennett Road, Ingleburn.

FIGURE 2
Speculative Stock
'000m² - October 2011 to July 2017



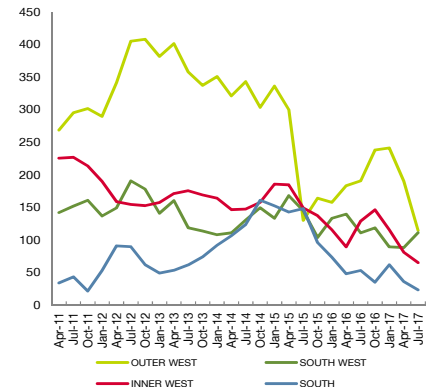
Source: Knight Frank Research

Distribution by Precinct

Vacant stock levels in the Outer West declined by 39.8% over the quarter, to record its lowest level on record of 114,585m². Record low levels stem from a number of large leasing deals such as 8 Penelope Crescent, Arndell Park (11,420m²), 122 Newton Road, Wetherill Park (8,776m²) and 45 Britton Street, Smithfield (17,073m²). Additionally, only one new property came to market this quarter, 59 Percival Street, Smithfield (6,245m²) compared to 33,543m² of stock coming available in the previous quarter.

Available stock in South Sydney reached its lowest level since 2011 of 23,447m². No new stock was added to the market, underpinned by the limited new industrial supply in South Sydney, due to residential conversions.

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



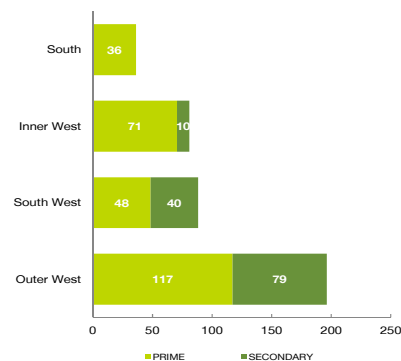
Source: Knight Frank Research

TABLE 1
Sydney Industrial Available Space 5,000m²+ as at July 2017

| 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 % | Secondary % |
|--------------|--------------------------------|------------------|--------------------------------------|-----------------------------------|------------------------------------|--------------------------|-------------|
| Outer West | 114,585 | 13 | 105 | -75,725 | -76,106 | 42 | 58 |
| South West | 111,223 | 11 | 108 | 22,933 | 229 | 84 | 16 |
| Inner West | 65,235 | 7 | 119 | -15,744 | -63,685 | 80 | 20 |
| South | 23,447 | 2 | 170 | -12,776 | -29,699 | 100 | 0 |
| Total | 314,490 | 33 | 110 | -81,312 | -169,261 | 69 | 31 |

Source: Knight Frank Research

FIGURE 4
July 2017 Available Space
'000m² est. by area and quality



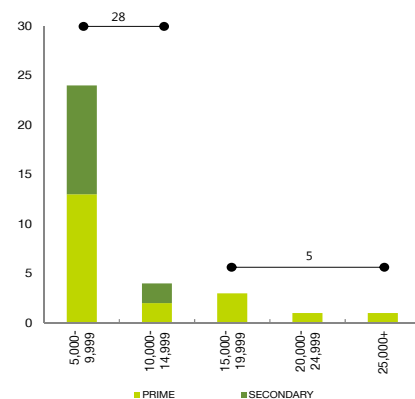
Source: Knight Frank Research

Damco, a global logistics provider leased 5,261m² of space at Goodman's 2-8 McPherson Street, Banksmeadow, demonstrating the demand from logistics providers is still strong in South Sydney.

Inner West stock levels continue to decline to 65,235m², a 19% reduction from the previous quarter and a 49.4% decline YoY. Increased leasing activity in the precinct fuelled the substantial decline. Notable leasing deals include John Cootes Furniture occupying 10,374m² at 4 Newington Road Silverwater in addition to 2-34 Davidson Road, Chullora (18,114m²) being no longer vacant.

The addition of several backfill leasing options in the South West, 400 Moorebank Avenue, Moorebank (18,241m²), 10-12 Fairford Road, Padstow (14,609m²) and 153 Glendenning Road, Glendenning (6,610m²) among others, saw vacancy levels rise by 26% to 111,223m².

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



Source: Knight Frank Research

Building Take-up

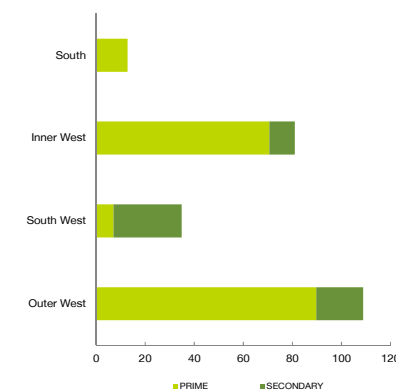
Gross absorption, excluding D&C, recorded its highest level in 12 months of 237,453m², across 25 buildings, an increase of 35% on the previous quarter. This is significantly above the series average of 152,421m². The properties leased this quarter had an average time on the market of 8.6 months for prime stock and 10.3 months for secondary.

Absorption levels were skewed towards prime stock this quarter representing 76% of total take up, whilst secondary stock accounted for only 24%. Following a quarter of no speculative stock being leased, this quarter recorded 24,495m² of absorption across three projects; Frasers Hurlsey Drive Business Park (7,915m²), 145 Lenore Drive, Erskine Park (7,545m²) and GPT's Development at 18-24 Abbott Road, Seven Hills (9,035m²) leased to Hills on a seven year term.

By precinct the Outer West dominated take up levels representing 45.8% of total absorption, with 108,841m² leased over the period, 35% above the series average. This continues to highlight the strong tenant migration from other precincts.

The Inner West accounted for 34.1% of absorption, whilst recording its highest level of leasing activity on record of 80,979m², significantly higher than last quarters take up of 28,247m². Additionally the South West and South Sydney represented 14.7% and 5.4% of total take up respectively.

FIGURE 6
Take-up 3 months to July 2017
'000m² est. take-up buildings (excl. D&C)



Source: Knight Frank Research

Size & Type of Stock

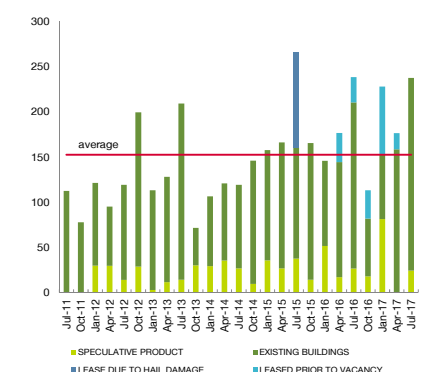
As at July 2017 there were 33 vacant industrial buildings, down from 42 in the previous quarter. By size 73% (24 options) of the total number of vacancies are for sub 10,000m² spaces. A total of four buildings remain available for 10,000m² – 15,000m², whilst there are five available options for buildings above 15,000m², all of which are prime.

Outlook

Vacancy levels are expected to rise throughout the remainder of the year with a number of pending vacancies, including Goodman's 3 Herbert Place, Smithfield (10,041m²), 146-156 Warren Road Smithfield (10,344m²) and 350 Parramatta Road Homebush (5,331m²). Additionally Mirvac's speculative development at Calibre Estate (21,070m²) is due for completion in late 2017. Despite the number of pending vacancies, available stock will still remain well below the historical average.

As major infrastructure projects progress such as the WestConnex, Moorebank Intermodal Terminal (MIT) and Western Sydney Airport, we anticipate tenant demand to rise in the South West. As accessibility and transport for road, air and rail improves, 3PL and transport providers will look to be located closer to the future airport rather than the traditional Outer West area, which is at record low availability (114,585m²).

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



Source: Knight Frank Research



COMMERCIAL BRIEFING

For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

RESEARCH & CONSULTING

Marco Mascitelli

Research Analyst
+61 2 9036 6656
Marco.Mascitelli@au.knightfrank.com

Alex Pham

Senior Research Manager
+61 2 9036 6631
Alex.Pham@au.knightfrank.com

INDUSTRIAL

Matthew Lee

Senior Director—Head of NSW Industrial
+61 2 9761 1874
Matthew.Lee@au.knightfrank.com

Peta Antoniou

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

Mark Silva

Director - Head of South Sydney
+61 2 9036 6889
Mark.Silva@au.knightfrank.com

NATIONAL

Tim Armstrong

Head of Industrial, Australia
+61 2 9761 1871
Tim.Armstrong@au.knightfrank.com

Greg Russell

Head of Industrial Investments, Australia
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

VALUATIONS

Lachlan Graham

Divisional Director
+61 2 9028 1132
Lachlan.Graham@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



Melbourne Industrial Vacancy Analysis
July 2017



Sydney Industrial Market Brief
May 2017



Build-To-Rent Insight
April 2017



The Wealth Report 2017

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

Important Notice

© Knight Frank Australia Pty Ltd 2017 – 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.



Newmark
Knight Frank
Global