RESEARCH

SYDNEY

INDUSTRIAL VACANCY APRIL 2017

Key Facts

Sydney industrial available space (5,000m^2+) decreased by 21% over the past quarter to 401,690m^2.

Gross take-up measured 176,378m^2 during the quarter to April 2017, 18.5% above the long term average.

Prime stock currently represents 68% (272,478m^2) of all vacancies in the market, up from 60% in the previous quarter.

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Sydney industrial vacancy has reached its lowest level on record of 401,690m^2, down 21% from the previous quarter. Below average stock additions and strong leasing activity have been the catalyst behind the record low vacancy levels.

The NSW Government's proposed $60 billion worth of major infrastructure works including the Westconnex, Moorebank Intermodal Terminal and Northconnex, in conjunction with the Federal Government's Western Sydney Infrastructure Plan (WSIP), continues to drive the expansion and demand for industrial space across Sydney. The projects, which have either commenced or are in the pipeline, are all in aid to support population and labour force growth. In Western Sydney alone the population is forecast to reach 3 million people by 2031 up from 2.2 million today.

Amidst above average gross take up levels and low levels of new stock additions, industrial vacancy levels have reached an all time low of 401,690m^2. Large lease deals at Yennora Distribution Centre (28,000m^2), 1 Huntingwood Drive (21,366m^2) and 5 Inglis Road (20,161m^2), Ingleburn were key contributors to the decline.

Additionally the urban renewal of industrial zoned land which is being experienced in the South Sydney and Inner West markets has continued to push tenants further West. Subsequently gross absorption in the Outer West accounted for 49% of the Sydney total.

This quarter experienced a shift in tenant demand for quality of stock with prime absorption only representing 59% as opposed to 88% in the previous quarter. The 28,000m^2 of secondary stock leased at Yennora Distribution Centre was the driving factor in the shift.

On the back of a record high quarter of speculative stock being leased in Q4 2016 (90,431m^2), this quarter did not see any speculative lease deals. We note that this is the result of a lack of supply rather than demand.

Despite the current low vacancy levels vacancy is expected to rise in the coming two quarters as new speculative developments are progressed and a number of pending vacancies are expected to come on to market.

Quality of Stock

Prime vacant space continues to decline for the third consecutive quarter, down 10.1% from the previous quarter to 272,478m². Despite the recent reduction, prime space represents 68% of total available space, well above the series average of 47%.

The level of secondary space continued to trend down with a decline of 37.1% over the first quarter of 2017 and is currently at its lowest level since the series began in 2011. A combination of record low additions of secondary stock to the market (8,460m²) and strong leasing activity of 71,738m² underpinned this result as leasing demand was more than double the rate recorded in the previous quarter.

The most notable deal in the secondary market was the leasing of 28,000m² at Stockland's Yennora Distribution Centre. After being on the market for over four years, Australian Wool Handlers and WA Freight now occupy the space.

The average time on the market for vacant stock currently averages 7.7 months for prime and 12.8 months for secondary stock, highlighting tenant preference for prime space due to operational efficiencies.

Available speculative stock now totals 24,495m² across three projects which includes 7,915m² at the Horsley Drive Business Park,145 Lenore Drive, Erskine Park (7,545m²) and 18-24 Abbott Road, Seven Hills (9,035m²). The lack of speculative space available for lease is the result of a lack of supply rather than demand with speculative projects brought to the market over the past 18 months leasing well. This will give developers confidence to progress new sites, particularly without the need for an adjoining pre-commitment.

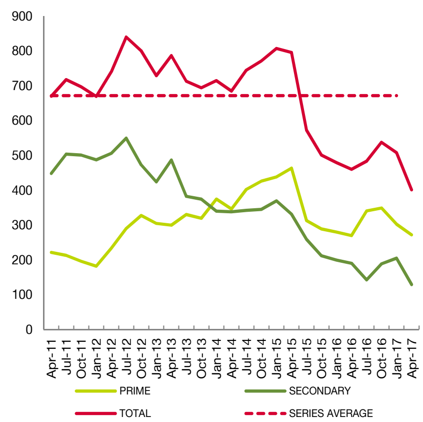
Distribution by Precinct

The first quarter of 2017 saw vacancy levels decline across all precincts with all precincts recording in excess of 20,000m² absorption and minimal additions.

Available stock in the Inner West reached its lowest level on record with a 30% quarterly decline in vacancy to 80,979m². The record low levels stem from 28,000m² of space being occupied this quarter in conjunction with only 6,120m² at 13 Rachel Close Silverwater being added to the market.

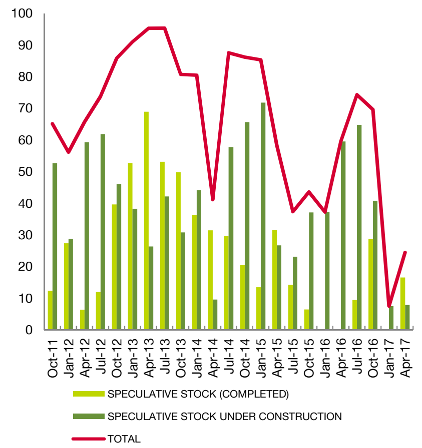
South Sydney recorded the largest quarterly change of all precincts since last quarter, experiencing a 41.4% decline in vacancy levels to 36,223m². Notably this result stemmed from 19,366m² being leased at 149-165 Mitchell Road, Alexandria. Additionally no new stock has been added to the precinct.

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



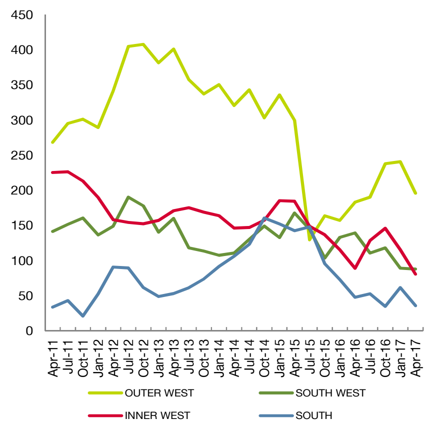
Source: Knight Frank Research

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



Source: Knight Frank Research

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



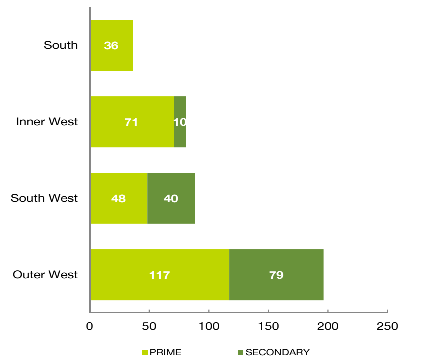
Source: Knight Frank Research

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

Precinct	Available Space m²	No. of Buildings	Av Asking Rent $/m² net	Change Past Qtr (m²)	Change Past Year (m²)	Building Quality Prime %	Building Quality Secondary %
Outer West	196,198	22	107	-45,020	12,785	60	40
South West	88,290	9	106	-1,154	-51,464	55	45
Inner Central West	80,979	8	114	-34,776	-8,311	87	13
South	36,223	4	181	-25,637	-11,962	100	0
Total	**401,690**	**44**	**115**	**-106,587**	**-58,952**	**68**	**32**

Source: Knight Frank Research

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



Source: Knight Frank Research

Following three consecutive quarters of increased vacancy levels in the Outer West the first quarter of 2017 recorded 196,198m^2 of vacant stock, which is a 18.7% reduction from the previous quarter. The large lease deal at 1 Huntingwood Drive to IVE Group (21,366m^2) in conjunction with a further 65,025m^2 of absorption has been the catalyst behind reduced vacant stock levels. Although vacancy experienced a large decline this quarter, YoY from April 2016 vacancy has increased moderately at a rate of 7%.

South West vacancy levels remained steady with only a 1.3% decline this quarter to 88,290m^2 its lowest level on record. Large lease deals at 5 Inglis Road, Ingleburn (20,161m^2) and Visy leasing 7,606m^2 at 50 Airds Road, Minto have contributed to the record low levels.

Building Take-up

Gross absorption, excluding D&C, has seen a 23% decline since the previous quarter with 176,378m^2 leased over 16 buildings in the first quarter of 2017. This remains 18.5% above the series average.

This quarter experienced a more even spread between prime and secondary stock with prime absorption representing 59% of take up in comparison to the previous quarter which saw prime stock account for 88% of absorption. Coming off a quarter which saw gross take up at record high levels for speculative stock; there has been no speculative builds leased over the quarter, a first since October 2011.

The Outer West continues to outperform other precincts accounting for 49% of gross take up over the quarter, highlighting the strong tenant demand for the precinct and tenant migration. Additionally the South and Inner West both accounted for 16% of absorption, whilst South West recorded 19% of the gross take up for the period.

The properties leased this quarter had an average time on the market of 7.7 months for prime stock and 14.6 months for secondary. Excluding the two outliers that were on the market for in excess of 24 months (Yennora Distribution Centre and 19 O'Riordan Street) figures are more aligned at 4.9 months for prime and 9 months for secondary stock.

Size & Type of Stock

As at April 2017 there were 43 vacant industrial buildings, down from 52 in the previous quarter. By size 65% (28 options) of the total number of vacancies are for sub 10,000m^2 spaces. A total of 11 buildings remain available for 10,000m^2—15,000m^2, whilst there are only four available options for buildings above 15,000m^2.

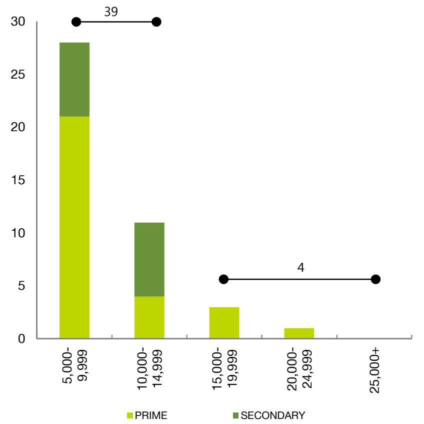
Outlook

With a number of institutions expected to capitalise on a period of weak supply, the construction of speculative space is expected to increase over the coming quarters. In conjunction with a number of large pending vacancies, largely stemming from Goodman and Dexus, we anticipate vacancy levels will moderately rise throughout 2017, although still remain below the series average.

At the same time, the recent speculation that Amazon will establish their warehouse operations at Eastern Creek is likely to lead to an increase in demand for industrial space. Notably, this will largely stem from the outsourcing of logistics and transport functions to 3PL providers and e-commerce operators such as Australia Post, Toll or DHL.

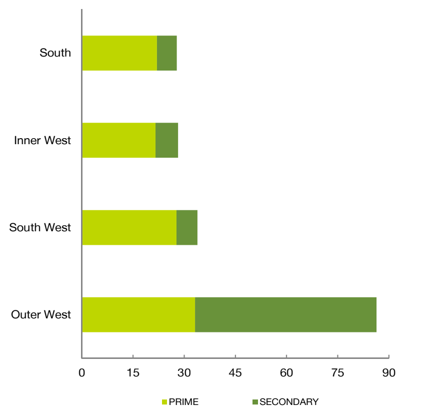
Tenant migration to the Outer West precinct is expected to continue as a result of further tenant displacements from the residential conversion of industrial zoned land in the Inner West and South Sydney precincts.

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



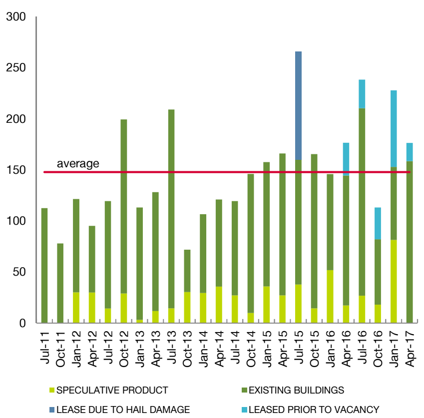
Source: Knight Frank Research

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



Source: Knight Frank Research

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



Source: Knight Frank Research

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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