

SAVILLS INDUSTRIAL STOCK SURVEY RECORDS SLIGHT DECLINE IN NATIONAL VACANCY

Savills has released the second edition of its industrial stock survey, which has recorded a slight overall decline in national vacancy for investment grade industrial property.

The *Savills Industrial Stock Survey (SISS)* was introduced by Savills last year as a new bi-annual benchmarking tool for the performance of the national industrial sector.

The inaugural survey in September 2008 recorded a national vacancy rate of 3.2%. The latest survey, based on data as at March 31 2009, shows a small decline in national vacancy to 2.8%.

The SISS tracked ownership of 887 investment grade properties in the prime, secondary, high tech and development site segments of Australia's key capital industrial markets, comprising 16 million sq m of built gross lettable area (GLA).

The survey focuses purely on properties owned for the purpose of investment returns, omitting the owner-occupier market to provide an accurate analysis of the market for investment grade industrial assets.

Paul McLean, Savills Chief Executive Officer, said the SISS was developed by Savills to meet the need for a comprehensive assessment of Australia's industrial property sector, and allows industry participants to benchmark their portfolio performances to national standards.

He said the survey provides investors with exposure to Australia's industrial market with a unique insight into vacancy trends, development potential and the strength of the pre-commitment market.

"This survey is the only indicative benchmarking tool of its kind for the industrial property market in Australia, and the results from the second edition show some interesting changes over the last six months," Mr McLean said.

The author of the report, Claire Cupitt, Savills NSW Research Analyst, said: "Australia's economic climate has changed markedly over the last year and the industrial property market has not been immune. However, the flexibility of the industrial market to changing conditions is evidenced in the findings of the report.

"While the results vary from state to state, we recorded a slight overall decline in national vacancy for investment grade industrial."

The pattern of vacancy across the states in March 2009 highlights the differences from the previous SISS in September 2008.

Over that period, vacancy increased in New South Wales from 3.5% to 3.9%; decreased from 2.5% to 1.9% in Victoria, decreased from 4.1% to 3.0% in Queensland, and decreased from 6.5% to 1.6% in South Australia (only a couple of leases effected the small market in this case). The vacancy remained at 0% in Western Australia, reflecting the lack of stock in the Perth industrial market.

"The increase in vacant stock in New South Wales relates to a number of vacancies, mainly in secondary stock, in Sydney's west. We expect the vacancy rate in Sydney's west to tighten over the next reporting period due to stagnant development, with tenant demand absorbing the remaining space," Ms Cupitt said.

"The overall decline in vacancy in the other main states relates to the quick supply side response to the lack of development funds in the market and decline in economic conditions. Existing tenant demand has taken up remaining vacancy in the markets.

"We expect the general slowing in economic conditions and restrictions to investment finance will lead to a further increase in tenant retention with occupiers opting to lease for shorter time periods rather than owner occupy. Moreover, some business expansion plans may be shelved and tenants may opt to renew or extend their current leases in order to retain flexibility."

The SISS focuses on the industrial investment exposure of Real Estate Investment Trusts (REIT), major funds and syndicates, large private investors and governments.

The study surveyed over 126 million sq m of industrial land and showed that the REIT and government sectors dominate land ownership, with the strong prevalence of government land ownership in Queensland and Western Australia reflecting the commitment of these State Governments to industrial development around their port precincts.

While Western Australia and Queensland held the majority of industrial land surveyed, New South Wales held the lion's share of investment grade GLA, with 7.1 million sq m over 348 properties. Despite its traditional role as the biggest industrial market in Australia, the Victorian industrial property market recorded 5.1 million sq m of GLA on 221 properties. Savills attributes this finding to the influx of REIT activity in Sydney's industrial property market over the last few years.

Other key findings of the SISS focus on development potential and, significantly, how much of the developable space is currently seeking pre-commitment.

The ratio of recorded development potential on existing sites to developed GLA remained at approximately 70% nationally. The level of developable space currently seeking pre-commitment was 31%.

"The state with the highest development potential was Queensland, while it had one of the lowest proportion of developable land currently seeking pre-commitment. This shows that the large land parcels owned by the Queensland government is generally being held for long-term development," Ms Cupitt said.

"By contrast, New South Wales and Victoria reported less development potential. However, 68% and 77% of this development potential is seeking pre-commitment respectively. This indicates that the majority of the vacant space in these states is planned for immediate construction. However the likelihood of this planned development transpiring in the short term is low and those owners of industrial land would be considering the sale of this stock to reduce holding costs."

KEY FINDINGS

NATIONAL

- 887 properties nationally
- Covering 126 million sq m of land area
- 16 million sq m of built GLA
- The national vacancy factor fell from 3.2% in September 2008 to 2.8% in March 2009
- Development potential (%) remained flat at 70% in March 2009
- Seeking pre-commitment (%) remained at around 31% in March 2009
- Net additions to our survey equalled 0.9%
- Net absorption in our survey equalled 1.3%

NSW

- 348 properties surveyed
- 26.4 million sq m industrial land
- 7.1 million sq m built GLA
- New South Wales's vacancy factor rose from 3.5% in September 2008 to 3.9% in March 2009
- Development potential (%) declined from 40.4% in September 2008 to 35.3% in March 2009
- Seeking pre-commitment increased from 48.7% in September 2008 to 68.2% in March 2009
- Net additions equalled 0.3%
- Net absorption in New South Wales was 0%

VIC

- 221 properties surveyed
- Covering 19 million sq m of land area
- 5.1 million sq m of built GLA
- Victoria's vacancy factor fell from 2.5% in September 2008 to 1.9% in March 2009
- Development potential (%) rose from 42.7% in September 2008 to 47.0% in March 2009
- Seeking pre-commitment (%) fell from 89.4% in September 2008 to 77.1% in March 2009
- Net additions to our survey equalled 0.2%
- Net absorption in our survey equalled 0.9%

QLD

- 152 properties surveyed
- Covering 35.6 million sq m of land area
- 1.7 million sq m of built GLA
- Queensland's vacancy factor fell from 4.1% in September 2008 to 3% in March 2009
- Development potential (%) remained at 92% in March 2009
- Seeking pre-commitment (%) remained at around 21% in March 2009
- Net additions to our survey equalled 3.9%
- Net absorption in our survey equalled 5%

WA

- 104 properties surveyed
- Covering 32.6 million sq m of land area
- 1.1 million sq m of built GLA
- Western Australia's vacancy factor remained at zero.
- Development potential (%) remained at around 83% in March 2009
- Seeking pre-commitment (%) also remained at around 22% in March 2009
- Net additions to our survey equalled 3.5%

SA

- 55 properties surveyed
- Covering 7.6 million sq m of land area
- 956 thousand sq m of built GLA
- South Australia's vacancy factor fell from 6.5% in September 2008 to 1.6% in March 2009
- Development potential (%) remained at 80% in March 2009
- Seeking pre-commitment (%) increased from 1.6% in September 2008 to 2.5% in March 2009
- There were no net additions to our survey

For further information, please contact:

Claire Cupitt
Analyst
Savills NSW
Tel: 02 8215 8811
Mobile: 0402 987 917

Paul McLean
Chief Executive Officer
Savills Australia
Tel: 0409 011 799