PRESS RELEASE

INDUSTRIAL VACANCY TO BE ABSORBED BY RISING TENANT DEMAND – SAVILLS

A rise in vacancy rates for industrial property is forecast to be quickly absorbed by rebounding tenant demand in prime precincts, according to property advisor Savills' latest survey of national industrial stock.

The bi-annual *Savills Industrial Stock Survey (SISS)* provides a benchmarking tool for the performance of the national industrial sector by analysing the industrial property exposure of REITS, major funds and syndicates, large private investors and governments.

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.

The September 2009 study, based on the June-09 mandatory reporting of listed companies, tracked ownership of 875 investment-grade properties in Australia's key industrial markets, totaling 16 million sq m of built gross lettable area (GLA).

The latest SISS shows a national increase in vacancy for investment grade industrial property to 5% in September 2009, up from 3% in the March 2009 report. The rise in vacancy rates can be partly attributed to increase in supply in some areas, but also a consolidation or reduction in demand and space leased in others.

The rise in vacancy was spread across the board with NSW (5% to 6%); VIC (3% to 5%); QLD (3% to 6%) and SA (2% to 3%) all reporting increases. The vacancy remained at zero in Western Australia, reflecting the strong presence of owner occupiers and small privates in that market; owners not covered by the survey. Stock owed by trusts and funds in the Perth market are tightly held and fully leased.

On a national level, vacancy recorded in properties owned by REITs rose from 3% in March to 4% in September, while vacancy in properties held by funds rose from 3% to 7%.

The author of the SISS, Claire Cupitt, Savills NSW Research Analyst, said the increase in industrial vacancy across the nation is not surprising given the economic slowdown and its effects on commercial property markets.

"However, we have seen clear signs over the past few months that tenant demand is returning to the market and we expect vacancies will tighten when the next SISS is released in March next year," she said.

"Industrial supply in most states has been scaled back. Many tenants also decided to re-negotiate their current leases given the uncertain economic conditions, while others experienced consolidation and required less space."

Savills' Ms Cupitt said industrial vacancies were most evident in secondary stock. "In our Sydney study, vacancy was most prominent in Sydney's Central West, particularly in Regents Park, Homebush and Villawood. This stock is mainly secondary in nature," she said.

"Despite overall vacancy levels increasing in Sydney from the March to September reports, we expect the vacancy rate in the prime precincts of Western Sydney to tighten over the next reporting period due to stagnant development and stronger take up over the last few months. Given the lack of new stock left in Western Sydney following a recent period of take up, there should see some new demand for pre-lease and spec buildings going forward."

The SISS also focuses on industrial development potential and, specifically, how much of the developable space is currently seeking pre-commitment. The ratio of recorded development potential on existing sites to developed and undeveloped stock sat at 64% nationally. The level of developable space with pre-commitment being sought was 45%.

KEY FINDINGS:

NATIONAL

- 875 properties surveyed
- 156 million sq m of land area
- 16 million sq m of built GLA
- National vacancy increased from 3% in March 2009 to 5% in September 2009
- Development potential 64%
- Development seeking pre-commitment 45%
- Net additions 1%
- Negative net absorption of -1%.

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For further information, please contact:

Claire Cupitt
NSW Research Analyst
Tel: (02) 8215 8811/0402987917