

# FINAL REPORT INDEPENDENT MARKET REPORT

RE: 67-73 LORDS ROAD, LEICHHARDT

Prepared for:

Platino Properties Pty Ltd  
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28 July, 2017

# CONTENTS

	<b>Page</b>
Introduction	3
1.0 Analysis of Commercial & Light Industrial Property Vacancies	3
2.0 Tenant Demand & Leasing Perspective	7

## INTRODUCTION

The report has been commissioned by Platino Properties in relation to a potential residential development at 67-73 Lords Road, Leichhardt. The basis of the report is to examine current commercial vacancy and form a view on commercial tenant demand within Leichhardt and the surrounding suburbs.

Knight Frank currently understands that the subject site is bookended by residential and recreational uses and is zoned IN2 Light Industrial. Knight Frank understands that the subject site is heavily underutilised (from an original land zoning perspective), highlighted by the current provision of non-industrial based tenants occupying the space including a gym, art school and furniture restorer. While the site is currently tenanted at under market rents, it is not being fully utilised under its current IN2 Light Industrial zoning and businesses seeking similar space have gravitated to precincts along major roads and within centres instead.

It is in the opinion of Knight Frank Research, a result of the following exercise, that there is significant vacant commercial space elsewhere in Leichhardt, and therefore there are many suitable alternative accommodation options for the current tenants of the subject site. In addition, with the subject site being in an isolated location of Leichhardt, the current tenants would be better suited to other available options which are better positioned and co-located with other similar businesses in major centres where they can leverage off increased foot traffic.

### 1.0 ANALYSIS OF COMMERCIAL & LIGHT INDUSTRIAL PROPERTY VACANCIES

Commercial space (defined as office, warehouse, retail and showroom space) in Leichhardt is spread throughout the area, albeit the bulk is concentrated along key roads including Parramatta Road and Norton Street. Elsewhere, there are small pockets of commercial space located in isolated locations throughout Leichhardt which have inferior access and reduced foot traffic, consequently placing pressure on the viability of businesses located within.

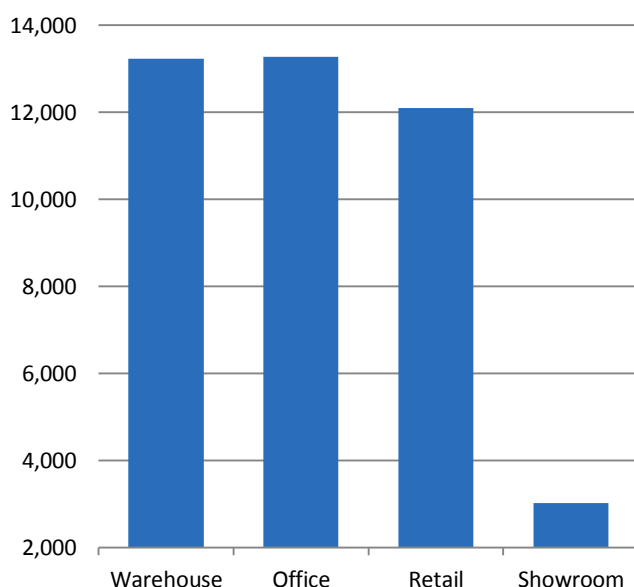
Using vacancy data (space advertised as available for lease) derived from [realcommercial.com.au](https://realcommercial.com.au), we are able to estimate the amount of vacant space (100m<sup>2</sup>+) in Leichhardt and its surrounding suburbs. Knight Frank Research has used [realcommercial.com](https://realcommercial.com) as a point of reference as the property listing portal is the most popular website for advertising commercial and industrial property for sale or lease. Given that there are no significant pull factors for a business to be specifically located in Leichhardt, we have drawn upon a three kilometre radius of the subject site to estimate current vacancy. Similarly, with existing tenants at the subject site able to be accommodated in non-industrial zoned premises (for example, a gym operator is able to establish their business in either retail or office use zones), we have drawn upon the following criteria in regards to vacancy:

- Warehouse
- Retail
- Office
- Showroom

As at 26 July 2017, there is 41,632m<sup>2</sup> of identified vacant space advertised as available to lease (above 100m<sup>2</sup>) in a three kilometre radius from the subject site, across 130 different locations. We note, not all vacant space is listed on realcommercial.com.au and our experience suggests at least a 15% uplift to the 41,632m<sup>2</sup> is considered reasonable as there are cases when property owners only list a part of their vacant property (i.e. they list one of a number of tenancies that may be vacant within a single property) or do not list on realcommercial.com.au at all. In this case, Knight Frank Research estimates there to be at least 47,876m<sup>2</sup> of suitable space (100m<sup>2</sup>+) currently available in the subject area. The existence of such a large amount of vacancy also disguises “hidden vacancy” - space that is leased or occupied, but is not fully utilised. In effect, this means that buildings are occupied, but have the capacity to accommodate more businesses and/or employees within that space. However, for the purpose of this analysis we have excluded this uplift and “hidden vacancy” to the baseline numbers.

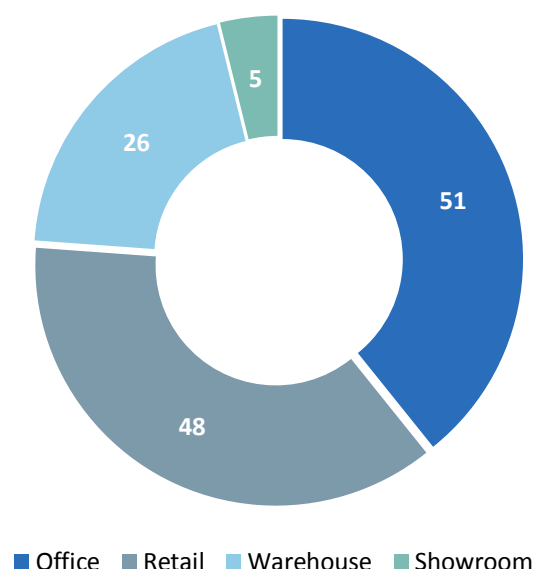
Warehouse and office space currently represents 32% of vacant space respectively in Leichhardt and the surrounding suburbs, while retail provisions account for 29% of existing vacancies. The provision of vacant showroom space is lower, representing 7% of vacancies in the area. By number, office vacancies represent 39% of vacancies in the area, followed by retail (37%) and warehouse space (20%).

Figure 1. Size (m<sup>2</sup>) of vacant space, by type



Source: Knight Frank Research, realcommercial.com.au

Figure 2. Number of properties vacant, by type

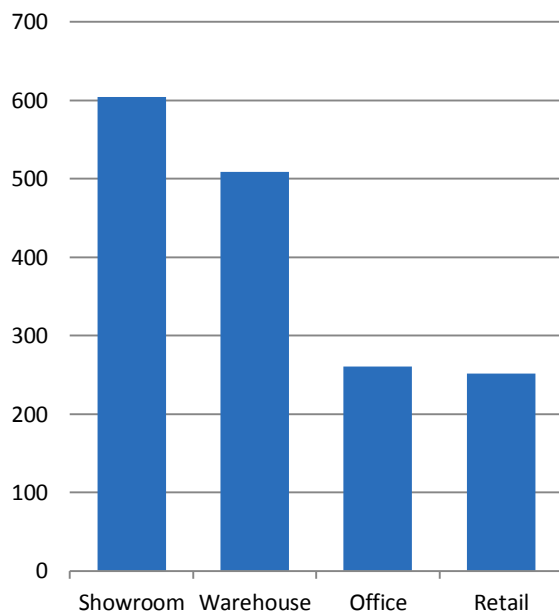


Source: Knight Frank Research, realcommercial.com.au

To highlight the suitability of existing vacancies in the area, we have assessed the average size of each use. Currently, vacant showroom space in the area has the largest average floor area at 605m<sup>2</sup>, followed by warehouse space at 510m<sup>2</sup> and office at 260m<sup>2</sup>. Given the average floor areas of properties available for lease are quite large, a broad range of business types can be accommodated. For smaller tenants seeking space of 200m<sup>2</sup> or less, floor areas could be sub-divided to suit if need be.

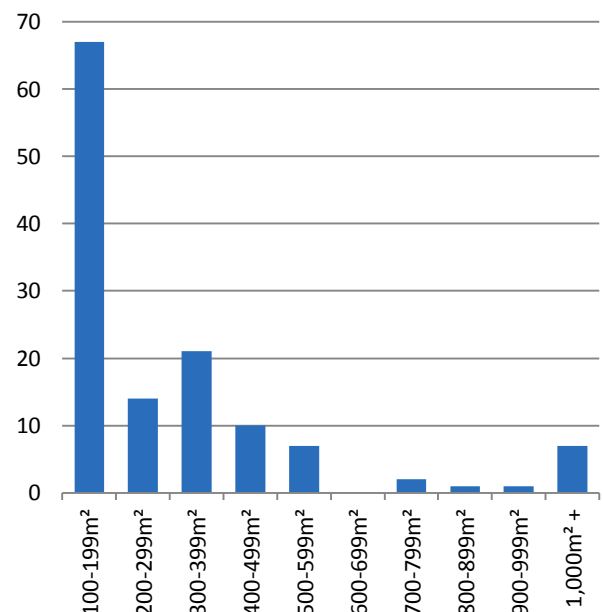
As observed by Figure 4, 52% of vacant properties advertised as available to lease in the area, by number, exist in the 100-199m<sup>2</sup> range. In consideration of the large average offering of available space in the area, the high proportion of smaller sub 200m<sup>2</sup> options available highlights the variety and flexibility of vacant space. At the other end of the scale, 5% of properties available for lease exist in the 1,000m<sup>2</sup> + range.

Figure 3. Size (m<sup>2</sup>) of vacant space, by type



Source: Knight Frank Research, realcommercial.com.au

Figure 4. Number of properties vacant, by size

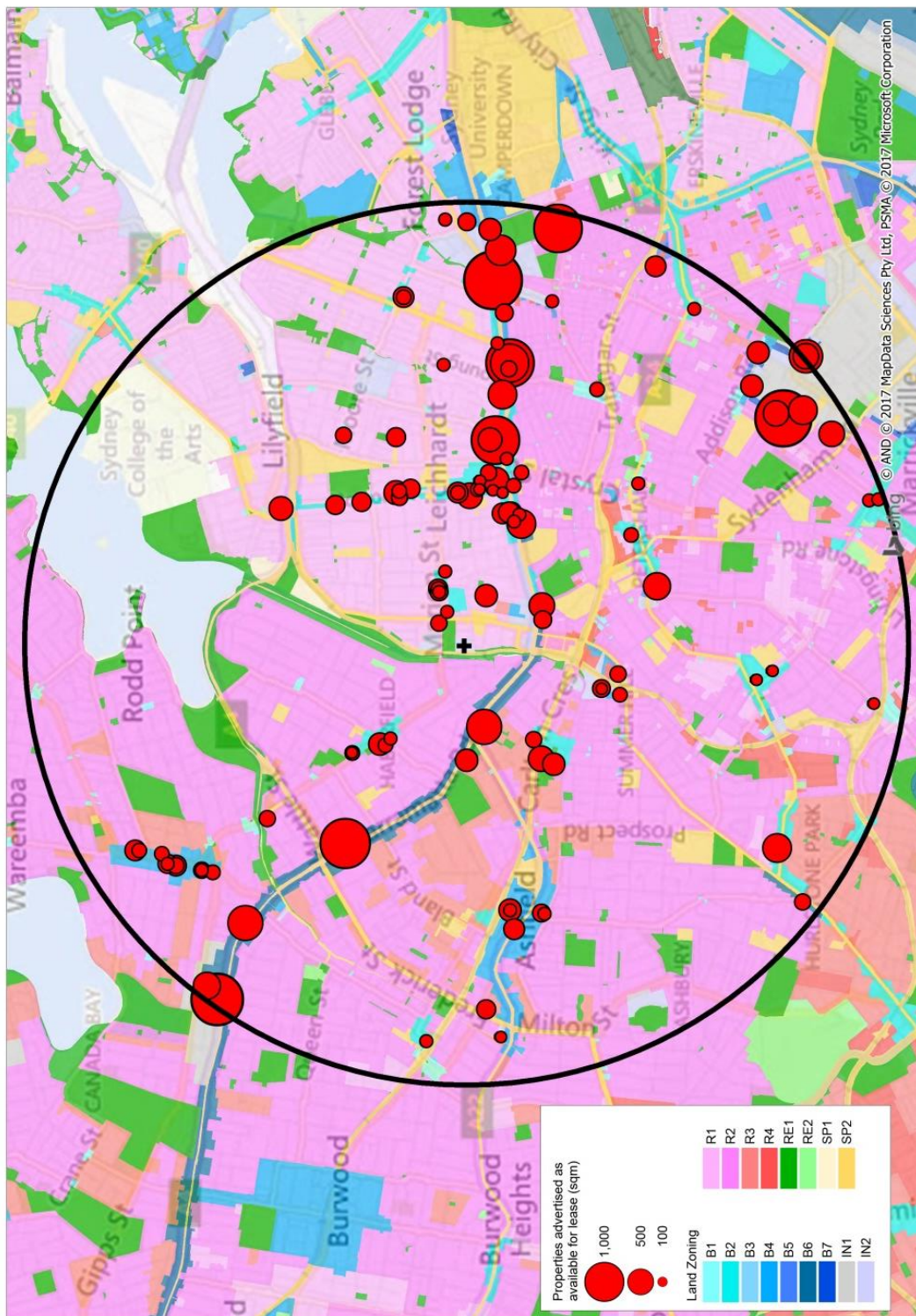


Source: Knight Frank Research, realcommercial.com.au

As highlighted by Map 1 (on the following page), the bulk of properties currently vacant and advertised for lease exist along the key arterial roads in Leichhardt including Parramatta Road and Norton Street. Further afield there are a large number of leasing options available to the east of Leichhardt at Annandale, south-east at Marrickville and west at Ashfield and Haberfield. In all, these locations are suitable to house the existing tenant base of the subject site. Highlighted by the larger circles on Map 1, there exist several large vacancies immediately south west of the subject site.

Overlaying the location of properties advertised as available for lease against the land use zone in which they sit highlights the flexible nature of existing vacancies. The majority of existing vacancies are located in the flexible B1 Neighbourhood Centre, B2 Local Centre or B4 Mixed Use zones which are able to accommodate the current tenants located at the subject site.

Map 1. Location of identified vacant space advertised as available to lease by size against land use zoning



Source: Knight Frank Research, realcommercial.com.au

+ indicates the location of the subject site

Black circle represents a 3km radius from subject site



## 2.0 TENANT DEMAND & LEASING PERSPECTIVE

*This section of the report includes an overview of the current tenant requirements across Leichhardt and surrounding suburbs. The information, anecdotal evidence and commentary below originate from an interview conducted by Knight Frank Research with operatives within the Knight Frank City Fringe, Sales & Leasing, Capital Markets team on 27th July 2017. We note here that the above team is currently active in Leichhardt with a live instruction of a 250m<sup>2</sup> warehouse conversion (26 Mackenzie Street, Leichhardt) and recently leased a 293m<sup>2</sup> office/warehouse in neighbouring Marrickville. In addition, the above team have a number of live instructions in surrounding suburbs.*

*The main highlights of the interview are as follows:*

Demand for commercial space, be it warehouse, office, retail or showroom is shallow in Leichhardt as demand has shifted/migrated elsewhere in Sydney, to areas which are better located (in terms of connectivity), and where there is a greater concentration of industries.

Leichhardt is not a renowned destination for industrial users with limited space available for warehouse and hardstand space, in conjunction with inadequate connectivity and access for transportation and logistics services. From a warehousing/industrial space perspective, the bulk of warehouse space in Leichhardt is isolated and not positioned along a major road which consequently restricts the tenant pool for such space.

Of the warehouse space that remains in Leichhardt, it is predominately secondary stock and outdated in comparison to other available stock in the wider Sydney market. The vast majority of enquiry from industrial users is for newer A Grade stock which Leichhardt lacks.

For users currently in the area, who are looking to move premises the choice is clear – either move west where rents are cheaper and where there is better access to Sydney's major road network or move east towards where like-minded businesses are located, in order to leverage off existing business to become a 'destination point'.

A number of small serviced based industries (i.e. accountants, lawyers, property agents, medical professionals, etc.) occupy small suites and office space throughout Leichhardt; this has traditionally been the bulk of commercial tenant enquiry. With the number of available options within Leichhardt and surrounding suburbs, which includes Five Dock, Summer Hill, Petersham and Haberfield among others; tenants will have a number of options in order to relocate their business. Neighbouring suburbs offer a better alternative for smaller serviced based industries, as they provide more transport alternatives (train stations along the Inner West rail line) for workers.

With these trends in mind, the current 41,632m<sup>2</sup> of vacant commercial space advertised as available for lease in Leichhardt and the surrounding suburbs would take some years to lease up based on current tenant demand, thereby limiting the economic vibrancy of the area.

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