WESTERN SYDNEY INSIGHTS

# Western Sydney Industrial

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# Contents

**Western Sydney Industrial**

# Executive Summary

The Western Sydney industrial market has undergone *significant transformation* over the past five years, driven by evolving economic conditions, shifting consumer behaviours, and the impact of the COVID-19 pandemic.

This period has been characterised by strong growth and investment, but recent changes in economic fundamentals are now reshaping market dynamics.

The industrial sector has emerged as the top performer among commercial asset classes, fueled by unprecedented demand for large-scale distribution and logistics assets, primarily due to the rapid growth of e-commerce.

The pandemic intensified this trend, creating an urgent need for expanded storage and distribution facilities to accommodate last-mile logistics. Concurrently, a surge in new business start-ups drove demand for smaller industrial assets.

Low interest rates played a crucial role in attracting a diverse range of investors, including first-time buyers, owner-occupiers, and institutional investors. However, interest rate hikes and economic uncertainties have led to a slowdown in investment activity and a widening of yield ranges across Western Sydney's submarkets. The market faces supply constraints due to limited vacant industrial zoned land and rising construction costs. This scarcity, combined with strong demand, has led to record low vacancies and significant rental growth, particularly in the outer west and south west regions.

Despite these challenges, Western Sydney's industrial market remains resilient. The region's strategic importance, ongoing infrastructure improvements, and the development of the Western Sydney Aerotropolis continue to attract investment and occupier interest. The outer west and south west precincts, with more developable land, are emerging as key growth areas, with numerous projects in various stages of development.

Recent months have seen a moderation in rental growth and a slight increase in vacancies, reflecting broader economic pressures. However, long-term growth trends remain impressive, with some areas experiencing annual rental growth exceeding 20% over the past three years. Land values, while stabilising after rapid pandemic-era increases, continue to show strong long-term appreciation.

The investment landscape has shifted, with a more cautious approach from buyers and a widening of yield ranges. However, certain market segments, particularly smaller assets, continue to attract strong interest from owner-occupiers and private investors seeking to hedge against rising rents and secure stable income streams.
Looking ahead, the market's performance will largely depend on economic factors, particularly interest rate movements and inflation. The industrial sector's ability to adapt to changing economic conditions and evolving business needs will be crucial.

While growth rates may moderate compared to recent years, Western Sydney's industrial market is well-positioned to navigate current uncertainties and capitalise on long-term growth opportunities, underpinned by its diverse demand drivers, limited supply, and strategic importance in Sydney's broader economic landscape.

**If you'd like to discuss this report in more detail, we would be delighted to engage in a conversation with you.**

PETER VINES
**Managing Director**
RWC Western Sydney
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## Sydney's West is poised to dominate future industrial supply, being the only area capable of offering zoned, undeveloped land.

**OUTER WEST**

**176** PROJECTS IN PIPELINE

**$14B** OF VALUE

LAND VALUE AV 5 YEAR GROWTH
**22.7%p.a**

PRIME RENT AV 5 YEAR GROWTH
**15.2%p.a**

CURRENT PRIME YIELD RANGE
**4.25% - 6.25%**

LGA's of Fairfield, Blacktown, Penrith and Blue Mountains

**SOUTH WEST**

**164** PROJECTS IN PIPELINE

**$3.2B** OF VALUE

LAND VALUE AV 5 YEAR GROWTH
**21.5%p.a**

PRIME RENT AV 5 YEAR GROWTH
**14.7%p.a**

CURRENT PRIME YIELD RANGE
**4.25% - 6.25%**

LGA's of Canterbury/Bankstown, Liverpool, Camden, Campbelltown and Wollondilly

**INNER CENTRAL WEST**

**85** PROJECTS IN PIPELINE

**$1.6B** OF VALUE

LAND VALUE AV 5 YEAR GROWTH
**20.9%p.a**

PRIME RENT AV 5 YEAR GROWTH
**16.6%p.a**

CURRENT PRIME YIELD RANGE
**4.25% - 6.50%**

LGA's of Burwood, Strathfield, Canada Bay, Cumberland and Parramatta

**NORTH WEST**

**25** PROJECTS IN PIPELINE

**$2.8B** OF VALUE

LAND VALUE AV 5 YEAR GROWTH
**14.1%p.a**

PRIME RENT AV 5 YEAR GROWTH
**10.0%p.a**

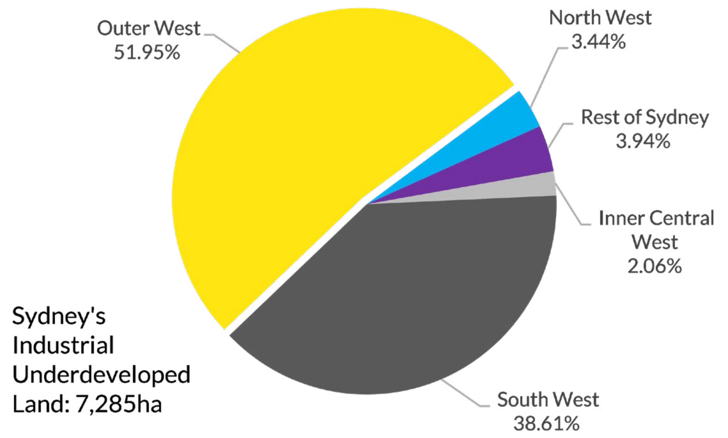
CURRENT PRIME YIELD RANGE
**4.25% - 6.50%**

LGA's of Ryde, Kur-ring-gai, Hornsby and The Hills Shire

**Sydney's Central West** outperforms all other Australian industrial markets in total returns, standing out as one of the few markets to record *positive capital growth.*

## Available industrial land limited to ***Sydney's West***

UNDEVELOPED, ZONED INDUSTRIAL LAND
BY REGIONS




*SOURCE: NSW DEPT OF PLANNING & ENVIRONMENT, RWCWS *2022*

**The concentration of undeveloped industrial land in Penrith and Liverpool Local Government Areas (LGAs) underscores their significance in shaping Sydney's industrial future.**

With these two regions accounting for 69.3% of Sydney's available, zoned industrial land, they are poised to become critical hubs for economic growth and development. This available space not only presents immediate opportunities for business expansion and job creation but also signals a continued westward shift in Sydney's industrial centre.

As these areas develop, they will likely attract continued significant investment in infrastructure and face unique urban planning challenges, balancing industrial growth with residential needs and environmental considerations.

Penrith and Liverpool LGAs hold **69.3%** of Sydney's undeveloped industrial land

Positioned as growing future industrial hubs for Sydney

Potential for significant economic growth and job creation

Likely to attract major infrastructure investments

Will face urban planning challenges and environmental considerations

Could impact broader Sydney economic and urban development patterns

# Sydney's
# *Outer West*

The Outer West of Sydney is emerging as the dominant force in new industrial supply, driven by the availability of land and strategic locations such as Kemps Creek, Marsden Park, and Eastern Creek.

This region currently hosts 178 active projects, with a significant portion still in the planning stages, promising substantial industrial growth in the coming years.

SUPPLY

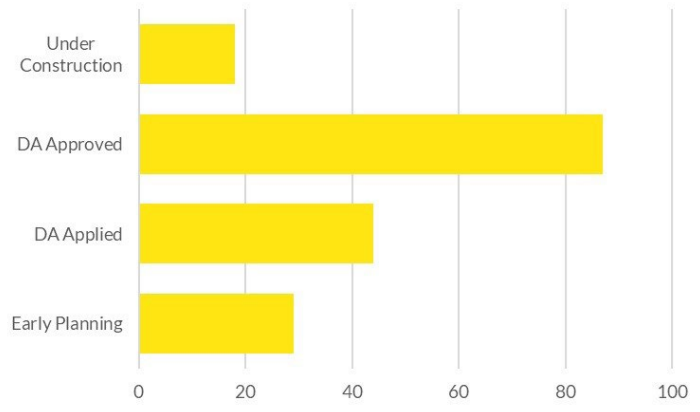
NET FACE RENTS

LAND VALUES

YIELDS

# *Outer West* dominates new supply

### NEW INDUSTRIAL SUPPLY PROJECTS
OUTER WEST, BY DEVELOPMENT STAGE




SOURCE: CORDELL CONNECT, RWCWS

**The outer regions of Western Sydney are at the forefront of new industrial supply opportunities, primarily due to the greater availability of land.**

Areas such as Kemps Creek, Marsden Park, and Eastern Creek continue to be major contributors to new supply in the region, though much of this potential development remains in various planning stages.

The outer western region of Sydney currently boasts 178 active projects with an estimated construction value exceeding $13.6 billion.

This has the  potential to add over 5 million sqm of industrial space within the next five years.

## CHALLENGES & PROGRESS

Despite the significant potential for growth, the building sector has faced numerous challenges. Many projects have been delayed, and the viability of others has been called into question.

While labour supply continues to be a significant issue for the construction industry, the moderation in raw material price growth has allowed more projects to move forward.

## CURRENT DEVELOPMENT STATUS

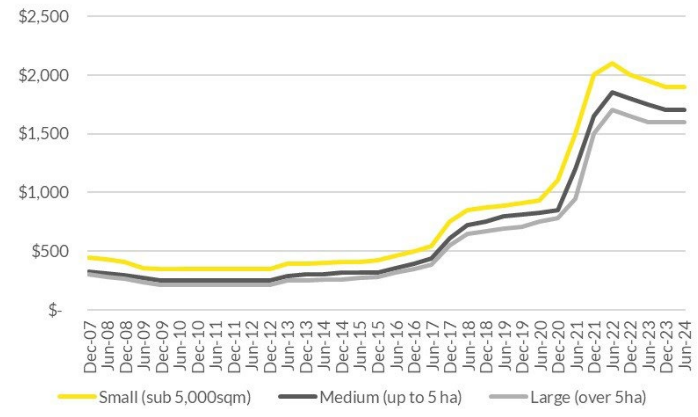
At present, **18 projects are under construction**, which are expected to add approximately 580,000 sqm of industrial land to Western Sydney over the next two years.

The largest segment of the development pipeline consists of projects with Development Approval, representing 87 projects and over 1.2 million sqm of potential stock.

However, many of these projects may see their approvals lapse given the drawn-out nature of the construction sector post COVID-19, potentially rejoining the substantial pool of projects in the early planning phases across the region.

# Land values *moderate* as cost of funding increases

### SYDNEY INDUSTRIAL LAND VALUES
OUTER WEST, BY SIZE RANGE ($/SQM)




SOURCE: RWCWS

**The industrial land market in Sydney, particularly in the outer western region, has undergone significant changes over the past decade.**

After experiencing strong gains for five years, the rapid increase in land values has slowed over the past two years. Historically, the outer western region of Sydney offered more affordable industrial land and saw little movement for an extended period until greater institutional investment and infrastructure improvements sparked interest in the area.

The market began shifting in 2017 with rising values, stabilising until COVID-19 brought extraordinary appreciation driven by low interest rates and high demand for large distribution facilities, particularly in Western Sydney. Despite recent reductions due to rising interest rates and adjusted capitalisation rates, land values have sustained strong long-term growth.

**Smaller parcels:**
Currently valued at around $1,900/sqm, down from a peak of $2,100/sqm

**Medium lots:**
Now commanding $1,700/sqm

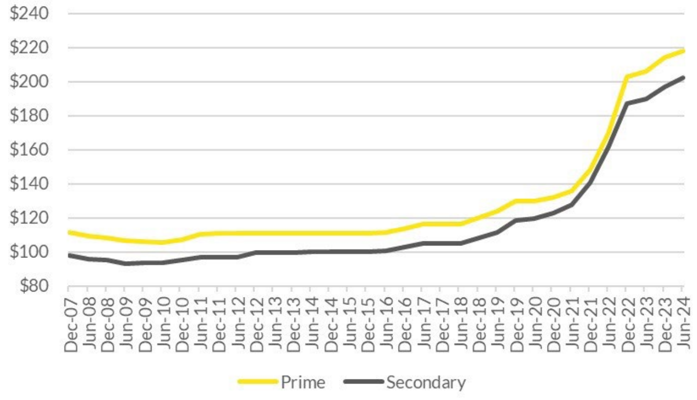
**Large lots:**
Achieving up to $1,600/sqm

These figures represent a decline from pandemic-era peaks across all categories. However, when viewed over a five-year period, the growth remains impressive, with average annual appreciation rates of 22.7% for small lots, 22.5% for medium lots, and 26.4% for larger lots. The ten-year perspective reveals even more substantial growth.

The recent stabilisation in land values and construction prices may enhance the viability of new projects, potentially spurring a new wave of supply in Sydney's outer western regions. Investors and developers will be closely monitoring these trends for opportunities in this dynamic sector.

# Rents start to ***moderate*** after vacancy uptick

**INDUSTRIAL NET FACE RENTS**
OUTER WEST, BY QUALITY GRADE ($/SQM)




*SOURCE: RWCWS*

**The rental market for industrial properties in Sydney's outer west region has undergone significant changes, particularly during and after the pandemic period.**

This area has long been a major hub for transport, storage, and logistics users, thanks to its excellent road and rail infrastructure, connectivity to ports and airports, and proximity to the future Western Sydney aerotropolis.

Historically, the availability of land in this region allowed for the design and construction of purpose-built industrial facilities, setting new benchmarks in quality and size. These premises attracted local, domestic, and international users. However, recent years have seen a strong reduction in construction activity. This decrease in new supply, coupled with increased demand, led to record low vacancies and unprecedented upward momentum in rents.

## CURRENT MARKET TRENDS

Over the past 18 months, this trend has moderated. Demand levels have subsided, and vacancies have slightly increased, resulting in a slowdown of rental growth.

Despite this recent moderation, the market has still seen substantial growth over the past year, with prime assets experiencing a **5.8% increase to $218/sqm and secondary assets seeing a 6.3% increase to $202/sqm.**

## AFFORDABILITY AND MARKET CONSTRAINTS

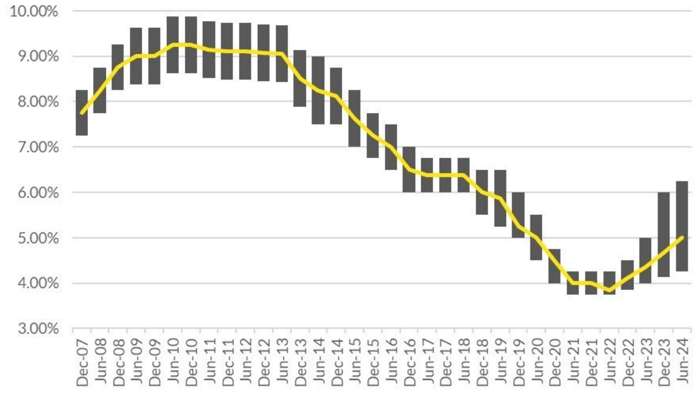
The narrowing gap between prime and secondary asset rents is indicative of affordability and availability constraints in the market. This trend reflects the emerging affordability issues in the occupier market, as businesses grapple with rising costs.

Despite this, larger multinational businesses will seek out assets which align with their businesses' ESG principles which have set new benchmarks in rent.

Despite the recent slowdown in rental growth, the long-term trend remains robust. Over the past three years, rents have increased by over 20% year-on-year in both prime and secondary markets. Impressively, the ten-year average annual growth rate is 10%, historically unprecedented in this market.

# Range widens as yields start to ***grow***

**PRIME INDUSTRIAL YIELD RANGE**
OUTER WEST




*SOURCE: RWCWS*

The Australian commercial property market has experienced a reduction in investment activity over the past two years. Despite this general trend, the industrial asset class has maintained its position as the prime commercial investment option.

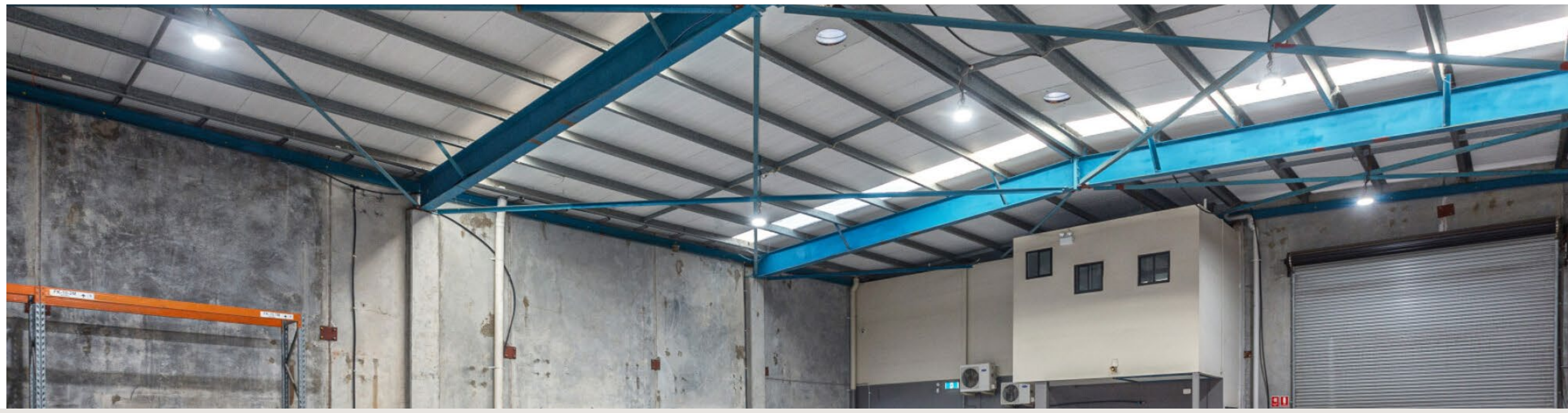
The development of infrastructure across Sydney opened up opportunities in the western precincts, leading to a surge in demand for large, purpose-built facilities that inner markets couldn't accommodate. This shift attracted multinational tenants and institutional investors, transforming the industrial landscape.

## RECENT MARKET DYNAMICS AND YIELD TRENDS

Recent market conditions, however, have introduced new dynamics. Increased interest rates and wavering sentiment have led to some increases in investment yields, moving back to levels unseen 2-3 years ago from their historic lows. Despite limited listing activity, certain price points continue to attract competition among buyers looking to capitalise on changing market fundamentals.

Yield softening has been evident, with the outer west still garnering the greatest interest among western precincts. Current yields in this area range between 4.25% and 6.50%, varying based on: location, access, lease covenant and future potential. Average prime rates now sit at 5.00%, a notable increase from the sub-4.00% yields achieved during the low interest rate environment of 2021/22.

This shift reflects the market's adaptation to changing economic conditions while underscoring the continued appeal of industrial assets in the investment landscape.



# Sydney's *South West*

The South West of Sydney continues to be a significant growth region for industrial supply, driven by the availability of affordable land and strategic infrastructure developments.

Emerging locations like Leppington, Luddenham, Austral, and Badgery's Creek are rapidly contributing to the region's new supply, while established areas such as Chipping Norton, Prestons, Ingleburn, and Minto remain active in adding new stock.

This dynamic growth is reflected in the 172 active projects, promising substantial industrial expansion in the coming years.

SUPPLY

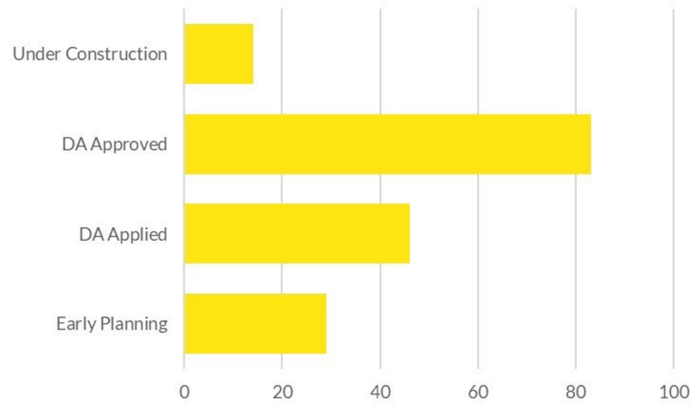
NET FACE RENTS

LAND VALUES

YIELDS

# ***South West*** continues to be a growth region

NEW INDUSTRIAL SUPPLY PROJECTS
SOUTH WEST, BY DEVELOPMENT STAGE




*SOURCE: CORDELL CONNECT, RWCWS*

**The south west and outer west regions of Western Sydney are emerging as the new hotspots for industrial supply opportunities, primarily due to their greater land availability and affordability.**

Emerging locations such as Leppington, Luddenham, Austral, and Badgery's Creek are becoming significant contributors to the region's new supply. Meanwhile, more established infill locations like Chipping Norton, Prestons, Ingleburn, and Minto continue to actively add new stock to the south west market.

## CURRENT DEVELOPMENT LANDSCAPE

The south western region of Sydney is currently home to 172 active projects, with an estimated construction value surpassing $3.5 billion. These developments have the potential to introduce up to 2.3 million sqm of industrial space over the next five years.

However, this potential is contingent on the ability to secure labour and financing, as well as sourcing reputable builders in the current challenging environment.

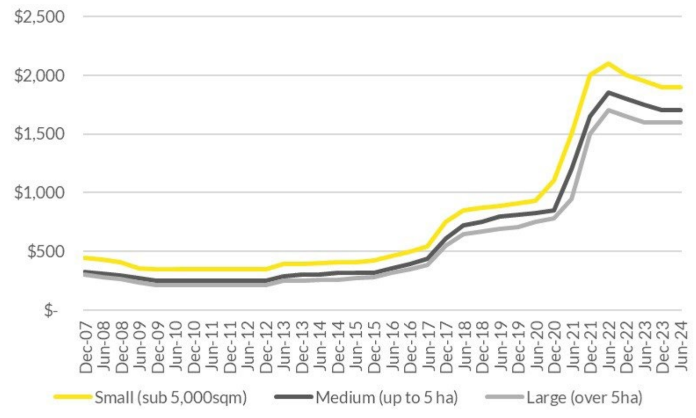
## PROJECT STATUS & FUTURE OUTLOOK

At present, **14 projects are under construction,** expected to add approximately 157,000 sqm of industrial supply to Western Sydney within the next two years. Many of these projects are smaller industrial unit and warehouse facilities. The largest segment of the development pipeline consists of projects with Development Approval, accounting for 83 projects and over 710,000 sqm of potential stock.

Additionally, the region is home to 75 projects in early planning phases, which could potentially add another 1.2 million sqm of stock over the next five years.

# Land values start ***steady***

SYDNEY INDUSTRIAL LAND VALUES
OUTER WEST, BY SIZE RANGE ($/SQM)




*SOURCE: RWCWS*

**The south west region of Sydney offers some of the most affordable industrial land.**

This area has seen significant transformation driven by continued infrastructure investment, including road and rail improvements and the development of Sydney's second airport. These enhancements have sparked increased demand for both occupation and development, exerting upward pressure on land values.

## RECENT TRENDS & LONG-TERM GROWTH

There have been small declines in land values over the past two years, following a period of robust appreciation during the pandemic when institutional funds showed strong interest in securing assets for development and long-term hold. Currently, smaller lots average $1,700/sqm, medium lots $1,460/sqm, and larger parcels $1,270/sqm, with these rates stable for the last 18 months.

Long-term growth has been impressive. Over the past 5 years, small lots grew by 21.5%, medium lots by 22.3%, and large lots by 24.6%, highlighting the south west region's attractiveness for industrial development.

## MARKET CHALLENGES & FUTURE OUTLOOK

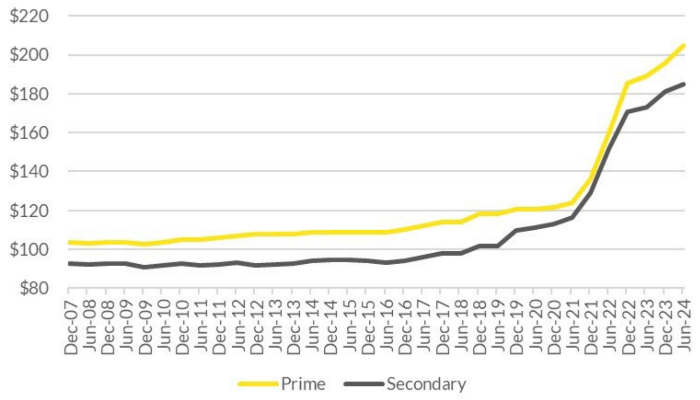
The scarcity of large land parcels and persistent occupier demand are likely to keep values stable this year. However, limited developable land, concerns about land serviceability, and rising development costs could exert downward pressure on land values in the short term.

Despite these challenges, the south west region's strategic location and infrastructure improvements make it attractive. The market's future depends on how developers and investors balance development costs, land availability, and ongoing demand for industrial space in this evolving part of Sydney.

# Rents continue to ***grow***, at more subdued levels

### INDUSTRIAL NET FACE RENTS

SOUTH WEST, BY QUALITY GRADE ($/SQM)




*SOURCE: RWCWS*

**The south western precinct of Sydney has experienced significant growth, mirroring the success of the outer west precinct.**

This area's strategic location, offering strong connectivity to road, rail, port, and airport facilities, combined with its relative affordability compared to other Sydney regions, has driven demand for industrial space to exceptional levels over the past five years.

The precinct's ability to accommodate larger space users with access to quality assets and the option for purpose-built facilities able to meet ESG requirements has attracted multinational tenants, establishing the south west as a prime industrial hub.

### RENTAL MARKET DYNAMICS & LONG-TERM TRENDS

Historically, rents in this area remained static for an extended period, with new assets setting fresh benchmarks and creating a growing disparity between prime and secondary assets.

However, as demand surged and vacancies tightened, this gap has narrowed as tenants sought to secure any available accommodation. This trend, however, has moderated over the past 18 months.

Current market conditions reflect ongoing growth, with net face rents for prime assets now at $205/sqm and secondary assets at $185/sqm. These figures represent continued year-on-year growth of 8.5% for prime and 6.9% for secondary assets. Despite some increase in vacancy rates leading to a market slowdown, inflationary pressures have continued to drive rental growth in this region.

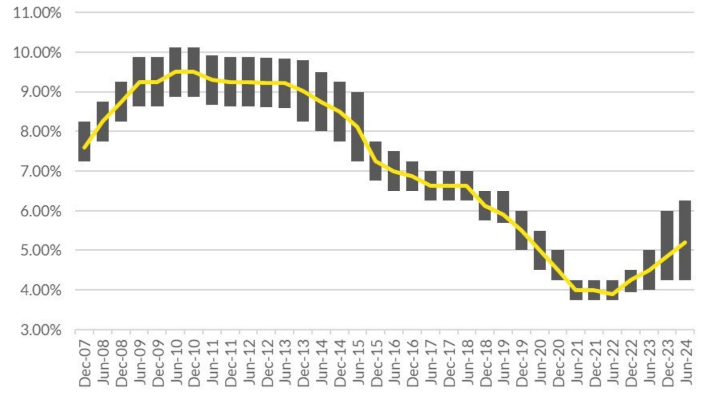
The long-term growth trend remains impressive, with prime assets recording an average annual growth of 21.8% over the past three years, while secondary assets have seen an average increase of 19.6% per annum.

These figures underscore the robust performance of the south western precinct's industrial market, highlighting its growing importance for the Sydney industrial market.

# Yields continue their ***upward*** momentum

### PRIME INDUSTRIAL YIELD RANGE

SOUTH WEST




*SOURCE: RWCWS*

**Sydney's south west has undergone a significant transformation in recent years, evolving from its historical position as a more affordable alternative to the outer west precincts.**

The substantial investment in infrastructure, coupled with the availability of land and stock, has propelled this region closer to parity with the outer west. The south west can be broadly divided into two distinct areas: the more established inner market and the emerging outer south western sector, both of which have captured the attention of institutional and private funds.

### YIELD DYNAMICS & CHANGING INVESTMENT PERSPECTIVES

During the pandemic, the south west, like all industrial precincts, experienced a dramatic compression in investment yields. Prime assets saw yields tighten to a range of 3.75% to 4.25% in late 2021 and early 2022. However, recent interest rate increases have led to an expansion and widening of these yields, now ranging from 4.25% to 6.25%.

At the market's peak, these tight yields were observed across the entire industrial spectrum, from small units to large distribution centers and portfolio assets. Investors were eager to capitalise on strong investment returns and the potential for future capital appreciation.

Despite the recent yield expansion, certain buyer groups continue to focus on income growth potential, particularly in the current high-inflationary environment, resulting in some assets still achieving relatively low yields.

This shift in the south west's industrial market represents a significant departure from historical perspectives. Traditionally, industrial properties were viewed primarily as high-yielding investments offering stable income returns, with locations like South Sydney considered premium due to their proximity to ports and airports.

The evolution of the south west precinct challenges this, highlighting the changing dynamics of Sydney's industrial property landscape.

# Sydney's ***Inner Central West***

The Inner Central West of Sydney faces significant supply constraints due to limited land availability. Despite these challenges, the region boasts 84 projects in various stages of development, potentially adding over 1 million sqm of new industrial space.

Concentrated in suburbs like Lidcombe, Rosehill, Rydalmere, Smithfield, Guildford, and Girraween, these projects represent more than $1.6 billion in infill opportunities, highlighting the region's continued growth and potential despite the tight market.

SUPPLY

NET FACE RENTS

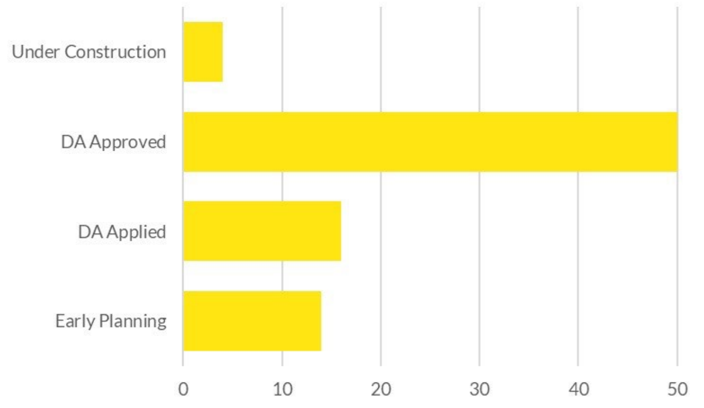
LAND VALUES

YIELDS

# Limited projects under construction, approved projects *grow*

### NEW INDUSTRIAL SUPPLY PROJECTS

INNER CENTRAL WEST, BY DEVELOPMENT STAGE




*SOURCE: CORDELL CONNECT, RWCWS*

**The inner central west region of Sydney faces significant supply constraints due to limited land availability.**

Despite these challenges, the area boasts 84 projects in various stages of development, representing a potential addition of just over 1 million sqm of new industrial space. These projects, concentrated in suburbs like Lidcombe, Rosehill, Rydalmere, Smithfield, Guildford, and Girraween, collectively amount to more than $1.6 billion in infill project possibilities.

### CURRENT DEVELOPMENT STATUS

Currently, only four small projects are under construction, expected to be completed within the next 18 months and add approximately 36,000 sqm of supply.

The development pipeline is dominated by projects in the DA approval stage, with 50 such projects potentially contributing 293,000 sqm of new stock over the next five years, contingent on progression to construction.

An additional 30 projects in earlier planning phases could introduce more than 700,000 sqm of stock through warehouse and unit developments across the region.

### MARKET OPPORTUNITIES & CHALLENGES

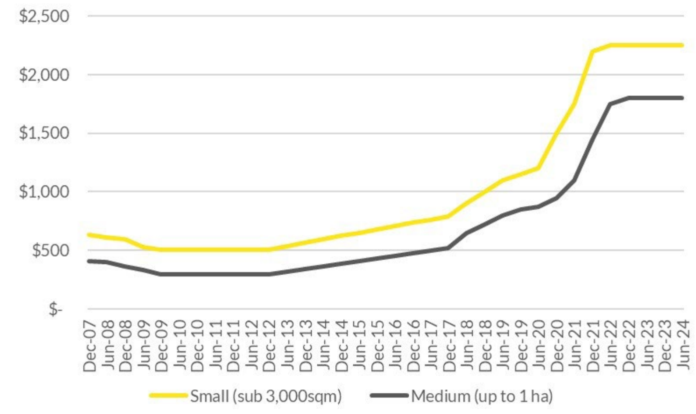
This tight market offers distinct prospects for developers and investors ready to tackle the challenges of limited space. However, it's worth noting that this established industrial area, like all markets in Sydney, may face financial and economic pressures in the coming year, potentially affecting occupancy rates.

These factors could introduce both risks and opportunities for those operating in this market.

# Land values *stabilise*

### SYDNEY INDUSTRIAL LAND VALUES

INNER CENTRAL WEST, BY SIZE RANGE ($/SQM)




*SOURCE: RWCWS*

**The industrial land market in Sydney's inner central west region presents a unique landscape characterised by scarcity and stability.**

This area, known for its strategic location and established infrastructure, has experienced minimal fluctuations in land values over the past year, primarily due to the limited availability of developable land.

Currently, smaller lots in the inner central west are commanding average prices of $2,25/sqm, while lots up to one hectare are valued at approximately $1,800/sqm.

These figures have remained unchanged over the past 24 months, reflecting the market's resilience and the ongoing demand for industrial land in this well-established area.

### HISTORICAL TRENDS & LONG-TERM PERFORMANCE

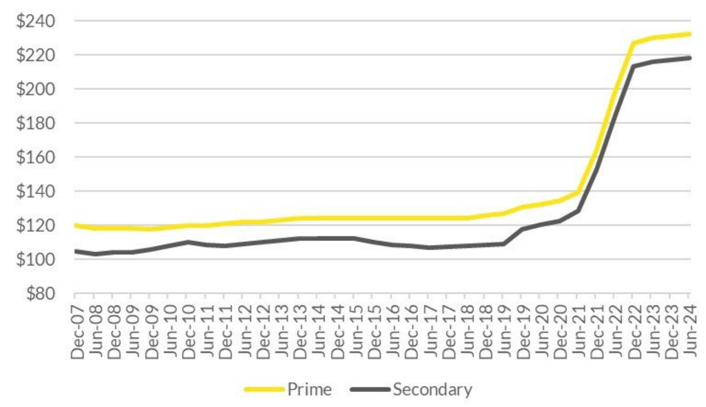
Historical data reveals a period of solid growth prior to this recent stability. However, the inner central west has faced competition from other asset classes, leading to a reduction in industrial land as some areas were repurposed for showroom/retail premises and residential redevelopment. This trend underscores the evolving nature of land use in these inner areas.

Despite these challenges, the long-term performance of industrial land in this region has been impressive. Five-year averages show growth rates exceeding 20% per annum for both small and medium-sized lots. Even more remarkably, the ten-year average growth rates surpass these figures, highlighting the lucrative nature of industrial land investments in this compact industrial zone.

# Inner Central West supply remains *limited*

**INDUSTRIAL NET FACE RENTS**

INNER CENTRAL WEST, BY QUALITY GRADE ($/SQM)




SOURCE: RWCWS

**The industrial market has emerged as the clear frontrunner among asset classes during the COVID-19 period, experiencing unprecedented growth and demand.**

This surge has led to significant market shifts, characterised by strong take-up rates and downward pressure on vacancies, resulting in exceptional rent increases in a sector historically known for modest rental growth.

The limited supply in the marketplace has forced users to absorb secondary assets, narrowing the gap between quality grades as affordability becomes a growing concern. The scarcity of developable land constrains new supply, further pressuring vacancies and the rental market.

## DEMAND DRIVERS & CURRENT RENTAL LANDSCAPE

While "last mile" logistics has been a major source of space absorption for warehouse and distribution facilities, local businesses have also shown high demand across various asset types, from older-style factories to smaller industrial unit facilities.

After a period of strong increases, rents have now stabilised. The inner central west commands some of the highest rents among western regions, with prime net face rents at $232/sqm and secondary at $218/sqm, both showing only a 1% increase year-on-year.

## LONG-TERM GROWTH TRENDS

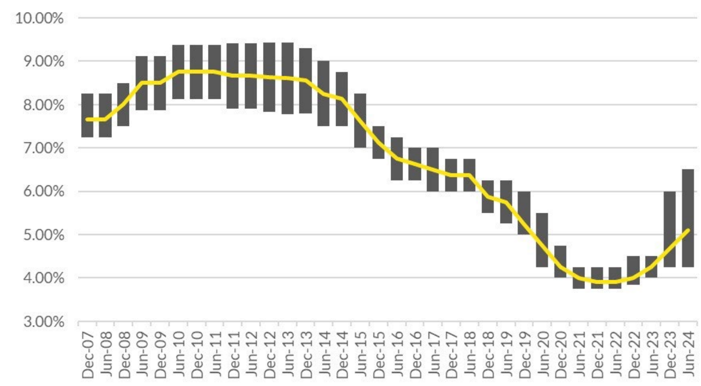
Long-term growth trends paint an impressive picture. Over the past three years, rents have grown by approximately 20% per annum across all quality grades.

Looking at a broader timeframe, prime net face rents have increased annually by 6.7% over the last ten years, while secondary rents have grown by 9.5% annually during the same period. This robust income growth has cemented industrial real estate's attractiveness as an asset class.

# Range *widens* with yields

**PRIME INDUSTRIAL YIELD RANGE**

INNER CENTRAL WEST




SOURCE: RWCWS

**The inner central western region of Sydney has long held a premium position in the industrial real estate market, distinguished by its central location, high land values, and historically institutional ownership.**

Despite some areas lacking the accessibility of more western precincts, the region's importance to the local economy remains significant. The scarcity of land in this area has consistently supported elevated property values, underscoring its desirability among investors and businesses alike.

During the pandemic, as interest rates plummeted, demand surged across the full spectrum of investors seeking quality, income-producing industrial assets.

This heightened interest led to a compression of prime yields, reaching an impressive range of 3.75% to 4.25%. Some transactions even attracted yields outside this range, influenced by factors such as property age, lease covenant strength, and accessibility.

## CURRENT MARKET LANDSCAPE & YIELD TRENDS

However, the current market landscape has shifted, reflecting a more cautious and selective approach from buyers. The range of achievable yields has broadened considerably, now spanning from 4.25% to 6.50%, with average yields settling around 5.10%. This widening spread indicates a more nuanced market, where investors are carefully weighing various factors before committing to purchases.

## FUTURE OUTLOOK & MARKET FACTORS

Despite these changes, the fundamental attractiveness of the inner central western region remains intact. The persistent scarcity of prime industrial land in well-located areas like this suggests that the sector may continue to perform strongly. However, there's potential for moderation as the market adjusts to new economic realities.

Factors such as rising interest rates, evolving business needs, and broader economic conditions are likely to play crucial roles in shaping the future trajectory of this market.

# Sydney's *North West*

The North West sector of Sydney's industrial market mirrors the challenges of the Inner Central West, with limited land availability constraining new developments. Currently, there are 40 projects in various stages, with only four under active construction.

These projects are expected to contribute less than 10,000 sqm of space. The majority of potential growth is in the 25 projects with Development Approval, which could add 300,000 sqm, and 11 projects in early planning stages, potentially contributing another 160,000 sqm.

SUPPLY

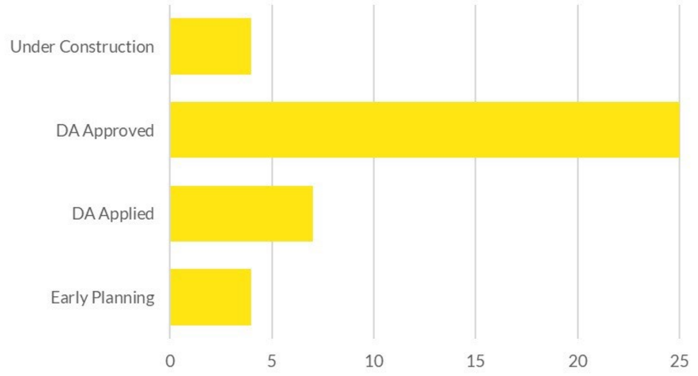
NET FACE RENTS

LAND VALUES

YIELDS

# *North West* supply remains limited

**NEW INDUSTRIAL SUPPLY PROJECTS**
NORTH WEST, BY DEVELOPMENT STAGE




*SOURCE: CORDELL CONNECT, RWCWS*

**The north west sector's development landscape closely mirrors that of the inner central west, characterised by limited land availability.**

This area currently hosts 40 projects in various planning stages, with only four under active construction. These ongoing projects are expected to contribute less than 10,000 sqm of space through new constructions and expansions of existing warehouse facilities.

## POTENTIAL FOR FUTURE GROWTH

The bulk of potential growth lies in 25 projects with Development Approval, which could add 300,000 sqm of new stock across the region, from Macquarie Park to Rouse Hill. Additionally, 11 projects in earlier planning stages could potentially contribute another 160,000 sqm.

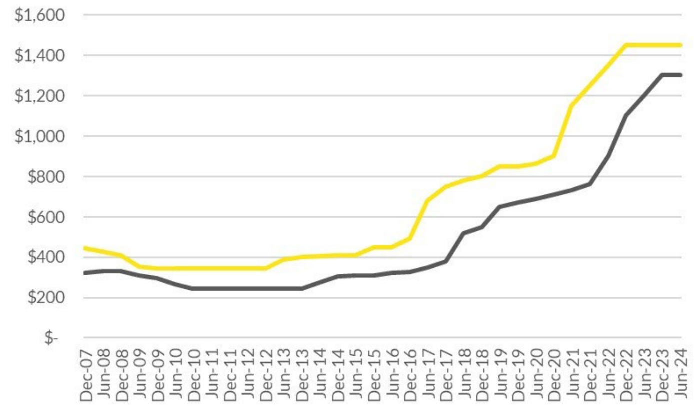
## CHALLENGES & MARKET DYNAMICS

Difficulties in the construction sector, combined with a slight increase in vacancies across Sydney's industrial market, may slow the realisation of many of these projects. The high cost of construction is likely to drive up the economic rents necessary for project completion.

Consequently, the short to medium-term future of industrial supply in this area is expected to be closely tied to demand, with new additions carefully calibrated to market requirements.

# Land values sit *flat*

**SYDNEY INDUSTRIAL LAND VALUES**
NORTH WEST, BY SIZE RANGE ($/SQM)




*SOURCE: RWCWS*

**The industrial land market in Sydney's north west precinct has undergone significant transformation, driven by substantial infrastructure investments and a burgeoning local population.**

This growth has been further fueled by the release of land for residential development, creating a mutual relationship between industrial and residential sectors.

## ECONOMIC DYNAMICS & MARKET RESILIENCE

The region has experienced robust local business growth, benefiting both industrial and office markets.

While transaction volumes have been limited, land values have demonstrated resilience, maintaining stability after rapid increases during the pandemic and the era of record-low interest rates. This stability follows a 15-year period of fluctuating values, with local investors playing a crucial role in the region's economic vitality.

Currently, small lots command values of $1,450/sqm, while medium lots are priced at $1,300/sqm. Although the growth trajectory may not match the intensity of other western regions, long-term appreciation has been substantial.

Over a 10-year period, smaller lots have achieved an impressive annual increase exceeding 25%, while medium lots have surged by 32.1% annually.

## FUTURE OUTLOOK & MARKET STABILITY

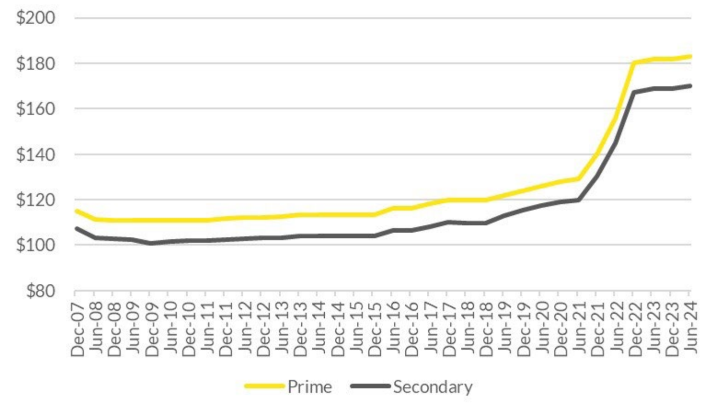
The investor profile in this region, characterised by a strong local presence, suggests a likelihood of greater market stability over the coming year. This stability is expected to persist until broader economic certainties emerge, reflecting the cautious yet optimistic outlook owners in the north west's industrial land market.

As the region continues to evolve, the interplay between industrial development, residential growth, and infrastructure improvements will likely shape its future prospects, potentially cementing its position as a key player in Sydney's industrial landscape.

# *Increase* in vacancies results in rental growth stalling

**INDUSTRIAL NET FACE RENTS**

NORTH WEST, BY QUALITY GRADE ($/SQM)




*SOURCE: RWCWS*

**The north west precinct of Sydney has experienced a significant surge in industrial rental rates in recent years, mirroring trends observed across other western Sydney areas.**

This upward trajectory has been primarily driven by historically low vacancy rates in recent years, creating a competitive market for industrial space.

The industrial landscape in this precinct is diverse, encompassing a range of asset types from small industrial units and showroom/retail spaces to larger warehouse facilities.

This variety caters to a broad spectrum of businesses, contributing to the area's economic vitality.

## SUPPLY CONSTRAINTS & MARKET DYNAMICS

A key factor influencing the market dynamics is the limited availability of developable land, which constrains new supply projects.

This scarcity is expected to maintain low vacancy rates, particularly in a market dominated by domestic businesses and owner-occupiers.

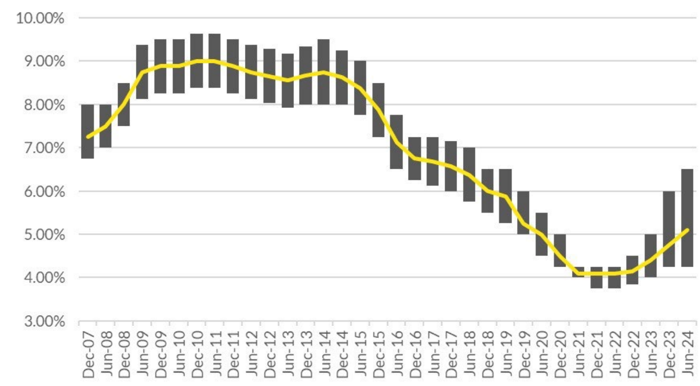
Current net face rents in the north west precinct average $183/sqm for prime assets and $170/sqm for secondary properties. These figures have stabilised over the past 12 months, following a period of strong gains in the preceding three years. Long-term income growth in this market has been robust, catalysing investment activity.

The strength of this market is further evidenced by the impressive long-term growth rates. Over the past decade, both prime and secondary industrial assets have recorded annual income growth exceeding 10%, underscoring the north west precinct's attractiveness as an industrial investment destination.

# Yields *up* as financing increases

**PRIME INDUSTRIAL YIELD RANGE**

NORTH WEST




*SOURCE: RWCWS*

**The north west precinct of Sydney's industrial market is home to high levels of private ownership and limited stock availability, factors that have historically contributed to tight yield compression.**

However, recent economic shifts have begun to reshape market dynamics.

## RECENT MARKET ACTIVITY & ECONOMIC INFLUENCES

In line with trends observed across western Sydney, sales activity in the north west has declined over the past two years. This slowdown is primarily attributed to limited listings as both buyer and seller hesitancy continues in the face of increased financing costs. The recent inflation results have further eroded expectations of interest rate reductions, putting more hesitation in the market.

The anticipation of yield increases has led to a cautious "wait and see" approach. This standoff marks a significant shift from the market conditions observed in late 2021 and early 2022, when prime yields in the north west ranged between 3.75% and 4.25%.

The subsequent rise in interest rates effectively halted investment demand, particularly from institutional investors.

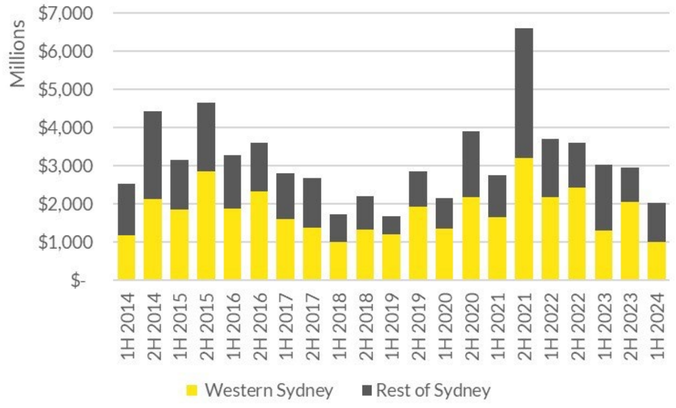
## EMERGING TRENDS & YIELD ADJUSTMENTS

Despite these challenges, occupier demand has remained resilient, maintaining high occupancy rates across the precinct. Investment activity over the past year has predominantly focused on the smaller end of the market, driven by two key groups: owner-occupiers seeking shelter from rising rental rates, and private investors in pursuit of secure income streams with potential for ongoing increases.

This shift in buyer profile has contributed to a moderate uptick in average yields, now reaching around 5.10%, though the range extends up to 6.50% for some assets. An emerging trend in the market is the growing presence of buyers' agents representing smaller investors across all Sydney regions, with industrial properties remaining a key investment target. This trend has helped maintain competitive yields for certain assets, despite the broader market uncertainties.

# ***Investment*** volumes continue behind COVID highs

### INDUSTRIAL SALES VOLUMES
SYDNEY METROPOLITAN AREA




*SOURCE: RWCWS, REAL CAPITAL ANALYTICS*

**Western Sydney has long been the epicentre of Sydney's industrial real estate market, boasting the largest concentration of industrial stock in the city.**

This dominance is reflected in transaction volumes, with the region accounting for over 58% of all industrial property sales in Sydney over the past decade. The area has seen a notable increase in demand from offshore and listed entities seeking high-quality distribution facilities, setting new benchmarks for industrial property values.

## PEAK ACTIVITY & RECENT MARKET SHIFTS

The industrial property market reached its pinnacle in 2021, driven by cheap financing and a surge of interest from a range of buyers from smaller private investors through to off shore funds. That year saw a staggering $9.37 billion in transactions across Sydney's industrial sector, with Western Sydney claiming more than half of this volume.

While 2022 experienced a slight downturn due to rising interest rates, the sector's strong rental growth prospects continued to attract a diverse range of buyers, keeping yields lower than anticipated.

## CURRENT MARKET CONDITIONS & FUTURE OUTLOOK

The start of 2024 brought expectations of interest rate reductions, initially boosting market confidence and suggesting a potential increase in listings and sales. However, higher-than-expected inflation figures altered the narrative surrounding the cash rate, leading both buyers and sellers to adopt a more cautious stance. The prospect of interest rate declines quickly shifted to concerns about potential increases, which may result in another year of low turnover.

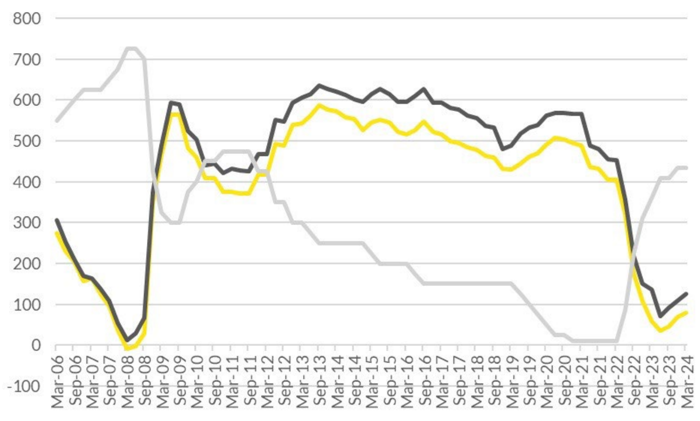
The first half of 2024 has recorded just $2 billion in sales, with 49.1% of these transactions taking place in Western Sydney.

# Industrial spread to cash rate ***improves*** as yields grow

**Investment yields across the industrial asset class witnessed rapid and strong declines over the last few years,** fueled by a record low cash rate, a widening of investors speculating in the asset class, and increased urgency pushing down yields.

While the yields achieved new lows, these appeared viable for investors given the spread to the cost of financing the purchase. Buyers were comfortable with a spread in the 400-500 basis point range during the time of historic low interest rates, as it remained not dissimilar to the ranges of up to 600 basis points in prior years.

### INDUSTRIAL YIELD SPREAD TO CASH RATE
AUSTRALIAN INDUSTRIAL BY QUALITY GRADE (BPS)




*SOURCE: RWCWS, MSCI, RBA*

## CURRENT MARKET DYNAMICS & FUTURE OUTLOOK

While investment yields have moved upwards from their historic lows, continued upticks in interest rates have further fueled this limited "spread to bond". Considering this, average yields need to move into the 8% plus range, particularly if interest rates continue to move upwards, to bring the spread to these finance costs back to investable levels.

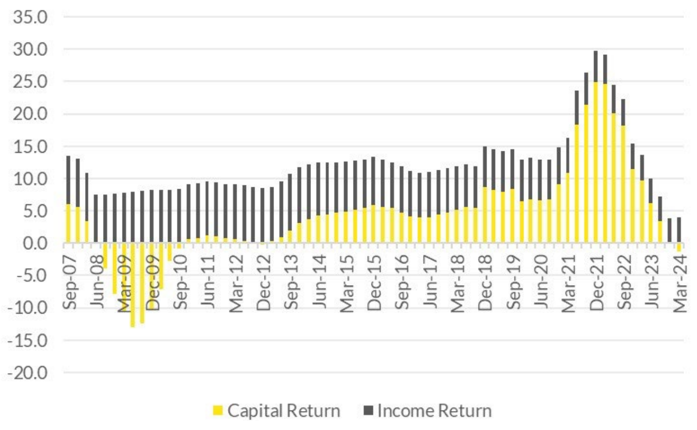
Unlike previous cycles, limited prospects of new supply keeping occupancy elevated are all considerations for investors in this market. However, rental growth has now slowed after record increases. Encouragingly, this spread is moving back towards sustainable levels.

The next 12 months and the change in cash rate and yield will be a telling period, determining if we return to these historic spreads.

# Outer West capital returns dip into *negative*

**OUTER WESTERN SYDNEY INDUSTRIAL RETURNS**

% ANNUAL RETURNS BY TYPE




*SOURCE: PCA/MSCI*

**The industrial sector has emerged as the top performer among traditional commercial asset classes, driven by robust gains over the past three years.**

The Sydney industrial market has demonstrated resilience, with average total returns growing by 3.0% over the last year and an impressive 14.3% per annum over a three-year period. This positive performance sets Sydney apart from other major markets like Melbourne and Brisbane, which have experienced declines in returns over the past 12 months.

## OUTER WESTERN SYDNEY: STRONG PERFORMANCE & SHIFTING DYNAMICS

Within Sydney, the outer western region has shown strong performance, albeit slightly behind the Sydney average with a 2.7% growth in the last year. However, its three-year performance has been exceptional, surpassing the Sydney average with a 15.1% per annum growth.

The region's income growth has been particularly noteworthy, recording a 4.0% increase over the last 12 months and establishing itself as Sydney's best-performing industrial area for income return.

The broader industrial market's historical outstanding total growth has been primarily driven by capital appreciation. However, this trend has now shifted. With land values stabilising and yields increasing, capital growth for outer western Sydney has entered negative territory, recording -1.3% for the 12 months to March 2024.

Despite this recent downturn, the three-year perspective remains positive, with year-on-year increases of 10.5%.

# Central West returns *outperform* nationally

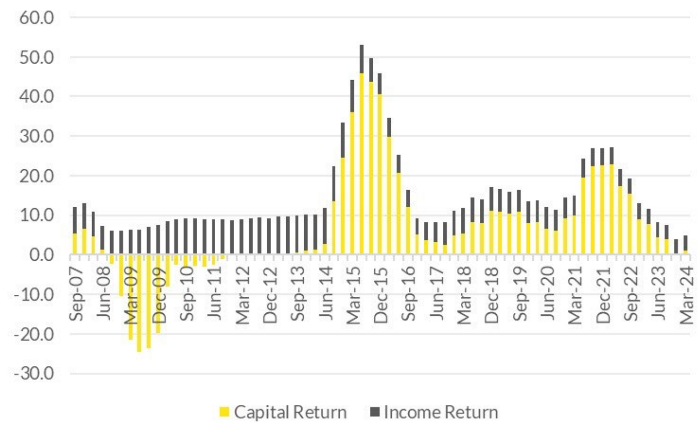
**Sydney's central western industrial precinct has exhibited a unique growth profile compared to its outer western counterparts.**

Characterised by fluctuating capital gains and consistent, albeit lower, income returns, this centrally located area faces land constraints and commands higher prices for both land and rents than its western neighbours.

Strong institutional ownership of larger assets has driven impressive gains over the past decade, positioning this precinct as Australia's top-performing industrial market. Total returns for the area averaged 4.9% over the last year, but the ten-year perspective reveals a market-leading performance of 18.5% per annum.

**CENTRAL WESTERN SYDNEY INDUSTRIAL RETURNS**

% ANNUAL RETURNS BY TYPE




*SOURCE: PCA/MSCI*

## LONG-TERM RESILIENCE & MARKET FUNDAMENTALS

While income returns have begun to decrease, capital returns are expected to follow suit. However, the precinct's underlying strength lies in its diverse occupier base, ranging from storage and logistics operations to local businesses. This varied demand, coupled with the area's constrained land supply, underpins confidence in its long-term performance.

The central western precinct's resilience is further bolstered by its strategic location and established infrastructure. Despite potential short-term fluctuations, these fundamental attributes are likely to sustain its attractiveness to both investors and occupiers, ensuring its continued significance in Sydney's industrial landscape over the long term.

# Future *projections*

1

**YIELD EXPANSION**

Investment yields are likely to continue their upward trend in the short term, potentially reaching the 6-7% range for prime assets as the market adjusts to higher interest rates and economic uncertainties.

2

**RENTAL GROWTH MODERATION**

While still positive, rental growth rates are expected to moderate to sub-5% annually over the next 2-3 years, down from the double-digit growth seen in recent years.

3

**OUTER WEST DEVELOPMENT SURGE**

The outer western regions will likely see a significant increase in new industrial development, potentially adding 2-3 million sqm of new space over the next 5 years.

4

**INFRASTRUCTURE-DRIVEN GROWTH**

Areas benefiting from major infrastructure projects, especially those around Western Sydney Airport, will likely see above-average growth in both rents and capital values.

5

**SUSTAINABILITY FOCUS**

There will be an increased emphasis on sustainable and energy-efficient industrial facilities, with "green" buildings commanding premium rents and attracting environmentally conscious tenants.

6

**INSTITUTIONAL INVESTMENT SHIFT**

Institutional investors may pivot towards value-add opportunities, focusing on upgrading older assets to meet modern logistics requirements rather than competing for premium-priced new developments.

7

**LAST-MILE LOGISTICS BOOM**

Demand for smaller, strategically located facilities for last-mile logistics will increase, driving development of multi-level warehouses in inner and central western areas.

8

**LAND VALUE STABILISATION**

After years of rapid growth, industrial land values are projected to stabilise, with annual growth rates settling in prime locations.

9

**INCREASED TENANT TURNOVER**

As leases signed during peak rental periods expire, there may be increased tenant turnover as businesses seek more affordable options, potentially leading to a slight increase in vacancy rates.

10

**TECHNOLOGY INTEGRATION**

The adoption of automation and AI in warehouse operations will accelerate, potentially leading to changes in building designs and specifications for new industrial developments.

# Outlook

The Western Sydney industrial market is poised for a period of adjustment and potential opportunity as it navigates through current economic uncertainties. While the rapid growth and unprecedented demand seen during the pandemic years are moderating, the market's fundamental strengths continue to underpin its resilience and long-term prospects.

Economic factors will play a crucial role in shaping the market's near-term performance. The current interest rate environment and inflationary pressures have led to a more cautious approach from investors and occupiers alike. However, further stabilisation in interest rates could reinvigorate investment activity and boost market confidence, conversely an increase could see market conditions further stalling.

Supply constraints, particularly in the inner central western regions, are expected to persist, maintaining upward pressure on land values and rents for prime assets. The outer western and south-western precincts, with greater land availability, are likely to see increased development activity and interest from businesses seeking more affordable options. Demand drivers remain strong, with e-commerce growth and the need for efficient logistics networks continuing to fuel requirements for large distribution facilities. Simultaneously, there's growing interest in smaller, last-mile logistics assets closer to urban centers, benefiting both outer and inner precincts of Western Sydney. The ongoing development of the Western Sydney Aerotropolis is expected to create new opportunities and potentially encourage further investment in the region.

Investment trends are likely to evolve, with a continued focus on assets offering stable income streams and growth potential. While institutional investors may remain selective, owner-occupiers and private investors are expected to stay active, particularly in the smaller asset segment.

Rental growth, while moderating from recent peaks, may continue in some regions, supported by low vacancy rates and limited new supply. Despite short-term headwinds, the long-term outlook for Western Sydney's industrial market remains positive. Its strategic importance, infrastructure improvements, and diverse demand drivers position it well to capitalise on future growth opportunities. Adaptability will be key as the market evolves, with successful players likely to be those who can navigate the changing landscape while leveraging the region's enduring strengths.

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*Who* we are,
*what* we do,
*why* we do it

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