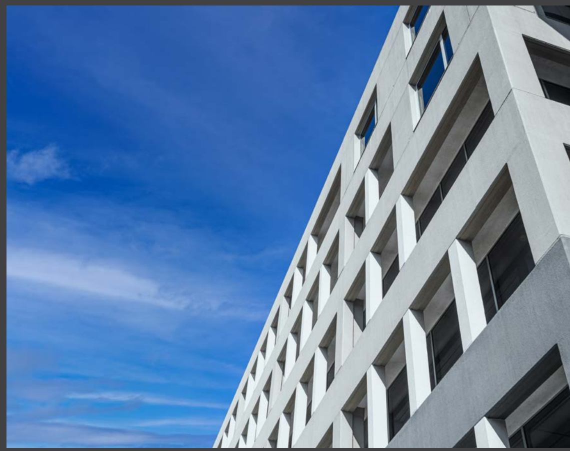
WESTERN SYDNEY INSIGHTS









WESTERN SYDNEY COMMERCIAL MARKETS

2024 Projections

RWC WESTERN SYDNEY

rwcws.com

Executive Summary

RWC Western Sydney is pleased to present our Projections for the Western Sydney Commercial Markets 2024.

2023 has been a rough year for the commercial property market, all asset classes have encountered difficulties, however overarching has been the dramatic increase cost of finance impacting the attractiveness of assets at their current value and yield return. Most asset types have seen capital depreciation echoed by the MSCI property returns data for September 2023 which identifies just industrial and tourism assets as those with positive capital returns.

Each asset type has had its stumbling block or ray of positivity, and the outlook for the next 12 months will be mixed. Office assets and the difficulties in lowering vacancy as flexible working conditions dominate the employment discussions will put a hold on further improvements over the next year, keeping rents competitive, incentives up and pressuring yields upwards as demand to purchase dwindles.

The positive industrial landscape will remain given the fundamental lack of zoned, serviced, industrial land and continued requirement to occupy stock. While yields need to move upward in response to the rising cost of finance, continued rental growth will be a feature of 2024.

Retail has had a hard lead up prior to the pandemic which has been exacerbated, changing behaviours regarding the interaction with bricks and mortar retail will see mixed results across location, asset types depending on tenant. Demand to purchase remains, however, at the right price with urgency leaving the marketplace.

The residential market however has been the shining light, strong population gains, and slow new development has seen residential vacancies plummet and value escalate.

Assets such as blocks of units will remain tightly held but show good returns and future value for the savvy investor. However, despite the underlying need for housing, continued high construction costs will see projects in the pipeline slow to come to fruition due to them no longer "stacking up," impacting future housing supply as well as the development site market.

Also capitalising on the growth in population, Childcare has maintained strong demand this year with strong sales volumes. Centres with greater consideration of location and demand will see the best results while many development site may revert back to residential uses as oversupply starts to creep into some markets.

The runway ahead for 2024 commercial markets will have some speedbumps. A rise in receiver appointed or distressed sales will occur while the private investor will move to the forefront in activity seeking out well priced opportunities. The fundamentals of demand and supply will be more important than ever however economic headwinds may hamper a speedy recovery across some asset classes. Encouragingly for the Western Sydney region, continue strong population growth will fuel the requirement for both commercial and residential accommodation for the year ahead, while continued investment info infrastructure will increase the attractiveness of the region over the longer term.

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

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2024 Projections

Offices

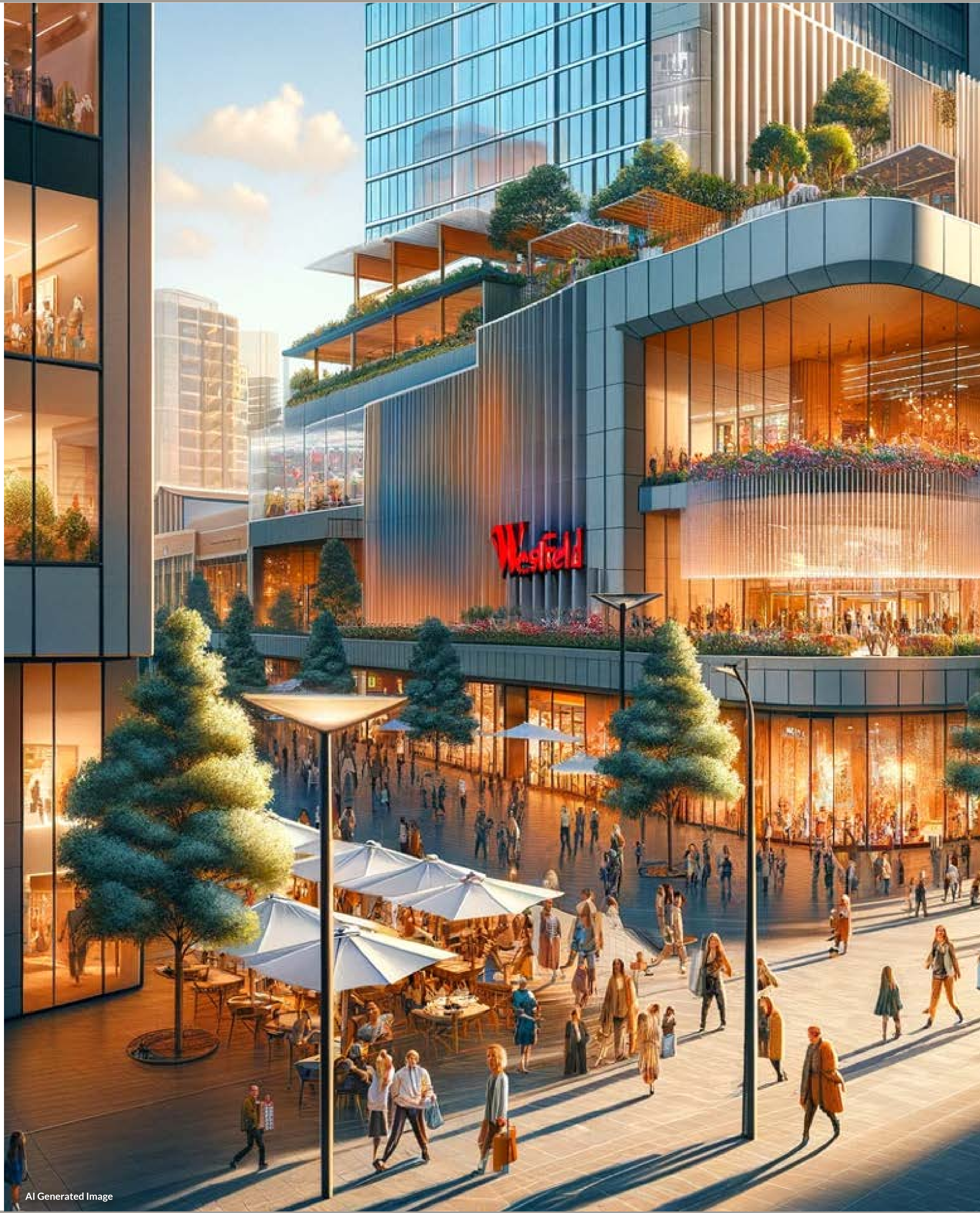
In 2024, Western Sydney's office market, influenced by persistent remote work, is expected to maintain high vacancy rates, especially in suburban areas struggling to attract new tenants. This trend favours prime over secondary assets, with potential redevelopment of the latter. Economic shifts, including rising unemployment, might gradually reverse this trend from 2025. The market faces growing yields and sustained high leasing incentives for prime properties, signalling a transformative phase in office space dynamics.

Retail

Western Sydney's retail market is projected to see neighbourhood centres thriving, especially in growing areas, while strip retail faces mixed outcomes with potential for increased vacancies. The retail footprint of services and food sectors will expand. Investment yields will fluctuate significantly, influenced by asset location and vibrancy. Rents will face pressures, with increased incentives, and distressed sales, particularly in strip retail, are expected to rise.

Industrial

Western Sydney's industrial market expects increased asset sales by listed entities at competitive yields and reduced demand for long WALE assets. Vacancies may rise in smaller, infill industrial spaces due to business consolidation, with a slowdown in larger logistics space demand. Challenges in new supply creation, construction costs, and labour constraints will continue, highlighting the growing significance of built form in the sector.



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Development Sites

Western Sydney development site market faces sustained high construction costs and labour shortages, impeding new project starts. Emphasis will be on key infrastructure and housing projects in growth corridors. Challenges like planning red tape, increasing levies, and servicing costs will hinder development feasibility. More sites are expected to enter the market due to rising holding costs, contributing to strong rental growth in industrial development.

Residential Apartment Development

Western Sydney's residential development is expected to see many DA approved projects expiring without commencement. Construction activity will grow, as indicated by the rising crane index for residential and mixed-use projects. The build-to-rent sector will expand rapidly due to cost efficiencies. However, developer contributions and ongoing labour shortages will continue to strain the industry, leading to a housing supply that falls short of meeting the demands of a growing population.

Childcare

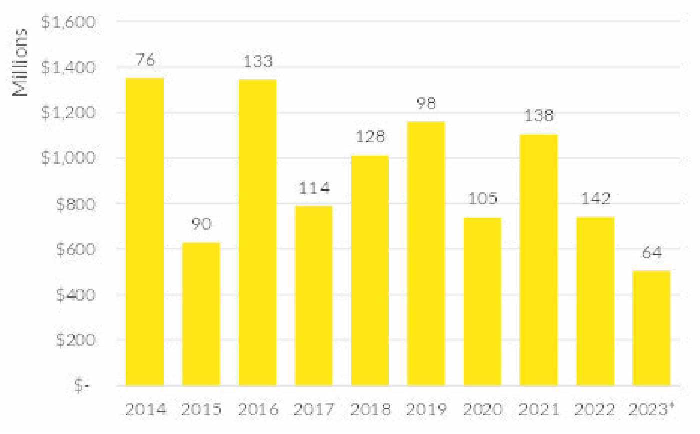
Western Sydney childcare market is set to remain a top investment choice, especially for private and institutional buyers. Location will be key, with a shift in focus to more selective investments and development. DA approved childcare projects may revert to residential use. Quality assets in underserved areas will keep tight yields, but overall, yields are expected to rise. The market may also see an influx of distressed assets and a trend towards rental models by operators.

Blocks of Unit

Western Sydney's block of units and boarding houses are anticipated to lead the market. With assets remaining tightly held, sales volumes will likely stay low. However, persistent rental market pressure is expected to deliver strong short-term returns and significant capital growth, offering attractive future exit strategies. This sector is set to redefine the build-to-rent model, providing a viable and increasingly popular investment avenue in the region's housing market.

Western Sydney *Office Market*

SALES VOLUMES (NO. TRANSACTIONS)



*SOURCE: RWCWS *2023 TO 1 NOVEMBER*

The Western Sydney office market has performed in line with national results regarding turnover. This year we have seen over $500million invested into commercial office across the western suburbs for the first 10 months of the year, following a trajectory down in volumes after the high of 2021 where interest was high due to the available and cheap finance.

Unfortunately for the office market, the impact of the increase in interest rates has only been one of the many issues facing this asset class. The work from home movement which advanced quickly during the pandemic has seen most office markets around the country grow their vacancy. High vacancies and continued supply additions in markets such as Parramatta CBD adding to the difficulty for the rental market in turn reducing returns. Secondary assets have had poorer results given high incentives and attractive leasing terms on offer for prime buildings, demonstrating a clear flight to quality across the asset class. Latest data from MSCI show Australian offices as the poorest performing asset class recording a -9.0% total return in the year to September 2023, for Parramatta this result is below the national average at -11.4%.

Projections for 2024

Persistent High Vacancies:
The work-from-home movement, firmly established during the pandemic, will continue to drive high vacancy rates in all office markets.

Flight to Quality:
A marked preference for prime buildings will spotlight the longevity of older, secondary assets.

Return to Office Dynamics:
With upward pressure on unemployment, a greater return to office spaces is anticipated from 2025.

Secondary Asset Challenges:
These properties will face increased pressures for redevelopment or reuse.

Investment Yield Trends:
As distressed sales enter the market, investment yields are expected to continue growing.

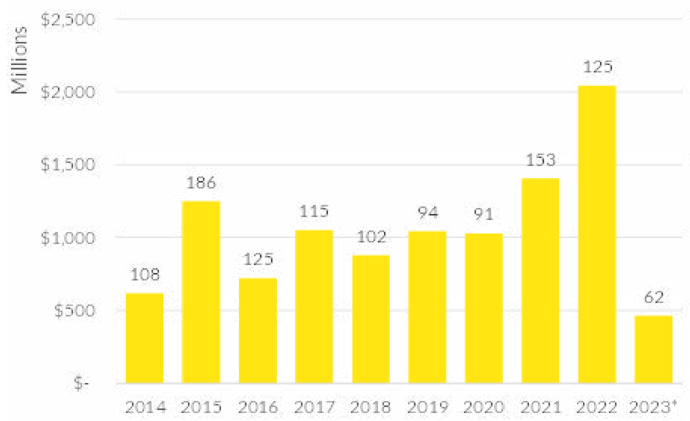
40%+

Prime Asset Incentives:
Elevated leasing incentives, particularly for prime grade assets, are projected to remain in the 40%+ range.

Suburban Asset Challenges:
Suburban offices, struggling to attract tenants, face rising vacancies and viability concerns, driven by the shift to prime locations and work-from-home trends.

Western Sydney *Retail Market*

SALES VOLUMES (NO. TRANSACTIONS)



SOURCE: RWCWS *2023 TO 1 NOVEMBER

The retail market has had mixed results this year, across the country total volumes have remained similar to prior years given a number of larger institutional assets changing hands. These assets which often trade across major retail owners keep yield levels stagnant despite external market forces. For western Sydney, this year we have not seen any major transactions with the bulk of activity for smaller standalone, neighbourhood or strip facilities with private investors the main buyer pool while both listed and private groups have been the dominant sellers.

This year we have recorded $462.46million change hands well below the 10 year $1.05billion annual average with many investors more cautious about the asset class. With online retailing continuing to pick up, high inflation putting pressure on retail trade results, the longevity of tenancies has been put under the spotlight. Despite these uncertainties we continue to see smaller assets transact on tight investment yields of sub 5.0%, location and tenant type all major considerations for those continuing to invest in retail assets.

Projections for 2024

Neighbourhood Centres:
These will remain popular investment choices, especially in areas with growing populations, offering supermarkets, specialty foods, and services.

Strip Retail:
Outcomes will vary; while some communities may bolster local retail, leading to vibrant centres, others may face rising vacancies and mixed-use uncertainties, leading to asset abandonment.

Retail Footprint Expansion:
Services and food sectors are expected to increase their presence in the retail space.

Investment Yield Fluctuations:
Rapid yield growth is anticipated, varying greatly based on the asset's location and surrounding vibrancy.

Rental Market Pressure:
Rents will face downward pressures, and incentives are likely to increase across most assets.

Distressed Sales:
An uptick in distressed sales is expected, particularly among smaller strip retail assets.

Western Sydney *Industrial Market*

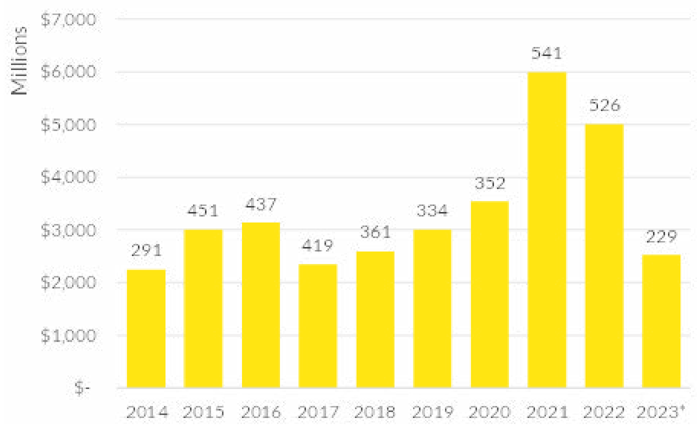
Certainly, the stand out performer of the last few years, industrial remains the most stable of the commercial asset classes with total returns across the country one of the few in positive territory at 5.0% for the year to September 2023 according to MSCI. Transaction activity has fallen for this asset class, representing $2.52billion this year, the second consecutive year of decline after the stand out 2021 period were $5.99billion changed hands.

While volumes are down, this is a symptom of lack of stock rather than investment demand. While many listed entities are looking to offload assets, while average yields have slightly increased, they still need to be at an acceptable level and the buyer pool of institutions, offshore money and privates are willing to invest. Across the smaller end of the market, owner occupier demand remains strong as rental growth remains in positive territory given the continuing low vacancy environment.

The constrained nature of the industrial land market will remain a concern into the short term, the high cost of servicing land and the difficulty in obtaining approvals all roadblocks for the asset class. Added to this is the slow addition of new stock due to high cost of construction and labour competition, resulting in a tight market over the short term. Given these difficulties in supply, built form will be considered king with the cost to develop putting new benchmarks on value and rents and assets fit for renovation within infill locations may reign supreme.

The western precincts of Sydney will continue its dominance given continued infrastructure improvements and access to the new airport precinct. Results show returns for Outer West industrial assets have outperformed with total increase of 9.0% per annum and 8.1% for Central West, as of September 2023.

SALES VOLUMES (NO. TRANSACTIONS)



*SOURCE: RWCWS *2023 TO 1 NOVEMBER*

Projections for 2024

Asset Offloading by Listed Entities:
An increase in the sale of quality assets by listed entities is expected, offering historically competitive yields.

Shift in Asset Demand:
There will be reduced demand for long WALE assets as rental growth continues.

Vacancy Trends in Smaller Infill Industrials:
Small business consolidation might lead to higher vacancies in smaller, infill industrial spaces.

Logistics Space Demand:
A slowdown in demand for larger logistic spaces is anticipated.

Limited New Supply:
Despite some land availability, high servicing costs and lengthy approval processes will constrain new supply, particularly in the SW sector.

Development Expectations:
Industrial development vibrancy may not meet the expectations by the 2026 opening of Western Sydney Airport.

Ongoing Construction Challenges:
Construction costs and labour constraints are expected to persist, prioritising infrastructure and housing projects.

Emphasis on Built Form:
The importance of built form will continue to rise in the industrial sector.

Western Sydney
Development Site Market

Development site activity has been tough for the last few years. Roadblocks created during COVID-19 which resulted in an outstanding increase in raw building materials continue to cause havoc for builders across the country. Couple this will a large loss of labour to the sunshine state due to the high investment into infrastructure in the lead up to the 2032 Brisbane Olympic Games has seen construction activity down across all asset classes.

Strong population gains for NSW, in particular skilled labour for western Sydney has seen the resurrection of construction activity this year. While construction costs continue to grow, the levels of increase have moderated giving hope to a more stable outlook in 2024 for costs. With housing a major issue across Sydney, priority must be given to growing accommodation options, as a result we have seen a swift increase in build to rent projects move through the planning process.

However, there are still strong difficulties across the development site space particularly as holding costs continue to rise, this will result in an increase in receiver appointed transactions as projects struggle to stack up in the high-cost environment. Partially completed projects put to the market is a worrying sign for the year ahead where demand for residential accommodation will be heightened as population increases continue. We expect to see many DA projects not get off the ground and these lapse over the next 12 to 24 months.

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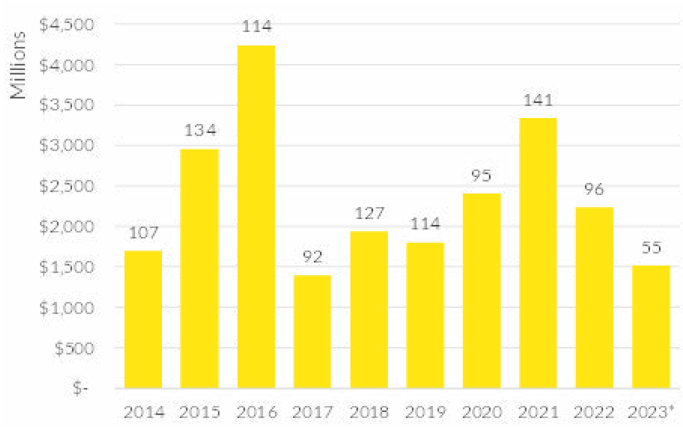


*SOURCE: RWCWS *2023 TO 1 NOVEMBER*

Projections for 2024

Persisting High Construction Costs:
These are expected to remain the norm, impacting the feasibility of new projects.

Labour Shortages:
Ongoing labour issues are likely to hinder the commencement of many new projects.

Focus on Infrastructure and Housing:
There will be a strong emphasis on infrastructure and housing projects, especially in key growth corridors.

Planning and Development Challenges:
Red tape, high costs, and time-consuming processes for servicing englobo land remain major stumbling blocks.

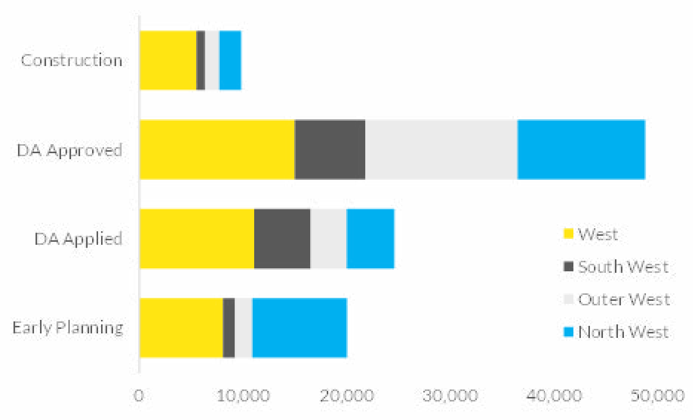
Increasing Levies and Holding Costs:
Growing levies on land and rising holding costs will challenge the financial feasibility of new projects.

Market Entry of More Sites:
As costs continue to escalate, more development sites are likely to be put up for sale.

Industrial Development Economic Rent:
This will contribute to the already robust rental growth in the sector.

Western Sydney *Residential Apartment Development Pipeline*

NO. UNITS BY DEVELOPMENT STAGE & REGION



SOURCE: CORDELL CONNECT, RWCWS

The housing market has been under huge pressure over the past few years, a slow down in construction during the pandemic which has continued through to today, resulting in low residential vacancies and rapid escalation in prices to meet the demands of our increasing population. These fundamentals are not going away and the struggles of the construction industry to deliver homes does continue.

Construction costs have started to moderate, albeit continue to increase, lack of labour all adding to the additional costs to get a project out of the ground. High financing costs further adding to the viability of projects has seen many developments stall or fall over.

Across Western Sydney there are over 1,300 projects going through the planning phases which can provide more than 100,000 dwellings. Of these only, 9,800 units are under construction and likely to be delivered in the next 18 months mostly within the West region. Close to 50,000 dwellings are in the DA approved stage with more than half of these expected to not advance either due to a lapsing DA or the project no longer viable given increased costs.

Projections for 2024

Expiration of DA Approved Projects:
A significant number of projects in the DA approved phase are more likely to expire than commence.

Increase in Housing Construction:
The crane index indicates a continual increase in residential and mixed-use developments under construction.

Adoption of Build-to-Rent Models:
There is a growing quick adoption of build-to-rent products, drawn by associated savings.

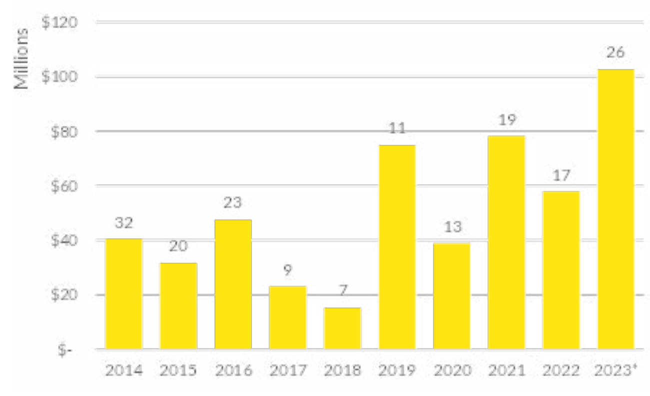
Rising Developer Contributions:
These are contributing to unsustainable growth in development costs.

Ongoing Labour Shortages:
Pressure on the building industry is expected to continue, with labour shortages not easing.

Housing and Population Imbalance:
The housing supply is unlikely to meet the needs of the growing population, leading to increased pressure on rental vacancies and residential housing prices.

Western Sydney *Childcare*

SALES VOLUMES (NO. TRANSACTIONS)



*SOURCE: RWCWS *2023 TO 1 NOVEMBER*

Childcare has bucked the trend of commercial asset classes, continuing to yield good investment demand. Buyers however have been far more selective and considered as to the viability of a centre despite its government backed subsides together with increased cost of financing resulting in a rise in investment yields which are likely to continue into the new year.

Childcare is the only asset class to record an increase in volume of sales, up to over $100million so far this year across western Sydney. It remains an asset class attractive to both investors, operators and institutional funds due to its long-term, secure income stream. We have seen more operators look towards renting assets this year, which is a trend expected to continue, resulting in a busy 2024 for the leasing market.

There has been a high level of development sites coming to market, this may moderate over the short term as locations with adequate supply may revert to a residential use given the strong gains continuing for the housing market. While population is continuing to increase, demand for childcare places is locationally sensitive with communities with strong weighting to some ethnicities may not take up childcare the same way as others causing a vacancy problem for some operators.

Projections for 2024

Sustained Investment Appeal:
Childcare will continue to be a preferred investment, particularly for cash-rich private buyers and increasingly for institutional investors.

Selective Investment and Development:
Location will become even more crucial, with buyers and developers becoming more selective in their future investments.

Shift in DA Approved Stock:
A surplus of DA approved childcare developments may not progress and could revert to residential options.

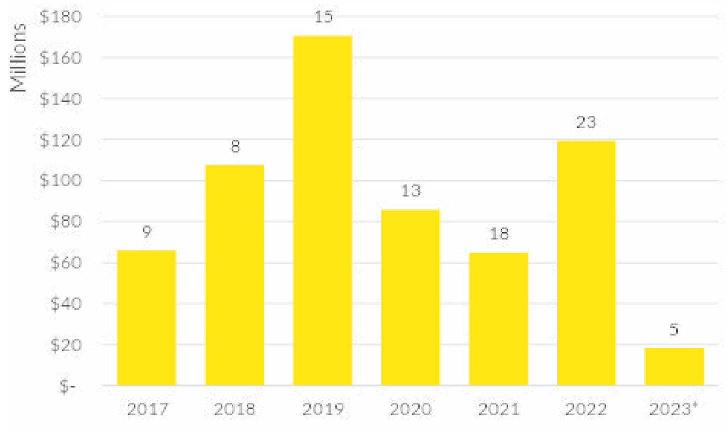
Varied Investment Yields:
Quality assets in undersupplied areas will maintain tight investment yields, while yields in many other markets are expected to rise.

Entry of Distressed Assets:
The market might see an influx of distressed assets, especially in secondary markets.

Operators Leaning Towards Renting:
A trend of operators moving towards renting rather than investing or developing is anticipated.

Western Sydney *Block of Units*

SALES VOLUMES (NO. TRANSACTIONS)

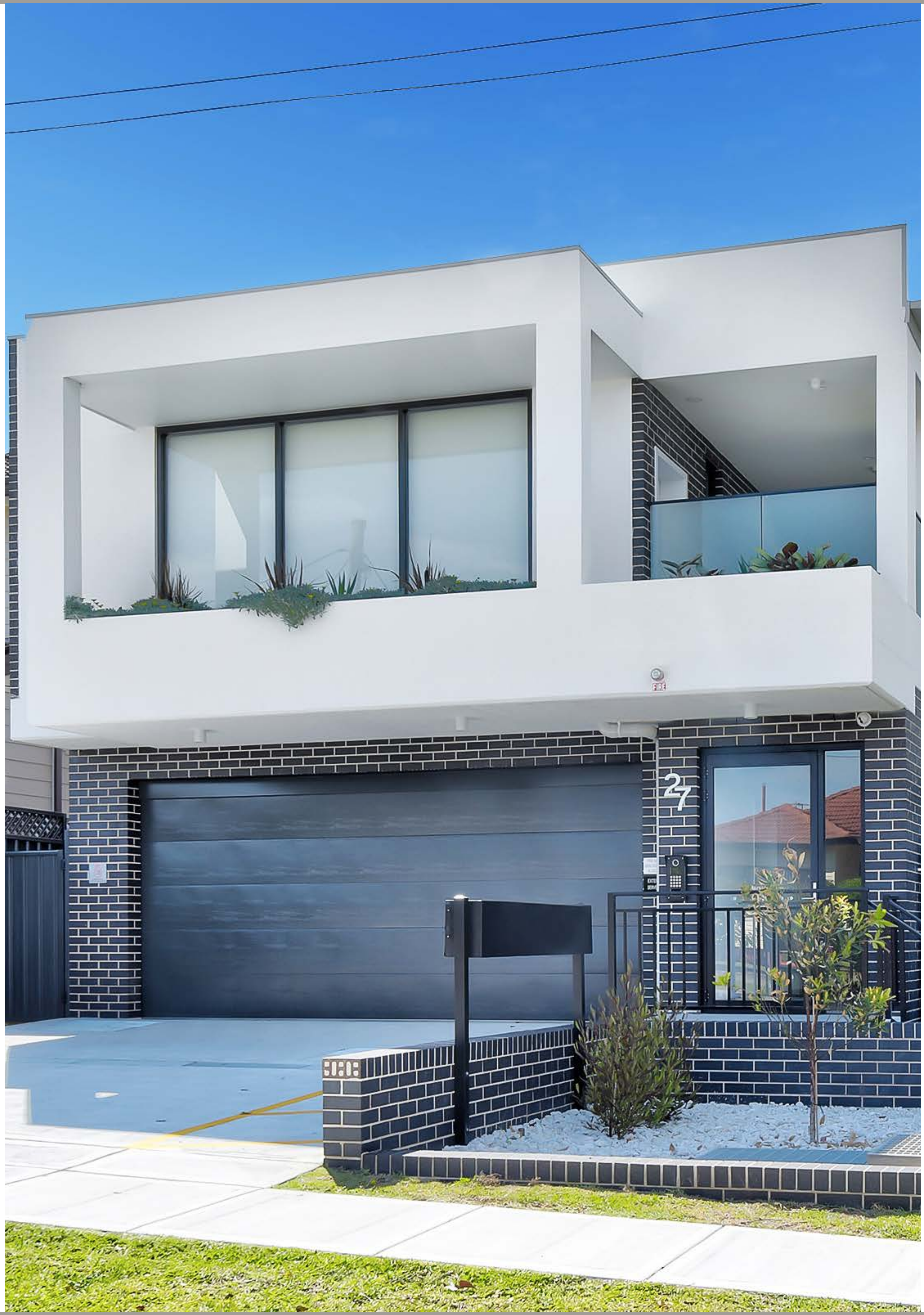


SOURCE: RWCWS *2023 TO 1 NOVEMBER

Block of units and boarding house assets have been the stand out performer of 2023 and the expectation is it will continue in 2024. These assets are tightly held and for western Sydney this has remained sub $20million. Across the State this result has been higher with a large weighting of assets located in Sydney's east as well as in regional markets.

The attractiveness of these properties is clear, the strong residential market which has seen rental growth across Sydney skyrocket in recent years is unlikely to be resolved in the short term, keeping vacancies low and rental appreciation high. This secure and growing income stream can offset rising cost of finance for many buyers still purchasing at historically low yields.

For most buyers these are long term investment options while for others the ability to refurbish, strata subdivide and on sell in the hot Sydney residential market is not to be missed. The addition of boarding houses to this data series highlights the mismatch between supply and demand for housing across NSW. These assets historically were not attractive to buyers, but a new supply of assets has reinvigorated the offering and provide a build to rent solution without all the bells and whistles and cost for the occupier.



Projections for 2024

Continued Market Dominance:
Blocks of units and boarding houses are expected to be the top-performing assets in 2024.

Tight Market Holding:
These assets will remain tightly held, resulting in low sales volumes.

Rental Market Dynamics:
Continued pressure on rents will likely yield strong short-term returns for these assets, with significant capital growth providing lucrative exit strategies in the future.

Emergence of Blocks of Units and Boarding Houses:
These will become the new (old) version of build-to-rent properties, gaining popularity among investors and occupants alike.

OUR OFFICE

With a strong foundation of experience and expertise, we bring a winning combination of dynamism and operational rigour to the commercial agency space.

Our People are *Your Advantage.*

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

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