WESTERN SYDNEY INSIGHTS

Western Sydney Industrial

ISSUE 1

RWC WESTERN SYDNEY

Executive Summary

The industrial market across the country has enjoyed record levels of returns over the past five years due to the increased demand for larger distribution and logistics assets given the uptick in online retail trade.

During the pandemic, this demand was heightened and there was a growing need to expand the storage and distribution of products across Sydney to allow for last-mile logistics and more timely delivery of goods. Furthermore, the changing nature of employment during this time saw a long-term high in new business start-ups which also saw demand for smaller industrial assets.

Low interest rates further fueled competition across the industrial space with a combination of first-time buyers, owner occupiers looking to shelter from rising rents and institutional investors all looking to capitalise on the growing shortage of industrial assets. Sydney's limited vacant industrial zoned land and increasing construction costs resulting in little new stock coming to the market while rising rents and lowering yields made industrial the most invested asset class. Fundamentals of this market however have been changing over the last 12 months given the ongoing and rapid increase to interest rates putting pressure on investment activity, yields and the viability of new construction.

PETER VINES
Managing Director,
RWC Western Sydney

Sydney's West represents *over 95%* of all undeveloped industrial land in Sydney

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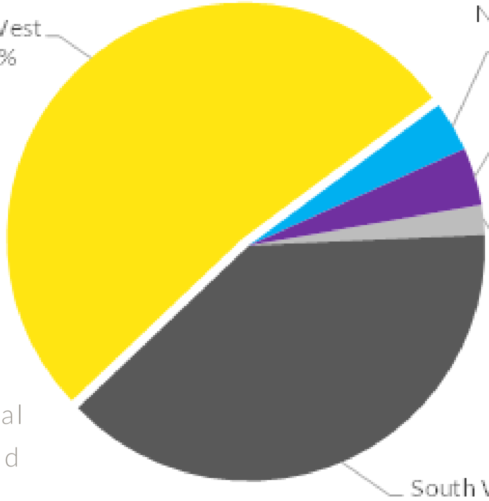
Undeveloped, zoned industrial land

BY REGIONS

According to the most recent Employment Land Development Monitor of 2022 there is currently 7,285ha of under developed industrial zoned land across Sydney of the total 19,484.2ha zoned. Looking at the location of this land earmarked for development, most is located within the western regions of Sydney, the outer west accounting for more than half while the south west represents 38.61%. The other smaller western regions collectively represent over 5% of all lands with a small opportunity for development spread across the remainder of Sydney. The top three LGA's which are home to the greatest industrial zoned area are Penrith, Liverpool and Blacktown, collectively making up 51.77% of all of Sydney's industrial land. While much of this land has been developed, Penrith and Liverpool LGA's still have development opportunities and represent 69.29% of all undeveloped industrial land across Sydney, cementing these regions as the future of industrial in Sydney.

"Penrith and Liverpool LGA's still have development opportunities and represent 69.29% of all undeveloped industrial land across Sydney, cementing these regions as the future of industrial in Sydney"



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

OUTER WEST

176
PROJECTS IN PIPELINE

$14B
OF VALUE

LAND VALUE AV 5 YEAR GROWTH
27.1% PA

PRIME RENT AV 5 YEAR GROWTH
15.4% PA

CURRENT PRIME YIELD RANGE
4.00%-5.00%

SOUTH WEST

164
PROJECTS IN PIPELINE

$3.2B
OF VALUE

LAND VALUE AV 5 YEAR GROWTH
30.8% PA

PRIME RENT AV 5 YEAR GROWTH
13.2% PA

CURRENT PRIME YIELD RANGE
4.00%-5.00%

INNER CENTRAL WEST

66
PROJECTS IN PIPELINE

$2.4B
OF VALUE

LAND VALUE AV 5 YEAR GROWTH
32.7% PA

PRIME RENT AV 5 YEAR GROWTH
17.0% PA

CURRENT PRIME YIELD RANGE
4.00%-5.00%

SOUTH WEST

43
PROJECTS IN PIPELINE

$1.1B
OF VALUE

LAND VALUE AV 5 YEAR GROWTH
19.1% PA

PRIME RENT AV 5 YEAR GROWTH
10.3% PA

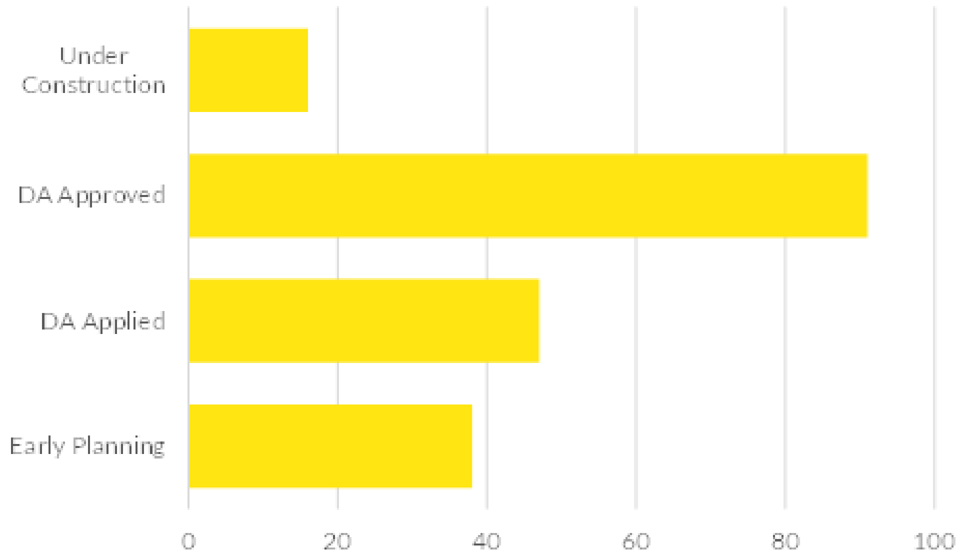
CURRENT PRIME YIELD RANGE
4.00%-5.00%

Sydney's Central West and *Outer West* are the highest total returning Industrial precincts in Australia.

New Industrial Supply Projects

OUTER WEST, BY DEVELOPMENT STAGE

With more than half of all developable land opportunities in the outer west region there is no surprise that there are 176 industrial projects currently in the development pipeline. The total estimated value of these projects comes in at over $14billion with the potential to add over 5.2million sqm of industrial space. Currently under construction or in site works phase, there are 16 projects which are expected to add 610,000sqm of industrial floorspace to be completed over the next two years, the bulk of which is located in Kemps Creek, Eastern Creek and Wetherill Park. There are 91 projects in DA approval stage, historically there are a high number of projects which sit in this stage awaiting precommitment however in the current market, difficulty in financing and construction are the major roadblocks. The rapid escalation of construction materials and labour costs during COVID-19 has not dissipated and a shortage in trades causing issues across the construction industry further drawing out projects in the pipeline. There are a further 85 projects in various stages of early planning, for many of these projects the need to service land in readiness for development adds additional cost and delay.



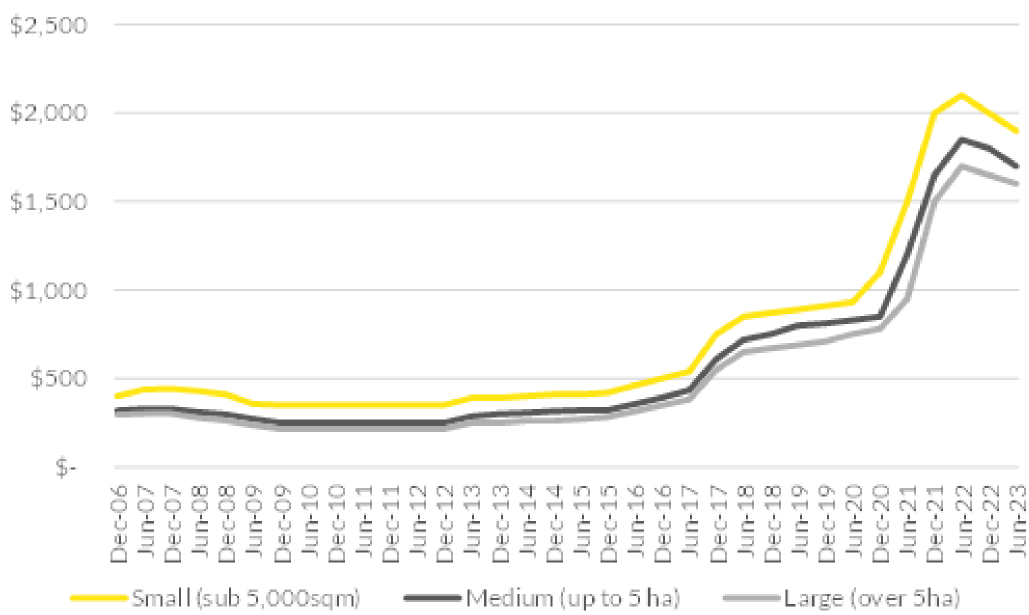
SOURCE: CORDELL CONNECT, RWCWS

"With more than half of all developable land opportunities in the outer west region there are 176 industrial projects currently in the development pipeline with the potential to add over 5.2million sqm of industrial space."

Sydney Industrial Land Values

OUTER WEST, BY SIZE RANGE

Industrial land has seen some sizeable growth over the last five years after a prolonged period of stability. The outer western region has been home to some of the more affordable industrial land of Sydney with very little movement for an extended period under greater institutional investment and infrastructure improvements occurred in the region. During 2017/2018 we saw some uptick in values followed by a levelling out before seeing outstanding levels of appreciation during the COVID-19 period. Low interest rates and a strong appetite to occupy large distribution facilities across Sydney saw the spotlight shine brightly on Western Sydney given its greater (and larger) land availability. While land values have seen some reduction this year in response to rising interest rates and construction costs, values have maintained strong levels of growth over the longer period. Currently smaller parcels are attracting values in the $1,900/sqm after peaking at $2,100/sqm, this still represents a fall over the year of 13.33%, medium and large lots currently dictate $1,700/sqm and $1,600/sqm respectively with similar rates of decline. Over the past five years land values have appreciated on average 24.71% per annum for small, 27.22% for medium and 29.23% for larger lots, after the prior 10 years saw limited gains.



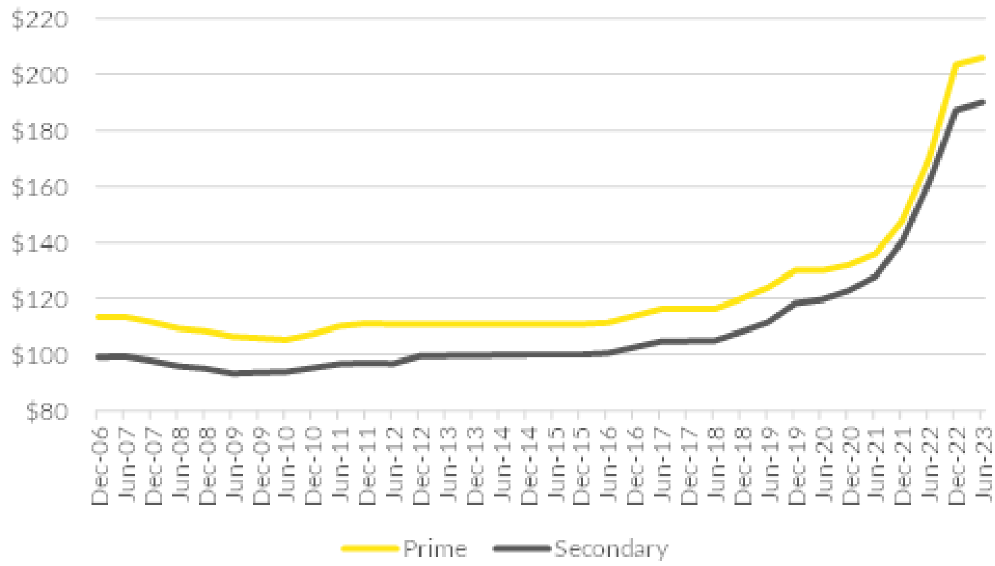
SOURCE: RWCWS

Industrial Net Face Rents

OUTER WEST, BY QUALITY GRADE

The rental market has seen significant increases in rents during the pandemic period given the swift uptick in demand particularly from transport, storage and logistics users off the back of growing online retail trade. The outer west region historically has been the major hub for these users given the quality road and rail infrastructure with connectivity to both port and airport as well as the future Western Sydney aerotropolis. This location has had the ability to design and construct purpose built industrial facilities given the availability of land historically creating new benchmarks in quality and size of premises which was in demand by local, domestic and international users. During the onset of COVID-19 we saw a reduction in construction activity and the increased demand saw vacancies fall to record lows, as a result rents have had swift upward momentum unlike ever before, this year however these levels have moderated albeit growth has remained positive.

Both the increase in demand, low vacancies and growing inflation has resulted in these strong increases in net face rent, up 21.18% over the last year for prime assets to $206/sqm, and up 17.65% for secondary assets to now average $190/sqm. The narrowing between prime and secondary is symptomatic of affordability and availability constraints. Over the last 2 years average annual growth has been approximately 25% for both prime and secondary assets, however, encouragingly has been the longer-term growth achieved of approximately 9% annually over the past ten years.



SOURCE: RWCWS

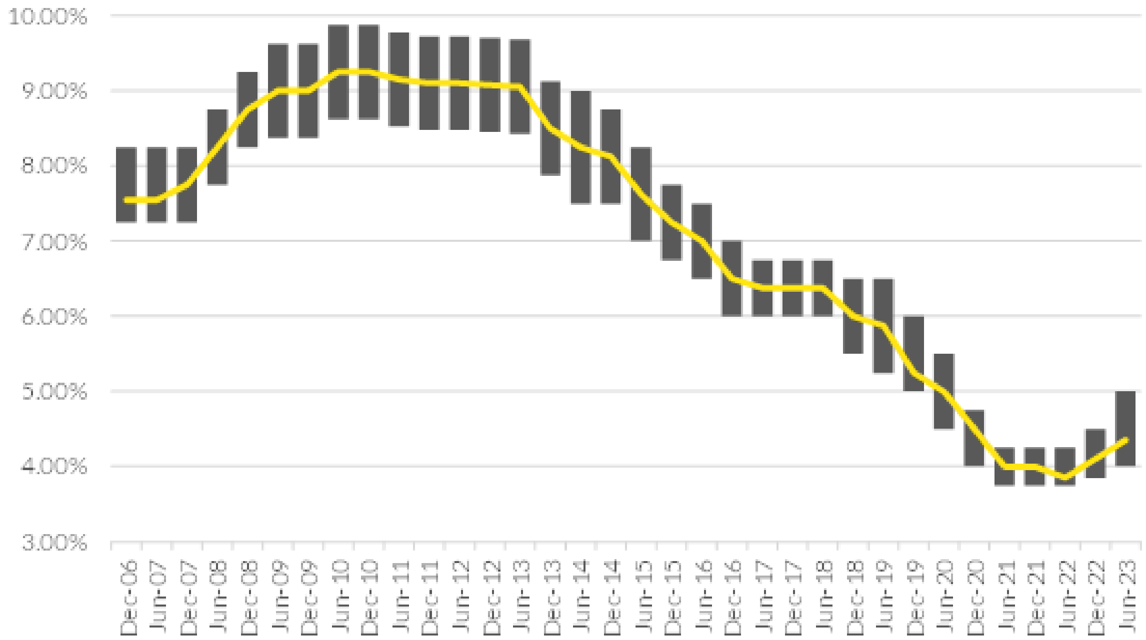
"The narrowing between prime and secondary net face rents are symptomatic of affordability and availability constraints, however over the last 2 years average annual growth has been approximately 25% for both prime and secondary assets."

Prime Industrial Yield Range

OUTER WEST

The industrial asset class has advanced as a prime commercial asset class in which to invest in. In years gone by industrial was considered a high yielding investment option with stable income returns with locations such as South Sydney considered premium given access to the port and airport. As infrastructure across Sydney developed opening opportunities in the western precincts of Sydney, we saw a swift increase in demand for large purpose-built facilities which could not be catered for in the inner markets, drawing multinational tenants and institutional investment. Over the past ten years the focus has moved to industrial given our increased need across the logistics and distribution sectors broadening investment focus for a wider range of buyers from offshore investors through to mum and dad buyers. This has had a tightening effect on investment yields across Sydney with western Sydney precincts notably around major motorways acknowledged as a hot commodity.

More recently, low interest rates have fueled a rapid decline in investment yields down to levels previously unseen, competition amongst the full spectrum of buyers compressing prime rates to average 3.75% to 4.25% during 2022, however assets did continue to trend well below (and above) these rates. As interest rates moved upwards in 2022 through to today, yields have softened with the outer west still yielding the greatest interest of the western precincts to now average 4.00% to 5.00%.

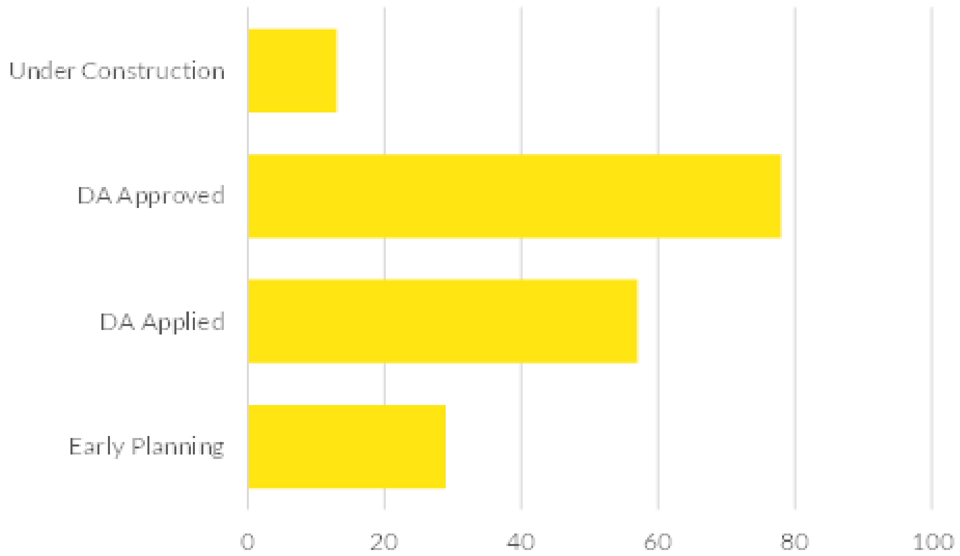


SOURCE: RWCWS

New Industrial Supply Projects

SOUTH WEST, BY DEVELOPMENT STAGE

The south west is the second major contributor of developable land in Sydney, resulting in 164 projects currently in the development pipeline. With an estimated value of $3.1billion this region is a far second to the outer west regarding future development projects with these projects potentially adding 1.2million sqm. There are 13 projects under construction which will add approximately 300,000sqm of industrial floorspace to the market over the next 18 months, the bulk of these are located within the Camden LGA including Leppington and Oran Park. Liverpool LGA is home to a high number of projects with approval, there are currently 78 DA approved projects in the pipeline looking to commence construction. Across the south west region there are a high number of projects in the Canterbury/Bankstown LGA, these infill projects are in high demand from both local operators and to cater last mile distribution requirements. Future development for the south west is expected to focus major infrastructure improvements for the region. This includes the Western Sydney Aerotropolis opening up Badgery's Creek, Kemps Creek, Bringelly and Luddenham for further development, however the need to service newly zoned land has brought additional costs.

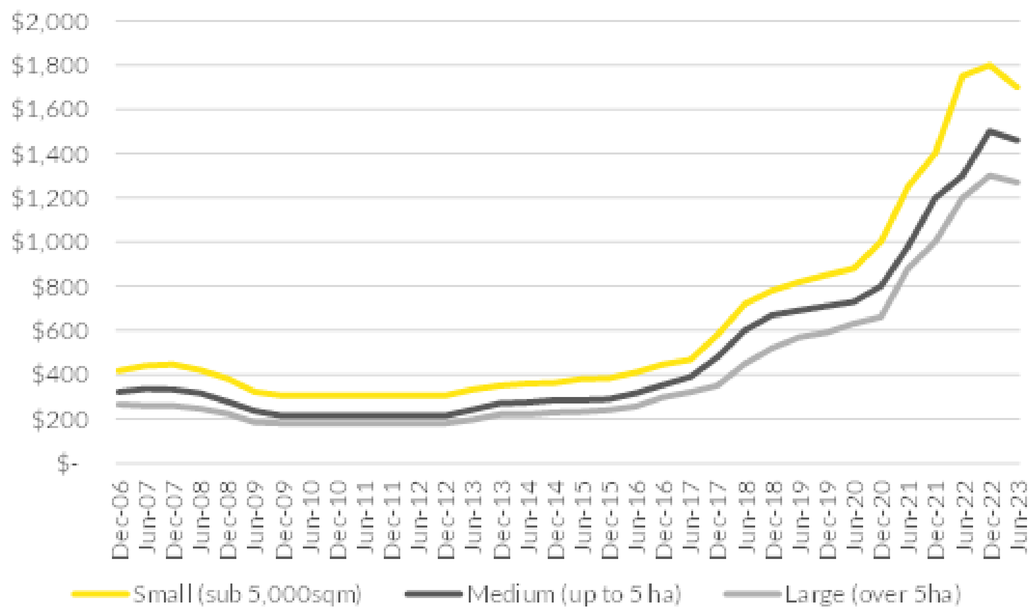


SOURCE: CORDELL CONNECT, RWCWS

Sydney Industrial Land Values

SOUTH WEST, BY SIZE RANGE

The south west, notably the outer southern precincts have been some of the more affordable industrial land in Sydney. The continued investment into the region with road, rail and Sydney's second airport brought additional demand to occupy as well as develop putting upward pressure on land values. Like other markets we have seen some small declines in values this year after robust levels of appreciation during the pandemic period as a range of institutional funds looked to secure assets to develop and hold given the strong increase in industrial demand and logistics. Currently, smaller lots average $1,700/sqm, medium at $1,460/sqm and larger parcels at $1,270/sqm, these rates have been stable over the last 12 months. The greatest growth was recorded in the last three years where values grew on average 32.8% per annum across all size ranges, however growth was evident prior to COVID-19 keeping long term averages up with the 5-year average growth recorded at 27.22%, 28.67% and 36.44% for small, medium and large lots, respectively. Limited large land parcels in the region and underlying occupier demand are likely to keep values stable this year and into 2024.



SOURCE: RWCWS

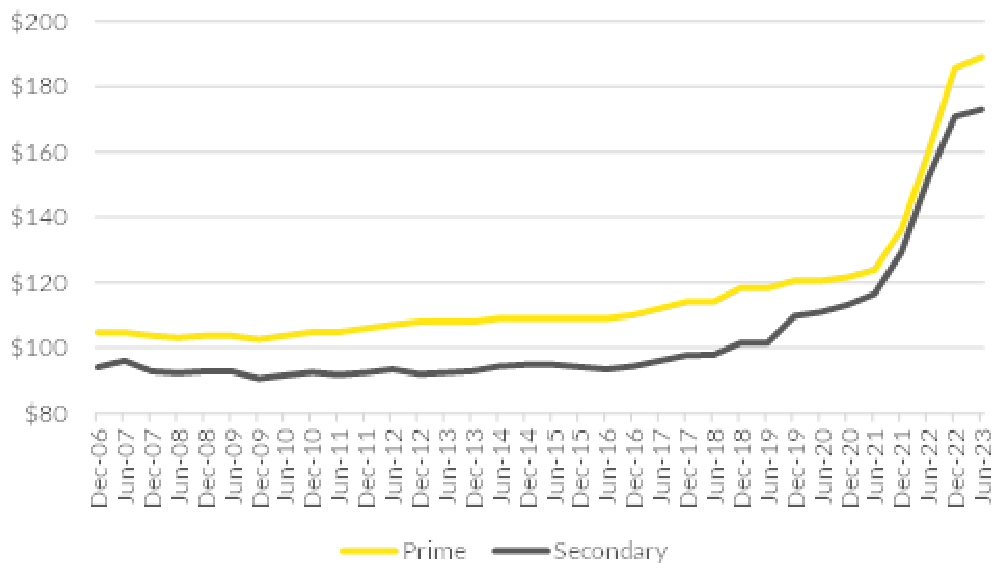
"The continued investment into the region with road, rail and Sydney's second airport has brought additional demand to occupy as well as develop putting upward pressure on land values, resulting in strong growth over the last three years where values grew on average 32.8% per annum across all size ranges."

Industrial Net Face Rents

SOUTH WEST, BY QUALITY GRADE

The south western precinct has benefited similarly to the outer west precinct. The advantageous location of this precinct which offers strong connectivity with road, rail, port and airport facilities together with the relative affordability compared to other Sydney regions has seen demand for space move up at an outstanding rate over the past four years. The ability to service larger space users given access to quality assets and the ability to purpose built facilities has seen multinational tenants call the south west of Sydney home. Historically rents remained static for a prolonged period with new assets setting new benchmarks, resulting in a growing gap between prime and secondary assets. However, as demand has increased causing vacancies to tighten, we have seen this gap narrow in the quest for tenants to secure accommodation, which has now moderated this year.

Currently net face rents sit at $189/sqm and $173/sqm for prime and secondary assets, this represents growth over the year of 18.13% and 13.82% respectively. Inflationary pressures have continued to keep rental growth up despite some slow down across the market place with annual results over the past 2 years recorded at 26.25% for prime while secondary assets have averaged 24.24% per annum.



SOURCE: RWCWS

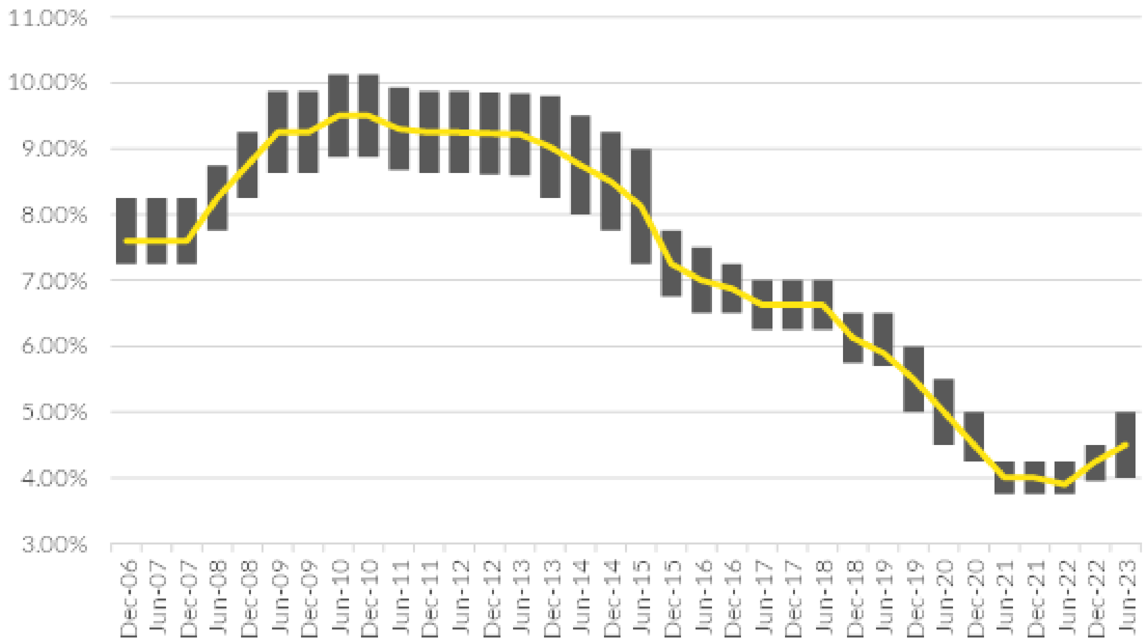
“Historically net face rents have remained static for a prolonged period with new assets setting new benchmarks, resulting in a growing gap between prime and secondary assets. However, we have seen this gap narrow as the quest for tenants to secure accommodation became difficult as vacancies reduced, which has now started to moderate.”

Prime Industrial Yield Range

SOUTH WEST

Sydney's south west has historically performed as a more affordable option to the outer west precincts. However, as time has passed, the investment into infrastructure, affordability and availability of land and stock has seen this region move on parity to the outer west. Across the south west, this precinct can be split into two including the more established inner market and the emerging outer south western sector, both of which are on the radar of institutional and private funds. Like all industrial precincts during the pandemic, there was a strong reduction in investment yields falling to range 3.75% and 4.25% in late 2021 and 2022 for prime assets however more recently in line with interest rate increases this has grown and widened to 4.00% to 5.00%.

During the peak of the market, we saw these tight yields across all industrial, from small units through to large distribution and portfolio assets with purchasers looking to capitalize on ongoing strong investment returns and future capital appreciation. While yields have seen some increase, some buyer groups look to the growth in incomes given our high inflationary environment with low yields still being achieved.

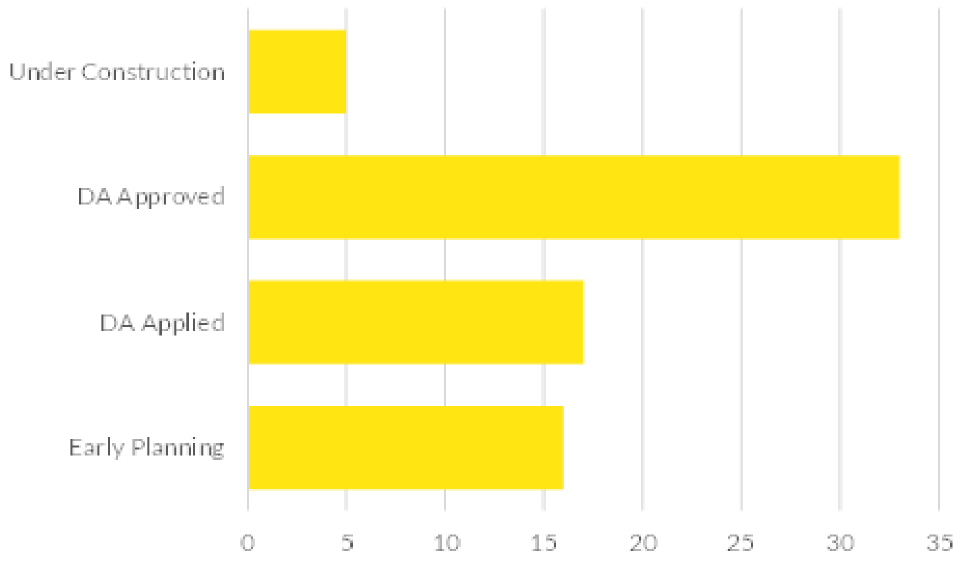


SOURCE: RWCWS

New Industrial Supply Projects

INNER CENTRAL WEST, BY DEVELOPMENT STAGE

With little developable land across the Inner Central West, this region currently has 66 projects in the development pipeline, 5 of which are under construction representing approximately 60,000sqm in new floorspace. Most projects are smaller infill developments with some larger projects in the Cumberland LGA in established industrial precincts such as Yennora. Again, we see a high number of projects in the DA approved category, many of these 33 projects are for smaller warehouse facilities or industrial unit complexes as well as the expansion or redevelopment of existing premises. While vacancies are low across the Sydney industrial market, the increased construction costs and difficulty in sourcing quality labour will be a roadblock for these and the 33 other projects in DA applied and early planning phases to be advanced. The increased cost to construct setting new benchmarks for economic rent to cover the development together with the reluctance of builders to enter a fixed cost contract making pricing uncertain during this time of rising interest rates.



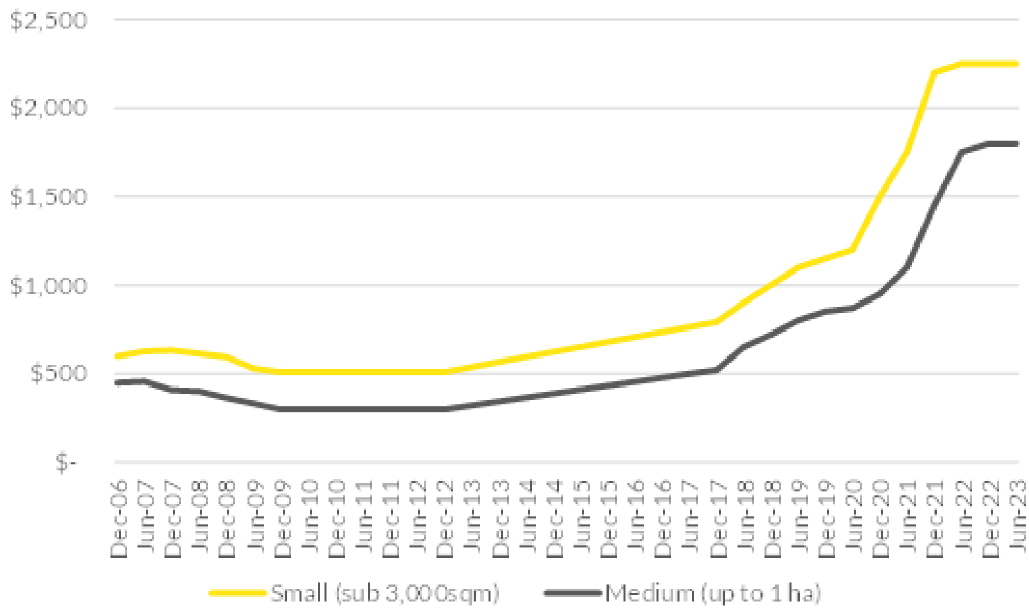
SOURCE: CORDELL CONNECT, RWCWS

“The increased cost to construct setting new benchmarks for economic rent to cover the development together with the reluctance of builders to enter a fixed cost contract making pricing uncertain during this time of rising interest rates.”

Sydney Industrial Land Values

INNER CENTRAL WEST, BY SIZE RANGE

There is limited land availability across the inner central west region resulting in no major changes in values occurring this year. The small volume of transactions which occur in this space has resulted in a stable growth trajectory over the past five years compared to other markets. Currently the smaller lots are achieving on average $2,250/sqm with lots up to 1ha at $1,800/sqm which represents no change over the past 12 months. Prior to this the market had good growth results over the longer term, competition from other asset classes saw industrial land in this region decrease making way for greater showroom/retail premises and residential redevelopment. The 5-year averages show growth more than 30% per annum for both size ranges, which is echoed over the longer 10-year average making industrial land a lucrative investment opportunity for this smaller industrial zone.



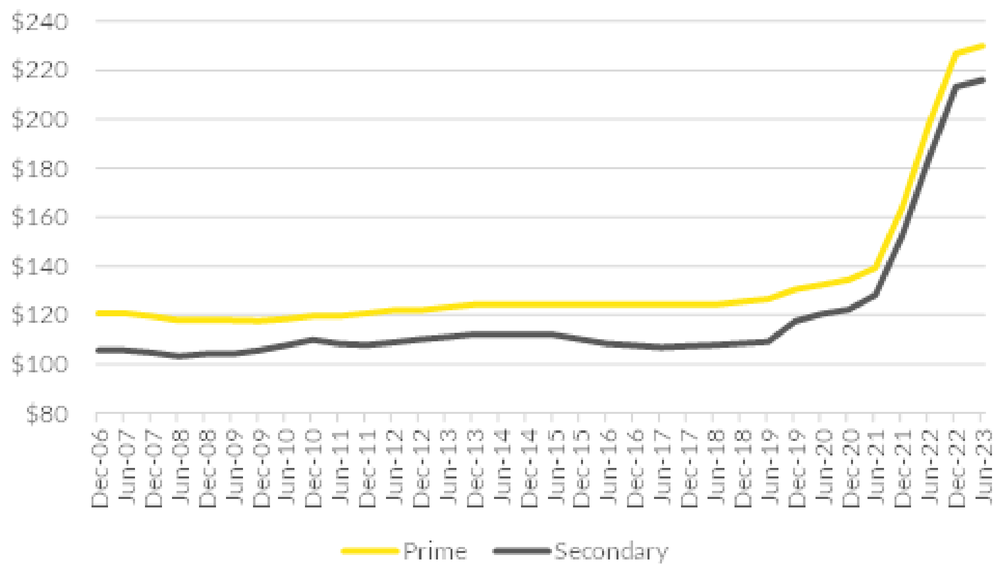
SOURCE: RWCWS

Industrial Net Face Rents

INNER CENTRAL WEST, BY QUALITY GRADE

The industrial market has been the clear winner as an asset class during the COVID-19 period. Demand has increased during this period resulting in strong take-up putting pressure downwards on vacancies which in turn has seen outstanding increases in rents in a market which has historically had little rental growth. Furthermore, the limited supply in the marketplace has seen users absorb secondary assets resulting in a narrowing between quality grades as affordability becomes a growing concern. Unfortunately for this market, limited developable land will see little new supply enter the market continuing to pressure vacancies and as a result the rental market. Demand for "last mile" users has been major source of space absorption for warehouse and distribution facilities however domestic demand has also been high across a range of asset types from older style factories to smaller industrial unit facilities.

Inner central west has some of the more expensive rents of the western regions with prime net face rents currently $230/sqm representing a 16.16% increase over the last year and secondary $216/sqm up 17.30% over the same timeframe. Growth has been greatest over the past two years where these rents have grown by approximately 25% per annum across all quality grades. The attraction of industrial as an asset class is cemented by this strong level of income growth with prime net face rents increasing annually by 8.59% for prime and 9.08% for secondary over the last ten years.



SOURCE: RWCWS

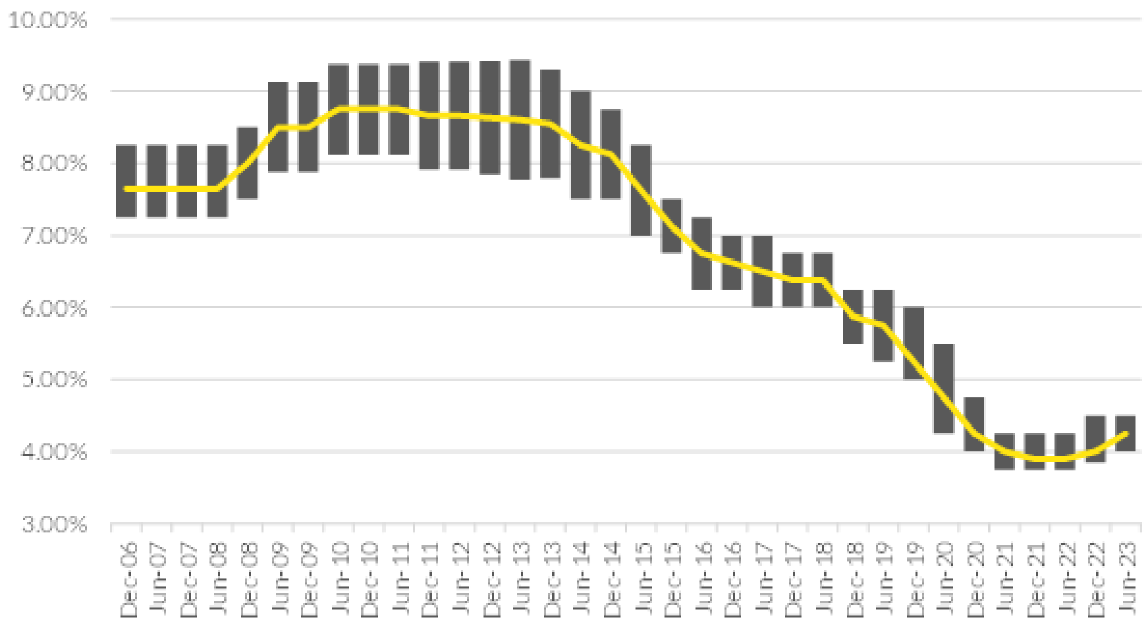
"Demand for "last mile" users has been major source of space absorption for warehouse and distribution facilities however domestic demand has also been high across a range of asset types from older style factories to smaller industrial unit facilities."

Prime Industrial Yield Range

INNER CENTRAL WEST

The inner central western region has historically held a premium value compared to the more outer market given their more central location, high land value and historic institutional ownership. While some regions of this market have not the same accessibility as more western precincts, their importance for the local economy is vast and given the constrained land in this region, values have kept elevated. Like all other markets during COVID-19 as interest rates fell, demand was high across the full spectrum of investors to secure a quality, income producing industrial asset, resulting in prime yields compressing to the low 3.75% to 4.25% range, with some transactions attracting yields below and above depending on age, lease covenant, access etc.

With limited transactions occurring in the inner central western precincts compared to the larger outer western markets, there has been limited upward movement in yields recorded this year. In particular, smaller investors, with access to funds, continue to pursue assets in the 4.00%+ range given the stable, regular income on offer particularly those leases which offer fixed or CPI reviews in the current economic market.

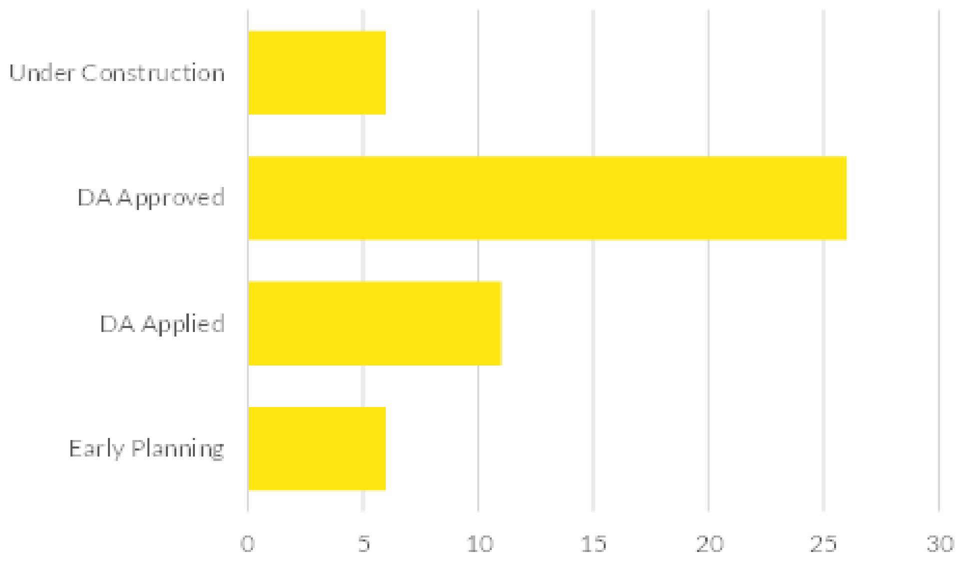


SOURCE: RWCWS

New Industrial Supply Projects

NORTH WEST, BY DEVELOPMENT STAGE

The development across the north west is not dissimilar to the inner central west market. Currently there are 43 projects in the pipeline representing mover $1billion in construction activity, of these only 6 projects are under construction representing smaller warehouse buildings. In this region, The Hills Shire is home to the greatest volume of developable zoned land, with 215.2ha which has been identified as under developed this region, the fifth highest in Sydney. There are 26 projects with DA approval, dominated in Rouse Hill and surrounding areas, most of which are industrial unit complexes and storage facilities. There are a further 17 projects in more early planning phases peppered throughout the region including more established precincts which have a high owner occupier and private investor profile such as Gladesville, Ryde and Thornleigh.

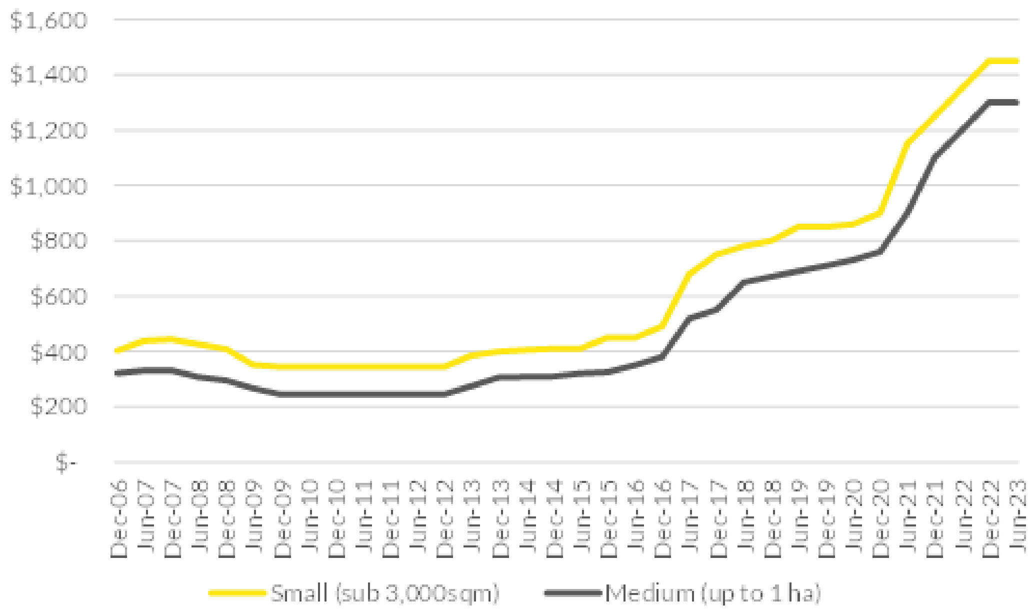


SOURCE: CORDELL CONNECT, RWCWS

Sydney Industrial Land Values

NORTH WEST, BY SIZE RANGE

The north west precinct has also seen the benefit for increases in infrastructure expenditure and growing local population with the opening of land for residential development. Local business growth has been strong, which has aided both the industrial and office markets in this region. Limited transactions have occurred however values have remained stable this year after swift increases upon the onset of COVID-19 and record low interest rates. However, for this market, the ongoing investment has seen values fluctuate over the course of the last 15 years with local investors key for the prosperity of the region. Currently land values sit at $1,450/sqm and $1,300/sqm for small and medium lots, respectively. While the growth profile for this region is not as robust as the other western regions, growth over the longer term has been sizeable with smaller lots resulting in close to 30% annual increase over a 10-year period while the medium lots have seen 37.18% annual growth over this same period. Given the investor profile in this region we are likely to see greater stability from this market over the next 12 months until greater certainty surrounding the economy unfolds.



SOURCE: RWCWS

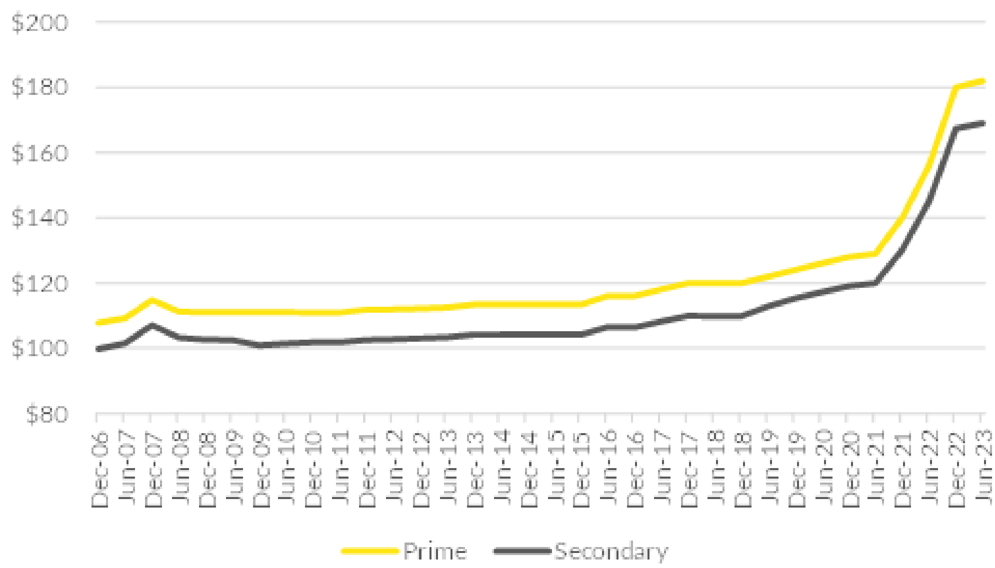
“Local business growth has been strong, which has aided both the industrial and office markets in this region, the ongoing investment has seen values fluctuate over the course of the last 15 years with local investors key for the prosperity of the region.”

Industrial Net Face Rents

NORTH WEST, BY QUALITY GRADE

The north west precinct has enjoyed the same uptick in average rental rates as all other western Sydney precincts during the pandemic period. For the north west, the type of industrial assets ranges vastly from smaller industrial units, quasi showroom/retail space through to larger warehouse facilities. With little available land supply, new supply projections for this region will be limited, as a result there will be continued pressure on vacancies in this market which is dominated by domestic business and owner occupiers.

Net face rents across this precinct currently average $182/sqm and $169/sqm for prime and secondary assets respectively, both recording more than 16% increase over the last 12 months. Like other markets, the strongest upward push in rents was recorded over the past two years where rental rates appreciated by more than 20% for all quality grades. Over the longer term, income growth has seen robust increases which was the catalyst for a high volume of smaller private buyers investing in these local industrial assets while interest rates hit a historic low, similarly owner occupiers sought to shelter from these rising rental costs during a time of income uncertainty due to lockdowns. Over the past five years, annual growth in income has been recorded at 14.81% and 14.74% for prime and secondary, respectively.



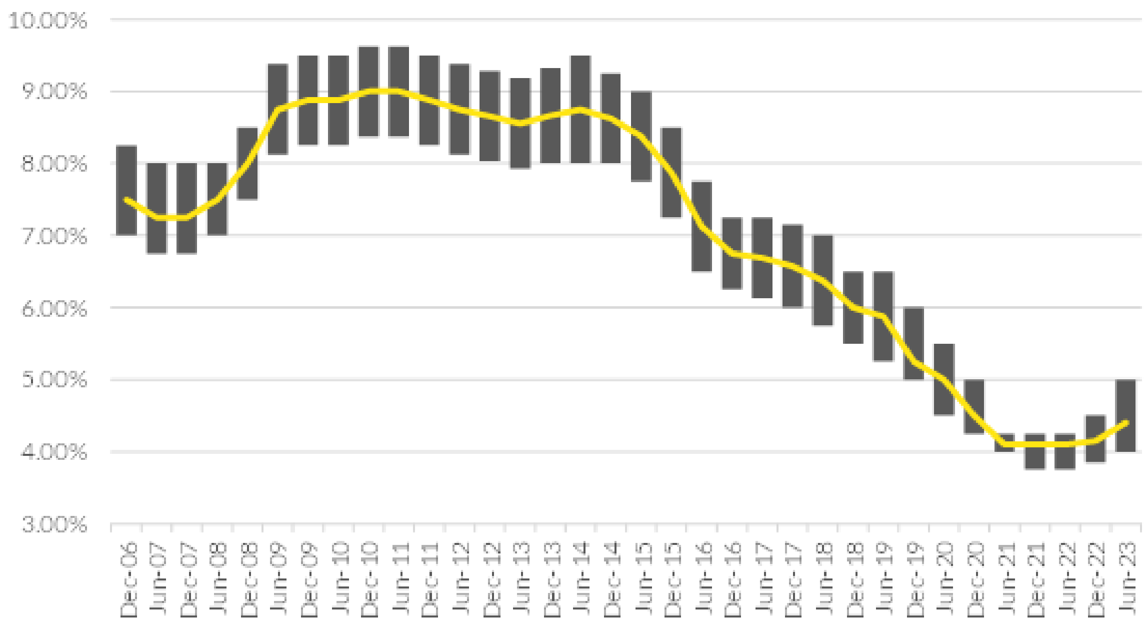
SOURCE: RWCWS

"Over the longer term, income growth has seen robust increases which was the catalyst for a high volume of smaller private buyers investing in these local industrial assets while interest rates hit a historic low, similarly owner occupiers sought to shelter from these rising rental costs during a time of income uncertainty due to lockdowns."

Prime Industrial Yield Range

NORTH WEST

The north west precinct has a high level of private ownership and limited stock in this area has ensured that yields have been tight. Like other western Sydney's markets, sales activity has reduced over the last 12 months as buyers have been more hesitant to commit given the increased cost of finance and the expectation of upward yield movement. During late 2021 and into 2022 we saw average prime yields across the north west range from 3.75% and 4.25% however, once we saw the uptick in interest rates demand levels halted. As we navigate the growing interest rate environment the demand to occupy stock has remained strong, which has kept rents elevated and continued growth prospects attractive. Over the last year the bulk of investment has been across the smaller end of the market dominated by owner occupiers sheltering from the increase in rental rates and private investors looking for a secure (where possible) CPI-tied income stream. As a result, average yields have seen some uptick to average up to 5.00% however this is expected to further increase during the remainder of the year as more assets transact and greater economic certainty emerges.



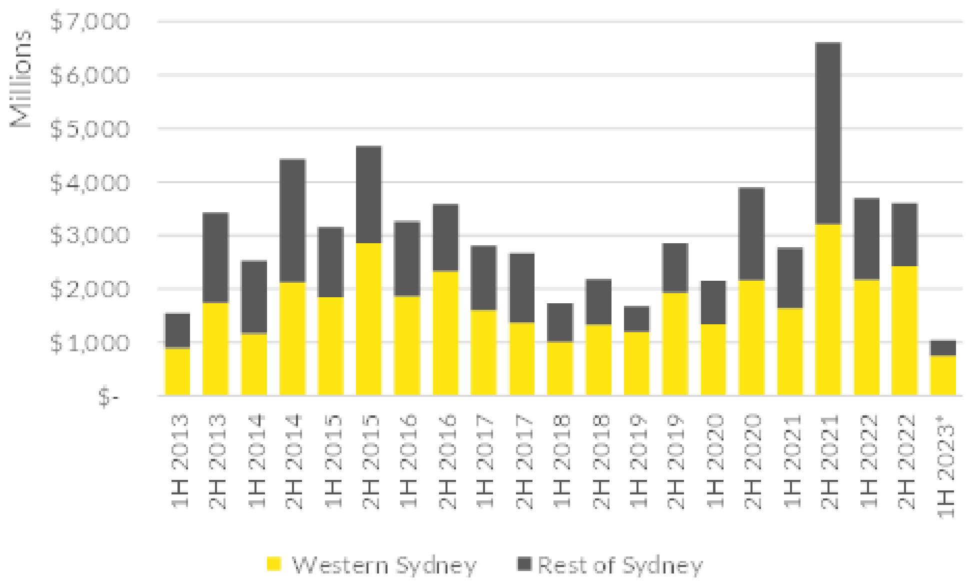
SOURCE: RWCWS

Industrial Sales Volumes

SYDNEY METROPOLITAN AREA

Western Sydney is the largest contributor of industrial stock across Sydney and as a result it has dominated investment activity over the last 10 years representing 58% of all transactions. Industrial while heavily invested in by institutional owners has not been the dominant asset class when considering commercial property investment, office and retail historically have forged ahead as the favourite investment classes with major sales values dominated by the humble industrial asset. However, during the COVID-19 period, we saw industrial lead the charge, cementing itself as the asset class of choice from a range of purchasers from small mum and dad first time buyers looking to diversify away from residential development through to large REITs and offshore groups looking to capitalize on the growing need for large distribution and logistics assets in a land constrained market.

Late 2021 we saw investment peak with over $6.6billion change hands in a six-month period, heavily impacted by large institutional asset sales in the South Sydney, port/airport precinct which offers the most expensive industrial land in Sydney. During 2022 there was over $7.3billion in industrial sales change hands, 63.15% of which was in Western Sydney highlighting the ongoing confidence of the sector despite the commencement of upward interest rate movements in May 2022. The effects of these increases have however been felt in 2023, sales this year have been limited as many smaller investors have existed the market, and institutional buyers are more considered given their exposure to the asset and the revaluation of their existing portfolios.



SOURCE: RCA, RWCWS *TO 1 MAY

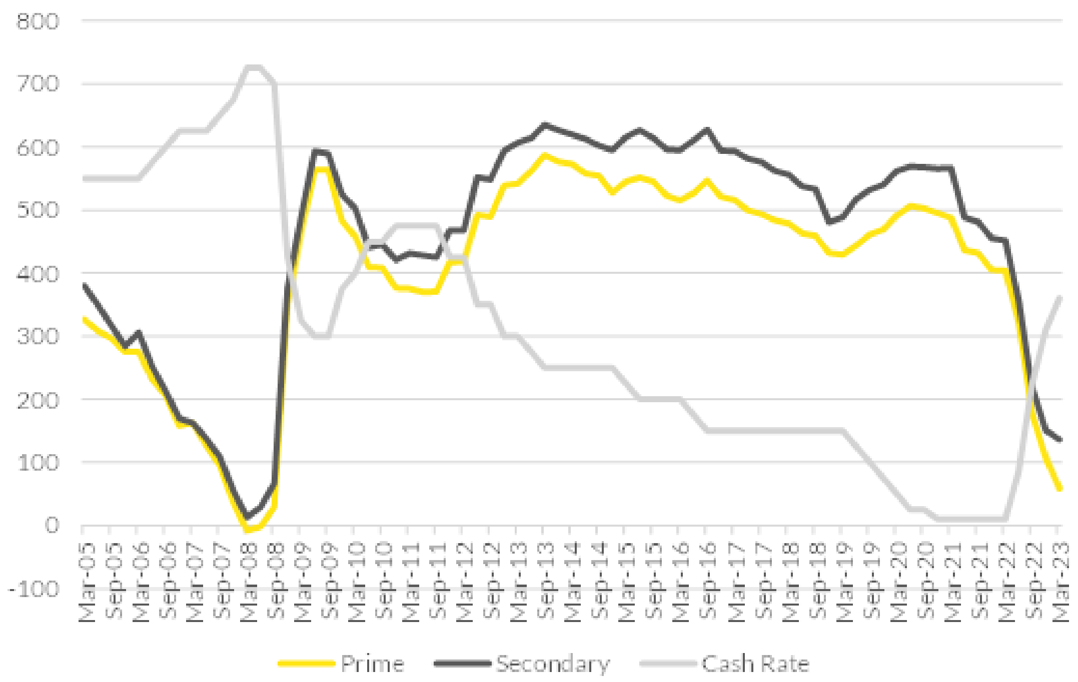
"Western Sydney is the largest contributor of industrial stock across Sydney and as a result it has dominated investment activity over the last 10 years representing 58% of all transactions."

Industrial Yield Spread to Cash Rate

AUSTRALIAN INDUSTRIAL BY QUALITY GRADE (BPS)

Investment yields across the industrial asset class witnessed rapid and strong declines over the last few years, this was fueled by a record low cash rate, a widening of investors speculating in the asset class and FOMO pushing down yields. While the yields achieved new lows, these appeared viable for their investors given the spread to the cost of financing the purchase. This chart considers the average industrial prime and secondary yield and the gap between that and the cash rate, 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 to up to 600 basis points in prior years.

However, these record low interest rates were not sustainable and as the cash rate rose, the spread to yield plummeted with a cross over now in these results not dissimilar to the huge gap between these indicators during the GFC period of 2008. Learnings from this period shows a rapid escalation in yields bringing these results back to a longer term spread of 500-600 basis points, however financing was not as available during this period. Considering this, average yields are anticipated to move into the 7.00%+ range bringing the spread to these finance costs back over the cash rate and could move further upwards if financing costs continue to increase. However, unlike previous cycles strong increases in rents and high occupancy are all considerations of investors in this market, creating greater uncertainty around value.



SOURCE: RBA, MSCI, RWCWS

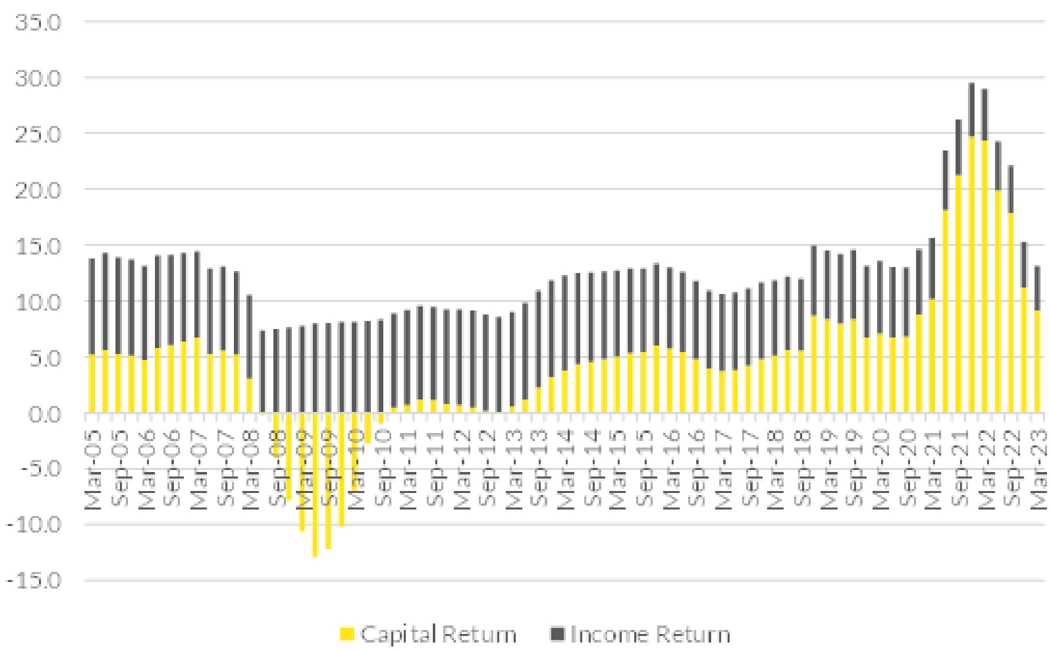
"Average yields are anticipated to move into the 7.00%+ range bringing the spread to these finance costs back over the cash rate and could move further upwards if financing costs continue to increase."

Outer Western Sydney Industrial Returns

% ANNUAL RETURNS BY TYPE

Industrial as an asset class has outperformed all other traditional commercial asset classes off the back of strong gains over the last three years. Across the total Sydney industrial market, average total returns grew at 12.7% over the last year and 19.2% per annum over three years, slightly behind the outer western Sydney averages of 13.5% and 19.7% respectively. While income growth has been a consistent strong return, we have seen this reduce in more recent periods albeit still grow 4.0% over the last 12 months, ahead of all other traditional industrial regions in Australia.

For the broader industrial market, the outstanding growth has come off the back of capital appreciation, with annual growth recorded at 14.4% over the last three years for the outer west precinct. A combination of growing land values, declining yields and rising rents all fueling the rapid uptick in demand and in turn this capital appreciation. While the rising cost of finance and the upward movement in yields will do much to dampen this ongoing growth, the high occupancy and its mismatch to land supply will shield values to some extent.



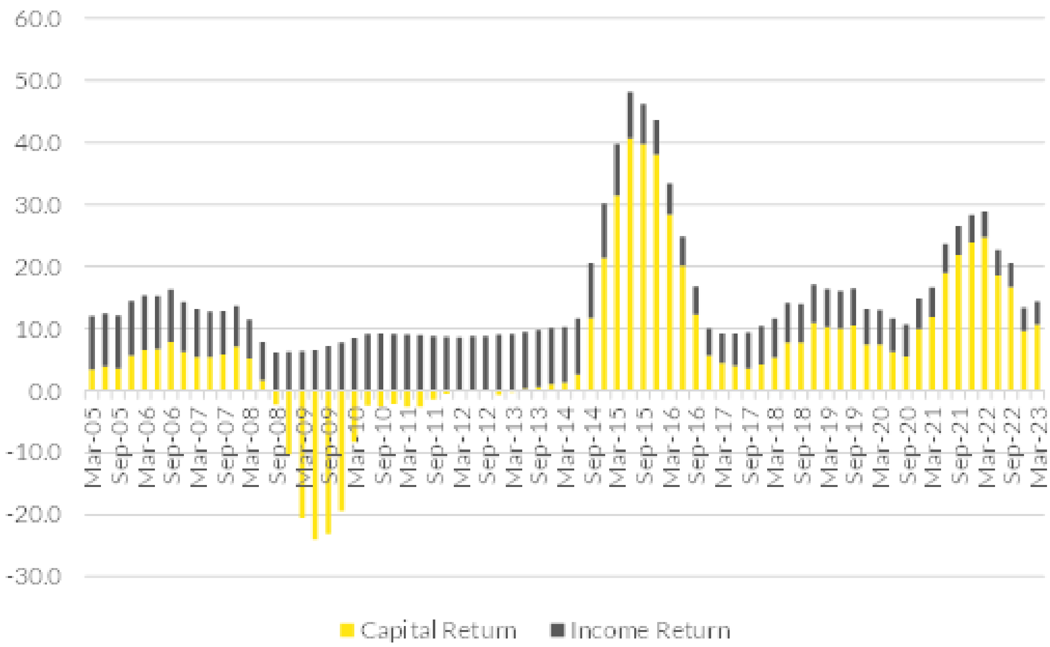
SOURCE: PCA/MSCI

Central Western Sydney Industrial Returns

% ANNUAL RETURNS BY TYPE

The central western industrial precinct of Sydney has had a different growth profile than the outer western precincts having seen more fluctuation in capital gains and overall, a lesser, albeit consistent level of income return. This more central location that has benefitted from numerous infrastructure projects, is land constrained and a more expensive industrial option with land values and rents more than the precincts further west. Strong institutional ownership for larger assets have enjoyed strong gains over the past ten years making it the best returning industrial market across Australia. Total returns for this precinct have averaged 19.6% per annum over a ten-year timeframe in the central west, second only to the outer western region of Sydney at 15.0%.

While we have already seen some decrease in income return, capital returns are expected to follow suit. However, the underlying strength of the asset class and our ongoing need to occupy these assets from a range of uses from storage, logistics and distribution through to smaller local business activities together with the constrained nature of industrial in Sydney's central west will ensure this precinct continues to perform over the longer term.



SOURCE: PCA/MSCI

"Sydney's central west and outer west are the top two performing industrial markets across Australia in terms of returns. Solid income growth has been overshadowed by robust levels of capital growth more recently, these are expected to moderate putting industrial assets in this region in good stead over the longer term."

Conclusion

The industrial market has been the leading commercial asset class over the last five years, fueled by a combination of robust demand levels due to an increased need for storage, logistic and distribution of goods as the online retail sector grows and private enterprise. Couple this with record low interest rates spurring on a new range of investors, constrained developable land keeping land values up, while a slow down in new supply due to the uptick in construction costs has resulted in record low vacancies also pressuring the occupier market growing rents to new highs. With all these indicators in favour of industrial as an asset class there is no surprise that even as interest rates have risen, this sector has been the most resilient.

For western Sydney, the potential for development, relative affordability and ongoing infrastructure improvements will further cement the region as the premier industrial location in Sydney. Historically both capital and income growth rates have eclipsed those of other major industrial markets across Australia and with the countries largest infrastructure project being the Western Sydney Aerotropolis actively being developed, it is clear there will be another runway to growth for this sector.

While current market conditions have caused uncertainty in the investment market, continued lack of quality stock and the build up of projects in the development pipeline is likely to keep occupancy levels elevated and rental appreciation positive. However, as the spread between bond and yield narrows further upward momentum

is inevitable for industrial yields with secondary assets likely to see the greatest increase in the shorter term. Given larger industrial assets are heavily institutionally held, the revaluation of these assets has started to show this change in yield which is expected to continue to move until greater clarity comes to the interest rate environment. However, smaller owner occupier assets remain difficult to source and have been actively absorbed by this buyer group to shelter from rents understanding commercial property is a long-term investment option. Similarly, many buyer groups continue to actively seek out the limited land opportunities across Sydney both for land banking and future development.

During 2023, sales volumes have been subdued and this trend is not expected to change as vendors grapple with these changing market conditions. Mortgage pressure may see an increase in receiver sales this year if further rate rises occur however the underlying tenant demand and inflationary pressure on rents are likely to sustain many owners over this period unlike other higher vacancy asset classes.

Commercial property is cyclical in nature and the western Sydney industrial market has seen remarkable growth over the past ten years, while the positives of this sector and region are high given the constrained land, limited new supply, infrastructure projects and high tenant demand, external factors such as finance and construction costs has dampened overall sentiment which will moderate over time. For western Sydney strong population gains will further pressure the need for industrial space and generate strong jobs growth emphasizing the longer-term growth prospects for both the asset class and region.

PETER VINES

Managing Director,

RWC Western Sydney

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OPERATIONS

RUBY ROZENTAL
Director of Operations

HANNAH CARNEY
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PAULINE WATERFORD
Finance Manager

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

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REGION DEFINITIONS

Outer West: LGA's of Fairfield, Blacktown, Penrith and Blue Mountains
South West: LGA's of Canterbury/Bankstown, Liverpool, Camden, Campbelltown and Wollondilly
Inner Central West: LGA's of Burwood, Strathfield, Canada Bay, Cumberland and Parramatta
North West: LGA's of Ryde, Kur-ring-gai, Hornsby and The Hills Shire