



VALUATION AND ADVISORY

MULTI-LEVEL INDUSTRIAL UNIT DEVELOPMENTS ON THE RISE

Constrained land supply, growing land values and significant growth in Industrial Strata values is resulting in Developers progressing innovative Multi-Level Industrial Unit developments to maximise site feasibilities and floor area on limited available land.

At Cushman & Wakefield Valuations & Advisory, we have identified 29 new projects within Sydney, which are proposing to develop over 236,000m² of innovative multi-level Industrial Strata floorspace over the next three years. Whilst some of this supply is within the established market of South Sydney, significant growth in Strata Lot values is driving a growing number of proposals within Central West and Western Sydney locations.

MARKET ANALYSIS



Increased activity in Western Sydney with 66% of the multi-level proposals and 72% by proposed floor area is identified as outside of the South Sydney Industrial precincts.



Average achieved FSR for a multi-level Industrial Unit complex is 1.02:1 and range from 0.72:1 to 1.48:1 depending on location and site limitations. Single level proposals typically achieve an FSR of 0.70:1.



Significant increase in the number of proposals commencing since 2019:
2019 (1), 2020 (4), 2021 (8) & 2022 (16).



Average proposed Industrial Lot size of 250m².
'Storage' Lots generally range from 20m² to 50m² with a 5.0m clearance allowing internal mezzanines.
38% of proposals are three or more stories in height.



'Storage' Lots are included within 48% of proposals which traditionally marketed towards individuals for personal storage use with developments offering 24/7 security access, heavy vehicle loading, drive-up access, shared amenities and individual metering.



Analysis of completed projects shows a 20% to 40% increase in achieved \$/m² of small 'storage' Lots in comparison to traditional Industrial Strata Lots depending on location and size among other factors.



Accessibility and site layout/ slope are key variables on how developments are configured as each level typically includes different Unit sizes targeted towards particular occupiers.



Increased operating costs arise for Multi-Level developments through incorporating lifts, common areas, hoists, security etc.

KEY DRIVERS



Tenant and Occupier requirements to be close to population centres.



Owner occupier demand for small to medium sized business supported by low interest rates.



Structural changes in the retail sector towards small business & ecommerce facilitating demand for non-traditional Industrial and driving for 'hi-tech' units.



Infrastructure development improving accessibility to Central West and Western Sydney precincts.



Strong rental market supported by the growth in e-commerce, renewed local manufacturing industries and constrained supply of new accommodation.



Gentrification of inner city area's driving demand for accommodation west of Sydney.



The drawcard of the Western Sydney Airport due for completion in 2026 and sub-sequential rezoning of 850Ha of Industrial land.



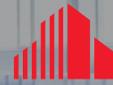
Development projects are largely pre-committed with speculative developments largely absorbed prior to completion.



Investment return from Strata Industrial is secondary to the demand from owner occupiers with 'In One Line' holdings rare.



Multi-level development from funds seeking an investment return would likely need to occur near major infrastructure providing the ability to secure strong rental from logistics operators to make this type development feasible from an investment point of view.



MULTI-LEVEL NOTABLE PROPOSALS



14-16 Orion Road, Lane Cove
Lower North Shore
Part 2 & 3 Storey
29 Industrial & 51 Storage Units
Completion mid-2023



28 Yarrunga Street, Prestons
South West Sydney
2 Storey
8 Industrial Units over two stages
Completion mid-2025



5 Money Close, Rouse Hill
Western Sydney
Part 2 & 3 Storey
26 Industrial & 50 Storage Units
Completion late-2024



32-36 Box Road, Caringbah
South Sydney
3 Storey
30 Industrial units
Completion mid-2024



2 Cross Street, Brookvale
Northern Beaches
Part 2 & 3 Storey
23 Industrial, 17 Storage & 23 Office Units
Completion early 2026



6 Cunningham Street, Moorebank
South West Sydney
4 Storey
6 Industrial Units
Completion mid-2023



96A Denison Street, Hillsdale
South Sydney
2 Storey
25 Industrial Lots
Completion late 2022



202-212 Euston Road, Alexandria
South Sydney
2 Storey
10 Industrial Lots
Completion late-2022



CASE STUDY

For developers, it is important to understand at what point do the increased construction costs for a multi-level facility justify the proposal over a single level proposal.

To answer this simple question, we provide a simplified hypothetical analysis, contrasting the potential Development Margin from a traditional Single Level development scenario against returns on Multi-Level developments at various FSR densities.

Our inputs suggest a density greater than 1.30:1 is required to achieve a sufficient Development Margin compared to a single level development. Development projects vary significantly depending on Approval Status, Gross Realisation, Timing and other factors.

Our analysis does not cover all potential development scenarios rather identifies the importance of testing all potential development schemes as the balance of increased costs against meeting demand needs to be considered.

*Our analysis adopts the same \$/m² Gross Realisation over all levels of the development.

CLOSING REMARKS

Continued scarcity of land availability coupled with the growth in e-commerce and the demand for well located Industrial accommodation is likely to support the trend for multi-level facilities.

Opportunities for Multi-Level Industrial Unit developments are constrained by increased construction costs and already high land values, the feasibility of sites is likely to be maximised by traditional single level development, unless appropriate density or increased values can be achieved as our analysis suggests that more floor space may not necessarily achieve the greatest result.

Our inputs broadly suggests a necessary density of 1.30:1; however given the emerging nature of the sector, particularly in emerging Central West and Western Sydney markets, we expect this to be a fluid metric, with the rapid innovation we are witnessing coupled with the increasing momentum and embracing of this development by entrepreneurial Developers.

Land value growth has far exceeded rental growth across the Sydney in the same period reducing development

Input

Land Value	\$1,000/m ²
Construction Cost (Single Level)	\$985/m ²
Construction Cost (Multi Level)	\$1,810/m ²
Construction Period	12 months
Average Lot Size	250m ²
Gross Realisation	\$4,000/m ²
Pre-sales	50%
Post Completion Sale Period	12 months

Assumptions

Density

Development Margin (%)

Single level

0.7:1 18.40%

Multi-level

1.00:1 7.07%

1.10:1 11.11%

1.20:1 14.71%

1.30:1 17.94%

1.40:1 20.81%

margins. Multi-level Industrial developments are reaching an inflection point to greater viability, driven by ecommerce and the requirement of occupiers to be located close to population centres and major infrastructure.

Opportunities for developers lie in supply side innovation in order to drive stronger rentals and in providing a variety of Lot sizes and providing alternate uses expanding the pool of potential occupiers and returns achieved.

LAST THOUGHTS

The emergence of Multi-Level Industrial proposals in Sydney over the next few years will provide important data on how this may play an important part in reducing supply issues for Industrial accommodation within Sydney.

The variety of proposals in terms of location, layouts and Lot sizes will help establish what innovations are better received in the market and how developers can maximise return.

Major Institutional funds have announced a number of significant land transactions and identified the intention to develop Multi-Level warehousing signally a major shift towards this type of development over the coming years.

For further information contact a member of the Cushman & Wakefield Valuation and Advisory team below or to view our recent publications, visit the Cushman & Wakefield Valuations Hub cushwk.co/valuationshub

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