MARKETBEAT

SYDNEY

Logistics & Industrial Q4 2023

CUSHMAN & WAKEFIELD

201,746 Q4 2023 Gross Take-up

5.51% Average Prime Yield

2.9% Q4 2023 Prime Rental Growth

ECONOMIC INDICATORS To Q4 2023

	Current	12-Mo. Forecast
GDP Growth (National)*	2.1%	▼
Population Growth†	2.4%	▲
E-commerce Penetration Rate~	12.8%	▲

*Year-on-year to Sep-23
† Year-on-year to Jun-23
~As at Oct-23

Source: ABS, NAB, Oxford Economics, Cushman & Wakefield Research

Economic Overview

Australia's economic performance in Q4 2023 has been mixed, weighed down by a further 25 basis points (bps) hike in the cash rate in November to 4.35%. CPI has moderated further, with the latest figures showing a 4.3% year-on-year rise to November 2023, while population growth continues to be the bright spot in the economy, with growth of 2.4% (or 624,100 people) recorded in the year to June 2023.

For New South Wales, economic growth is expected to moderate to just 0.6% in 2024 as cost-of-living pressures bite before rebounding in 2025 to 3.2%. Population growth will continue to support warehouse demand with an additional ~112,000 persons expected in 2024.

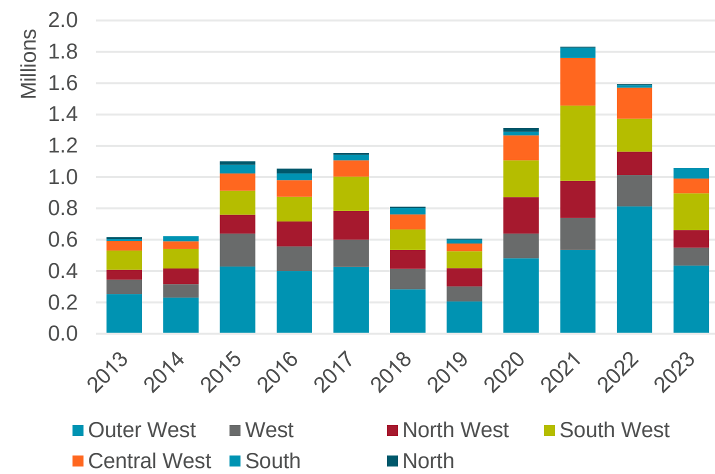
Occupier Demand

Logistics and industrial (L&I) demand slowed in the final quarter of 2023, with approximately 200,000 sqm leased across the Sydney market in the period – the lowest quarterly volume since Q4 2019. While enquiry remains healthy, led by the transport and logistics sector, it has fallen from the levels recorded in 2022, and some of the urgency from occupiers has come out of the market, and deals are taking longer to conclude as a result.

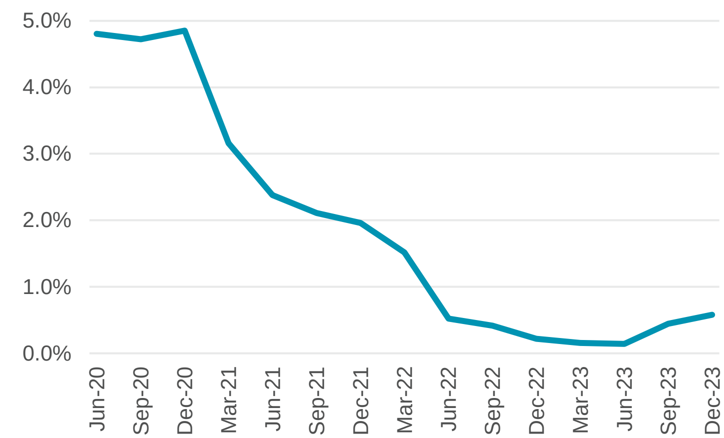
For the year, gross take-up volumes totalled approximately 1.05 million sqm (deals above 3,000 sqm), with the Outer West and South West markets being the most active, reflecting pre-commitment and speculative driven demand. While take-up is down from the levels of 2020-2022, it remains well above pre-pandemic levels.

Major lease deals in Q4 2023 were underpinned by Sydney Tools and Maersk, collectively leasing 49,000 sqm at the Moorebank Logistics Park. For 2023, the transport and logistics sector accounted for 51% of leasing volumes, while demand from the retail trade sector weakened, particularly in the second half of the year, as consumer consumption moderated.

SYDNEY L&I GROSS TAKE-UP (SQM)



SYDNEY L&I VACANCY RATE



Source: Cushman & Wakefield Research

Vacancy

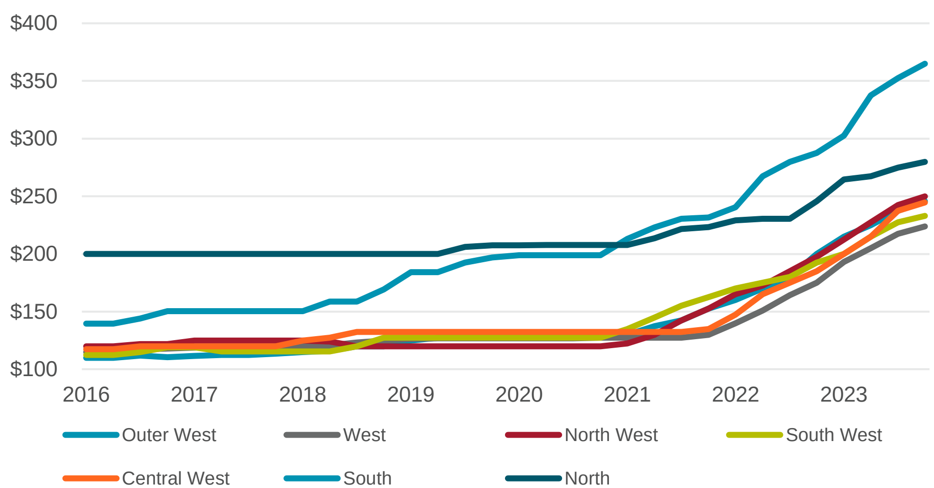
The Sydney vacancy rate recorded a modest increase in Q4 2023 to 0.6%, up from 0.4% in Q3 2023. Across the market, there remains a lack of leasing options; however, modest upward pressure is expected in 2024, given speculative supply completions in the order of 500,000 sqm, which will likely trigger backfill space availability. Modest levels of sublease space have become available for lease, albeit some of this stems from occupiers doing it for profit reasons, given the jump in rents.

Rents & Incentives

While still elevated by historical standards, the pace of rental growth has slowed in Q4 2023, with prime rents increasing by 2.9% on average over the quarter, down from the 5.3% quarterly average recorded since mid-2021. On an annual basis, prime rents have jumped 24.2% across Sydney, led by the infill markets where supply is more constrained.

A modest increase in incentives was recorded in Q4 2023 as owners become more aggressive to lease space prior to the increase in supply in 2024. Incentives currently range between 5% to 12.5% for existing facilities and 10% to 15% for pre-commitment deals.

SYDNEY PRIME L&I NET FACE RENTS ($/SQM)



Source: Cushman & Wakefield Research

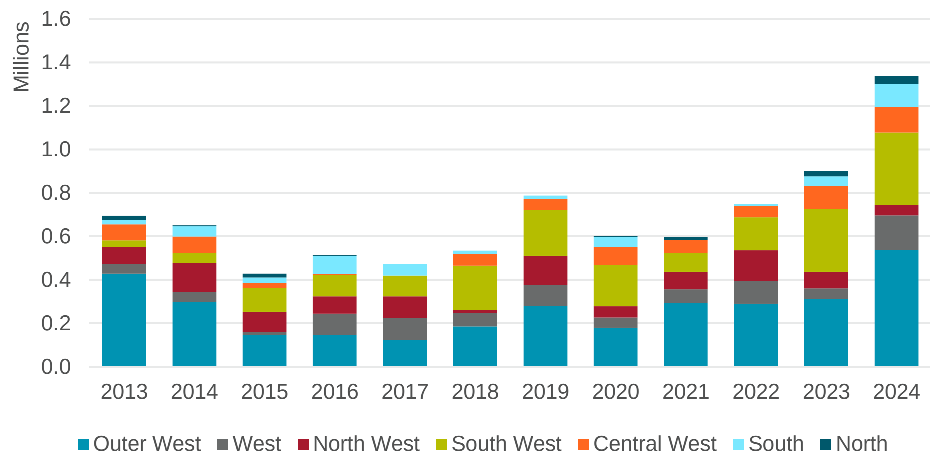
Supply

Due to planning and construction delays, the completion of several projects has been pushed back to 2024, and the 2023 pipeline has been revised down to approximately 900,000 sqm. Supply additions in Q4 2023 were underpinned by ~ 110,000 sqm at the Moorebank Logistics Park (leased to Mainfreight and QUBE), while Goodman's multi-level development at Alexandria (AXIS) reached completion (16,078 sqm) and represented the first completed multi-level warehouse in the country.

Looking ahead, there is potential for over 1.3 million sqm of new supply to enter the market in 2024, ~500,000 sqm of which is speculative and includes Brookfield's 2 Christina Road, Villawood development (68,990 sqm) and multiple completions in Goodman's Oakdale West estate. As it stands, the pre-commitment rate currently totals 50% for 2024, while high construction costs are likely to delay the delivery of some projects in the pipeline over the next 12 months.

The Outer West and South West submarkets will remain the most active markets for supply in 2024, led by the Mamre Road Precinct and the Moorebank Logistics Park.

SYDNEY L&I SUPPLY BY SUBMARKET (SQM)



Source: Cushman & Wakefield Research

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Land Values

The appetite for industrial land remains strong; however, there has been a lack of sales evidence in recent months to test where land values sit. Notwithstanding this, the increase in yields and higher construction costs have impacted the feasibility of projects, albeit party offset, given recent levels of rental growth.

Industrial land values held steady in Q4 2023, averaging ~$1,500/sqm in Western Sydney for 1-5 hectare lots (Outer West is closer to $1,400/sqm). While groups in the current environment have become more cautious, there has been an increase in demand from owner-occupiers, including data centre operators.

Pressure on land prices is likely to occur in select precincts in 2024 where there is greater land availability. Alternatively, infill precincts will show a greater degree of resilience, albeit dictated by the rental level that is able to be achieved.

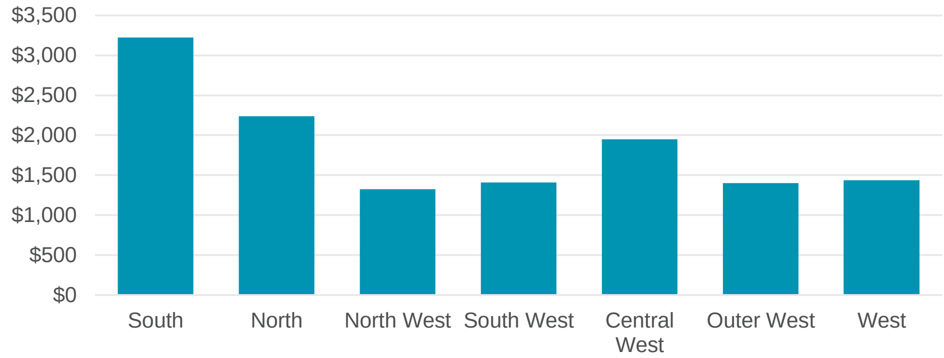
Investment & Yields

Almost $300 million traded in the Sydney market in Q4 2023, taking the 2023 total to approximately $2.2 billion. While investment activity in 2023 was down from the levels recorded in 2021 and 2022, it remains 16% above the post-GFC annual average.

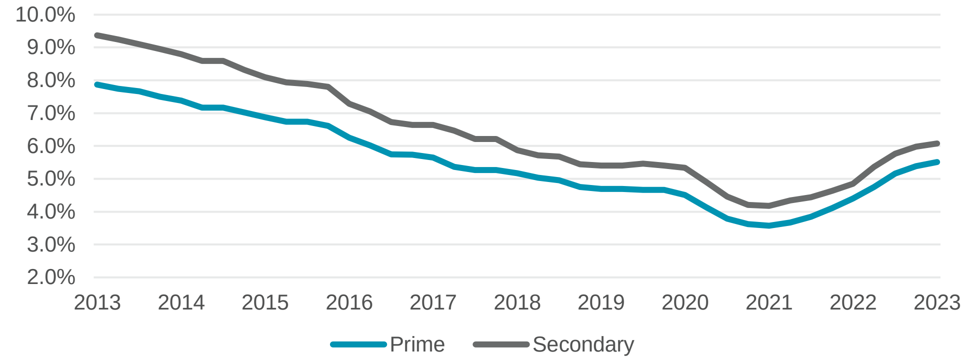
The largest trade in Q4 2023 was Pittwater Industrial acquiring 51 Eastern Creek Drive, Eastern Creek ($87.0 million) from Dexus, while Centuria purchased 19-21 Loyalty Road, North Rocks from Leda Holdings for $70.6 million.

Prime yields softened by a further 12 bps in Q4 2023, taking the average midpoint to 5.51%. Secondary midpoint yields are 6.08%, up 10 bps over the quarter.

SYDNEY L&I LAND VALUES ($/SQM)



SYDNEY L&I YIELDS BY GRADE



Source: Cushman & Wakefield Research

Outlook:

- The **vacancy rate is expected to rise in 2024,** led by supply additions, which will trigger an increase in backfill space availability. However, vacancy rates will remain well below historical averages while a bifurcation in vacancy by grade is likely to occur, and most vacant stock is expected to be compromised secondary space.
- **Leasing activity has moderately softened,** albeit this is off a record-high base. Tenants are taking longer to commit to new space, as the biggest challenge for the year ahead is inventory management.
- **Despite a healthy supply pipeline in 2024,** the market will remain undersupplied, particularly in infill markets, and further growth in rents is expected. By year-end, rental growth is forecast to range from mid to high single digits, depending on the precinct. Incentives are expected to rise further as owners opt to drive face rents.
- With interest rates likely to remain flat over the first half of 2024 and cuts expected thereafter, the current **yield expansion cycle is expected to end in Q2 2024**. The unwinding of book values to current market yields is expected at this point, which will trigger more transactional activity as the bid-ask spread narrows.

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MARKET STATISTICS

Submarket	Net Face Rent ($/sqm p.a.)		Outgoings ($/sqm)	Incentives		Average Yield		Average Capital values ($/sqm)		Land Values ($/sqm)
Prime Grade	**Low**	**High**	**Average**	**Low**	**High**	**Low**	**High**	**Low**	**High**	**1-5 hectares**
Central West	$224	$265	$63	5.0%	10.0%	5.15%	5.75%	$3,899	$5,146	$1,950
Outer West	$228	$263	$47	6.0%	13.0%	5.35%	5.90%	$3,870	$4,922	$1,400
North West	$232	$268	$50	5.6%	10.0%	5.35%	5.90%	$3,932	$5,009	$1,325
South West	$220	$246	$41	5.0%	10.0%	5.15%	5.90%	$3,729	$4,777	$1,408
West	$213	$235	$45	5.0%	12.0%	5.35%	5.90%	$3,602	$4,393	$1,438
North	$253	$307	$62	0.0%	10.0%	5.15%	5.75%	$4,406	$5,955	$2,240
South	$335	$395	$74	5.0%	8.0%	5.00%	5.50%	$6,091	$7,900	$3,225
Prime Average	**$223**	**$255**	**$49**	**5.00%**	**11.0%**	**5.21%**	**5.80%**	**$3,800**	**$4,850**	**$1,500**
Secondary Grade	**Low**	**High**	**Average**	**Low**	**High**	**Low**	**High**	**Low**	**High**	
Central West	$204	$245	$63	5.0%	10.0%	5.85%	6.50%	$3,141	$4,188	
Outer West	$200	$225	$47	6.0%	13.0%	6.00%	6.50%	$3,513	$4,389	
North West	$195	$227	$48	5.0%	8.0%	6.00%	6.50%	$3,282	$4,222	
South West	$200	$226	$41	8.0%	12.0%	5.85%	6.50%	$3,077	$3,863	
West	$176	$195	$45	3.8%	8.0%	5.69%	6.19%	$2,848	$3,429	
North	$200	$250	$62	0.0%	10.0%	5.75%	6.50%	$3,077	$4,348	
South	$300	$360	$74	5.0%	8.0%	5.25%	6.00%	$5,000	$6,857	
Secondary Average	**$195**	**$224**	**$49**	**5.5%**	**10.2%**	**5.77%**	**6.38%**	**$3,150**	**$4,000**	

LUKE CRAWFORD
Head of Logistics & Industrial Research, Australia
+61 421 985 784
luke.crawford@cushwake.com

TOM BARNIER
Director
Joint Head of Brokerage, Logistics & Industrial – South Sydney
+61 499 888 024
tom.barnier@cushwake.com

TONY IULIANO
International Director
Head of Logistics & Industrial, ANZ
+61 412 992 830
tony.iuliano@cushwake.com

CAITLYNE HALABI
Logistics & Industrial Research Analyst, Australia
+61 450 126 006
caitlyne.halabi@cushwake.com

CARL PEARCE
Associate Director
Brokerage Logistics & Industrial – Sydney West
+61 409 483 202
carl.pearce@cushwake.com

DAVID HALL
National Director
Head of Brokerage Logistics & Industrial, ANZ
+61 428 242 410
david.j.hall@cushwake.com