

**196,597** Q1 2024  
Gross Take-up

**5.48%** Average  
Prime Yield

**1.3%** Q1 2024 Prime  
Rental Growth

## ECONOMIC INDICATORS To Q1 2024

	Current	12-Mo. Forecast
GDP Growth (National)*	1.5%	▼
Population Growth†	2.5%	▲
E-commerce Penetration Rate~	13.1%	▲

\*Year-on-year to Dec-23

† Year-on-year to Sept-23

~As at Jan-24

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

## Economic Overview

The Australian economy enters 2024 on a cautious footing following a period of inflationary pressure and subsequent interest rate increases. Australian real GDP growth slowed to 1.5% over 2023 from 2.3% over 2022. Oxford Economics (OE) forecasts that real GDP will continue to slow through Q2, before recovering to end 2024 up 1.6%; a recovery at least partially predicated by the Reserve Bank of Australia pivoting in the second half of the year and beginning to cut interest rates.

OE forecasts New South Wales real gross state product to increase just 0.2% over 2024, before recovering to grow 3.3% in 2025 and 3.7% in 2026.

## Occupier Demand

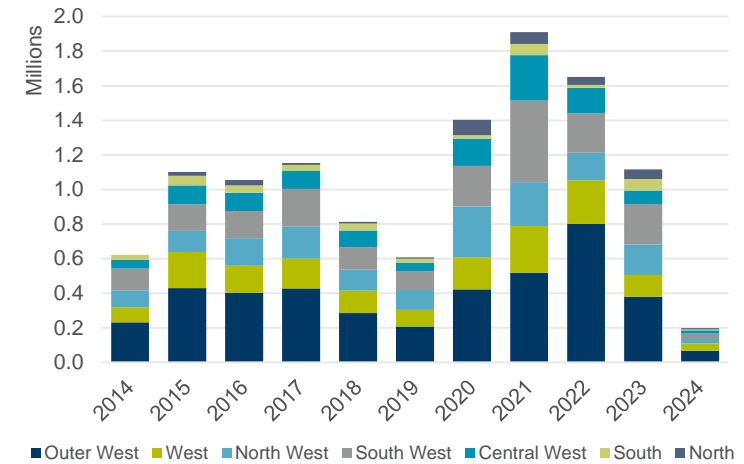
Logistics and Industrial (L&I) demand has remained steady into the first quarter of 2024, with approximately 200,000 sqm leased across the Sydney market in the period. Notably, this follows approximately 1.1 million sqm of gross take-up in 2023.

While enquiry remains healthy, led by the transport and logistics sector, it has fallen from record levels 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.

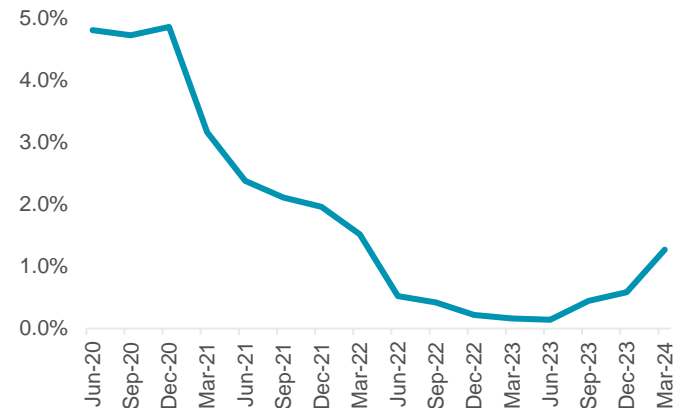
The Outer West and West markets remain the most active, reflecting speculative-driven demand. More broadly, 78% of deals by number were existing facilities, with timing and servicing uncertainty within the Mamre Road Precinct continuing to impact pre-lease activity. South Sydney recorded one deal above 3,000 sqm in the quarter (5,356 sqm at 9 Coal Pier Road, Banksmeadow), while the bulk of deals in this market have been in the 1,000 – 3,000 sqm size bracket.

Major lease deals in Q1 2024 were underpinned by Linfox's 31,000 sqm lease in Kemps Creek, and Weir Minerals' 24,000 sqm warehouse in Eastern Creek.

## SYDNEY L&I GROSS TAKE-UP (SQM)



## SYDNEY L&I VACANCY RATE



Source: Cushman & Wakefield Research

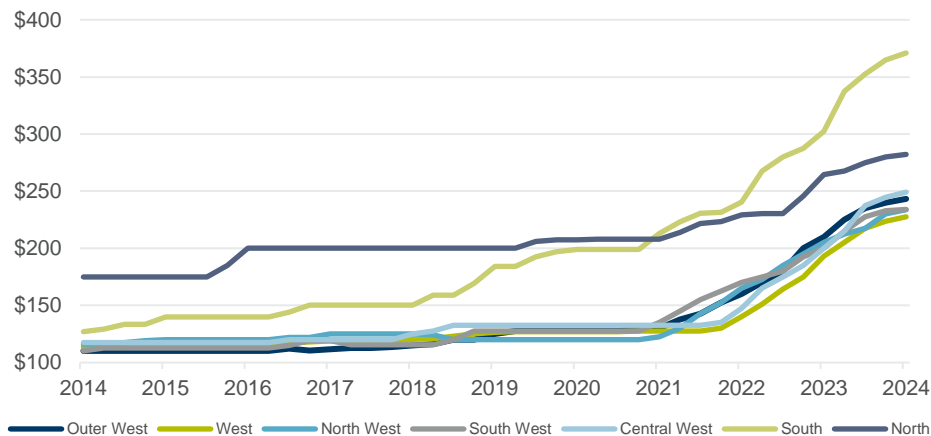
## Vacancy

Sydney's vacancy rate increased in Q1 2024 to 1.3%, up from 0.6% last quarter. Speculative stock additions underpinned the rise, including several units within Brookfield's Villawood estate and facilities within Goodman's Oakdale West estate. Sublease vacancy remains minor at 0.4% and includes 30,000 sqm from TTI at The Yards estate at Kemps Creek. Notwithstanding the rise, vacancy rates remain well below historical averages and below the market equilibrium of 5.0% which will underpin further rental growth in 2024.

## Rents & Incentives

While still elevated by historical standards, the pace of rental growth has continued to slow into the first quarter of 2024. This quarter, L&I prime net face rents increased by 1.3% on average, down from the 5.3% quarterly average recorded since mid-2021. On an annual basis, prime rents have jumped 16.9% across Sydney, led by the infill markets where supply is more constrained. As rent growth and take-up slows from historical highs, owners continue to be aggressive in their efforts to lease space and a modest uptick in incentives has been recorded. Broadly, incentives range between 6.0% and 12.5% across both prime and secondary grades, while pre-commitment incentives are higher at 7.5% to 15%.

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



Source: Cushman & Wakefield Research

## Supply

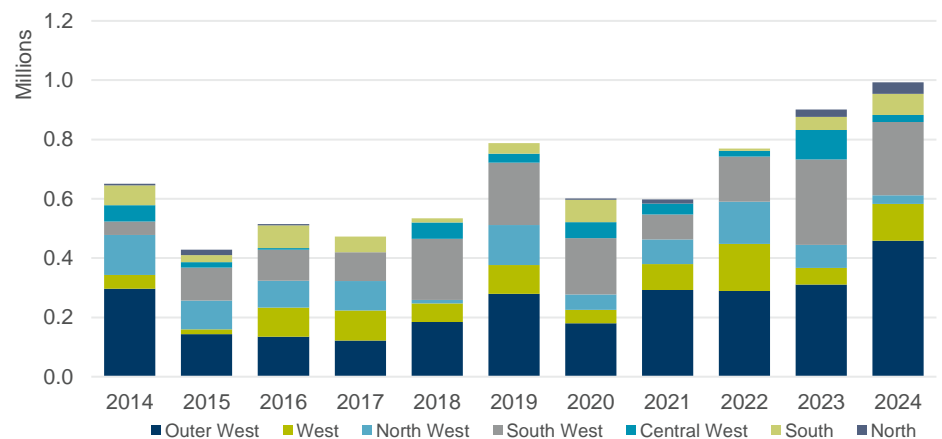
Due to planning and construction delays, the completion of several projects earmarked for delivery in late 2024 have been pushed into 2025. Notwithstanding this, just over 100,000 sqm was completed in Q1 2024, largely on par with the 110,000 sqm delivered in Q4 2023. Major completions include Brookfield's 2 Christina Road, Villawood estate (~69,000 sqm) and multiple speculative facilities within Goodman's Oakdale West estate.

Looking ahead, there is potential for approximately 1 million sqm of new supply to enter the market in 2024, up from ~900,000 sqm in 2022. The Outer West and South West submarkets remain the most active markets, led by facilities within Mirvac's Aspect Industrial Estate in Kemps Creek and LOGOS' project at Moorebank Intermodal.

In terms of speculative supply, the pipeline for 2024 currently exceeds 400,000 sqm and includes 9,905 sqm of cold storage space at the Aliro/ISPT Elevation at Greystanes estate as well as balance space Cabot Properties Portal multi-level estate in South Sydney (42-52 Raymond Avenue, Matraville).

As it stands, the pre-commitment rate for 2024 currently totals 70%, while high construction costs and labour shortages are likely to further delay the delivery of some projects in the pipeline over the next 12 months.

### SYDNEY L&I SUPPLY BY SUBMARKET (SQM)



Source: Cushman & Wakefield Research

## Land Values

Following a period of limited sales, land transaction activity in Sydney increased in Q1 2024, confirming that pricing for land has held steady. These sales include ESR acquiring 8.6 hectares from Digital Realty at Horsley Park for ~\$1,400/sqm, while LOGOS purchased 7.7 hectares from Digital Realty at Erskine Park for ~\$1,250/sqm. Separately, UniSuper and ISPT acquired 280 hectares adjacent to the Western Sydney Airport, with plans to develop a \$3.9 billion logistics estate.

Industrial land values currently average \$1,855/sqm across Sydney (\$1,500/sqm in Western Sydney) for 1-5 hectare lots, largely unchanged over the past 12 months.

## Investment & Yields

There were limited investment transactions in Q1 2024 across Sydney, with just \$64.1 million trading for the period. Multiple assets are, however, currently in due diligence, which should boost overall volumes in Q2 2024. Active capital remains focused on infill markets, given the outperformance of rents, while shorter WALE assets will continue to see strong participation.

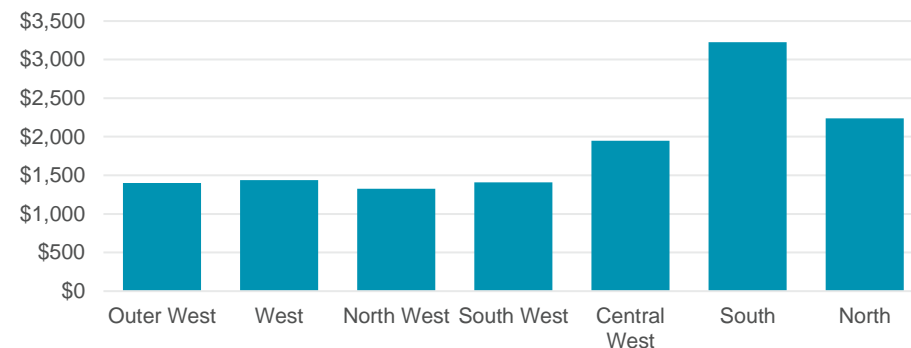
Our Capital Markets 2024 Outlook survey highlighted that Sydney was the preferred city for investment in 2024 by a substantial margin; however, given the prospect for future growth, assets will remain tightly held.

With regards to pricing, for the first time since early 2022, yields across both prime and secondary grades held steady, reflecting the stabilisation of the cash rate. Prime yields currently range between 5.15% and 5.90%, while secondary yields range between 5.75% and 6.50%.

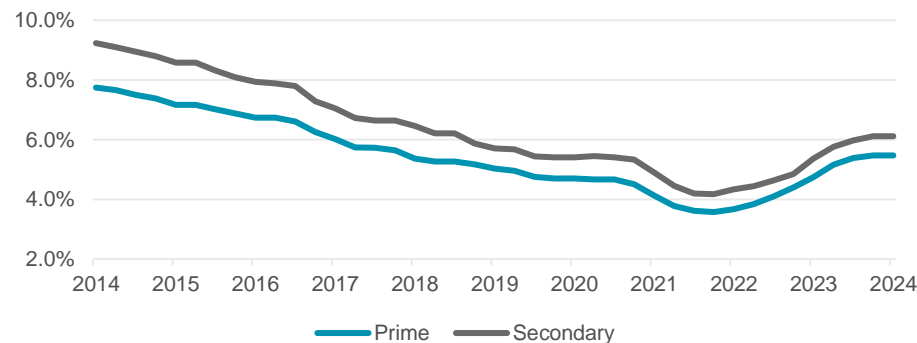
## Outlook:

- The **vacancy rate is expected to rise moderately 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. Enquiry levels remain healthy, underpinned by the transport and logistics sector.

## SYDNEY L&I LAND VALUES Q1 2024 (\$/SQM)



## SYDNEY L&I YIELDS BY GRADE



Source: Cushman & Wakefield Research

- **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 widely viewed to have peaked before rate cuts in late 2024, the **yield expansion cycle has come to an end**. With capital returning to the market and in tandem with falling debt costs, we are anticipating modest levels of yield compression in early 2025.

## MARKET STATISTICS

Submarket	Net Face Rent (\$/sqm p.a.)			Outgoings			Incentive			Average Yield			Average Capital Values (\$/sqm)			Land Values 1-5 hectares
	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average	
Central West	\$228	\$270	\$249	\$53	\$73	\$63	8.0%	12.0%	10.0%	5.15%	5.75%	5.5%	\$3,971	\$5,243	\$4,572	\$1,950
Outer West	\$227	\$260	\$243	\$37	\$57	\$47	8.0%	13.0%	10.5%	5.25%	5.80%	5.5%	\$3,908	\$4,952	\$4,404	\$1,400
North West	\$218	\$249	\$234	\$40	\$60	\$50	8.0%	12.0%	10.0%	5.35%	5.90%	5.6%	\$3,701	\$4,657	\$4,156	\$1,325
South West	\$220	\$248	\$234	\$37	\$51	\$44	8.0%	15.0%	11.5%	5.15%	5.90%	5.5%	\$3,729	\$4,816	\$4,235	\$1,408
West	\$213	\$243	\$240	\$35	\$55	\$45	5.0%	12.0%	8.5%	5.25%	5.80%	5.5%	\$3,664	\$4,619	\$4,344	\$1,438
North	\$258	\$307	\$282	\$52	\$72	\$62	0.0%	10.0%	5.0%	5.15%	5.75%	5.5%	\$4,478	\$5,955	\$5,176	\$2,240
South	\$341	\$401	\$371	\$75	\$97	\$86	8.0%	15.0%	11.5%	5.00%	5.50%	5.3%	\$6,200	\$8,020	\$7,067	\$3,225
<b>Prime Average</b>	<b>\$243</b>	<b>\$282</b>	<b>\$265</b>	<b>\$47</b>	<b>\$66</b>	<b>\$57</b>	<b>6.4%</b>	<b>12.7%</b>	<b>9.6%</b>	<b>5.19%</b>	<b>5.77%</b>	<b>5.48%</b>	<b>\$4,236</b>	<b>\$5,466</b>	<b>\$4,850</b>	<b>\$1,855</b>
Secondary Grade	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average	
Central West	\$208	\$245	\$226	\$53	\$73	\$63	8.0%	12.0%	10.0%	5.85%	6.50%	6.2%	\$3,192	\$4,188	\$3,664	
Outer West	\$200	\$225	\$213	\$38	\$58	\$48	8.0%	12.0%	10.0%	6.00%	6.50%	6.3%	\$3,077	\$3,750	\$3,400	
North West	\$195	\$227	\$211	\$38	\$58	\$48	8.0%	12.0%	10.0%	6.00%	6.50%	6.3%	\$3,000	\$3,778	\$3,373	
South West	\$200	\$228	\$214	\$37	\$51	\$44	8.0%	15.0%	11.5%	5.85%	6.50%	6.2%	\$3,077	\$3,897	\$3,466	
West	\$176	\$195	\$186	\$35	\$55	\$45	3.8%	8.0%	5.9%	6.00%	6.50%	6.3%	\$2,712	\$3,250	\$2,970	
North	\$200	\$250	\$225	\$52	\$72	\$62	0.0%	10.0%	5.0%	5.75%	6.50%	6.1%	\$3,077	\$4,348	\$3,673	
South	\$306	\$366	\$336	\$75	\$97	\$86	8.0%	15.0%	11.5%	5.25%	6.00%	5.6%	\$5,100	\$6,971	\$5,973	
<b>Secondary Average</b>	<b>\$212</b>	<b>\$248</b>	<b>\$230</b>	<b>\$47</b>	<b>\$66</b>	<b>\$56</b>	<b>6.3%</b>	<b>12.0%</b>	<b>9.1%</b>	<b>5.81%</b>	<b>6.43%</b>	<b>6.12%</b>	<b>\$3,319</b>	<b>\$4,312</b>	<b>\$3,789</b>	

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