MARKETBEAT
SYDNEY
LOGISTICS & INDUSTRIAL Q3 2024

MARKET FUNDAMENTALS

	Q3 2024	12-Month Forecast
2.1% Vacancy Rate	▲	▲
5.37% Average Prime Yield	—	▼
2.0% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YoY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
0.2% (New South Wales) State Final Demand Growth	▼	▲
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1% in the year to June 2024. Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Forecasts for New South Wales's gross state product remain modest for 2024, forecast to increase 0.6% for the year, before recovering to grow 3.5% in 2025 and 2026.

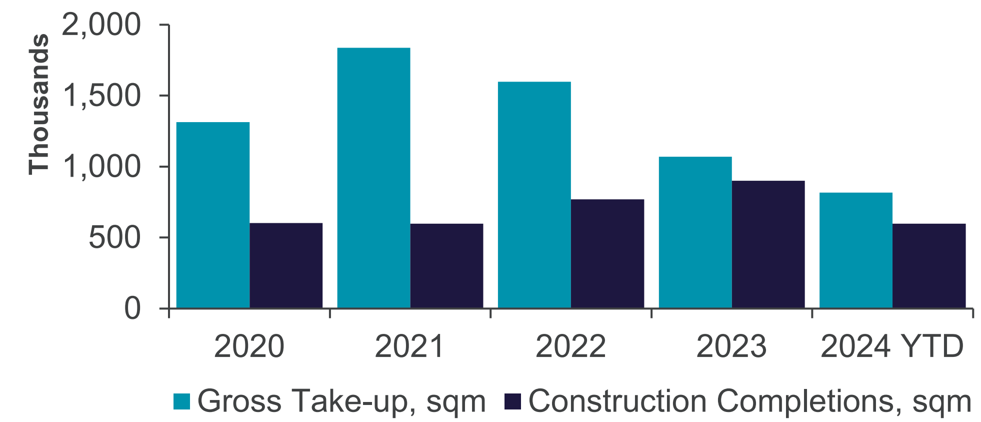
DEMAND

Following a subdued H1 2024, Sydney has seen a substantial increase in take-up levels in Q3 2024. Almost 350,000 sqm was leased during the quarter (deals above 3,000 sqm), taking the year-to-date total to approximately 810,000 sqm. Notably, this represents the highest quarterly total since mid-2023; however, notwithstanding this, enquiry continues to normalise for the peak level in recent years and reflects broader consumer headwinds.

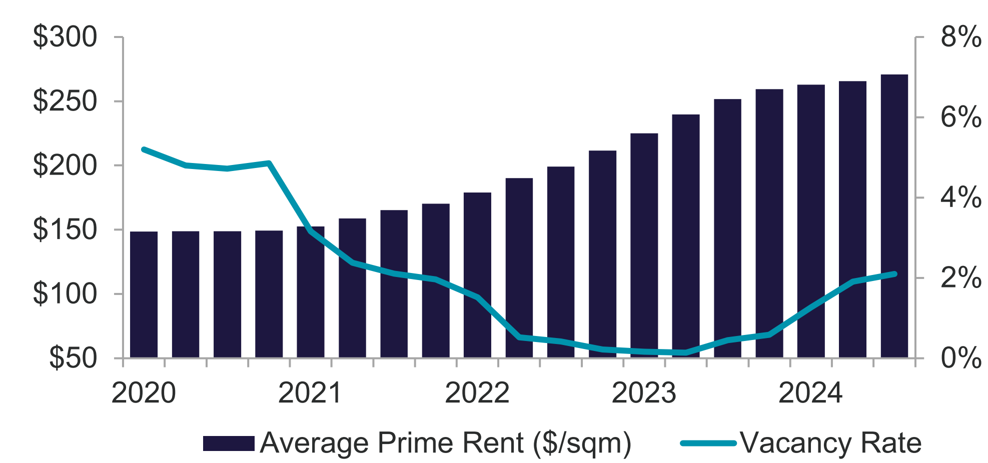
The average deal size in Q3 2024 was 10,346 sqm, down from an average of 12,670 in Q2 2024. However, 71% of deals by number were in the 3,000 – 10,000 sqm bracket, which remains the most liquid part of the leasing market. The Outer West and South West submarkets remain the most active markets, accounting for almost 70% of total space leased during the quarter.

After being second to retail trade last quarter, demand in Q3 2024 was led by the transport and logistics sector, accounting for 45% of deals by GLA and included deals to Fab Logistics and FDM. Other notable deals include PIP ANZ (formerly Bisley Workwear Australia), leasing 15,815 sqm within The Yards estate at Kemps Creek.

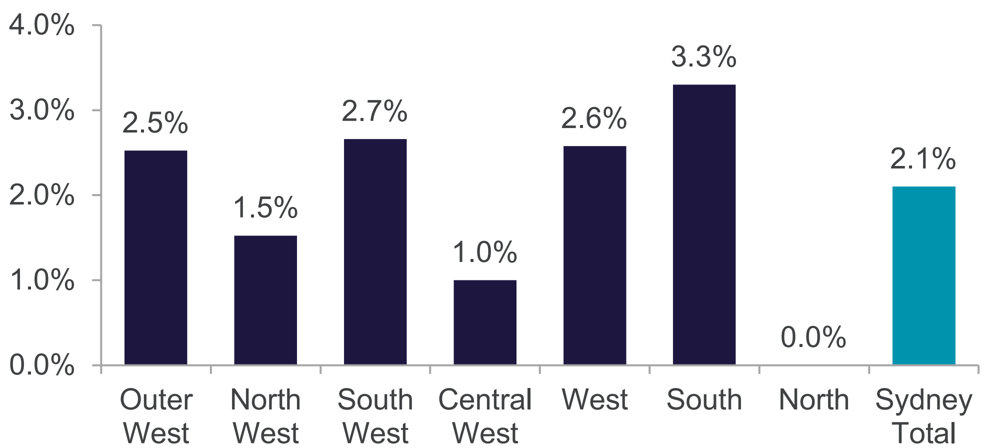
SPACE DEMAND / DELIVERIES



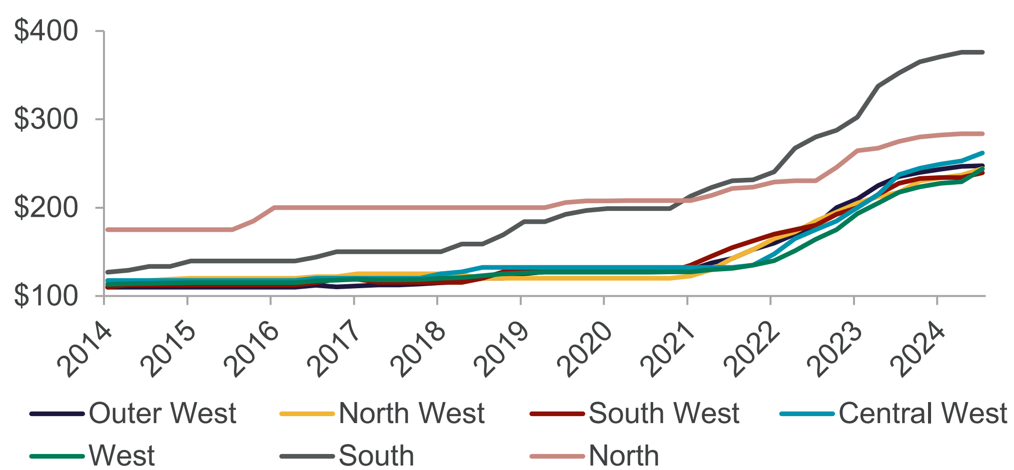
VACANCY & AVERAGE PRIME RENTS



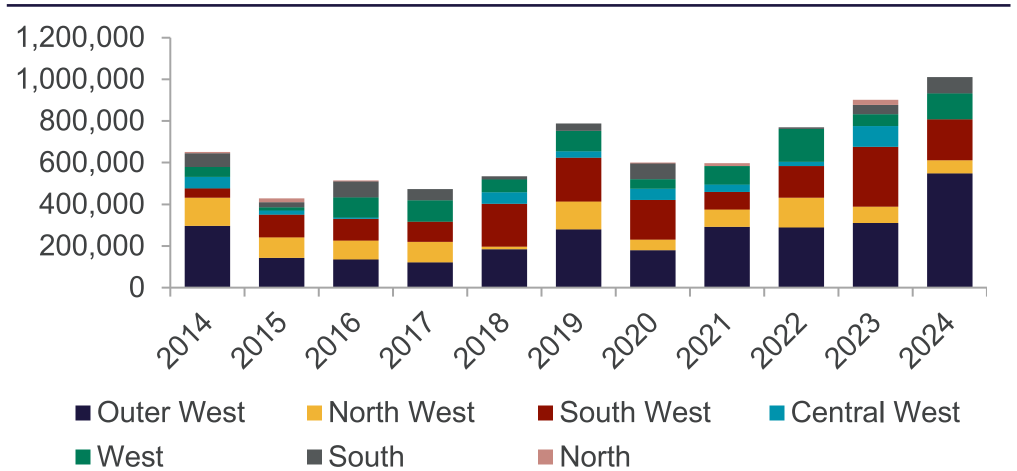
Q3 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Sydney's vacancy rate has seen a slight increase in Q3 2024 and currently sits at 2.1% across the city, up from 1.9% in the quarter prior. While several vacancies from Q2 2024 have since been leased, including QUBE's sublease space at the Moorebank Intermodal, this was offset by additions in the West and South submarkets. Sublease vacancy currently represents 33.5% of Sydney's total vacant floorspace and includes options from TTI, Winnings and Hello Fresh.

RENTS & INCENTIVES

Unlike 2022 and 2023, rental growth remains more varied by submarket and precinct across Sydney, with local dynamics playing a greater role in influencing rental growth. Despite vacancy rates moving higher, rental growth has continued to occur, with prime rents growing by 2.0% in Q3 2024, taking the year-to-date 2024 growth rate to 4.4%. Growth rates in infill markets remain more pronounced at 6.1% year-to-date, compared to 3.9% for non-infill markets over the same period.

Owners continue to be more aggressive in their efforts to mitigate vacancies, and a further uptick in incentives has been recorded over the past quarter. However, the level of incentive on offer can vary widely depending on the landlord and submarket. Broadly, incentives range between 10.0% and 15.0%, while select pre-commitment incentives have been closer to 20.0%

SUPPLY

In Q3 2024, approximately 177,861 sqm of new space was delivered to the Sydney market, including Winning Appliances and B-Dynamic's new facilities within Mirvac's Aspect Industrial Estate in Kemps Creek. Another notable addition was Cabot's multi-level warehouse at Matraville (19,461 sqm), and is just the second multi-level warehouse development to be completed in Australia. This takes the year-to-date supply total for 2024 to nearly 600,000 sqm.

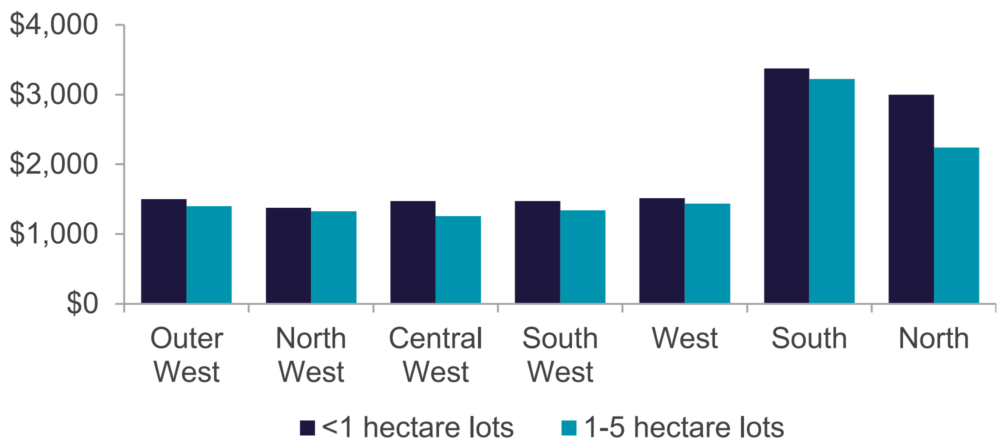
For Q4 2024, there is approximately 412,000 sqm of space in the pipeline, with 86% of this already pre-committed. If these developments are delivered on time, Q4 2024 will represent the largest quarterly supply total recorded in Sydney. Projects due for completion include Toll's 65,000 sqm facility within ESR's Westlink Industry Park at Kemps Creek.

As it stands, the supply pipeline for 2025 is projected to be approximately 1.0 million sqm, with 25% of this space already pre-committed. However, it is likely some of this will be paused or delayed.

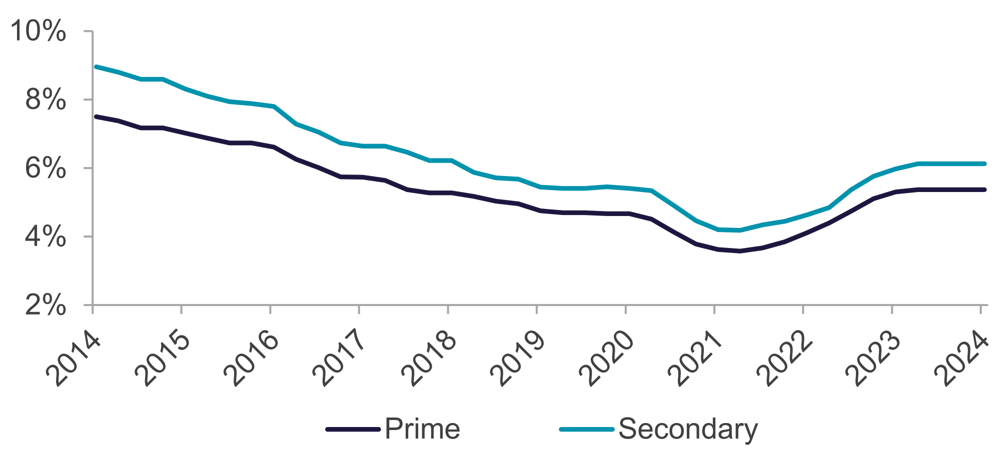
OUTLOOK

- Leasing demand is expected to remain patchy for the balance of 2024 as weaker consumer spending impacts the expansion plans of some occupiers. However, there are greenshoots emerging in the economy that will support an improvement in demand in 2025. Even in the current climate, enquiry levels remain healthy; however, occupiers are taking longer to commit to space.
- The vacancy rate is expected to rise further over the next six months, approaching 3.0% by mid-2025. While this is off the record lows recorded in recent years, it remains well below the long-term average.
- Rental growth in the order of 5.0% is expected over the next 12 months; however, effective growth in some markets is likely to be flat as incentives rise further.
- Supply beyond 2024 remains challenged by elevated construction costs and developer capital constraints. As a result, it is likely that a substantial share will be delayed and pushed into 2026 and 2027.

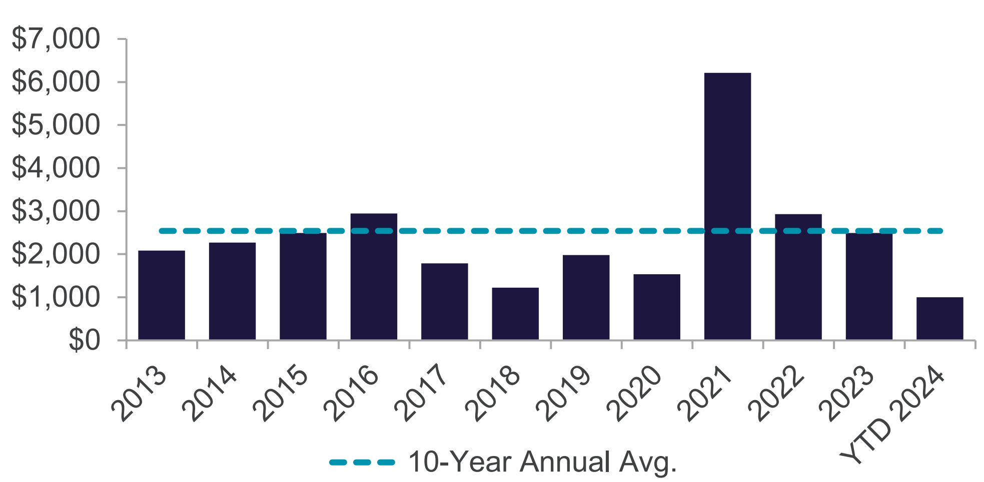
Q3 2024 LAND VALUES BY SIZE BRACKET ($/SQM)



YIELDS BY GRADE



SYDNEY INVESTMENT VOLUME ($M)



LAND VALUES

The appetite for industrial land remains strong, led by a mix of owner-occupier (including data centres) and developer demand. So far in 2024, almost $1.8 billion in land transactions have been recorded, while there are multiple other sites currently in due diligence.

From a growth perspective, land values have held steady, averaging $1,855/sqm across Sydney ($1,500/sqm in Western Sydney) for 1-5 hectare lots. South Sydney remains the highest at $3,225/sqm.

YIELDS

Recent deal evidence has continued to support the stabilisation of yields, albeit book values unwound further for REITs during the most recent reporting season. Initial yields for the assets that traded over the quarter averaged sub 5.00%, while core market yields were closer to 5.50% - 6.00%. As per our basket, prime core market yields range between 5.15% and 5.90%, while secondary core market yields range between 5.75% and 6.50%.

INVESTMENT

Given the foreign owner land tax changes in Melbourne, Sydney is the preferred city for investment by most investors; however, stock remains tightly held which has limited transaction volumes.

In Q3 2024, approximately $240 million traded (investment sales above $10 million), taking the 2024 year-to-date total to approximately $1.0 billion. Two major trades underpinned volumes over the past quarter and included the acquisition of Kookaburra Industrial Estate at Prestons for $115.0 million (ISPT to a private). While it reflected a sharp initial yield of 4.07%, it was bought below replacement cost, with the sale reflecting $3,418/sqm. The other major trade was Gateway Capital acquiring 2-34 Davidson Street, Chullora from Fife Capital for $115.0 million.

OUTLOOK

- Sydney remains a highly land-constrained market, which will maintain pressure on land values over the medium to long term. This has been highlighted over the past two years, with values holding steady despite softening yields.
- Over the short term, potential rate cuts and moderating bond yields highlight the value upside for capital markets. In our view, the L&I yield decompression cycle has ended and follows approximately 180 basis points of yield expansion in Brisbane since early 2022.
- Our base case is for the RBA to begin the rate easing cycle in H1 2025, which, in tandem with falling government bond yields (~3.50% 10-year yield by Q4 2025) and greater market participation, is forecast to drive yield compression from mid to late 2025.
- Improved investor sentiment is expected to result in a pick-up in investment activity in 2025, underpinned by favourable sector fundamentals and the ability to drive asset performance through continued income growth.

Q3 2024 SYDNEY MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	TAKE-UP (TOTAL MARKET SQM)	AVERAGE NET FACE RENT ($/SQM P.A.)	AVERAGE OUTGOINGS ($/SQM P.A.)	AVERAGE INCENTIVES	AVERAGE YIELDS	AVERAGE CAPITAL VALUES ($/SQM P.A.)	AVERAGE LAND VALUES (1-5ha, $/SQM P.A.)
PRIME								
Central West	1.0%	43,850	$262	$65	12.5%	5.45%	$4,809	$1,950
Outer West	2.5%	104,176	$248	$48	12.5%	5.53%	$4,480	$1,400
North West	1.5%	26,894	$244	$50	12.5%	5.63%	$5,009	$1,325
South West	2.7%	104,524	$240	$55	12.5%	5.53%	$4,335	$1,408
West	2.6%	46,894	$244	$48	11.0%	5.53%	$4,412	$1,521
North	0.0%	0	$284	$66	5.0%	5.45%	$5,206	$2,240
South	3.3%	22,728	$376	$87	11.5%	5.25%	$7,162	$3,225
PRIME AVERAGE	**2.1%**	**348,697**	**$271**	**$60**	**11.1%**	**5.37%**	**$5,059**	**$1,867**
SECONDARY								
Central West	-	-	$234	$65	10.0%	6.18%	$3,792	-
Outer West	-	-	$220	$50	10.0%	6.25%	$3,520	-
North West	-	-	$212	$48	10.0%	6.25%	$3,387	-
South West	-	-	$218	$55	12.5%	6.18%	$3,530	-
West	-	-	$208	$48	6.5%	6.25%	$3,320	-
North	-	-	$225	$62	5.0%	6.13%	$3,673	-
South	-	-	$343	$92	12.5%	5.63%	$6,098	-
SECONDARY AVERAGE			**$237**	**$60**	**9.5%**	**6.12%**	**$3,903**	**-**

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