MARKETBEAT
SYDNEY
LOGISTICS & INDUSTRIAL Q4 2024

MARKET FUNDAMENTALS

	YOY Chg	Outlook
2.5% Vacancy Rate	▲	▲
5.48% Average Prime Yield	—	▼
0.1% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YOY Chg	Outlook
0.8% National GDP Growth	▼	▼
0.4% State Final Demand Growth	▼	▲
3.9% National Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

Real GDP growth released for Q3 2024 is at 0.3%, taking the year-on-year growth rate to 0.8% as cost-of-living pressures continue to impact consumer consumption levels. As a result, the RBA has held the cash rate at 4.35% throughout 2024 to ease heightened underlying inflation. Net overseas migration has reached historic highs through mid-year, helping offset productivity challenges by stimulating economic activity.

Forecasts for New South Wales's gross state product remained modest through 2024, forecast to increase by just 0.4%, while a pick-up to 2.1% is anticipated in 2025.

DEMAND

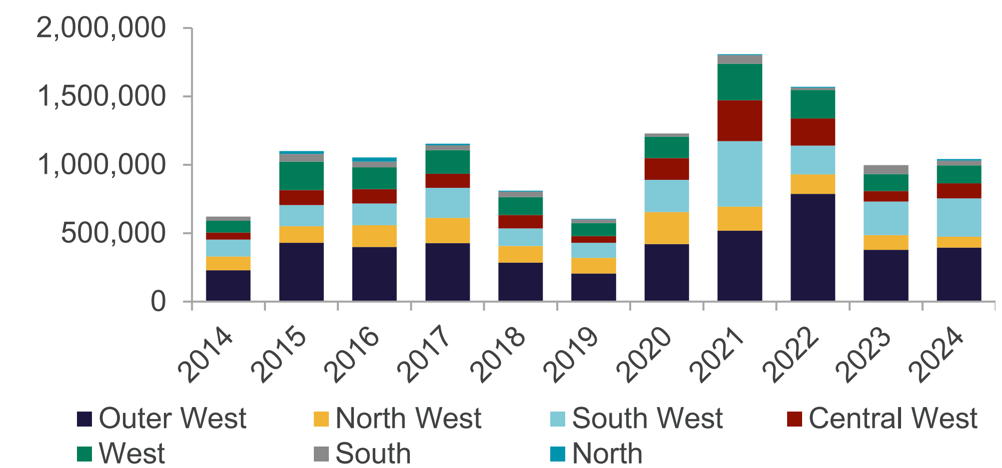
Sydney remained a dynamic market in 2024; however, some normality returned after three years of unprecedented growth as occupiers grappled with softer economic conditions. Notwithstanding this, take-up levels for 2024 exceeded one million sqm with almost 240,000 sqm being leased in Q4 2024.

While this level of take-up is below the 2020-2023 annual average of 1.4 million sqm, it remains 31% above the pre-pandemic average as demand has been reset higher, given structural tailwinds.

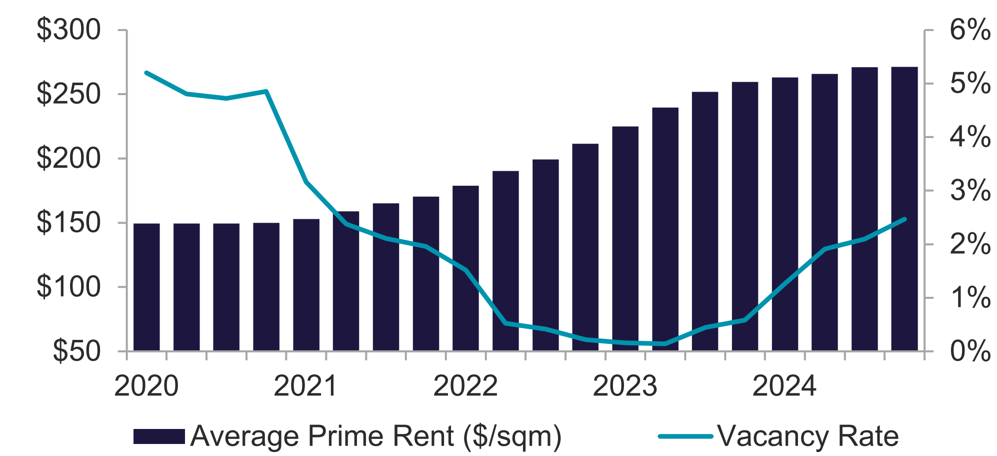
The average deal size in Q4 2024 was 8,206 sqm, with 71% of deals by number falling within the 3,000 – 10,000 sqm bracket, which remains the most liquid part of the leasing market. The Outer West and South West submarkets remain the most active markets, collectively accounting for almost 63% of total space leased during the quarter.

Demand in Q4 2024 was led by the manufacturing sector, closely followed by the transport and logistics sector, accounting for 34% and 32% of space leased, respectively. Major lease deals include 7 Coronation Avenue, Kings Park to a national manufacturer, while Gildan Brands leased 11,074 sqm at Goodman's Oakdale West estate.

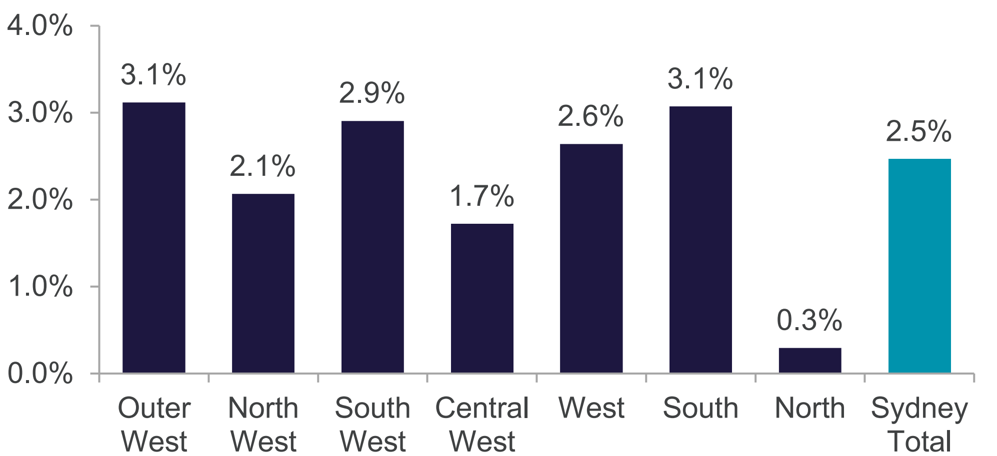
GROSS TAKE-UP (SQM)



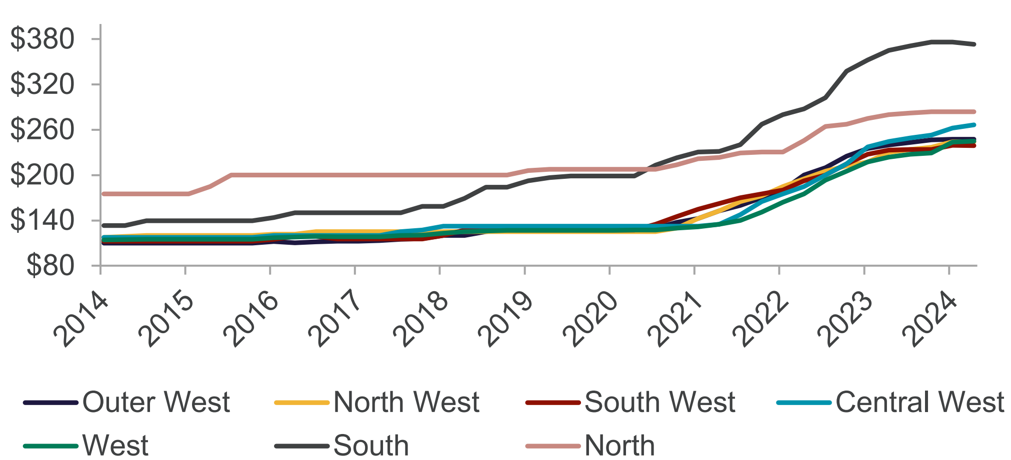
VACANCY & AVERAGE PRIME RENTS



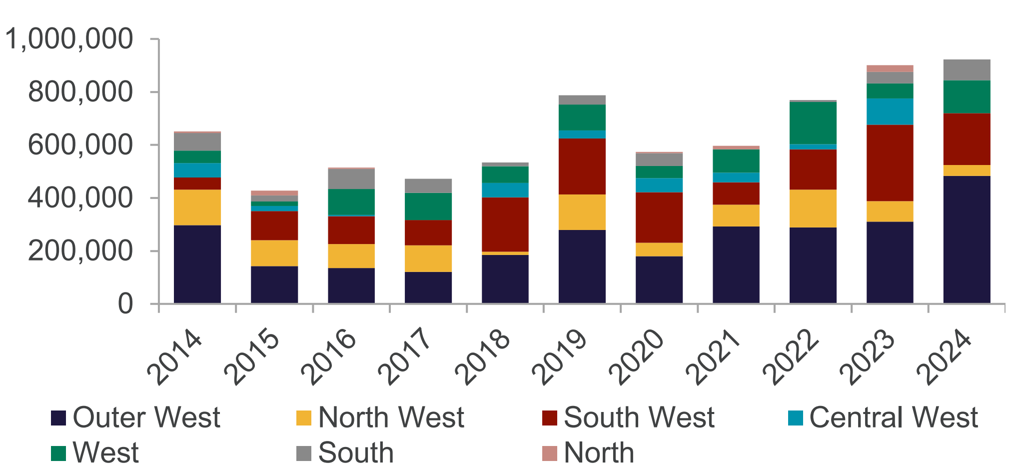
Q4 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Sydney's vacancy rate increased to 2.5% in Q4 2024, up from 2.1% in the prior quarter and stems from a combination of speculative supply additions and several backfill leasing opportunities becoming available. Sublease availability has continued to reduce, falling 7.0% over the quarter; however, it still represents almost 25% of Sydney's total vacant floorspace and includes options in the Outer West, North West and South West.

By size bracket, vacancy rates have become more balanced across size brackets and following the leasing of some larger options, the 20,000 sqm + bracket is now the tightest at 1.4%.

RENTS & INCENTIVES

Rental growth has continued to diverge across precincts as local dynamics around supply play a greater role in influencing rental growth. On average, prime rents remained largely unchanged in Q4 2024 across Sydney, reducing the annual growth rate to around 5.0%.

However, land constrained markets such as the Central West and West recorded annual growth rates in excess of 9.0%, whereas growth in the Outer West and South West where supply is primarily concentrated have recorded growth rates closer to 3.0% for the year.

Institutional landlords continue to be 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

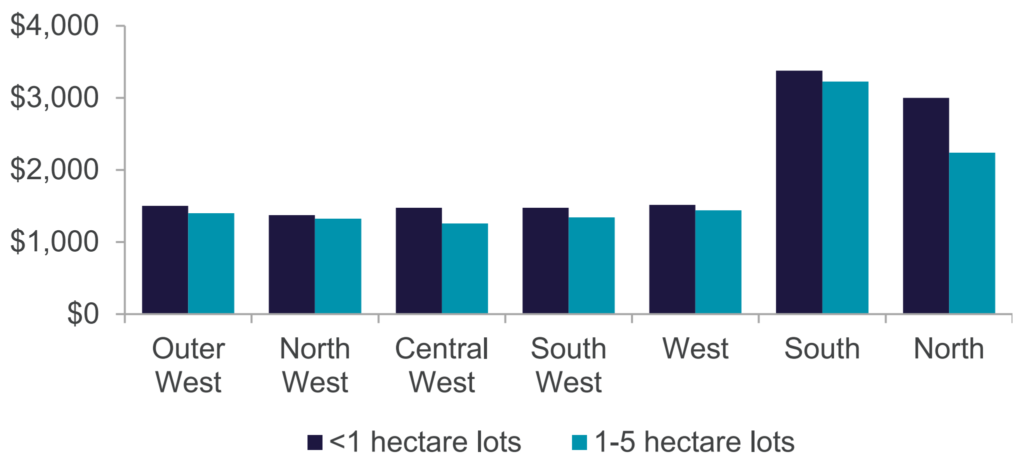
New additions to the market picked up pace in Q4 2024 with approximately 325,000 sqm delivered in the quarter, taking the annual total to just over 920,000 sqm. Major additions in Q4 2024 included DHL's new facility within the Momentum Industrial Estate at Horsley Park (31,720 sqm) and Bevchain's new distribution centre at the Oakdale West estate at Kemps Creek.

For 2025, approximately 300,000 sqm of supply has been pushed or delayed into 2026 as several projects have been put on hold, with the pipeline now standing at almost 950,000 sqm. Supply is forecast to be most pronounced within the Outer West and South West submarkets, collectively accounting for 83% of new additions for the year. Pre-commitment levels currently average 52%, while they are lower in the South West at approximately 20%.

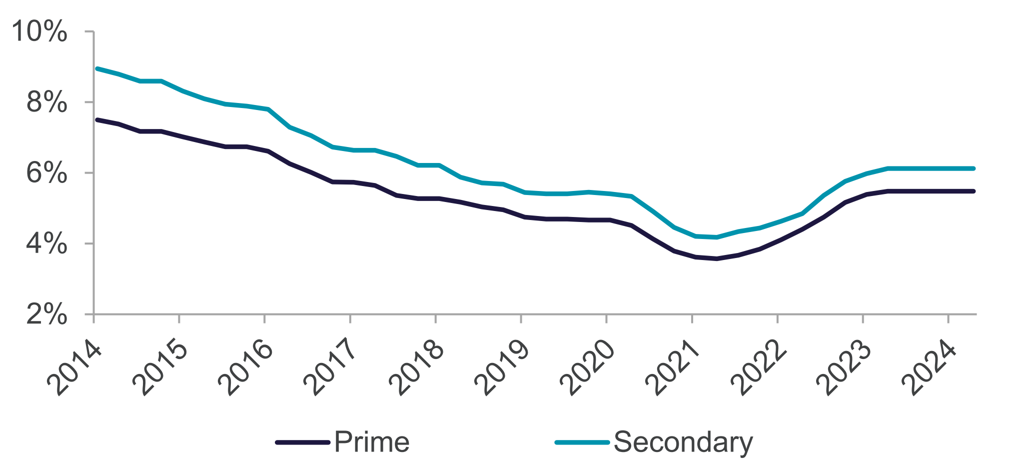
OUTLOOK

- Leasing demand is expected to remain patchy in the first half of 2025 as weaker consumer spending impacts the expansion plans of some occupiers. Similarly, with a Federal election expected in either April or May, consumers will remain cautious as they have in previous election years.
- Stronger economic growth in 2025 will provide support to leasing demand across a range of sectors.
- The vacancy rate is expected to rise further over the next six months, averaging between 3.0%-3.5% 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 4.3% is expected over the next 12 months; however, select markets are forecast to record growth in excess of 5.0%.
- Supply for 2025 remains challenged by elevated construction costs and developer capital constraints. This is expected to result in multiple projects proceeding as pre-lease options rather than speculative.

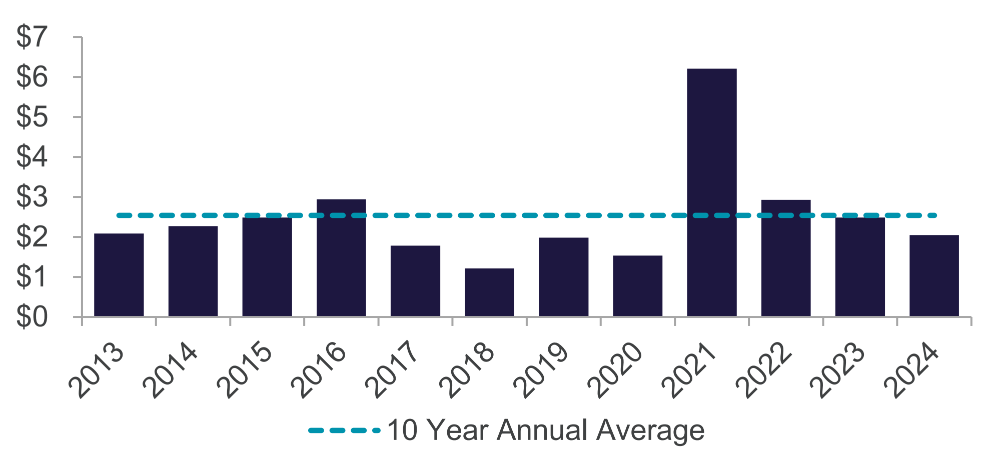
Q4 2024 LAND VALUES BY SIZE ($/SQM)



YIELDS BY GRADE



INVESTMENT VOLUMES ($B)



LAND VALUES

The appetite for industrial land remains strong, led by a mix of owner-occupier (including data centres) and developer demand. For 2024, over $2.1 billion in land transactions was recorded, including Next DC's recent purchase of 25.8 hectares of land in Eastern Creek for $353.0 million.

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, holding firm throughout 2024. 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 Q4 2024, approximately $230 million traded (investment sales above $10 million), taking the 2024 year-to-date total to over $2.0 billion. Volumes in the quarter were underpinned by the Growthpoint Australia Logistics Partnership with TPG Angelo Gordon, which included two Sydney assets. Beyond this, there are several other assets currently in due diligence which will trade in Q1 2025.

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 Sydney 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.

Q4 2024 SYDNEY MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	Q4 2024 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								
Outer West	3.1%	76,796	$248	$51	15.0%	5.53%	$4,480	$1,400
North West	2.1%	22,973	$244	$54	12.5%	5.63%	$4,341	$1,325
South West	2.9%	71,957	$239	$55	12.5%	5.53%	$4,326	$1,408
Central West	1.7%	15,262	$267	$65	13.5%	5.45%	$4,893	$1,950
West	2.6%	50,976	$245	$54	11.0%	5.53%	$4,434	$1,521
North	0.3%	0	$284	$66	8.5%	5.45%	$5,206	$2,240
South	3.1%	0	$373	$87	11.5%	5.25%	$7,105	$3,225
PRIME AVERAGE	**2.5%**	**237,964**	**$292**	**$68**	**10.3%**	**5.42%**	**$5,410**	**$2,234**
SECONDARY								
Outer West	-	-	$220	$53	13.5%	6.25%	$3,520	-
North West	-	-	$212	$48	12.5%	6.25%	$3,387	-
South West	-	-	$218	$55	12.5%	6.18%	$3,530	-
Central West	-	-	$234	$65	13.5%	6.18%	$3,792	-
West	-	-	$208	$48	11.0%	6.25%	$3,320	-
North	-	-	$225	$62	8.5%	6.13%	$3,673	-
South	-	-	$337	$87	12.5%	5.63%	$5,982	-
SECONDARY AVERAGE			**$251**	**$66**	**10.5%**	**6.04%**	**$4,192**	**-**

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