

FIGURES | INDUSTRIAL & LOGISTICS | Q3 2024

# Further rental growth recorded across the Sydney market

1.1%

NSW annual population growth FY24-33<sup>1</sup>

▲ c.312,000 sqm

New industrial supply 3Q24

▲ c.206,000 sqm

Gross take-up 3Q24

▼ 5.5%

Super prime midpoint yield

Note: Arrows indicate change from previous quarter.

## Key Points

- Gross take-up increased compared to 2Q24, totalling circa 206,000 sqm over 3Q24. The Retail Trade sector dominated total floorspace leased (44%).
- Average vacancy rate has risen, however remains relatively low at 2.0% (as at 1H24).
- Development completions increased over the quarter, with 312,000 sqm of new floorspace added to the market.
- Rental growth increased over the quarter with super prime net face rents increasing by 1.9%. The y-o-y growth rate stands at 7.3% (average super prime grade assets). Incentives across all asset grades continue to rise.
- Average land values for all lot sizes have decreased with 'infill' precincts showing the most resilience on a y-o-y basis.
- A total of AUD 268 million of investment sales has been recorded in 3Q24, across 9 transactions (for sales ≥ AUD 5 million).
- Super prime and prime midpoint yields stand at 5.5% and 5.6%, respectively.

1. Deloitte Access Economics.  
Source: CBRE Research Q3 2024

## Demand

### Leasing activity sees uplift over 3Q24

Gross take-up over the quarter totalled c.206,000 sqm, which was significantly higher than what has been recorded over the past three consecutive quarters (averaging 79,000 sqm per quarter). Greater activity over 3Q24 was mainly attributed to pre-lease deals.

Pre-lease transactions made-up 46% of total floorspace leased over the quarter - this compares to just over a third recorded in 2Q24. Given greater stock becoming available in the market, coupled with new projects reaching completion, we expect the share of pre-lease transactions to remain relatively elevated throughout 2024 and 2025 due to the wave of new development supply entering the market.

The wave of new supply expected has provided tenants with optionality, with some occupiers opting to look for space that are located within the Western precincts for cheaper rents or increased functionality and scale.

Notable lease transactions in 3Q24:

- An existing warehouse leased by CTDI in Outer North West
- A pre-lease by Amazon in the Outer North West
- A sub-lease by CEVA Logistics in the Outer South West

The concentration of lease transactions over the quarter occurred within the Outer North West precinct, accounting for 62% of total take-up (by floorspace), followed by the Outer South West (21%).

Despite the increase in take-up levels over 3Q24, we forecast that take-up levels for CY2024 will fall below the 10-year annual average of c.920,000 sqm.

### Retail Trade occupiers overtakes Transport, Postal and Warehousing in dominance of floorspace leased over the quarter

The concentration of floorspace leased in 3Q24 shifted to Retail Trade occupiers (44%), overtaking the Transport, Postal and Warehousing sector (32%).

FIGURE 1: Sydney gross take-up 2014-2024YTD, by precinct

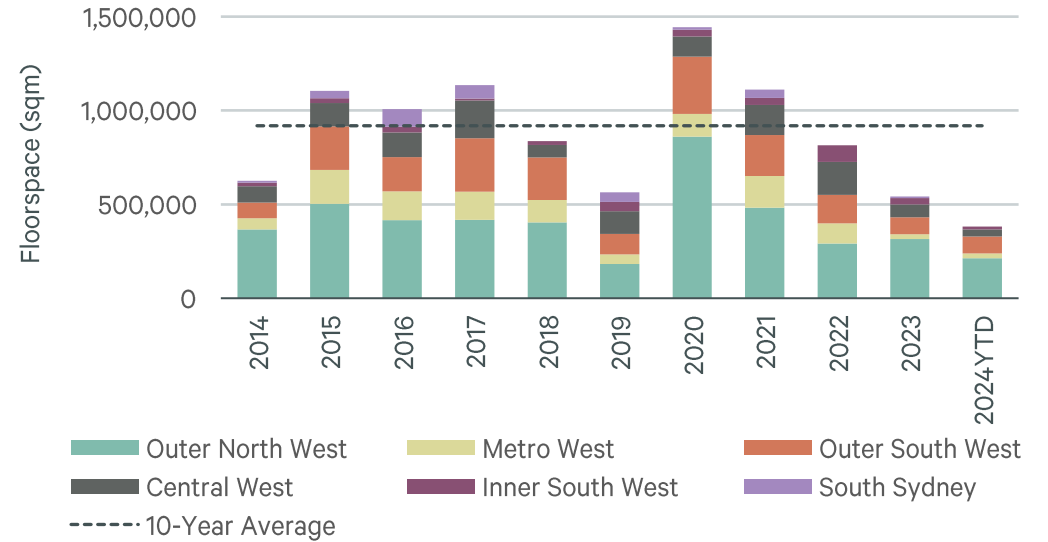
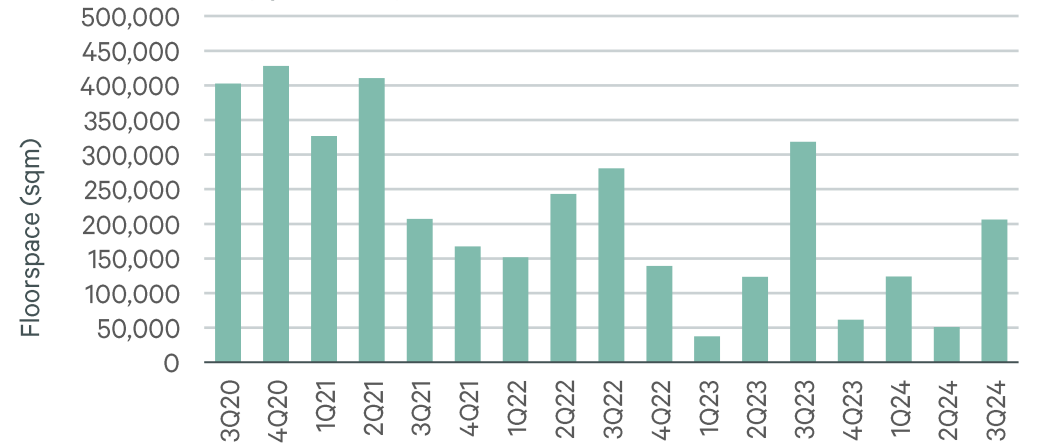


FIGURE 2: Sydney quarterly gross take-up, 3Q21-3Q24



To note: Reflects leasing transactions >5,000 sqm.  
Source: CBRE Research Q3 2024

# Supply

## Despite higher supply in 2025, 40% is pre-committed

New floorspace added to the market over the quarter totalled c.312,000 sqm, this is above the 2023 quarterly average of c.257,000 sqm. The CY2024 supply pipeline is expected to total c.1,133,000 sqm, which is almost double the 10 year long-run average (c. 602,000 sqm). The current pre-commitment rate for the 4Q24 pipeline is 52%.

Major projects that reached practical completion in 3Q24 included Connect Estate, 2 Christina Roda, in Villawood (69,150 sqm), Woolworths National Distribution Centre (44,900 sqm) and Woolworths Regional Distribution Centre (34,600 sqm), both at the Moorebank Intermodal Precinct.

More than half a million sqm of space is expected to be added to the market in the next quarter. Major projects set for completion in the upcoming quarter include:

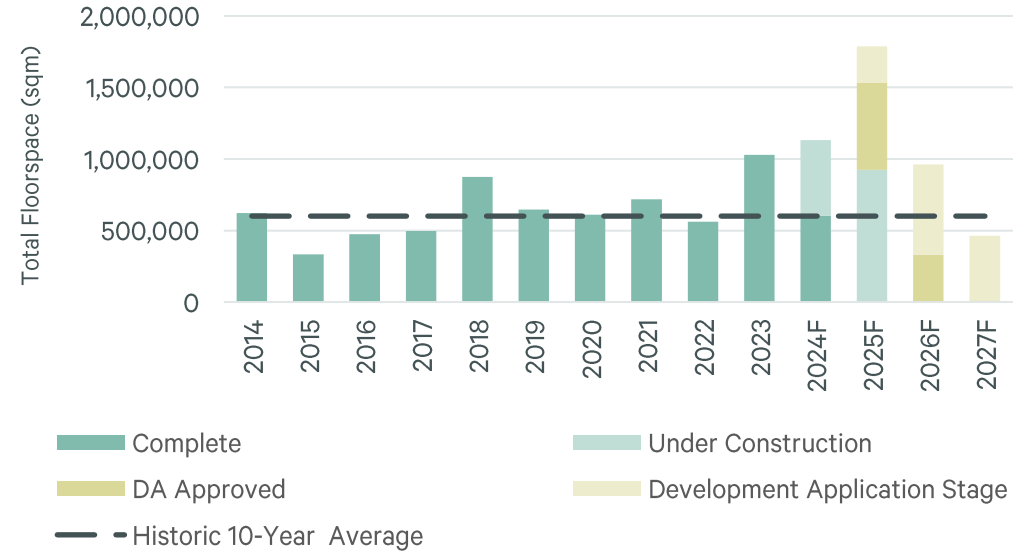
- Sydney Business Park Lot 4, Lot 5 & Lot 36, Hollingsworth Road, Marsden Park (c.97,700 sqm)
- Burley Road Industrial Complex Lot 20, 224-398 Burley Road, Horsley Park (c.35,812 sqm)
- Oakdale West Estate, Warehouse 4E, 2 Aldington Road, Kemps Creek (c.35,000 sqm).

The 2025 pipeline is anticipated to reach almost 1.8 million sqm, marking a record high. Yet, nearly half of this space, is still in the DA stage. Given the ongoing challenges of elevated construction costs and market instability, we expect delays, pushing much of the development into 2026 or beyond.

48% of the total supply in 2025 is either DA approved or in the DA stage. Assuming only one third of projects that are DA approved or in the DA stage go ahead, this will mean the total supply in 2025 could sit around c.1,211,000 sqm. Further to this the pre-commitment rate stands at close to 40% for the 2025 pipeline.

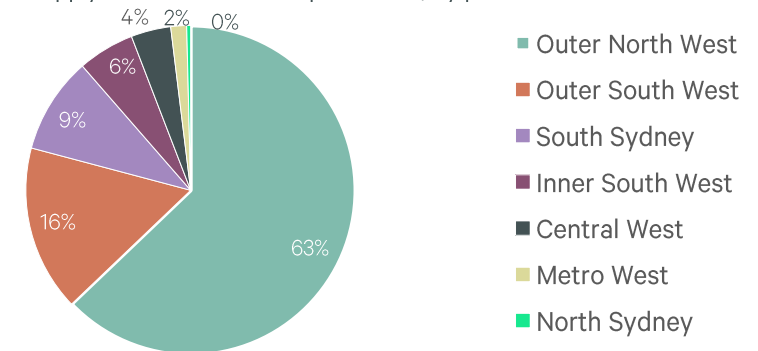
The Outer North West precinct is forecast to account for c. 63% of all new developments between 2024 and 2026.

FIGURE 3: Sydney development supply pipeline 2014-2027F



To note: Reflects new projects >5,000 sqm.  
Source: CBRE Research Q3 2024

FIGURE 4: Development supply 2024F-2026F floorspace share, by precinct



To note: Reflects new projects >5,000 sqm.  
Source: CBRE Research Q3 2024

## Leasing Market

### Rental growth increases marginally over the quarter

Sydney average super prime and prime rents increased by 1.9% and 3.0% (q-o-q), respectively. On a year-on-year basis, super prime average net face rents increased by 7.3%, and prime and secondary rents grew by 7.1% and 4.6%, respectively.

Super prime rents in the Outer North West precinct recorded the strongest quarterly growth, rising by 7.0% (q-o-q). This growth is primarily attributed to an increasing number of occupiers moving further from higher priced in-fill locations. Despite the rise in rents, incentives remained stable within the precinct over the quarter.

Despite the average vacancy rate in Sydney increasing to 2.0% (as at 1H24), new developments continue to be readily absorbed by tenants looking for scale and functionality. Positive rental growth is still expected in the short to medium-term for some precincts, albeit at a decreasing rate, as occupiers have limited options to attain the floorspace and fit out that suits their needs.

Net effective rents rose slightly across all asset grades even though incentives increased during 3Q24 due to relatively higher face rent growth. Average incentives for super prime, prime, and secondary grades grew by 1.3 percentage points, now averaging 13.9%, 15.1%, and 15.5%, respectively. There are signs of growing pressure on both institutional and private landlords to attract and secure occupiers, as more options become available in the market. Developers are responding to rising vacancy rates by offering enhanced incentives for new projects, aiming to secure pre-lease agreements before completion. We expect these incentives to continue rising in 2024 and 2025 as additional space, including new developments and potentially sub-leases, becomes available and market conditions soften.

Despite expectations that vacancy levels will increase throughout the year, leading to subdued rent growth for the remainder of 2024, strong pre-lease rates and capped supply are likely to keep vacancy levels below 4% for the Sydney market in 2H24.

FIGURE 5: Average Sydney Net Face Rent Growth y-o-y, by Asset Grade (2014-2024)

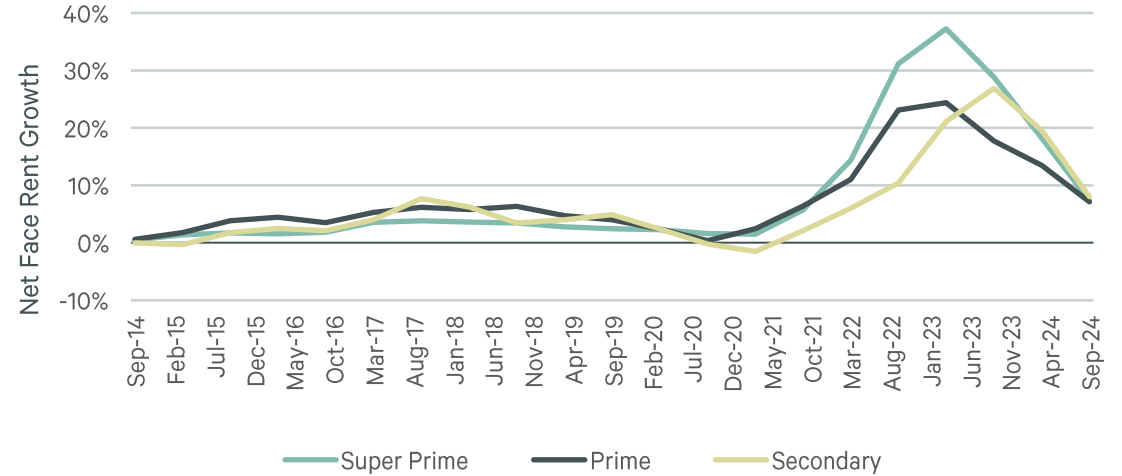
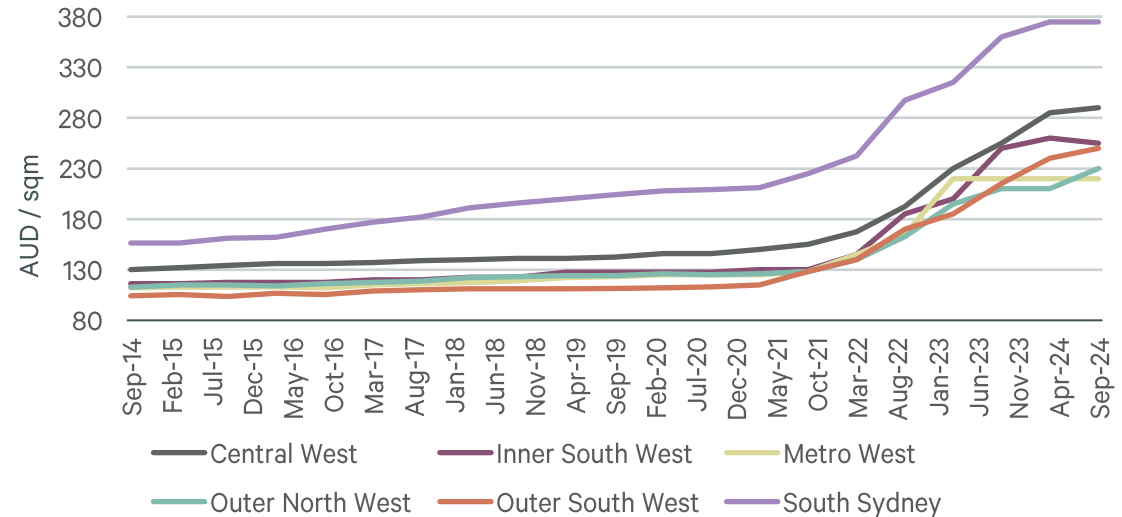


FIGURE 6: Average Super Prime Net Face Rents, by Precinct (2014-2024)



Source: CBRE Research Q3 2024

## Land Values

### Land values have once again stabilised over the quarter

Demand for all lot sizes of industrial zoned land in Sydney decreased on a y-o-y basis. The largest decline was recorded for smaller 0.25 ha lots, decreasing -2.2%. A marginal decline in land values for 1.6 ha and 3-5 ha lot sizes was also recorded of -1.7% and -2.0%, respectively.

Increased capital costs and uncertainty about interest rate trends discourage institutional investment in industrial land in the short term, as higher borrowing costs make financing projects more expensive and reduce potential returns. Additionally, elevated capital costs strain cash flow, limiting investors ability to develop new projects. However, this trend is expected to be temporary, as interest rates are likely to start to decrease, potentially making industrial land investments more attractive again.

Despite land values over the quarter increasing marginally by 0.3% for 0.25 ha lot sizes. Land values for 1.6 ha and 3-5 ha lot sizes remained the same. The slowdown can be attributed to a decline in developer interest in new land projects, primarily driven by elevated construction costs and increasing land taxes. This stabilisation of land values has mirrored the trend observed in 2Q24.

Average land values for 0.25 ha lots recorded moderate growth of 1.7% in the Outer South West and 1.1% in the North Shore q-o-q, while other precincts remained flat. Currently, land values in the Outer South West average AUD 1,475/sqm for these lots, which is 46% below the Sydney average. The combination of relatively affordable land rates in this area and a higher share of developed stock along with a critical mass of industrial activity has historically resulted in increased land sales.

In recent years, North Sydney and Metro West have shown strong stability in land values. This resilience is mainly due to the limited amount of available developable land in these 'infill' areas. Virtually no developable land in these areas has also meant land values have been significantly higher - more than double the average of the Outer Western precincts. Land value appreciation in infill areas are expected to be the strongest, compared to the rest of the market, over the medium to long-run.

Source: CBRE Research Q3 2024

FIGURE 7: Average Land Values (0.25 ha lots), by precinct (3Q23 vs. 3Q24)



FIGURE 8: Average Land Values (1.6 ha lots), by precinct (3Q23 vs. 3Q24)



Source: CBRE Research Q3 2024

## Investment Market

### Investment sales volumes remain subdued in 3Q24

A total of AUD 268 million of investment sales was recorded in 3Q24 across 9 transactions (for sales ≥ AUD 5 million). The largest investment transaction was Kookaburra Estate, Prestons acquired for AUD 115 million. Other notable transactions include assets located at 91 Kurrajong Avenue, Mount Druitt acquired for AUD 50 million and 275 Kurrajong Road, Prestons for 40 AUD million.

Investment sales activity in 3Q24 was significantly lower than the AUD 770 million quarterly average in 2023. However, we expect sales to increase over the next 12-18 months as interest rates are expected to decrease, making financing more accessible.

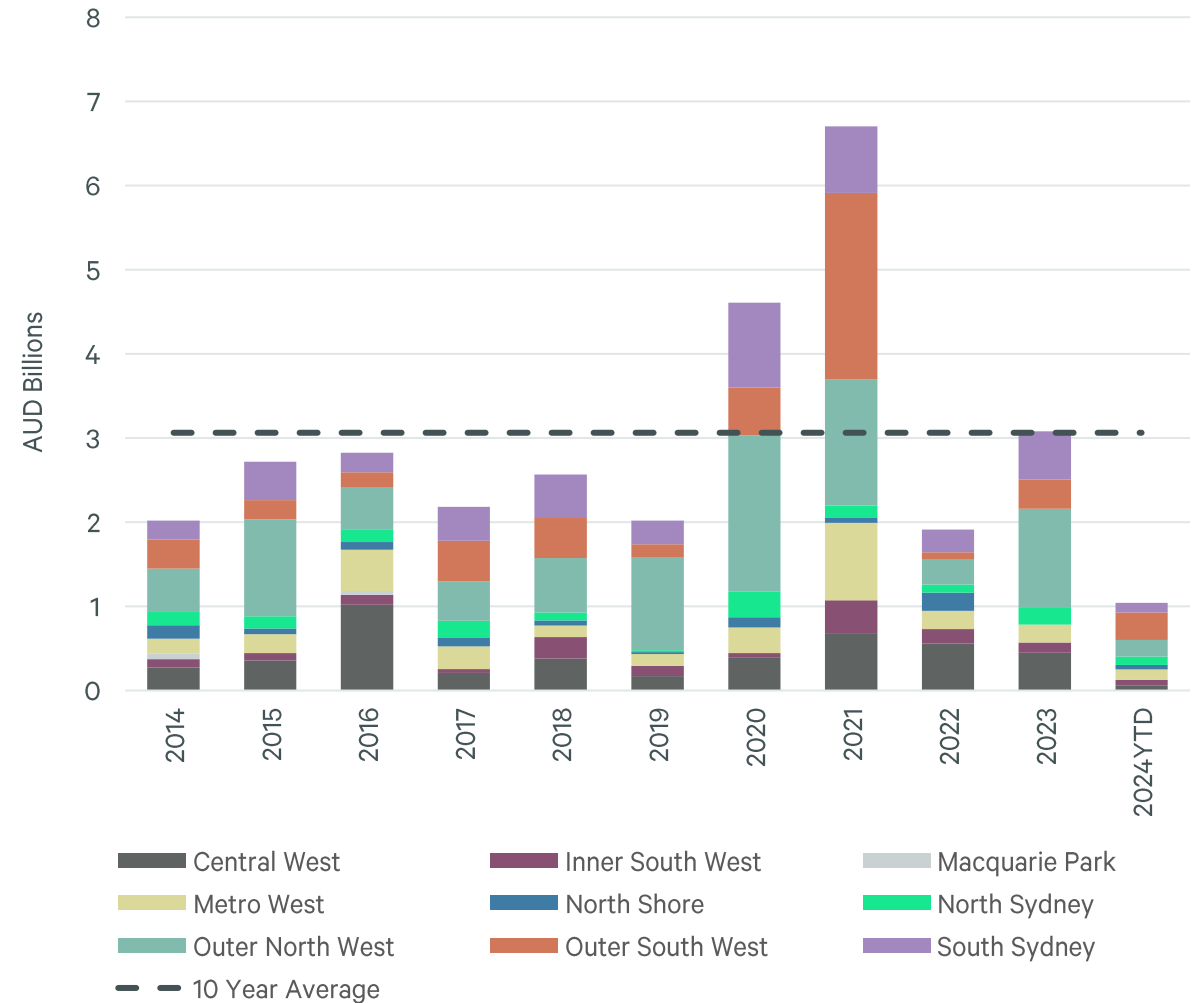
Midpoint yields across all asset grades and precincts tightened by 12.5 basis points during the quarter, with super prime and prime grade assets now yielding 5.46% and 5.63%, respectively. This yield contraction is primarily driven by recent market trends showing a shift in yield spreads between Victoria and New South Wales. Foreign investment in Victoria remains relatively low due to the introduction of an absentee owner surcharge and land tax, which have contributed to the growing disparity in yields between the two states.

FIGURE 9: Midpoint Yields 3Q20-3Q24, by Precinct



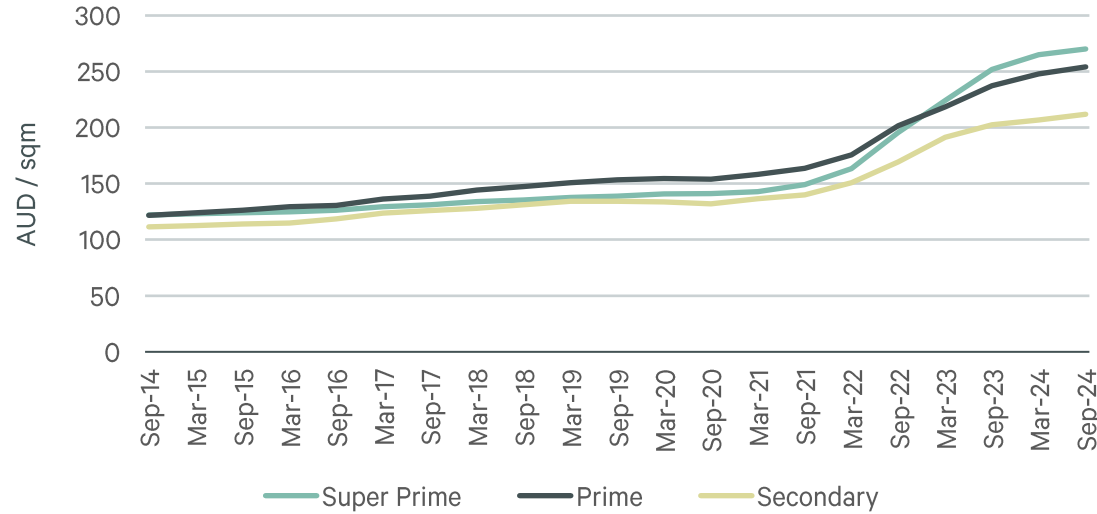
Source: CBRE Research Q3 2024

FIGURE 10: Sydney Industrial Investment Sales (greater than AUD 5 million)



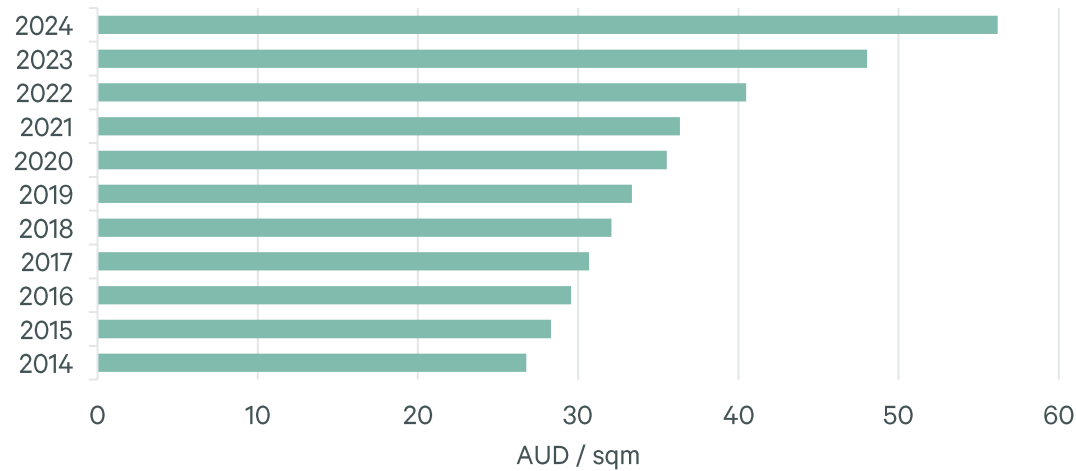
To note: Does not include land/development sales.  
Source: CBRE Research Q3 2024.

FIGURE 11: Average Sydney Net Face Rents, by Asset Grade (2014-2024)



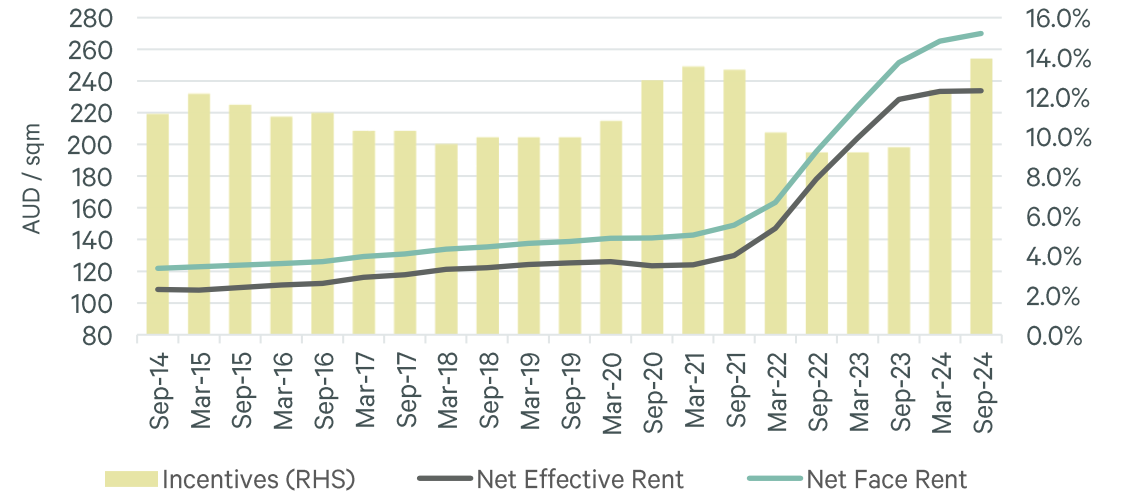
Source: CBRE Research Q3 2024

FIGURE 12: Average Sydney Historical Outgoings, 2014-2024 (excludes Strata and Hi-Tech)



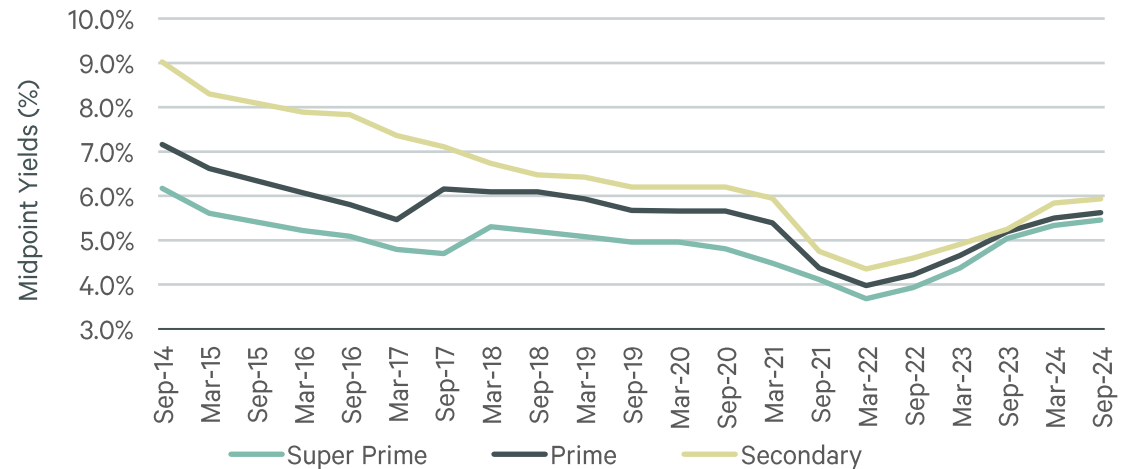
Source: CBRE Research Q3 2024

FIGURE 13: Average Sydney Super Prime Rents and Incentives (2014-2024)



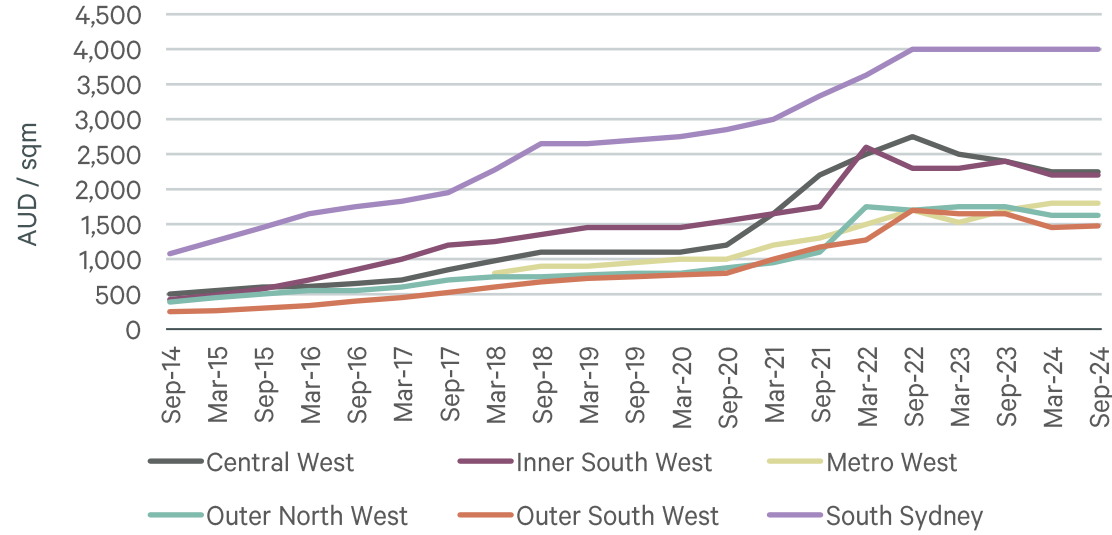
Source: CBRE Research Q3 2024

FIGURE 14: Midpoint Sydney Yields, by asset grade (2014-2024)



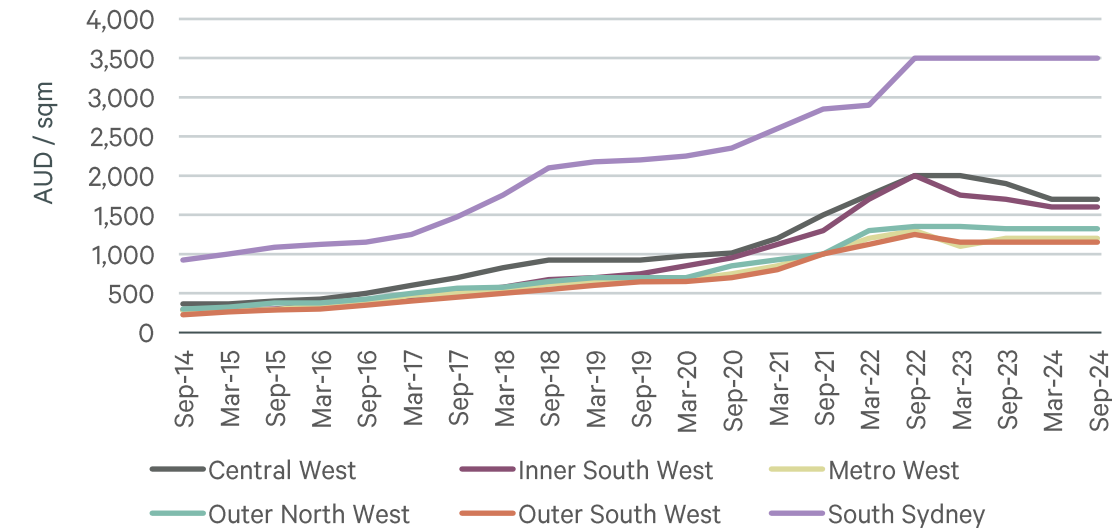
Source: CBRE Research Q3 2024

FIGURE 15: Average Land Values (0.25 ha lots), by Precinct (2014-2024)



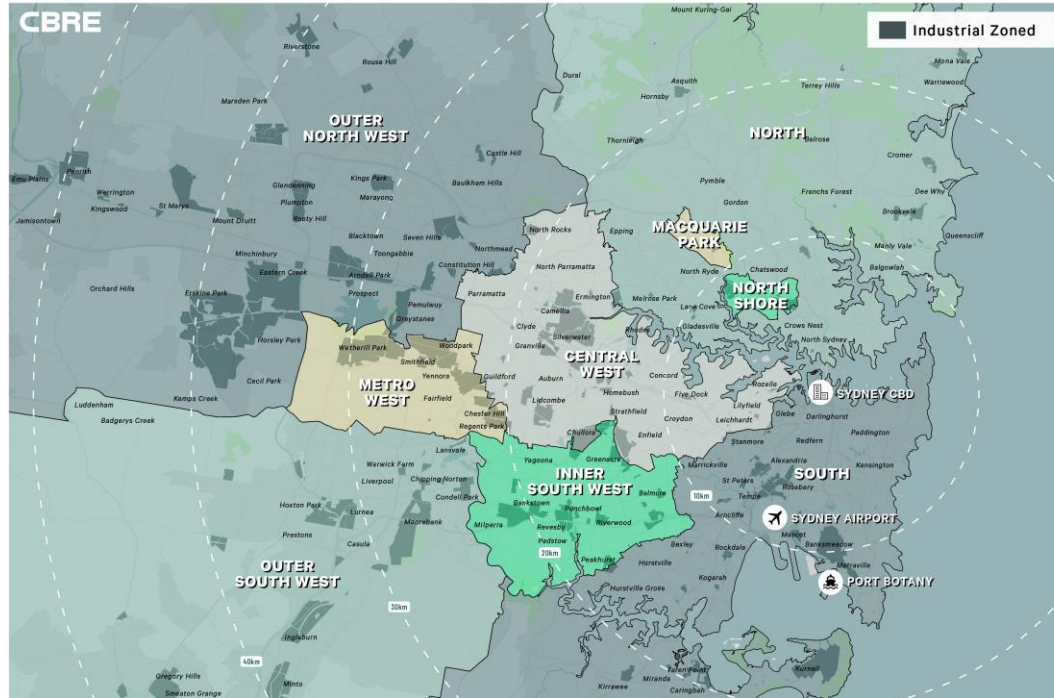
Source: CBRE Research Q3 2024

FIGURE 16: Average Land Values (1.6 ha lots), by Precinct (2014-2024)



Source: CBRE Research Q3 2024

## Market Area Overview



### Definitions

#### Super Prime:

Less than 6 years old, height clearance between 13.7m and 14.6m. Buildings showcasing design excellence with combination of ESFR sprinklers and docks / on-grade doors, as well as strong truck articulation for loading/unloading.

#### Prime:

Generally, between 6 and 15 years old, height clearance over 10m and up to 13.7m.

#### Secondary:

Buildings that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

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