

DELIVERY
24/7



SYDNEY INDUSTRIAL

MARKET OVERVIEW FEBRUARY 2020

HIGHLIGHTS

Investors continue to increase exposure to the industrial / logistics sector, via both opportunistic and investment acquisitions, resulting in a three year high for transaction volumes, recording \$2.17 billion.

Growth in e-commerce and the ongoing evolution of the supply-chain has aided 2019 leasing take up volumes, reaching almost 1.1 million sqm, a 20% increase on 2018 levels.

Industrial development continues to reach record levels buoyed by ongoing demand from logistics and retail trade sectors. A decade high c.677,000sqm was delivered in 2019, with this anticipated to be eclipsed by end of 2020.

MARKET DRIVERS



Population Growth

Aust: 1.5% NSW 1.4%
Jun 19 (YoY)



Economic Growth

Aust: 1.4% NSW: 1.9%
FY2019 FY2019



Retail Trade

Aust: 2.9% NSW: 1.8%
Nov 19 (YoY, trend)



Exports

Aust: 14.6% NSW: 1.9%
Nov 19 (YoY)



Sydney Supply (sq m)

462,084 677,206
10 Yr Avg v 2019 (Gross)



KATY DEAN
Associate Director



MARCO MASCITELLI
Senior Analyst

ECONOMY & DEMAND

The industrial property sector is becoming one of the most sought after asset-classes, a sentiment strongly reflected in the wave of fresh capital from REITs and privates are seeking to deploy.

Market responds to logistics and e-commerce growth

The level of investment in the sector and leasing take-up of industrial floor space, relative to the previous three years, is trending above its average. The trend suggests that as a sector, industrial property has solid fundamentals that are benefiting from growth in e-commerce and the ongoing evolution of the supply-chain.

Low rates aid investment

Although consumer spending remains constrained by weak growth in household income, borrowing rates for businesses and households are at historically low levels. At a state level, the economic growth rate has slowed following several years of above-average growth. On the upside, government investment in infrastructure together with ongoing warehouse demand, primarily from logistics and retail, is continuing to stimulate private investment in new development and reaffirm the confidence levels for opportunities in the sector moving forward.

Confidence plays out in development pipeline

Industrial development remains at high-levels, led by speculative (spec) and pre-commitment projects, as confidence for leasing demand fundamentals over the longer-term continues to be buoyed by

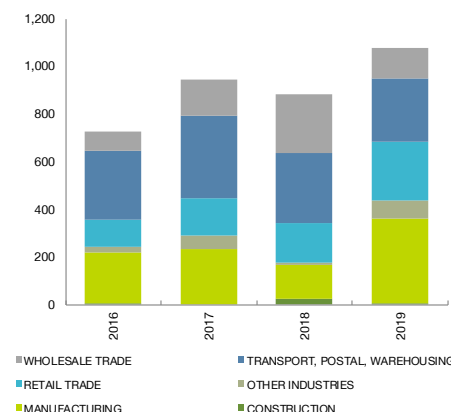
growth in the e-commerce sector and occupier need to implement greater supply-chain efficiencies. The surge in capital raisings recently has certainly been a strong indicator of this long-term confidence, with many REITs strengthening their balance sheet to fund acquisitions and significantly expand their future development pipeline.

Take-up remains strong

Almost 1.1 million sq m of industrial leasing volumes were recorded for 2019. This represents an increase of 20% on 2018, suggesting that demand fundamentals are positive despite slowing growth and ongoing low inflation levels.

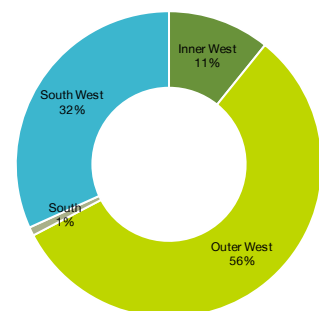
There was a notable upswing in pre-commitment leasing in the second half of 2019 which buoyed overall leasing volumes, particularly from manufacturing and retail/wholesale trade industries. In contrast, there was greater share of leasing take-up of speculative (spec) buildings by the transport, warehouse and logistics segment, most likely due to increasing demand from 3PL for contract space. While the trend supports the view that there is real demand for new industrial product with a growing emphasis on building design and warehouse specifications, it also highlights the differential between industry for the type of product needed.

FIGURE 1
Sydney Industrial take-up
'000sq m, by Business Sector



Source: Knight Frank Research

FIGURE 2
Sydney Industrial take-up
By Region, 2018-2019



Source: Knight Frank Research

VACANCY & RENTS

Vacancy remains well below historical average

Distributors, logistics operators and retailers are at the forefront of the e-commerce expansion and have been the catalyst for the below-average availability levels. As at January 2020, vacant stock totalled 483,178 sq m, 16% below the long term average. Whilst below the long term average, this is the highest level of availability since early 2017 due to the speculative development boom in 2018. Approximately 57,779 sq m of this speculative stock is currently being marketed for lease.

Vacancy levels are concentrated in the Outer West precinct, accounting for 44% of total vacant stock, followed by the South West (31%), Inner West (16%) and South Sydney (9%). The largest proportion of vacant stock in the Outer West is due to the concentration of new gross supply in the precinct. In terms of quality of stock, prime space dominates, accounting for 85% of all available space.

Robust development activity set to continue

Industrial development continues to reach record levels buoyed by ongoing demand from logistics and retail trade sectors. In 2019, c.677,000 sq m of new industrial stock was delivered, surpassing 2018, which recorded 643,000 sq m. The highest concentration of activity was in the Outer West and South West precincts; together accounting for over 90% of the total. Rising allocations from both offshore and domestic REITs to the industrial sector is

set to drive industrial development in the coming years on the back of strong take-up levels and high occupancy rates being reported by REITs.

Late last year the Charter Hall Prime Industrial Fund raised \$725 million in equity, which was oversubscribed from domestic and offshore investors, emphasising the strong confidence for the sector. Additionally, Dexus raised \$645 million in 2019 to activate new industrial developments.

Developer confidence is expected to continue throughout 2020 with over 760,000 sq m of new supply anticipated to be delivered by the end of the year. The boost in development will assist in closing the gap in demand from logistics occupiers trying to keep up with the growing e-commerce trade.

Prime Rents & Incentives

	\$121/sq m	
Outer West	2.3% YoY	↗
	11.8% incentive	
	\$112/sq m	
South West	2.7% YoY	↗
	13% incentive	

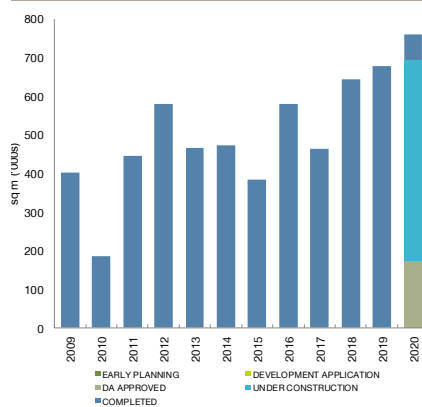
Source: Knight Frank Research

Positive rental growth

Across all precincts the overall prime net face rent has risen by 2.1% YoY to \$153/sq m as at January 2020, slightly below the 10 year average of 2.3%. Secondary market rents have risen by 1.9% YoY to average \$131/sq m.

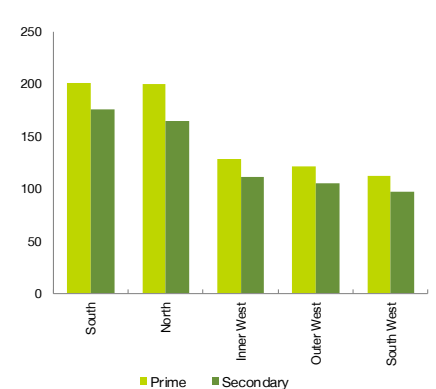
The development pipeline for 2020 is expected to add more prime stock to the market, this being led by occupiers increasingly demanding a higher grade product, and in some cases greater efficiencies to access expansion space for future growth. As a result, rental growth is anticipated to moderate in the short-term.

FIGURE 4
Sydney Industrial Development
Annual Gross Supply ('000 sq m, bldgs >5,000 sq m)



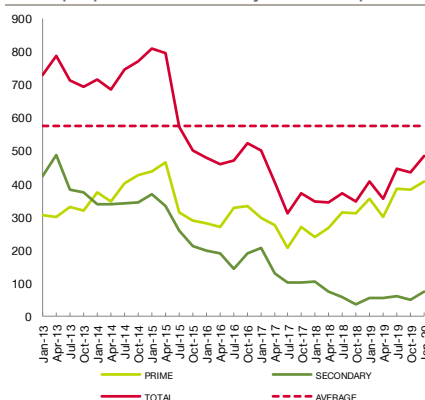
Source: Knight Frank Research/Cordell Connect

FIGURE 5
Sydney Industrial Rents by Precinct
\$/sq m net rents, Prime and Secondary



Source: Knight Frank Research

FIGURE 3
Sydney Industrial Vacancy
'000 sq m prime vs secondary available space



Source: Knight Frank Research

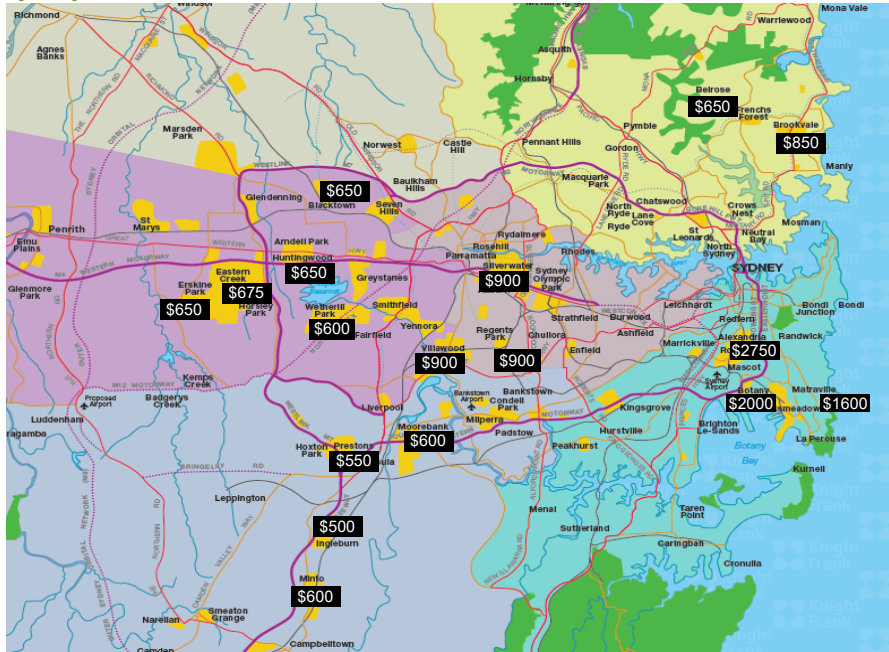
TABLE 1
Recent Leasing Activity Sydney

Address	Net Rent (\$/m²)	Area (sq m)	Term (yrs)	Tenant	Date Reported
Pre Lease					
Wh3, Woodpark Logistics Estate	124	11,020	10	King Living Furniture	Jan-20
Tower Road, Bankstown	U/D	22,000	10	Kirby & Beijer Ref	Dec-19
WH1, Marsden Park Logistics Estate	140	16,020	10	Orrcon Street	Aug-19
Existing and Speculative leases					
15 Daniel Street, Wetherill Park	117.5	14,920	7	Sunrise Medical	Nov-19
488-490 Victoria Street, Wetherill Park	112.5	5,100	5	Freight Assist Aust	Oct-19
Wh6, Marsden Park Logistics Estate*	120	11,640	5	JBHIFI	Sep-19

Source: Knight Frank Research *Speculative lease deal U/D Undisclosed

DEVELOPMENT & LAND VALUES

FIGURE 6
Sydney Recent Industrial Land values 1-5ha



Prices are an average per/sqm

Source: Knight Frank Research

Land prices stabilise

The double digit growth rate for parcels of land recorded in previous years has started to pull back, especially in the Outer and South West precincts, which had minimal growth over the past 12 months. There is still appetite for acquiring serviceable parcels of land including GPT and Charter Hall both acquiring land in Glendenning late 2019 in addition to ESR acquiring a substantial parcel of 20.8Ha in Horsley Park. These acquisitions highlight that record prices are being achieved relative to previous years.

The bulk of developers appear to have shifted focus to completing their current development holdings. The decade high level of new supply in 2019 highlights this, as major land acquisitions by institutions and developers in previous years have either reached or are nearing practical completion, achieving high occupancy rates, led by e-commerce and logistics occupiers.

Developments achieving high occupancy

The Marsden Park Logistics Estate, being developed by Logos, has achieved full occupancy at Stage 1 of the development. E-store Logistics, ValleyFresh, JBHIFI and Lyppard have

taken space over 33,000 sq m across four warehouses. Stage 2, which is currently under construction will add a further 62,000 sq m to the estate, with 16,000 sq m already pre-committed to Orrcon Steel.

In Erskine Park, Altis Property acquired a 48Ha site in 2015. Known as First Estate, the site has capacity for 250,000 sq m of warehouse space. The first 65,000 sqm, which was completed in 2019, has reached near full occupancy and a further 30,000 sq m is being purpose built for Snack Brands. Meanwhile, Charter Hall's Woodpark Logistics Estate achieved full occupancy prior to PC at its 27,500 sq m development. On the back of Auto

TABLE 2
Land/Development Sales Activity Sydney

Address	Region	Price \$ mil	Area Ha	\$/m ² of site area	Purchaser	Sale Date
Burley Road, Horsley Park	OW	142.5	20.8	685	ESR	Nov-19
56-62 Glendenning Road, Glendenning	OW	26.0	3.92	662	CHCLPF**	Nov-19
13 Wonderland Drive, Eastern Creek	OW	17.2	2.46	700	FIFE Capital	Aug-19
25 Holbeche Road, Arndell Park	OW	15.1	2.37	637	APPF*	Jul-19
Lot 11, Kurrajong Road, Prestons	SW	23.8	3.6	660	Aliro Group	Jul-19

Source: Knight Frank Research * Australian Prime Property Fund (Lendlease Industrial Fund)
** Charter Hall Core Logistics Partnership Fund

Blended West Land Values*

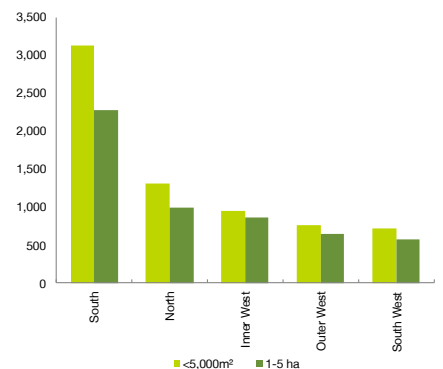
<5,000sq m	\$812/sq m
1-5ha	\$693/sq m

Source: Knight Frank Research
*Prices excluded South and North precincts

Trading Parts securing the first pre-commitment (8,020 sq m), this was followed by Krost Furniture (8,170 sq m) and King Living Furniture (11,040 sq m) securing the two additional warehouses within the estate prior to completion.

Additionally, developers have been seeking value add/opportunistic sites in traditionally tightly held markets in order to expand their footprints. These assets, such as 50 Eastern Creek Drive acquired by FIFE, have been purchased with vacant possession and offer repositioning opportunities.

FIGURE 7
Sydney Industrial Land Values
By Precinct (\$/sq m)



Source: Knight Frank Research

INVESTMENT ACTIVITY & YIELDS

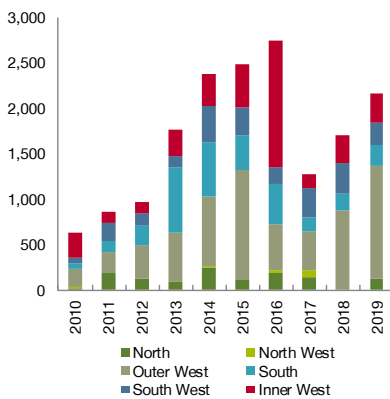
Volumes at three-year high

There has continued to be investment expansion in core locations through acquisitions of both opportunistic and investment calibre. As a result, investment volumes have risen to a three year high in 2019 reaching \$2.17 billion, up from \$1.70 billion in 2018 and \$1.28 billion in 2017.

Rising allocation targets buoys competition

Most institutions have been upfront about new allocation targets in the sector and this appears to be driving much of the activity of late in both the acquisition of existing assets and of land suitable for industrial development. Many of these same REITs are reporting occupancy levels in the high 90% range, with above-average take-up levels and a reduction in vacancy rates.

FIGURE 8
Sydney Industrial Sales by Region
\$10mill+, 12 months to December 2019



Source: Knight Frank Research

TABLE 3
Industrial Sales Activity Sydney

Address	Region	Price \$ mil	Bldg Area m ²	Core Mkt Yield (%)	Vendor	Purchaser	Sale Date
7 Williamson Road, Ingleburn	SW	28.2	18,572	5.66	Kimberly-Clark	Pipeclay Lawson	Dec-19
61 Huntingwood Drive, Huntingwood	OW	397.8	59,000	4.50 [^]	KKR	Charter Hall*	Dec-19
247 King Street, Mascot	S	48.0	10,546	U/D	Jewel Properties (Aust) Pty Ltd	Leda Holdings	Nov-19
2-4 Harvey Road, Kings Park	OW	81.3	40,336	5.34	Logos Property	Greenlit Brands	Jul-19
AMP Capital (Villawood, Blacktown, Kingsgrove)	Various	105.0	U/D	5.57	AMP Capital	GPT	May-19

Source: Knight Frank Research OW Outer West SW South West IW Inner West N North S South
g refers gross U/D refers undisclosed P/C refers pre-commitment ^ Passing yield
*Charter Hall Prime Industrial Fund (50%) & Charter Hall Long Wale REIT (50%)

This continues to fuel competition and drive yield compression, which in turn is driving much of the asset value growth seen in recent times.

Leasebacks gain traction

The low interest rate environment is helping to drive demand for industrial assets with strong lease covenants, particularly long WALEs and attractive review structures. That demand has seen the appetite for sale and leasebacks return as an increased number of REITs and developers chase yield and potentially longer-term asset repositioning strategies.

In July 2019, KKR, a US-based private equity group signed a deal to acquire Campbell Soup’s international business, including Arnott’s biscuits for \$A3.14 billion. Shortly after, KKR made moves to sell a three-property portfolio, which included factories in Brisbane, Adelaide and Sydney. Centuria Industria REIT acquired the Adelaide and Brisbane assets for \$236.2 million via a sale and leaseback with Arnott’s. Charter Hall (Prime Industrial Fund and Long WALE REIT) acquired the Sydney asset for \$397.8 million (100% interest) via a 32-year sale and leaseback in one of the largest individual industrial asset transactions recorded in Sydney market in the last decade. The price represents a passing yield of 4.5%.

Aldi is reportedly looking to sell four of its distribution centres via sale and leaseback, with pricing suggested to be in the \$700 million range.

Current Yields & Outlook*

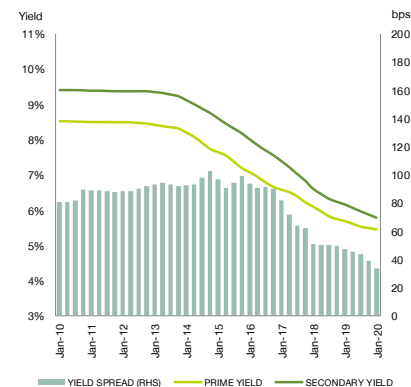
Prime	4.50% - 6.50% -24bps YoY	↓
Secondary	4.75% - 7.00% -38bps YoY	↓

Source: Knight Frank Research
*Prices reflect an average across all precincts

Compression to continue

Lower interest rates are expected to continue to drive demand for industrial / logistics assets, potentially buoying investment volumes in 2020. The spate of capital raisings by REITs in the second half of 2019 also points to strong investor appetite for the sector long-term and potentially further prime yield compression in select markets.

FIGURE 9
Sydney Industrial Core Market Yields
Prime vs Secondary



Source: Knight Frank Research

PRECINCT HIGHLIGHTS

Outer West

Vacancy

Prime: 191,831 sq m
Secondary: 22,693 sq m

Land

<5,000 sqm: \$700-800/sq m
1-5 ha: \$600-700/sq m

Rents

Prime: \$121/sq m
Secondary: \$105/sq m

Yields

Prime: 5.00% - 6.00%
Secondary: 5.25% - 6.25%

South West

Vacancy

Prime: 121,196 sq m
Secondary: 29,623 sq m

Land

<5,000 sqm: \$700-750/sq m
1-5 ha: \$500-575/sq m

Rents

Prime: \$112/sq m
Secondary: \$98/sq m

Yields

Prime: 5.00% - 6.00%
Secondary: 5.75% - 6.25%

Inner West

Vacancy

Prime: 52,791 sq m
Secondary: 22,221 sq m

Land

<5,000 sqm: \$900-950/sq m
1-5 ha: \$750-850/sq m

Rents

Prime: \$129/sq m
Secondary: \$111/sq m

Yields

Prime: 5.00% - 6.25%
Secondary: 5.75% - 6.50%

- Represents 44% of total vacant stock across all precincts.
- Over 441,000 sq m of new stock was added to the Outer West precinct throughout 2019, with speculative stock accounting for almost 40%.
- Steady prime rental growth of 2.3% over the past 12 months and 3.9% for secondary stock.
- Record level of investment volumes for the precinct with \$1.25bn transacting over 2019.

- Vacancy in the South West has increased by 42% YoY.
- Approximately 165,000 sq m of new supply is forecast to be delivered by the end of 2020.
- Target's new warehouse at Moorebank Logistics Estate, developed by QUBE Holdings (37,860 sq m), was the largest addition over 2019.
- Prime yields have tightened by 21bps over the past 12 months to average 5.60%.

- Vacancy levels have decreased by 41% over the 12 months to January 2020.
- Dexu's Loop Logistics Hub will add over 55,000 sq m of new supply to the precinct over 2020.
- Yield compression continues following demand for prime core assets in the precinct. Yields have compressed 38bps over past 12 months to average 5.65%.



Address: 61 Huntingwood Drive, Huntingwood

Price: \$397.8 million

Sale Date: Dec-19

Vendor: KKR

Purchaser: Charter Hall*

Passing Yield: 4.50%

Comment: Warehouse of 59,000 sq m, warehouse. Sold on 32 year triple net lease to Arnott's.



Address: 7 Williamson Road, Ingleburn

Price: 28.2 million

Sale Date: Dec-19

Vendor: Kimberly Clark

Purchaser: Pipeclay Lawson

Market Yield: 5.66%

Comment: Warehouse of 18,572 sq m on 40,000 sq site. Acquired with vacant possession.



Address: 64 Biloela Street, Villawood

Price: \$39.5 million

Sale Date: Jun-19

Vendor: AMP Capital

Purchaser: GPT Group

Market Yield: 5.74%

Comment: Secondary warehouse of 23,304 sqm, leased to VIP Plastic Packaging until 2027.

*Charter Hall Prime Industrial Fund (50%) & Charter Hall Long Wale REIT (50%)

South

Vacancy

Prime: 42,823 sq m
Secondary: 0 sq m

Land

<5,000 sqm: \$2,750-3,000/sq m
1-5 ha: \$1,800-2,200/sq m

Rents:

Prime: \$201/sq m
Secondary: \$176/sq m

Yields:

Prime: 4.50% - 5.00%
Secondary: 4.75% - 5.25%

North

Vacancy

Prime:
Secondary: N/A

Land

<5,000 sqm: \$1,200-1,600/sq m
1-5 ha: \$900-1,300/sq m

Rents:

Prime: \$200/sq m
Secondary: \$165/sq m

Yields:

Prime: 5.00% - 6.50%
Secondary: 5.25% - 6.75%

- Vacancy has reached its highest level since January 2017; although still below its long term average.
- Recorded strongest level of prime rental growth across all precincts with 3.2% YoY.
- With 1-5Ha parcels of land almost non existent, prices continue to rise with an 18.2% increase YoY.

- Yields have tightened significantly over the past 12 months due to the tightly held nature of the market. Prime yields have compressed by 43bps to average 5.77%.



Address: 230-236 Captain Cook Drive, Kurnell
Price: \$36 million
Sale Date: Jul-19
Vendor: Dicker Data Ltd
Purchaser: EG
Market Yield: 5.63%
Comment: Modern office and warehouse facility of 15,954 sq m sold with a two year leaseback to Express Data Holdings.



Address: 22 Narabang Way, Belrose
Price: \$18.09 million
Sale Date: Nov-19
Vendor: Private
Purchaser: EG
Passing Yield: 5.72%
Comment: Industrial facility of 4,806 sq m fully leased to six tenants.

RESEARCH & CONSULTING

Ben Burston

Partner, Chief Economist
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

Katy Dean

Associate Director
+61 2 9036 6612
Katy.Dean@au.knightfrank.com

Marco Mascitelli

Senior Analyst
+61 2 9036 6656
Marco.Mascitelli@au.knightfrank.com

INDUSTRIAL

James Templeton

Partner, National Head of Industrial
+61 2 9604 4724
James.Templeton@au.knightfrank.com

Mark Silva

Director, Head of Industrial, NSW
+61 2 9036 6889
Mark.Silva@au.knightfrank.com

Angus Klem

Partner, Head of Industrial Investments, NSW
+61 2 9028 1110
Angus.Klem@au.knightfrank.com

VALUATIONS & ADVISORY

Al Carpenter

Partner, Valuations & Advisory
+61 2 9036 6661
Al.Carpenter@au.knightfrank.com

Jack Needham

Director, Valuations & Advisory
+61 2 9036 6663
Jack.Needham@au.knightfrank.com

Tim Barwick

Director, Valuations & Advisory
+61 2 9028 1101
Tim.Barwick@au.knightfrank.com

Michael Rogers

Director, Valuations & Advisory
+61 2 9761 1828
Michael.Rogers@au.knightfrank.com

Adam Gander

Director, Valuations & Advisory
+61 2 9761 1826
Adam.Gander@au.knightfrank.com

Definitions:

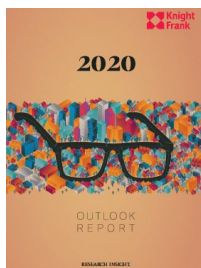
Prime: Asset with modern design, good condition & utility with an office component 10-20%. Located in an established industrial precinct with good access.

Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

Core Market Yield: The percentage return/yield analysed with the assessed fully leased market income is divided by the adopted value/price which has been adjusted to account for specific issues (ie rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives etc).

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



Outlook Report
2020



Industrial Development
Trends—Eastern
Seaboard July 2019



Sydney CBD Office
Market Overview
September 2019



Investment Trends
2019

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2020 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.