



HIGHLIGHTS

The Broader WSEA will provide opportunities for developers to acquire engloba land at the heart of key infrastructure developments in Western Sydney, most notably Badgers Creek Airport.

Owners with undeveloped and serviced land have an opportunity to control short term development market share before a heightened amount of land starts to come online over the medium term.

With over \$4.0 billion currently being invested into local infrastructure (excl. new airport), the WSEA is set to remain the focal point for new developments over, at least, the next decade.

KEY FINDINGS

There remains 1,317ha of undeveloped, zoned land within WSEA with an additional 4,357ha earmarked for employment usage within the Broader WSEA extension area.

WSEA accounted for 61% of Sydney's new industrial developments (5,000m²+ GLA) between 2011 and 2014.

Acute shortage of land available for immediate development with undeveloped and serviced land within WSEA declining 82.5% since 2010.

Introduction

The migration of industrial user groups to Sydney's outer suburbs has been an ongoing trend that is continuing to shape the location of new industrial developments. While the availability of relatively cheaper greenfield land in combination with industrial user groups seeking supply chain efficiencies derived from locations at major transport hubs has driven this pattern, the provision of appropriate land remains a critical issue for users and developers alike.

An integral part of the strategy to accommodate growth in industrial development is the Western Sydney Employment Area (WSEA). Located on the intersection of the M7 and M4 Motorways, WSEA is the largest new employment space (by area) in the metropolitan area and includes major precincts such as Eastern Creek and Erskine Park. In planning for the future growth of Western Sydney, the Government has agreed to not only extend the boundaries of the area, but to also inject significant capital investment into local infrastructure including roads, rail and the forthcoming Badgerys Creek Airport.

In the last five years, the area has

become a focal point for big box warehouse distribution centres for groups such as Kmart, Goodyear/Dunlop, Super Retail Group, Bunnings and Techtronic Industries amongst others. Freight and logistics users have also been very active with major tenants including QLS Transport, Rand Transport, DHL and Toll, with a number of these facilitating large third party logistics arrangements.

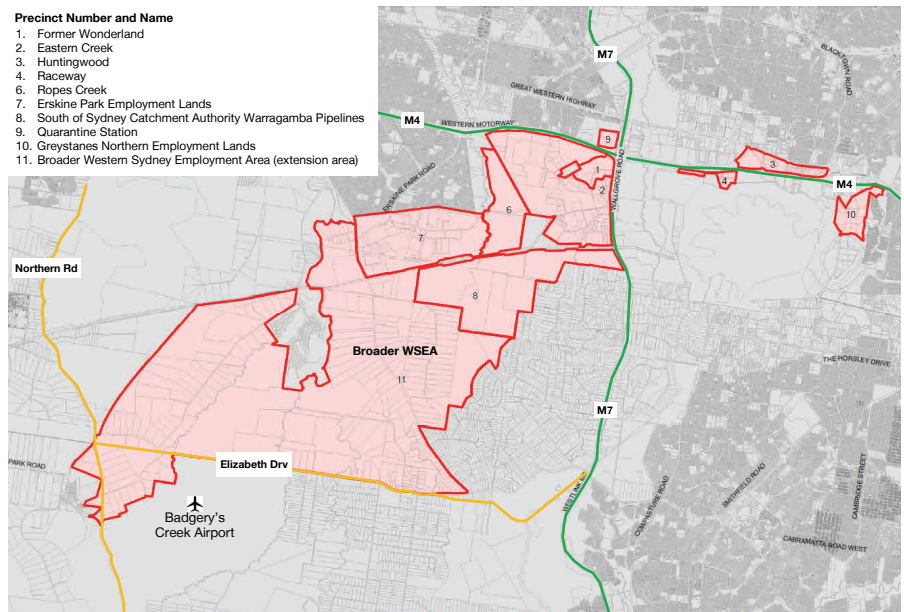
Current status of WSEA

The existing WSEA comprises 2,200 hectares of industrial zoned land to the immediate south west of the M4/M7 interchange in addition to land at the Quarantine Station, Raceway, Huntingwood and Greystanes Northern Employment Lands. New development of the area commenced 12 years ago and Knight Frank estimate that 1,317ha, or 60%, of this area remains to be developed. This undeveloped zoned land is owned by a range of partnerships, families, developers (both private and institutional) as well as some government agencies. Private groups comprise the largest type of land holder, accounting for 583ha, or 44%, of the total amount (refer Table 1 for breakdown).

FIGURE 1

Western Sydney Employment Area

Current area (precincts 1-10) and extension area (precinct 11)



DAVID HALL
Director - Industrial



NICK HOSKINS
Director - NSW Research

Source: Adapted from State Environmental Planning Policy (Western Sydney Employment Area) 2009 Land Application Map

TABLE 1

Undeveloped Land Ownership - WSEA (excl. extension area)

Ownership	Area (ha)
Private	583
Other Institutional	316
AREIT	292
Government	126
Total	1,317

Source: Knight Frank Research

The developed component of WSEA has played a prominent role in facilitating new industrial space for Sydney, accounting for 61% of Sydney’s new industrial developments (5,000m²+ GLA) between 2011 and 2014, of which 28% was located in Eastern Creek followed by 17% in Erskine Park (refer Figure 2).

Following the Federal Government’s confirmation of Badgerys Creek as the location of Sydney’s second airport, **an extension of WSEA was announced where the Government has reserved an additional 4,357 additional hectares of employment land for the area known as the Broader Western Sydney Employment Area.** The extension area extends the boundary south to Elizabeth Drive and includes land West of the airport site and will include areas such as Kemps Creek and Luddenham (refer

Figure 1). Individual landholdings range from sub-one hectare parcels to several hundred hectares. **Existing land use zones remain in place within the extension area and it will ultimately be up to the private sector to apply to rezone parcels of land within this area.** It is also noted that additional employment land will be sourced from the South West Growth Centre to the south east of the airport site.

Land Availability for Development

Both the residual land within the WSEA yet to be developed in addition to the allocated land in the Broader WSEA extension area, provides sufficient land for another 20 years and beyond. However, the availability, or lack thereof, of serviced land for immediate development within the next three years is limited to a select group of private land holders and institutional developers. **The most recent available data from NSW Planning (Employment Lands Development Program, 2014), indicated undeveloped and serviced land within WSEA had declined to 79.4ha. This represents an 82.5% drop since 2010 as land uptake has outpaced the rate of new land parcels being serviced** (refer Figure 4). To give some context to why this amount of serviced land implies a relative shortage

of available inventory for imminent development, the average take up of land has been approximately 61ha per annum since 2008.

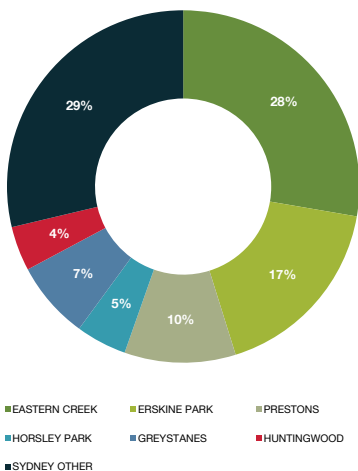
Serviced land is defined as being connected to water and sewer, but generally comprises additional costs such as power and gas. Roads are generally funded via Government contributions. The Government is yet to formally provide a framework on how to service undeveloped land. **While institutional developers have a relatively greater capacity to fund this cost, it is a considerable impediment for smaller privates. This is providing institutional developers with the opportunity to control the market share of developments over the next two to three years,** particularly given the lead times involved in gaining appropriate zoning amendments for potential competition from land allocated for future industrial use.

Larger private land holders have the potential to compete in the short term development cycle, however have shown limited urgency to progress the development of land holdings to this point in time. This has been shown by the bulk of development within the WSEA been developed by the major institutions over the last 12 years. However these **larger private land holders are now being more proactive in their**

FIGURE 2

Sydney Industrial Supply

% of new building GLA by location 2011-2014

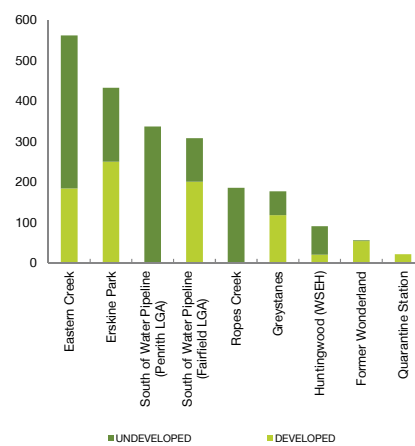


Source: Knight Frank Research

FIGURE 3

Zoned Land Status—2014

Western Sydney Employment Area (ha)

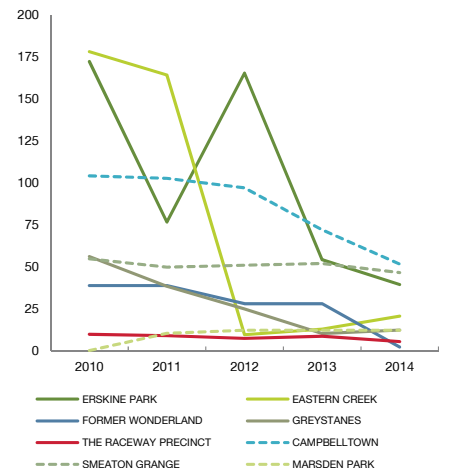


Source: Department of Planning NSW, Employment Lands Development Program, 2014

FIGURE 4

Undeveloped and Serviced Land

By select Western Sydney Precinct (ha)



Source: Department of Planning NSW, Employment Lands Development Program, 2014
 - - - - Denotes non-WSEA Precinct

development strategies by spending capital to bring services to undeveloped land in addition to sourcing potential tenants. This is starting to provide tenants a viable alternative to the institutional developers, by boosting the competitiveness of privates in factors such as time to build and proposed building plans.

While the Broader WSEA extension area will not be developed over the short term, a number of larger, institutional developers, including some AREITs, have either fully developed or are nearing completion on their land holdings. Given lead times from factors such as planning and re-zoning applications, as well as

land procurement, it is expected that there will be increasing interest in Broader WSEA extension land as developers look to secure land inventory to underpin medium and long term development pipelines.

There has already been evidence of this trend with Altis Property Partners acquiring 50ha on Mamre Road, Erskine Park. The parcel is located within the Broader WSEA and while the land will need to be rezoned, it will provide short to medium term opportunities to facilitate demand from major occupiers looking to relocate or expand within the precinct.

However, it will take time for much of the

land to be procured in the Broader WSEA precinct. The ownership structure of land holdings remains extremely fragmented and while there are some large, relatively sophisticated privates, there is a high number of smaller private owners. Such owners are generally long term occupants, who, in many cases, are operating small scale farming or privately run family businesses. It is likely that many of these smaller owners do not have sufficient critical mass to progress the large scale developments that will become necessary over the longer term. This indicates the need for a significant amount of ownership consolidation that will be required to facilitate the long term supply cycle.

TABLE 2

Major Infrastructure Projects - Western Sydney

Project	Details	Distance (km)	Stage	Completion
WSEA Updated Roads Network (final cost TBC)	Includes Erskine Park Link Rd (complete), Old Wallgrove Rd upgrade (under construction), Southern Link Road Network (an east-west link between Mamre Rd and Wallgrove Rd) and the Archibald Rd extension (connecting the Great Western Highway with the Erskine Park Link Road).	c15.0	Various ranging from completion to planning	Erskine Park Link Rd completed 2013 Old Wallgrove Rd to complete 2017 with other timing TBC
Camden Valley Way (\$0.28bn)	Completion of remaining section of Camden Valley Way between Oran Park Drive and Bringelly Road to a four lane divided road.	10.6	Under construction	Stage 1 and 2 complete, Stage 3 due end 2015
Werrington Arterial Road (\$0.07bn)*	Road widening to create a new link between the Great Western Highway and the M4 Motorway.	2.0	Under construction	Late 2016
Narellan Road Upgrade (\$0.11bn)	Upgrade Narellan Road between Camden Valley Way at Narellan and Blaxland Road at Campbelltown to a six-lane divided road in two stages.	6.8	Stage 1 under construction. Stage 2 due to go to tender mid-2015.	Stage 1 due mid-2016, Stage 2 mid-2018
Bringelly Road Upgrade (\$0.51bn)*	Upgrade of Bringelly Road to a six lane divided road between the eastern side of Upper Canal bridge and the western side of the Eastwood Road intersection. Remainder of road to be upgraded to a four lane divided road with a central median to allow for widening to six lanes, when required.	10.0	Stage 1 under construction. Stage 2 to commence late 2016	Stage 1 due 2017 Stage 2 late 2018
Local Roads Package (\$0.20bn)*	Various projects aiming to enhance road capacity in close proximity to the Badgerys Creek Airport and the WSEA bounded by the M4, M7, the Hume Motorway and just west of the airport site. \$32.4m allocated thus far.	N/A	In planning	Staged completions between 2016 and 2024
The Northern Road (\$1.58bn)*	Upgrade from a generally two lane to a four lane divided road. A wide central median to allow for future widening to six lanes, when required. To be upgraded in four stages.	30.0	Tenders for Stage 1 construction expected to be called mid-2015. Stages 2-4 in planning.	Before opening of the airport
M12 Motorway (\$1.20bn)*	New six-lane motorway providing direct access to the Badgerys Creek airport from the M7 and forming the main east-west connection between the M7 and The Northern	14.0	In planning	Before opening of the airport
Proposed South West Rail Link Extension	The extension corridor is proposed to connect Leppington Station to Bringelly and then head in two directions: north to the T1 Western Line near St Marys; and south to Narellan	TBC	In planning	TBC
Outer Sydney Orbital Motorway	An outer north-south corridor potentially connecting the existing road and rail networks, including the F3 north with the Hume Highway south of Campbelltown.	TBC	Mooted	Mooted

Source: Roads and Maritime Services/Knight Frank Research

* denotes project forms part of \$3.6bn Western Sydney Infrastructure Plan

Infrastructure

In April 2014, The Federal Government confirmed Badgerys Creek as the site for Western Sydney's new airport.

According to the Government, the decision to locate a second Sydney airport in the West reflected the growth of Western Sydney, which is expected to grow from two million to three million people over the next 20 years. Airport operations are scheduled to begin in the mid-2020's, however planning for the new airport has already commenced with construction anticipated to start in 2016.

While final details are yet to be confirmed, the latest communications from the Department of Infrastructure and Regional Development propose a staged strategy initially involving a one runway airport, followed by a parallel runway over time as demand requires. The runway would be large enough to cater a full range of domestic and international aircraft, including the A380.

Sydney Airport Ltd, who own and operate Kingsford Smith airport in Botany, have the right of first refusal to develop and operate the Badgerys Creek airport. The Government is currently developing a formal proposal to present to Sydney Airport, including particulars such as project specifications and timetable. This will potentially be presented by the end of 2015, however in the event Sydney Airport refuses the proposal, the opportunity will be taken to the open market.

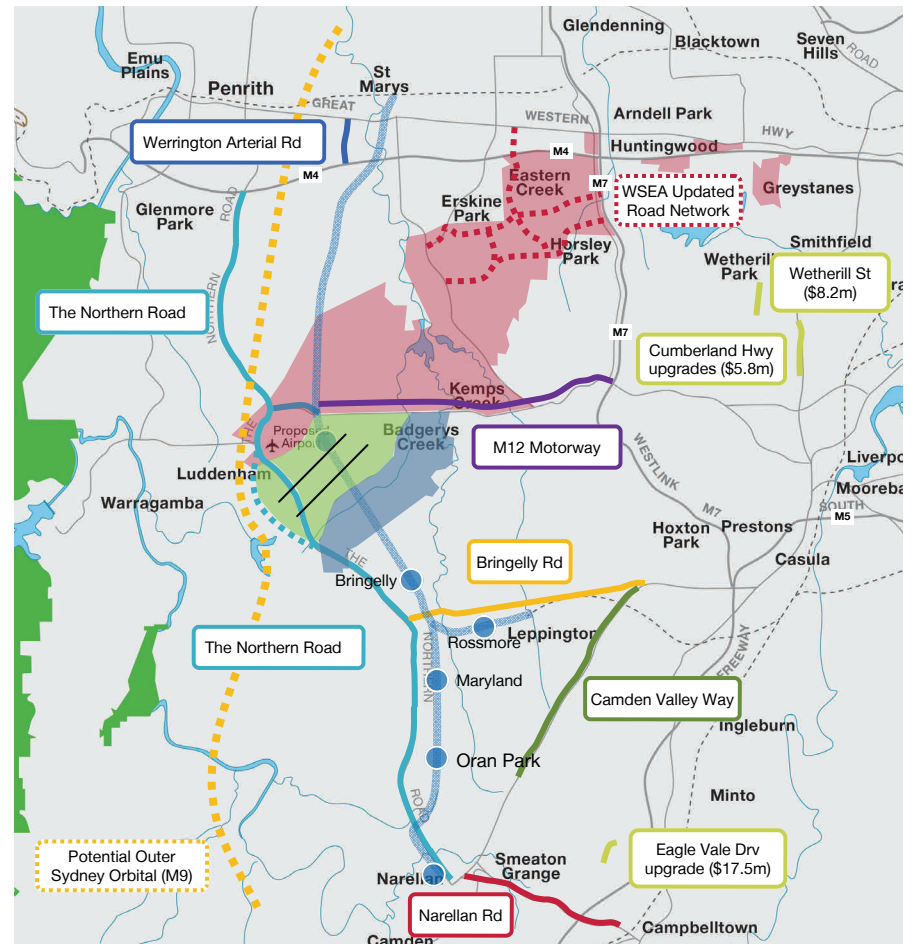
To support the airport, the Government has committed to a large number of infrastructure projects that will upgrade a number of major and local roads in the area to increase capacity and improve accessibility to the M7 and M4 motorways. This investment is being underpinned by the \$3.6 billion Western Sydney Infrastructure Plan, which is a road plan being funded by the Federal and State Governments through an 80/20 funding split. In addition, a number of road upgrades are being funded exclusively by the State Government, including the WSEA Updated Road Network as well as other roads feeding into the South West Growth Corridor. Table 2 details the proposed road improvements that will be progressed over the next 10 years.

Of particular importance to servicing the Broader Western Sydney Employment Area and the airport is the proposed M12, which the Federal Government has just opened up for community feedback. The M12 will directly connect both of these locations directly with the M7 orbital via a new motorway to motorway connection. In addition to committed road projects, there has also been mooted discussions about an additional Western Sydney Orbital Road, known as the M9. The NSW Government has identified this project as a future transport corridor for preservation, however as yet no land has

been secured and a route is yet to be determined.

In terms of rail, there is the South West Rail Link extension. Initially this will incorporate additional facilities in the Southern Section between Leppington, Bringelly and Narellan. The northern section between Bringelly and the T1 Western Line via the airport is still being planned with the Government currently considering how to accommodate road, freight and/or passenger rail modes in the same corridor.

INFRASTRUCTURE MAP



- Western Sydney Employment Area (Current and Broader)
- Badgerys Creek Airport Site
- Planned Industrial Area to South East of Airport
- Proposed South West Rail Link Extension
- Possible realignment for The Northern Road
- Potential Outer Sydney Orbital Motorway (M9)*
- Part of Local Roads Package (\$200m total)

Source: Roads and Maritime Services/Transport for NSW/Planning NSW/Knight Frank
 * Identified in the NSW Government's Rebuilding NSW - State Infrastructure Strategy 2014 and Long Term Transport Master Plan as a future transport corridor for preservation.

Western Sydney Land Sales

Sales activity has steadily been building over the past 18 months and while opportunities have been relatively limited given a lack of greenfield sites officially on the market, there have been a variety of buyers seeking to secure land. At the larger end, a number of institutions have made substantial land purchases. Given development immediately post-GFC was largely undertaken from existing land holdings, a number of larger developers have been looking at building inventory for development over the medium term. Examples in the WSEA precinct since mid-2014 include Altis (50ha at Erskine Park, Dec 14) and DEXUS (26.1ha at Greystanes, June 14).

A number of major sales in other Western Sydney areas have also been recorded including Stockland, who have made several acquisitions comprising 11.5ha at Warwick Farm, Feb 2015 and 28.0ha at Ingleburn, June 2014. There have also been a number of sales at Marsden Park, including Sydney Business Park, where over 120ha of land for industrial usage is steadily being absorbed by the market. Since the completion of the Richmond

Road stage 1 upgrade (between Bells Creek and Townson Road) there is now immediate access to the M7 from this precinct.

For small and medium parcels (sub-5,000m² and 1ha to 5ha respectively), there is a steady flow of buyer enquiry from both owner occupiers and private developers. Specifically for owner occupiers, much of the purchasing activity in the WSEA area has been for sub 3ha parcels providing opportunities to build a new purpose built facility in proximity to key road infrastructure (M4/M7). Many of these occupiers are looking for sites with lower than normal site coverage, which are not readily available in existing precincts such as Wetherill Park. Such existing locations have tended to be developed with 50% to 60% site coverage, which does not provide sufficient yard area in many cases. It is noted that low interest rates have also been a key factor behind demand from owner occupiers, with the low cost of capital favouring development instead of renting in many instances.

Although sale evidence has shown some variability in land rates, it is estimated that over the past 12 months, average land values in Western Sydney have increased

“New speculative developments will increase over the next 12 months with approximately 100,000m² of projects already being monitored for potential progression”

by an average of 4.1% for small sub-5,000m² parcels and by 10.9% for medium 1ha to 5ha parcels. Despite this growth, values still remain approximately 15% to 20% below the last cyclical peak in late 2007. At a precinct level, some of the recent growth has stemmed from improved road access into areas such as Erskine Park and Wetherill Park, which has seen some moderation in the value differential between a number of Outer West precincts.

TABLE 3

Major Land/Development Sales Activity - Western Sydney

Address	Region	Price (\$ mil)	Area (m ²)	\$/m ² of area	Vendor	Purchaser	Sale Date
Kurrajong Rd, Prestons	SW	c.39.00	160,000	c.260	Private	Charter Hall	Jun-15
8 Abbott Rd, Seven Hills	OW	U/D	76,940	U/D	Nuplex	Private	Jun-15
449 Victoria St, Wetherill Park	OW	4.65	12,250	380*	Private	Private	May-15
Governor Mac. Drv, Warwick Farm	SW	17.2	115,000	150	Australian Turf Club	Stockland	Feb-15
Mamre Rd, Erskine Park	OW	80.0	500,000	c.160	Private	Altis Property Partners	Nov-14
16 Hollinsworth Rd, Marsden Park	NW	19.78	65,900	300	Sydney Business Pk	Lindt	Oct-14
Richmond Rd, Marsden Park	NW	c.20.00	70,170	c.285	Sydney Business Pk	Swire Cold Storage	Aug-14
Ingleburn Dist. Centre, Ingleburn#	SW	72.5	280,000	259#	Asciano	Stockland	Jun-14
Quarrywest at Greystanes	OW	50.5	256,400	197	Boral	DEXUS/Future Fund	Jun-14
60 Wallgrove Road, Eastern Creek	OW	55.0	219,000	251	Private	Mirvac Group	Dec-13
111 Quarry Rd, Erskine Park	OW	10.66	50,700	210	CSR	Murray Goulburn	Jun-13
57-75 Templar Rd, Erskine Park	OW	9.672	63,440	175 [†]	GPT	DEXUS	Jun-12
15 Long Street, Smithfield	OW	16.0	117,900	151 [^]	Transgrid	Charter Hall (CPIF)	May-12
Tesrol site, Eastern Creek	OW	35.25	322,768	146 [†]	Tesrol	Australand	Aug-11

Source: Knight Frank OW Outer West NW North West SW South West U/D refers undisclosed * includes approx. 2,000m² unusable land # includes 6,700m² lettable area and 221,680 vehicle storage area with WALE 7.9 years. Residual 5.1ha available for immediate development ^ Usable rate reflecting a reduced rate applied to small portion of site encumbered by an easement † Net developable rate

WSEA Development

Sydney is forecast to add 408,215m² of new supply (5,000m²+) in 2015, which is 28% below the 10 year average, but relatively inline with the post-GFC average (since 2009) of 419,442m². Of this amount, 199,971m² is located within the WSEA. This supply is largely focused within Eastern Creek (major 2015 completions including Techtronic Industries 41,200m², Fisher & Paykel plus adjoining spec 23,012m²) and Erskine Park (major completions including Rand Transport 23,940m², RRM 20,500m²).

WSEA speculative supply is on track to total 85,672m² in 2015. This has been relatively well received by the market with 80% of this having been leased. This speculative activity within the WSEA accounts for 83% of the Sydney total. While this partly reflects the appeal of the area to end user groups, it has also resulted from precincts such as Huntingwood and Eastern Creek (Former Wonderland site) being close to fully developed. This has allowed developers to progress speculative buildings with limited competition from pre-lease options within those particular markets, while also allowing developers to control the design of the facility. As a result, many of these developments comprise stand-alone buildings.

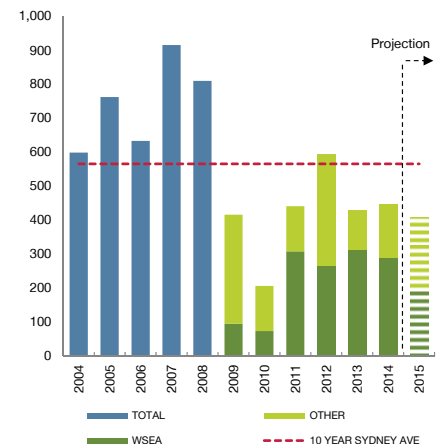
It is expected that the supply of new speculative developments will increase over the next 12 months with approximately 100,000m² of projects already being monitored for potential progression. This expectation is a result of the steady downward trend in vacant stock levels in the Outer West region. Vacant stock (5,000m²+) in the region peaked at 408,123m² in October 2012, but has subsequently trended lower to measure only 124,279m² as at July. However it is noted that the July figure reflects approximately 106,000m² of recent leasing activity stemming from April's hail damage that was mostly on short term leases, with the impact set to gradually unwind over the next 12 to 24 months.

FIGURE 5
Sydney Industrial Land Values*
Average values serviced lots (\$/m²)



Source: Knight Frank Research
* Avg Outer West, Inner Central West and South West

FIGURE 6
Sydney Industrial Development
Annual Gross Supply ('000 m², bldgs >5,000m²)



Source: Knight Frank Research

Outlook

- The provision of substantial employment lands, in conjunction with key road and airport infrastructure investment, is providing the framework for the Western Sydney Employment Area being the focal point for new industrial developments over the course of the next two decades.
- However, with the bulk of land supply unlikely to be readily developable within the next three years due to factors such as zoning and acquisition lead times, current land owners with appropriately zoned land have an opportunity to be active players in the current pre-commitment cycle with competition broadly limited to some institutional developers and larger private land holders.
- While a large amount of development land will come online over the medium to longer term, sourcing of land with significant scale still remains disrupted due to the highly fragmented land ownership structure in the Broader WSEA. This is expected to add to lead times in sourcing opportunities.
- The timing of the new airport that is expected in the mid 2020's will become an important consideration for both tenants and owners when determining lease terms for both current and future lease commitments.
- A number of tenants, particularly those with exposure to air freight, have already intimated that the flexibility to take advantage of facilities adjacent to the airport once it commences operations is being contemplated in long term occupancy strategies. More broadly, the road infrastructure will continue to heavily influence location preferences over the next leasing cycle.



COMMERCIAL BRIEFING

For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

RESEARCH & CONSULTING

Nick Hoskins

Director, NSW Research

+61 2 9036 6766

Nick.Hoskins@au.knightfrank.com

Matt Whitby

Group Director

Head of Research & Consulting

+61 2 9036 6616

Matt.Whitby@au.knightfrank.com

INDUSTRIAL

David Hall

Director - Industrial

+61 2 9761 1888

David.Hall@au.knightfrank.com

Tim Armstrong

Head of Industrial, NSW

+61 2 9761 1871

Tim.Armstrong@au.knightfrank.com

David Morris

Managing Director - Sydney West

+61 2 9761 1818

David.Morris@au.knightfrank.com

Derek Erwin

Senior Director

+61 2 9761 1836

Derek.Erwin@au.knightfrank.com

Alex Jaafar

Director - South West

+61 2 9761 1814

Alex.Jaafar@au.knightfrank.com

Paul Mileto

Director

+61 2 9761 1894

Paul.Mileto@au.knightfrank.com

Michael Wydeman

Director - Business Space

+61 2 9028 1127

Michael.Wydeman@au.knightfrank.com

Eugene Evgenikos

Head of Industrial Investments, Australia

+61 2 9036 6769

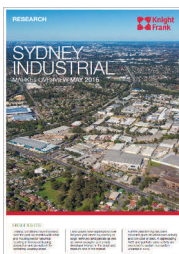
Eugene.Evgenikos@au.knightfrank.com

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



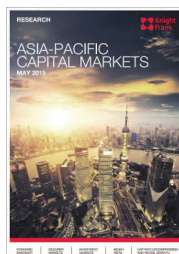
Sydney Industrial Vacancy Analysis July 2015



Sydney Industrial Market Overview May 2015



Australian Apartments Market Overview Q2 2015



Asia Pacific Capital Markets May 2015

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

© Knight Frank 2015 This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.

