

- *Industrial emerges as the strongest property asset class during Covid*
- *Growth in online retail accelerates ecommerce demand for industrial*
- *New development remains concentrated in Outer and South West*

# Sydney Industrial

Market Report, August 2020



# RAPID SHIFT TO ECOMMERCE BUOYS INDUSTRIAL DEMAND

*Industrial is in the spotlight as major retailers and logistics operators secure new facilities to support expected future growth in ecommerce demand for storage and distribution.*

## SHIFT TO ONLINE

*The industrial and logistics property market continues to benefit from ecommerce growth and the demand for online fulfillment space is rising.*

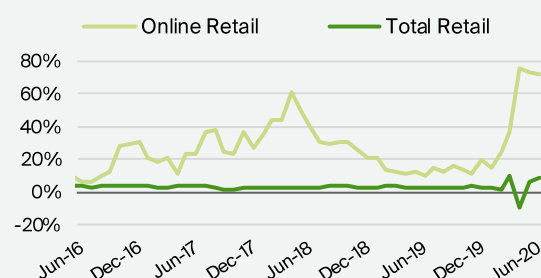
Online retail sales reached \$2.77 billion in June, an increase of 65% on February, as the pandemic rapidly shifts buying habits and more businesses expand their ecommerce platforms.

Woolworths and Coles announced significant investment in new logistics infrastructure integrating automated technology in their new distribution centres. Amazon is also expanding their footprint to cater for expected ecommerce growth.

The pandemic, which has accelerated the shift online shopping, has also created demand for dark stores and warehousing. There are increased examples of existing stores being repurposed, especially in central locations, as the revenue from online retail sales continues to grow.

### Australia Retail Turnover Growth Rate

Online v Total Retail YoY Growth Rates % (Year to)



Source: Knight Frank Research, ABS (Online = Original estimate, Total = Seasonally Adjusted estimate, Trend series suspended due to Covid)

## RETAIL BUOYS LEASING

*More than 50% of tenant commitments signed in 2020 have been from retail and logistics occupiers seeking upgrade or expansion space.*

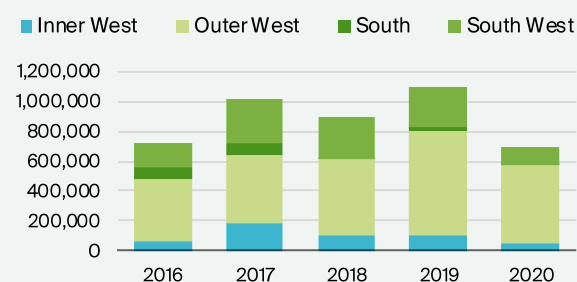
Growth in retail trade is providing a strong backbone for leasing take-up as it accelerates the equity commitment of major retailers to upgrade and expand their operations.

Amazon plans to build a 200,000sqm fulfilment centre. While the deal is the largest in Australia, it follows similar equity commitments by Coles, Woolworths and Marley Spoon. The deals have elevated total leasing volumes for the year to July 2020 to c700,000sqm, equal to 60% of 2019 total volumes.

Online retail sales have almost doubled since last year, and although starting to ease, the shift has raised the online penetration rate of total retail sales from an average of 6% to 9.7% in June, supporting future industrial leasing demand.

### Leasing Take up by Region

Sqm, 2016 to 2020 (Year to July)



Source: Knight Frank Research

## STRONG DEVELOPMENT

*Shift in occupier demand is driving new development activity, specifically for larger automated purpose built facilities.*

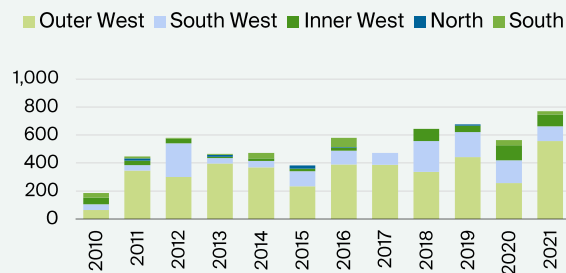
Following a decade high year of completions in 2019, new developments are forecast to reach c563,000sqm by year end. Whilst appetite still exists for acquiring parcels of land, developers have shifted focused on completing their current land holdings and as a result land values have stabilised. Qube Holdings has continued its expansion at Moorebank Logistics Park adding c90,000sqm of new warehouse space. At Marsden Park Logistics Estate, Logos Property achieved full occupancy of Stage 1 earlier in the year and has now commenced on Stage 2 (62,000sqm).

A shift in occupier demand, particularly from ecommerce and logistics groups, will place greater emphasis on flexible and high tech design principles such as automation. While this is likely to be closely linked to pre-commitment demand to mitigate the risk, this could drive a rise in new industrial builds that allow for future expansion space. In turn, driving demand for larger parcels of developable land. The Outer West and South West precincts in Sydney will be beneficiaries as they hold the lions share of serviceable industrial zoned land. This is noted in the 770,000sqm of new development forecast for 2021, with more than 70% already planned for the Outer West.

The prioritisation of government-led infrastructure projects is also supporting growth of under-utilised areas. However, given the current economic climate and limited serviced parcels of land, developers are likely to land bank in the short-term and seek pre-commitments from occupiers seeking larger sophisticated purpose-built warehouses.

### Sydney Industrial Development

'000sq m by Precinct



Source: Knight Frank Research, Cordells

## RENTS HOLD FIRM

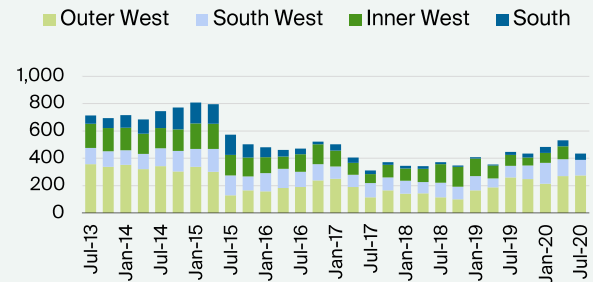
*A greater divergence between prime and secondary rents is emerging as more prime quality stock becomes available to the market.*

Ongoing demand from logistics, particularly 3PLs and retail trade sectors, continues to be a catalyst for below-average availability levels. As at July 2020 vacant stock totalled 541,025sqm, 6% below the historical average. Vacancy levels are concentrated in the Outer and South West regions, accounting for 72% across all precincts. This is due to strong development activity in these precincts over the last two years.

On the back of the demand from occupiers and changing end-user requirements in regards to warehouse design, along with above-trend development activity, occupiers are willing to pay a premium for quality stock. The gap between prime and secondary rents is widening. With the emergence of high tech automated warehousing underpinned by ecommerce demand, this trend is likely to continue.

### Sydney Vacancy

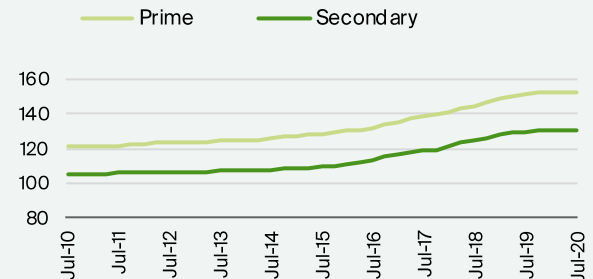
'000sqm by precinct



Source: Knight Frank Research

### Average Rents Sydney

\$/sqm net face



Source: Knight Frank Research

# INVESTORS MOTIVATED BY ECOMMERCE LED LOGISTICS GROWTH

*Ecommerce continues to be a major driver behind investment contributing to the strong deal volumes of \$489.2 million in the June quarter and a spate of transactions under contract that will buoy volumes in the second half of the year.*

Although 2020 is showing signs of some of the trends that emerged in 2019, including increased portfolio allocations to industrial and sale and leaseback activity, the diversity of active investors has narrowed significantly compared to 2019. The trend suggests that many of the investors that were active in Sydney pre-Covid are now focused on shoring up their balance sheet. The current travel ban is also likely to be delaying investment decisions in the short-term.

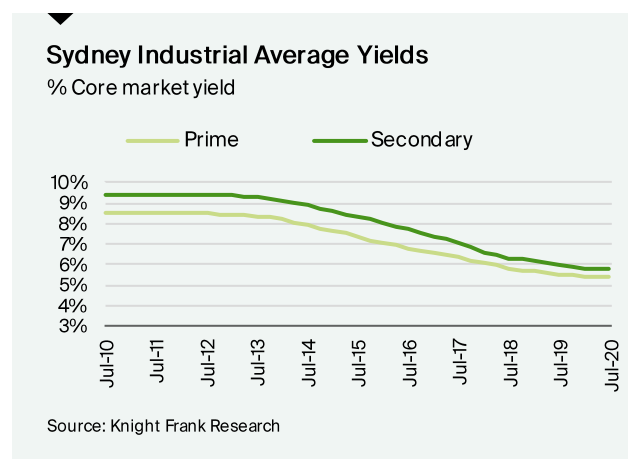
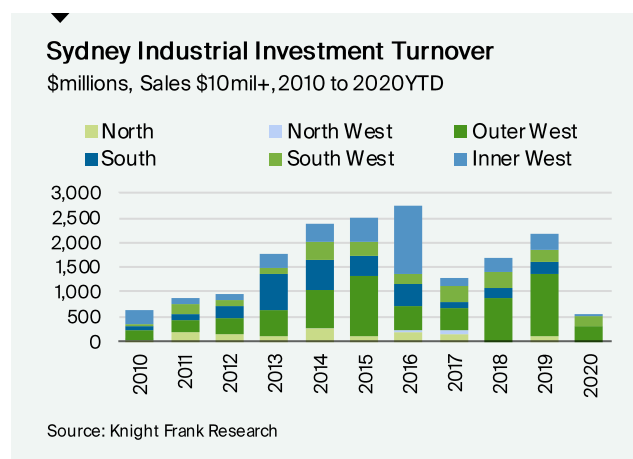
Charter Hall has been the most active in deploying capital into Sydney after confirming it had \$5 billion in investment capacity in May. After securing FIRB approval in June, the group, in a JV with Allianz Real Estate, settled the sale of Aldi's logistics portfolio for A\$648 million on a reported yield of 4.75%; including two logistics facilities in Sydney.

More recently, Charter Hall confirmed it had entered into a sale agreement to buy three Visy factories (including one in

Sydney) on a sale and leaseback arrangement for \$214 million on a blended of 5.4%. Charter Hall also acquired 40-66 Lockwood Road in Erskine Park from Kador Group in an off-market deal for \$115 million. The property was built in 2008 for Winc Australia, an office product supplier. Winc has resigned for a further 12 years.

Dexus, through its Australian Logistics Trust, a JV with GIC, has also increased its footprint after acquiring two sites, a cold store in Sydney and a Ford site in Melbourne recently for a combined price of \$173.5 million.

2019 saw yields continue to sharpen in both grades, narrowing the spread but this trend is now holding as investors appear to be more focused on prime quality product and length of income during the pandemic. While this may put some pressure on secondary assets in the medium-term, average prime and secondary yields are currently holding stable.



## Recent significant sales

PROPERTY	PRICE \$M	SIZE SQM	\$/SQM	PURCHASER	VENDOR	YIELD % <sup>1</sup>	WALE
40-46 Lockwood Dr, Erskine Park	115.0	82,730	2,669	Charter Hall <sup>2</sup>	Kador Group	4.77	12.0
126 Andrews Road, Penrith	17.3	42,120	1,926	Sandran Property	Visy	5.81	7.2
1 Sargents Road, Minchinbury <sup>3</sup>	181.5	56,281	3,225	Charter Hall <sup>4</sup>	Aldi	4.75	7.0
10 Burando Road, Prestons <sup>3</sup>	175.4	56,098	3,127	Charter Hall <sup>4</sup>	Aldi	4.58	7.0

<sup>1</sup> Core Market Yield <sup>2</sup> Charter Hall Prime Industrial Fund/Charter Hall Direct Industrial Fund No.4 <sup>3</sup> Part of Aldi Portfolio Sale <sup>4</sup> Charter Hall / Allianz

# OUTER WEST

*Demand driven by above trend pre-commitment activity*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD

**513,588**

 22% ABOVE PREVIOUS  
PERIOD (H1 2020)

PRIME RENT (\$/SQM) NET

**121**

UNCHANGED YOY

MOST ACTIVE SECTOR

**51%**

RETAIL TRADE

### SUPPLY

VACANCY (SQM)

**275,279**

+6% YOY

NEW DEVELOPMENT (SQM)

**255,578**

Estimated 2020

SPECULATIVE STOCK (SQM)

**66,113**

COMPLETED OR U/C

### Outer West Rents

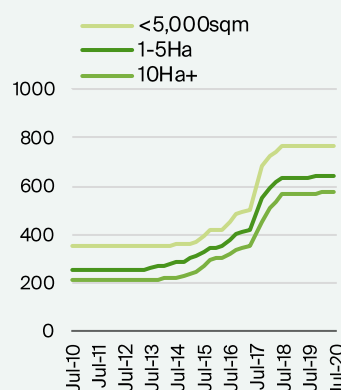
\$/sqm net face



Source: Knight Frank Research

### Outer West Land Values

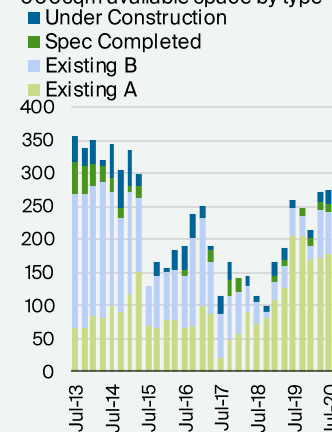
\$/sqm



Source: Knight Frank Research

### Outer West Vacancy

'000sqm available space by type



Source: Knight Frank Research

## KEY TRENDS

- Represents 50% of total vacant stock across all precincts.
- YTD transaction volumes total \$323m, accounting for 62% across the market.
- Pre-commit market remains robust with 306,257sqm leased over seven transactions YTD.
- Amazon pre-commitment at Oakdale West represents the largest deal on record.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>LF Logistics#</b>	Marsden Park Industrial Estate	12,817	120	5
<b>Hino Motors #</b>	Horsley Park Estate	9,230	120	10
<b>Jalco Australia~</b>	10 Interchange Drive, Eastern Creek	15,229	130	8
<b>Amazon#</b>	Oakdale West	191,170	-	20
<b>Concept Logistics~</b>	7 Murtha Street, Arndell Park	12,480	110	5
<b>Marley Spoon#</b>	300 Victoria Street, Wetherill Park	14,200	-	10

# Pre-commitment    ^ Lease of speculatively developed space    ~ Existing space

# SOUTH WEST

*Demand driven by retail occupiers*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD

**118,542**

28% BELOW PREVIOUS PERIOD (H1 2020)

PRIME RENT (\$/SQM) NET

**112**

+1% YOY

MOST ACTIVE SECTOR

**45%**

RETAIL TRADE

### SUPPLY

VACANCY (SQM)

**114,170**

+33% YOY

NEW DEVELOPMENT (SQM)

**163,486**

Estimated 2020

SPECULATIVE STOCK (SQM)

**34,566**

COMPLETED OR U/C

### South West Rents

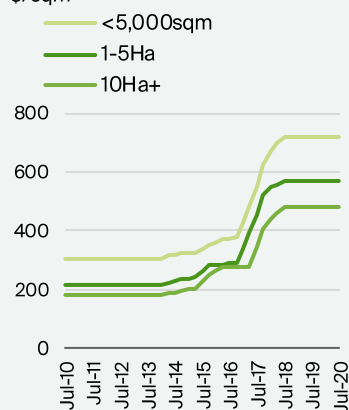
\$/sqm net face



Source: Knight Frank Research

### South West Land Values

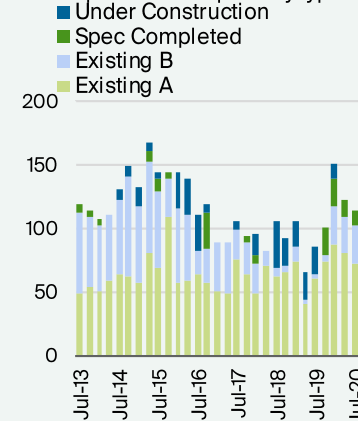
\$/sqm



Source: Knight Frank Research

### South West Vacancy

'000sqm available space by type



Source: Knight Frank Research

## KEY TRENDS

- New Development has been concentrated around Moorebank Logistics Park with c91,000sqm.
- Significant sale was 10 Burando Road, Prestons for \$175.4m, part of the Aldi Portfolio.
- Prime yields 5.60% as at July-20.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>Woolworths#</b>	Moorebank Logistics Park	40,700	-	20
<b>Trinity Windows~</b>	Moorebank Logistics Park	7,610	91	5
<b>Livingstone Group^</b>	Prestons Industrial Estate	12,065	110	7
<b>ATS Building Supplies^</b>	Moorebank Logistics Park	12,501	125	5
<b>Manheim Auctions~</b>	3-7 Moorebank Avenue, Moorebank	5,978	117	3

# Pre-commitment    ^ Lease of speculatively developed space    ~Existing space

# INNER WEST

*New developments on the horizon*

## HIGHLIGHTS

### DEMAND

TAKE-UP (SQM) YTD

**54,558**

32% BELOW PREVIOUS PERIOD (H1 2020)

PRIME RENT (\$/SQM) NET

**129**

UNCHANGED YOY

MOST ACTIVE SECTOR

**80%**

TRANSPORT & WAREHOUSE

### SUPPLY

VACANCY (SQM)

**107,728**

+33% YOY

NEW DEVELOPMENT (SQM)

**108,665**

Estimated 2020

SPECULATIVE STOCK (SQM)

**54,675**

COMPLETED OR U/C

### Inner West Rents

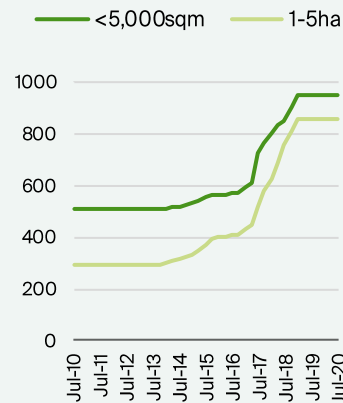
\$/sqm net face



Source: Knight Frank Research

### Inner West Land Values

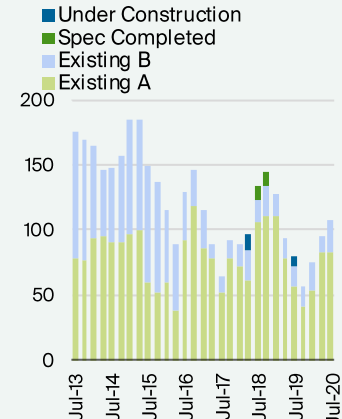
\$/sqm



Source: Knight Frank Research

### Inner West Vacancy

'000sqm available by space



Source: Knight Frank Research

## KEY TRENDS

- Dexus the most active developer in the precinct with Loop Logistics Hub (57,000sqm) and 2-8 South Street (10,000sqm) currently U/C.
- Vacancy levels are 27% below the historical average.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>Go Logistics~</b>	29-33 Carter Street, Lidcombe	13,675	122	-
<b>Winit Trade#</b>	Loop Logistics Park, South Granville	20,500	135	10
<b>Nan Electrical</b>	6 Carter Street, Lidcombe	3,970	-	2
<b>TCK Alliance~</b>	93-121 Lisbon Street, Fairfield East	2,187	130	3

# Pre-commitment ^ Lease of speculatively developed space ~ Existing space



# SOUTH

*Market remains tightly held*

## HIGHLIGHTS

### DEMAND

PRIME RENT (\$/SQM) NET

**201**

UNCHANGED YOY

PRIME RENT BUSINESS SPACE  
(\$/SQM) NET

**261**

UNCHANGED YOY

PRIME YIELDS

**4.75%-5.00%**

UNCHANGED YOY

### SUPPLY

VACANCY (SQM)

**43,848**

UNCHANGED QoQ

NEW DEVELOPMENT (SQM)

**36,222**

Estimated 2020

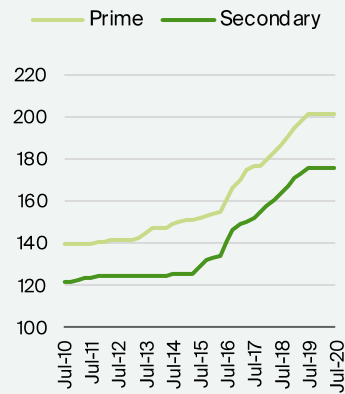
SPECULATIVE STOCK (SQM)

-

COMPLETED OR U/C

#### South Sydney Rents

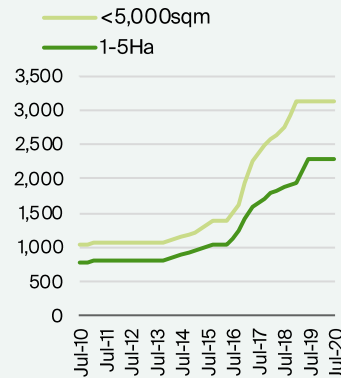
\$/sqm net face



Source: Knight Frank Research

#### South Land Values

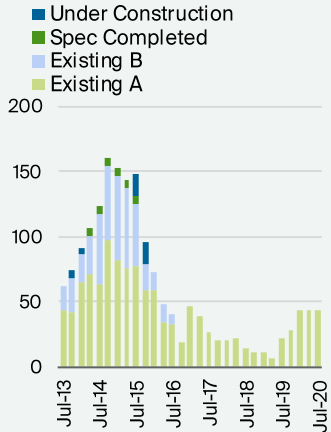
\$/sqm



Source: Knight Frank Research

#### South Sydney Vacancy

'000sqm available space by type



Source: Knight Frank Research

## KEY TRENDS

- Development activity is constrained due to the limited availability of land.
- Tightest vacancy across all precincts.

## Recent significant tenant commitments

OCCUPIER	PROPERTY	SIZE SQM	NET RENT \$/SQM	TERM
<b>Glassons Australia~</b>	11 Lord Street, Botany	2,910	235	5
<b>El Cafetero~</b>	25 hale Street, Botany	452	288	10
<b>Shadbolt Group~</b>	14-16 Green Street Banskmeadow	200	200	1
<b>Notaras Fish Markets~</b>	2-31 O'Riordan Street, Alexandria	623	295	5

# Pre-commitment ^ Lease of speculatively developed space ~Existing space



## DATA DIGEST

**Prime Grade:** Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

**Secondary Grade:** 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 when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

**WALE:** Weighted Average Lease Expiry

**Vacancy Methodology:**

This analysis collects and tabulates data detailing vacancies (5,000m<sup>2</sup>+) within industrial properties across all of the Sydney Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

**We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.**



**Research**

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



**Research**

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



**Research**

Ben Burston  
+61 2 9036 6756  
Ben.Burston@au.knightfrank.com



**Industrial**

Mark Silva  
+61 2 9036 6889  
Mark.Silva@au.knightfrank.com



**Valuations**

Alistair Carpenter  
+61 2 9036 6662  
Alistair.Carpenter@au.knightfrank.com

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