

BANKSTOWN INSIGHT

FEBRUARY 2015



Key Findings

Population growth across South West Sydney expected to average 18,675 persons per annum between 2013 and 2031

Bankstown set to experience **employment growth of around 13,000 workers over the next 20 years**, a result of a shift from manufacturing based industry to service sector employment

Bankstown CBD is encouraged by Council to become a mixed-use centre. Current zoning restrictions likely to see developers pursue residential formats ahead of office developments

Tightening of office vacancy to 1.6% and limited future supply in Bankstown placing upward pressure on rents and downward pressure on incentives

Bankstown experienced one of the **highest increases in residential land values (29%) across the Sydney metro region** during the latest financial year

Annual apartment sales and rental values are estimated to have increased by 17.5% and 4% respectively to December 2014

Infrastructure improvements and a focus by Government to prioritise the growth of strategic centres will preserve Bankstown's position as one of the economic focal points within SW Sydney

HIGHLIGHTS

Situated closer to the Sydney CBD than major office hub Parramatta, Bankstown is in a designated growth area, and is a key strategic centre, transport gateway and economic focal point servicing the South West (SW) Sydney region. Bankstown's relative proximity and accessibility to the CBD and surrounding suburbs, via the M5 Motorway and rail network, will improve further over the coming years as key infrastructure is upgraded. This will be a significant enabler for economic development, linking people to jobs, homes and acting as a catalyst for regeneration.

The Bankstown economy is in a transitional period with manufacturing based employment declining and making way for service sector employment. However, as at January 2015 the office vacancy rate within Bankstown is already low at 1.6%. Over the coming years demand for office space is expected to strengthen further, underpinned by improving business conditions, a growing population base and a general push by government departments to relocate to centres outside of the core Sydney CBD.

Although there has been some modest firming in office yields, so far in the property cycle

suburban assets are yet to reflect the yield compression of the CBD and other core markets and are subsequently trading on a relatively large discount to core locations.

As residential land values, sales values, and rents across Bankstown increase, the highest and best use of possible development sites will naturally be residential. With the Council promoting residential development through current zoning, Bankstown is likely to see future growth of residential apartment units ahead of commercial office space.

As Bankstown will have little new office supply, alongside further growth in service industries, we foresee vacancy risk to remain extremely low. Coupled with lower incentives than major competing Sydney metro markets, we expect office yields to tighten going forward.

Bankstown is likely to experience significant change during Sydney's next economic cycle. Its strategic location within a larger growth area, its accessible transport infrastructure and its relatively low property values means that it will draw attention to its potential, as has already occurred in areas even closer to the Sydney CBD. Regeneration will further increase the attractiveness of Bankstown as a place to live, work and invest.

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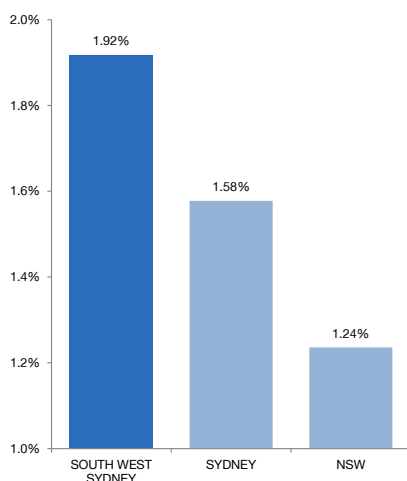
Economic, employment and non-CBD office market trends are positive

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Residential Development

Prospects for residential development appear strong as values increase and demand remains solid

FIGURE 1
Annual Projected Population Growth Rates
2011 - 2031



Source: NSW DP&E, Knight Frank

INTRODUCTION

MARKET IN CONTEXT

The next wave of real estate and growth opportunities across Sydney, over the next 10 years and beyond, will be focused throughout the Western corridor.

According to the NSW Government's December 2014 strategy document *A Plan For Growing Sydney*, Western Sydney currently has around 47% of Sydney's residents, 36% of Sydney's jobs and one-third of Sydney's Gross Regional Product. In addition, many Western Sydney residents must travel outside of the region for work, particularly for well-paid knowledge-based jobs. Around 28% of the resident workforce, or close to 226,000 people, travel to other parts of the city to get to work.

Future projections point towards Western Sydney growing faster than other parts of Sydney with estimates of one million more people living west of Homebush by 2031.

The outlook for population growth in the SW region of the Western corridor of Sydney is no different. Significant population growth is expected to occur off the back of large residential infill and greenfield projects. For the purpose of this report, we have defined SW Sydney as the following Local Government Areas (LGAs): Bankstown, Camden, Campbelltown, Fairfield and Liverpool.

Over the next 20 years, Sydney's SW is projected to experience population growth in the order of 1.92% per annum (see Figure 1). This is significantly above the rate of growth expected for both the broader Sydney region and NSW, at 1.58% and 1.24% respectively. In turn, the SW region is expected to accommodate approximately 1.15 million residents by 2031. In response to the anticipated growth, substantial infrastructure projects are either underway or planned throughout the region.

BANKSTOWN

Bankstown is a large vibrant city located approximately 20km south-west of the Sydney CBD, accommodating over 57,000 households, 350 parks and sporting reserves. Bankstown was identified as a "Major Centre" in the NSW Government's Metropolitan Strategy and the LGA is home to almost 200,000 people and 55,000 jobs across all different industries.

As discussed in *Bankstown's Economic Development Strategy 2014-17* Bankstown CBD is the main business, shopping and administrative centre for the southern areas of the West Central Sub-region. The most significant asset for the CBD is its ease of public transport accessibility, through the Bus/Rail Interchange, which acts as a focus for seven regional bus routes.

Bankstown is also home to Bankstown Airport, the largest general aviation airport in the southern hemisphere. The airport could see considerable growth over the next 20 years as a Master Plan, containing initiatives to boost investment and employment, including the potential to increase passenger services, is soon to be published.

The economic strategy document also highlights the diversity of retail services, strengthened by the Bankstown Central shopping complex, originally built in 1966, and still acts as a major attraction. The Centre, located in the CBD, has been expanded on numerous occasions and is now over 85,800 m² in size with over 16 million visitors per annum. The Centre, anchored by Myer, Big W, Target, Kmart, Woolworths, Supa IGA and over 310 specialty stores also includes two fresh food precincts. However, the Bankstown CBD has a critical shortage of A-Grade office space, which limits opportunities to attract high-end service businesses.

The wider area is also home to one of University of Western Sydney's campuses and Bankstown College of the South-Western Sydney Institute of TAFE, which attract students from all over Sydney and abroad to study.

PLANNING FOR GROWTH

BANKSTOWN & WIDER SOUTH WEST SYDNEY

Strategic centres and transport gateways are Sydney's largest and most important hubs for business and employment. Together, they account for 43% of all jobs across Sydney (NSW Government).

Bankstown is one of these strategic centres and also sits within an area categorised as an Enterprise Corridor (see Map 1). Business growth will be focused throughout this corridor going forward, and will be facilitated with the completion of the Sydney Rapid Transit, improving the linkage from Bankstown to the CBD, and by improving the surrounding road network.

Infrastructure Improvements

The proposed Sydney Rapid Transit will provide improvements to the Bankstown Rail Line and will provide significant new capacity to the network. New housing and employment opportunities will be concentrated in the environs of the rail corridor, to exploit the growth in network capacity and transport frequency.

Accordingly, the state Government indicates in their latest strategy document that they are preparing to "undertake detailed structure planning around each train station to identify capacity for an increase in housing supply, focused in areas with good amenity, close to existing and planned mixed-use centres and close to public transport access points. Capacity for long-term jobs growth, especially in and around Bankstown will be investigated."

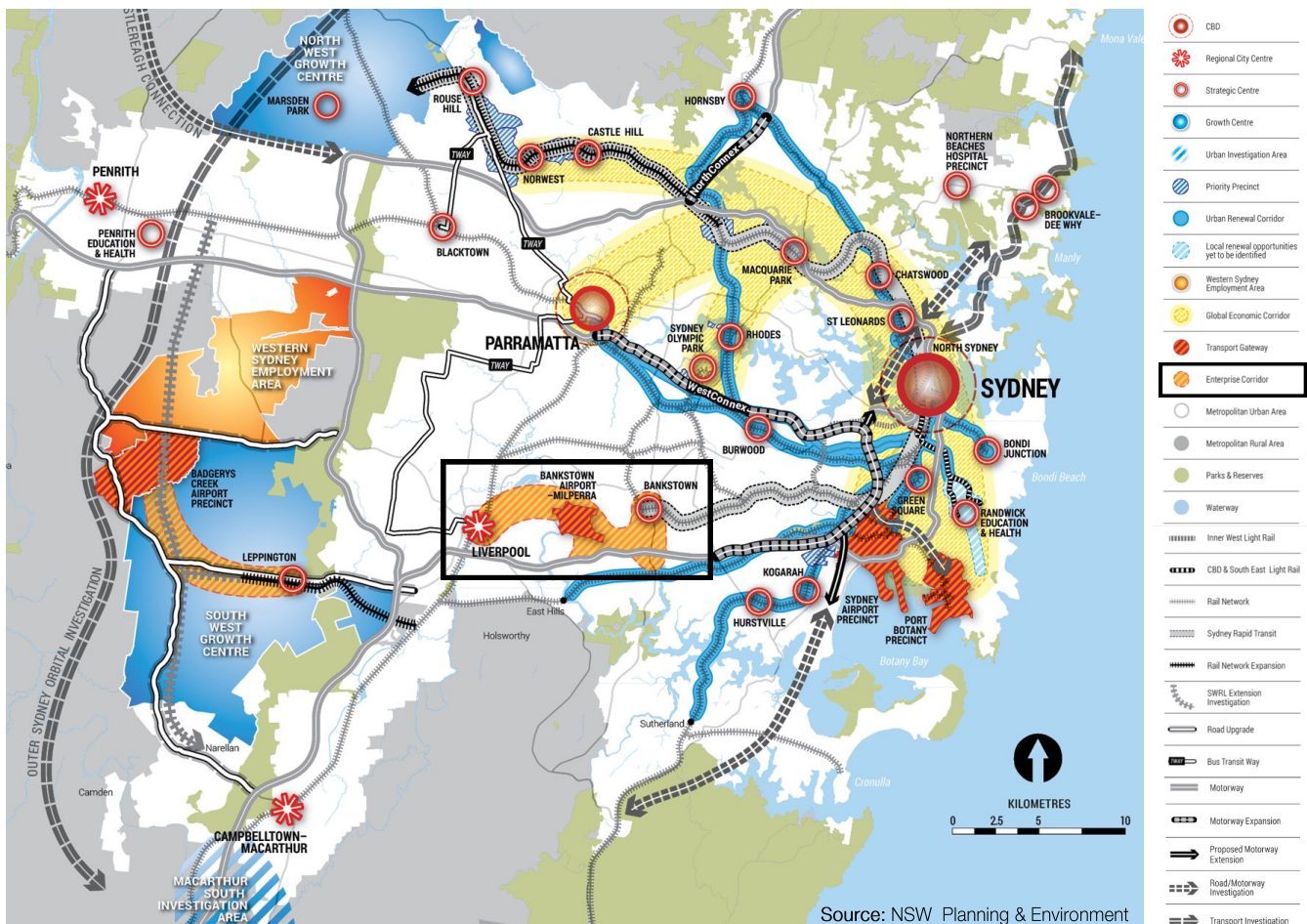
Additional road developments will also serve to improve the current traffic congestion experienced in Bankstown and its surrounds and will provide an overall improved amenity to suburbs. With less traffic congestion, retail and commercial uses are anticipated to increase, whilst improving accessibility for existing residents to access the CBD, airport and regional areas of the State. Furthermore, suburbs within the vicinity of these proposed road upgrades are forecast to become more attractive to residents and businesses, and will inspire new development.

Strategic centres and transport gateways will be the focus of future growth and will deliver the highest returns to Sydney, in respect of infrastructure, land, social and environmental costs. By encouraging and supporting investment into strategic centres the government is eliminating barriers for further investment, promoting social improvement and encouraging economic activity.

MAP 1

A Plan for Growing Sydney - Connecting Jobs and Homes

Bankstown's position as a strategic centre and transport gateway



GROWTH CONTINUED

Local Market Demographics

In the wake of the house price surges during 2002 and 2003, population growth in Sydney's SW eased as a large number of young adults choose the more attractive inner ring rental markets as dwelling values in SW Sydney became unaffordable. However from 2006 onwards, population growth recovered, where growth has averaged over 12,000 persons per annum (see Figure 2).

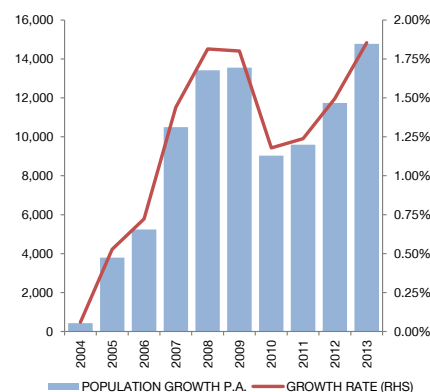
As at June 2013 (latest available estimates), the population within SW Sydney was 811,542 which represents almost 20% of Sydney's total population.

For Bankstown, the LGA had a total population of 196,974, making it the 6th most populous LGA within NSW.

The region has a diverse and ever changing demographic structure. On one hand a significant proportion of its population is ageing, whilst on the other the youngest age cohorts (0-19) make up the largest share of the population. This is reflected in the strong presence of family households within the region (63% of total). These influences continue to shape the population and economic landscape of Bankstown and the broader SW region.

Over the five years to June 2013, the

FIGURE 2
**South West Sydney Historical
Population Growth**
Population number



Source: ABS, Knight Frank

TABLE 1
Population Growth by Age, South West Sydney

| Age Cohort | 2008 | 2013 | 2013 % | Growth (2008-2013) | % Growth p.a. |
|--------------|----------------|----------------|---------------|--------------------|---------------|
| 0-19 | 225,240 | 233,322 | 28.8% | 8,082 | 0.7% |
| 20-39 | 219,618 | 232,693 | 28.7% | 13,075 | 1.2% |
| 40-54 | 156,058 | 164,170 | 20.2% | 8,112 | 1.0% |
| 55-64 | 74,380 | 87,590 | 10.8% | 13,210 | 3.3% |
| 65+ | 77,552 | 93,767 | 11.6% | 16,215 | 3.9% |
| Total | 752,848 | 811,542 | 100.0% | 58,694 | 1.5% |

Source: ABS, Knight Frank

fastest growing age cohorts within the region were persons aged 55-64 and 65+ which grew at 3.3% and 3.9% per annum respectively, which is over double the 1.5% average recorded across all age cohorts.

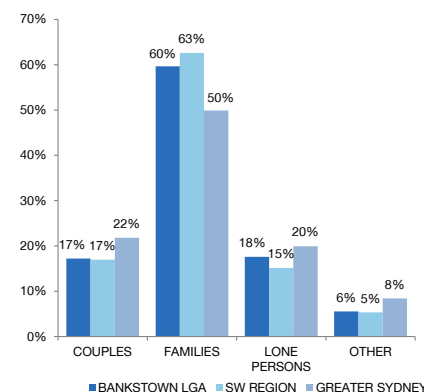
The 20-39 age cohort has undergone a rapid turnaround in recent years. Previously, the attraction of the inner suburbs of Sydney for employment and education opportunities ensured the enduring outflow of young adults in their late teens and twenties, particularly as house prices increased significantly across the city. However, the surge in inner ring rentals and persistently low interest rates meant that these people returned to the more affordable major centres (such as Bankstown) outside of the inner ring.

With ageing comes both significant challenges and opportunities. Ageing of the local population will emerge as the

dominant influence for both housing and employment demand, with a large retirement rate expected over the next 10-15 years. On the positive, this will provide opportunities for younger residents to gain employment close to where they live, which is essential as persons aged 20-39 account for almost 30% of the region's population.

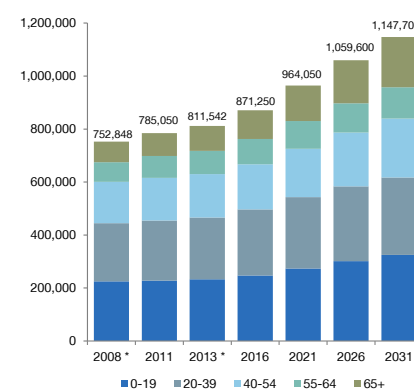
Looking ahead, strong population growth is expected to eventuate over the next 20 years, underpinned by significant infrastructure works, residential housing estates and the area's attractiveness amongst families. According to the NSW Department of Planning and Environment, Sydney's SW is set to have a population of 1,147,700 by 2031, which indicates growth of 18,675 persons per annum between 2013 and 2031. Current trends are expected to continue with superior growth expected amongst persons aged 65+.

FIGURE 3
Household Composition, Bankstown vs. Wider Area
2011 Census



Source: ABS, Knight Frank

FIGURE 4
**South West Sydney Population
Growth Projections by Age**
2011-2031



Source: NSW DP&E, ABS*, Knight Frank

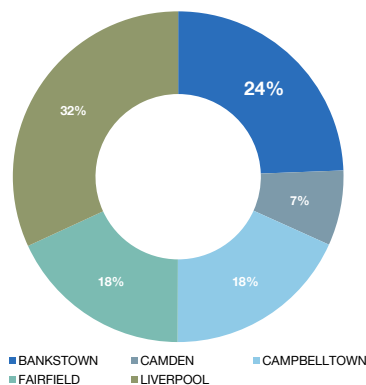
OFFICE MARKET

Economy

Bankstown has been one of the economic focal points within South Western Sydney ever since it was established as a key employment node in between the major centres of the Sydney CBD and Liverpool.

As at the 2011 Census, Bankstown accounted for 26% of total jobs within Sydney's SW, only behind Liverpool, while 24% of the region's white collar workforce were based in Bankstown (see Figure 5). At the same time, a large share of white collar workers in Bankstown live outside the LGA, with just 33% living within the LGA boundaries. On that score, a large proportion of the area's economic wellbeing is heavily reliant on Bankstown. For the LGA itself, the local economy continues to grow in size with Gross Regional Product estimated at \$8.6 billion, as at June 2013, which is an increase of 4.5% from the level recorded in 2006 (.id/ABS/NIEIR estimates).

FIGURE 5
Share of White Collar Jobs within the Region
South West Sydney (2011)



Source: ABS, Knight Frank

Employment

The LGA is characterised by a diverse range of employment types with manufacturing, health care, education and training and retail trade industries being the core sectors. **Historically, employment in Bankstown had been dominated by manufacturing, however more recently the LGA has experienced a shift towards higher order**

professional sectors. Jobs growth has been solid in these industries, except for manufacturing where job losses have occurred, which reflects the recent employment readjustment for the broader Sydney region with a pronounced shift of industrial land further west.

As at the 2011 Census, Bankstown LGA supported 55,318 jobs, where 8,215 were within dominant white collar industries (which require office space). Over the five years to 2011, the two largest employing white collar industries of professional, scientific & technical services and administrative & support services experienced annual growth of 3.4% and 1.1% respectively, reflecting the LGA's transition towards knowledge based services.

Demand Projections

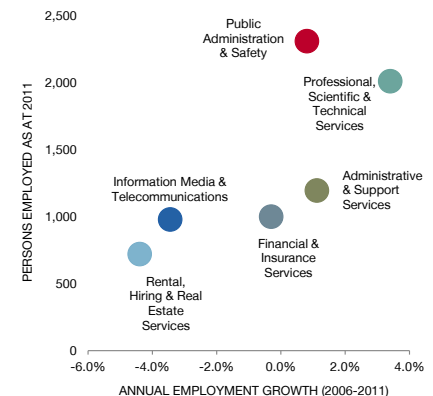
Looking ahead, Bankstown is anticipated to experience employment growth in the order of 13,000 (or 650 per annum) over the next 20 years. A large proportion of this growth is anticipated over the next 5 years off the back of strong population growth projections (BTS estimates).

From a white collar perspective, approximately 1,200 additional jobs (growth of 15%) are expected to eventuate over the same period. Based on a conservative office density ratio of 25m² per worker, this equates to 30,000m² of office space demand over the next 20 years. Given that a share of this will be absorbed in existing office provisions, if and when backfill eventuates, we estimate the need to be in the order of 20,000m².

Government Decentralisation

In the past, the Sydney CBD represented the main administrative location for larger State and Federal Government departments in NSW, with Parramatta CBD being the key Western Sydney administrative centre. However, in recent years there have been a spate of public sector relocations from the Sydney CBD to 'regional' major commercial hubs within

FIGURE 6
Employment and Employment Growth
White Collar Industries (2006-2011)

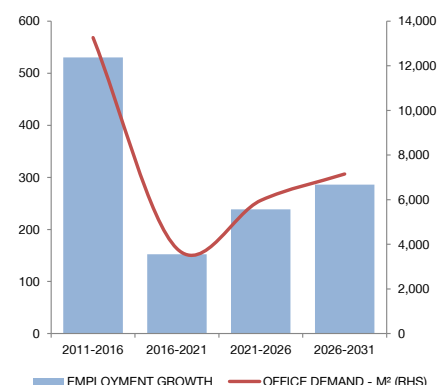


Source: ABS, Knight Frank

Western Sydney. Examples include both NSW Police and Government Property NSW relocating to Parramatta. This movement has been facilitated by the abolition of a 'no pre-commitment' policy in 2012.

As a result, Western Sydney has become the most favoured location given the region's population and employment growth prospects and proximity to the Sydney CBD. **With many government departments now locked into long-term lease agreements within the major centres of Parramatta and Penrith, the availability of large contiguous office space has become increasingly rare. Subsequently, Bankstown is well placed to capture any spillover and capitalise on the general push by government departments to establish a presence within regional centres.**

FIGURE 7
Bankstown Employment Growth & Office Demand
White Collar Industries (2011-2031)



Source: BTS, Knight Frank

Non-CBD Investment Trends

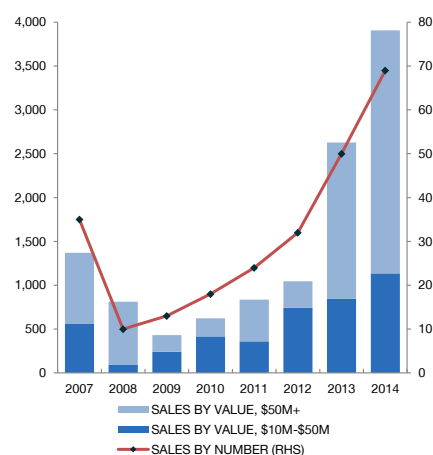
Due to decentralisation of employment, extremely strong investment demand and redevelopment opportunities, Australian non-CBD office sales volumes (\$10m+) hit a record high of \$6.69 billion in 2014. 2015 has started strongly, including a handful of pending deals in final negotiations or due diligence.

Analysing only the NSW market, 2014 sales volumes also reached a new market peak of \$3.91 billion. The volume by value was 49% higher than the 2013 total of \$2.63 billion and 185% higher than the 2007 “market peak”. Transaction activity by value and by number have steadily been increasing since 2009, and accelerating from 2012 (see Figure 8).

A contributing factor to this is the recent pick-up in activity of private investors chasing non-core suburban assets in the \$10-\$50 million price bracket. Around \$365 million was invested by private investors in 2014, 150% above the total level recorded within the \$10-\$50 million price bracket for 2013 and \$55 million above 2012 and 2013 combined.

After being small players in the non-CBD markets between 2007 and 2012, offshore investors have now been a dominant purchaser type for the past two years, accounting for 46% of the total sales volume in 2013 and 28%, or \$1.10 billion in 2014.

FIGURE 8
NSW Non-CBD Sales Volumes
\$ mill by value and by number (RHS) - \$10mil+



Source: Knight Frank

Offshore demand has been particularly strong for buildings with redevelopment/change of use potential, however the prime yield firming that has occurred in the Sydney CBD over the past two years has also led to many global European, US and Asian funds actively chasing core assets with secure, long term income in non-core and suburban markets.

Office Market Fundamentals

In sync with the area's transition away from manufacturing towards higher order professional services, the Bankstown office market has experienced a notable turnaround in tenant demand over the past 12 months. **The vacancy rate has fallen from 4.6% to 1.6% off the back of net absorption in the order of 1,856m². This improvement in take-up has primarily occurred in prime grade office stock.**

The overall strength of the Bankstown office market is accentuated in its tight vacancy rate in comparison to Liverpool at 6.7% and the major metro office markets within Sydney (excluding the CBD but including North Sydney, Parramatta, Macquarie Park, Chatswood and Crows Nest/St Leonards) at 8.9% (see Figure 9).

Despite the recent turnaround in tenant demand, growth in average A-grade gross face rents remains subdued in

Bankstown, ranging from \$310-\$350/m². However, prime A-grade stock commands a premium in the order of \$340-\$380/m² net. Looking ahead, the market is anticipated to undergo a period of modest rental growth in line with improved business conditions in NSW. In this environment, we expect to see growth of circa 3% per annum.

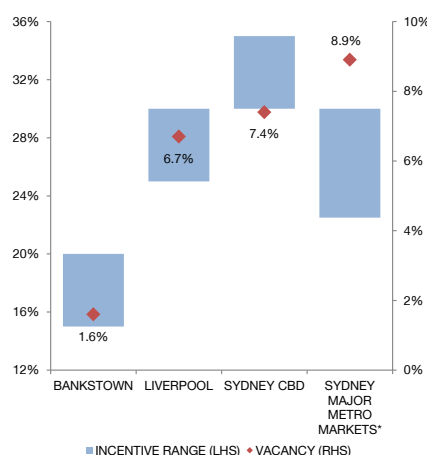
At present incentives range from 15-20% within the area's prime, quality A-grade buildings. At this level, incentives are considerably below other Sydney office markets, such as Liverpool where incentives range from 25-30%, which reflects a lack of available leasing options in Bankstown (see Figure 9).

Perhaps the greatest draw card for the local office market is the lack of forthcoming supply, with the only notable potential addition to supply being the 12,500m² DA approved site at 57 Restwell Street. However, this project has been mooted for a number of years and is heavily reliant on pre-commitments. On that score, we expect the site is unlikely to go ahead as exclusively an office complex. Outside of this, small increments to supply are expected to eventuate as part of mixed-use formats, however their impact on the market will be minimal.

Furthermore, the Bankstown CBD core is encouraged by Council to become a mixed-use centre with the DCP requiring non-residential provisions on the lower levels of development. This amendment and current zoning restrictions is likely to see developers pursue residential formats, which in turn will limit office supply levels within the CBD.

The outlook for the Bankstown office market is favourable, with the recent momentum in the leasing market expected to continue well into 2015 and 2016. **With vacancy diminishing in addition to the likelihood of further office withdrawals for residential, alongside increasing demand for quality space that meets corporate and government standards, vacancy rates and incentives are likely to remain extremely tight.**

FIGURE 9
Office Vacancy & Prime Incentives
By Region, January 2015



Source: PCA, Knight Frank (*includes North Sydney, Parramatta, Macquarie Park, Chatswood and Crows Nest/St Leonards)

RESIDENTIAL DEVELOPMENT

Apartments

Bankstown has seen a rapid increase in residential apartment sales values over the past two years, with the past three quarters showing a sharp acceleration. Latest annual December 2014 data (Residex) shows values have increased by 17.5%, outperforming the Greater Sydney average of 11% (see Figure 10).

As a response to increasing price growth, solid buyer demand, and increased confidence, developers are looking at opportunities within the Bankstown market. **Across the Bankstown LGA apartment approvals for the 2014 financial year were 80% higher than in 2013.** There are signs that development levels will increase further as apartment approvals for the first four months of the 2015 financial year are already above 2007 figures. Our estimates for 2015 show that total dwelling approvals will outnumber 2014.

Although development activity is projected to increase, as a number of potential sites view residential as their highest and best use, there will still be a lack of significant apartment activity within close proximity to Bankstown Station and Bankstown's commercial centre over the short term. The nearest development being the proposed 143 apartment development 500m from the station at 8-14 West Terrace, scheduled for possible completion in 2017.

This growth in development activity has been triggered further by recent growth in the residential investment market. Bankstown is well placed to take advantage of private investors due to its transport links, lower values and positive rental performance. Rents have recorded positive annual growth since 2002, averaging around 5% per annum over the past 15 years.

Land Values

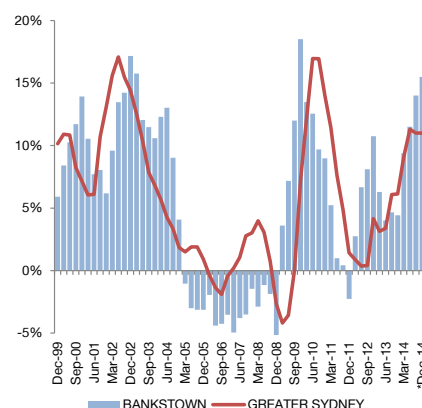
On the back of growing residential demand in core locations land values are being stretched. Overall residential land values for NSW increased by 13.1% in the 12 months to July 2014, compared to a 3.2% increase for the year to July 2013. **Across the Sydney metro region there were five LGAs that experienced growth in residential median land values of over 20% during the last 12 month period. Willoughby experienced the highest increase of 37%, but was followed by Bankstown, with growth of 29.4%, highlighting the areas active appeal and regeneration potential.**

Bankstown will need to increase dwelling density in order to house a growing population. Much of this intensification will occur around transport infrastructure and services, further raising the importance of accessible sites.

FIGURE 10

Apartment Price Growth, Sales

Annual price increase, last 15 years

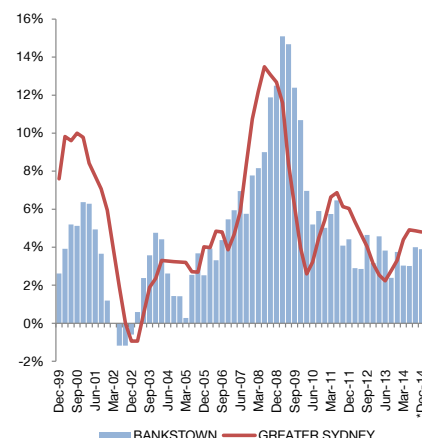


Source: NSW Department of Housing, Knight Frank
*Knight Frank estimates based on Residex Data

FIGURE 11

Apartment Price Growth, Rents

Annual price increase, last 15 years

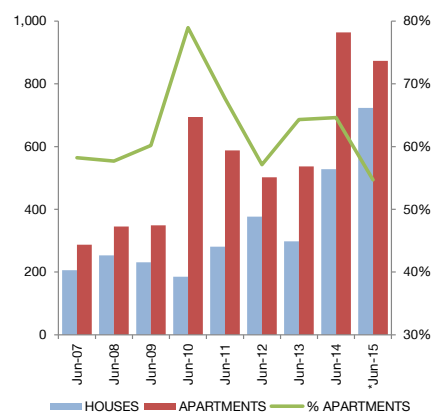


Source: NSW Department of Housing, Knight Frank
*Knight Frank estimates based on Residex Data

FIGURE 12

Residential Approvals, Bankstown

Total number and proportion of apartments



Source: ABS, Knight Frank
*Knight Frank estimates based on ABS Data

TABLE 2

Significant Future Residential Apartment Supply, Bankstown

| Address | Project Stage | Levels | Units | Estimated Completion |
|------------------------|-------------------------|--------|-------|----------------------|
| 350 Hume Highway | Development Application | 8 | 312 | 2018 |
| 348 Hume Highway | Development Application | 8 | 245 | 2017 |
| 196 Stacey Street | Development Approval | 14 | 146 | 2017 |
| 8-14 West Terrace | Development Application | 10 | 143 | 2017 |
| 190-194 Stacey Street | Development Application | 11 | 131 | 2017 |
| 351 Hume Highway | Development Approval | 5 | 110 | 2017 |
| 4-6 French Avenue | Construction | 9 | 97 | 2016 |
| 5-9 & 13 French Avenue | Development Application | 11 | 93 | 2018 |
| 10-12 French Avenue | Development Application | 11 | 69 | 2017 |
| 18-24 Marshall Street | Development Application | 5 | 65 | 2017 |

Source: Cordells, Knight Frank



COMMERCIAL BRIEFING

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Note: Western Sydney has been defined by the Local Government Areas of Auburn, Banks-town, Blacktown, Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Holroyd, Liverpool, Parramatta, Penrith, The Hills and Wollondilly.

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