

SHINING THE SPOTLIGHT ON SYDNEY'S LAND SUPPLY

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Summary

- There appears to be a consensus view that Sydney is facing an industrial land supply shortage
- This is supported by the fact that some inner sub markets have experienced a rapid decline in undeveloped serviced land since 2010
- However in 2016, Sydney recorded an increase in undeveloped serviced land, marking an end to the trend of decreasing stock levels. This supply is concentrated in the North West and South West sub markets
- After carrying out a supply/demand analysis we forecast between 6 to 10 years of industrial land supply left. However factoring in 'potential future employment land areas' there is forecasted to be between 14 and 24 years of supply
- Strong take-up of western Sydney industrial land expected to continue, as supported by state planning frameworks, new infrastructure projects, and site/land suitability.

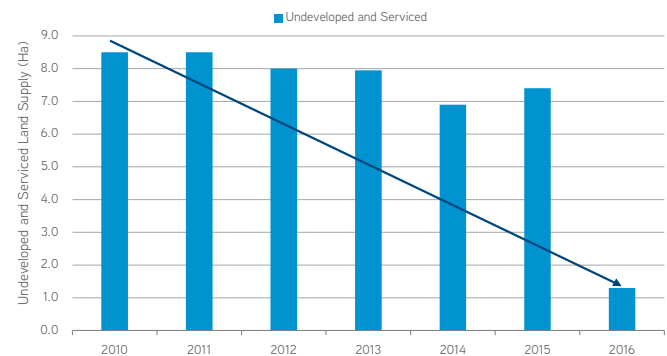
Trend

There appears to be a consensus view that Sydney is facing an industrial land supply shortage. This is supported by the fact that some inner sub markets have experienced a rapid decline in undeveloped serviced land over the past few years (2010 to 2016). Particularly against the backdrop of an increasing number of industrial rezonings (approvals and applications) to accommodate residential and mixed use developments. These rezonings / 'withdrawals' of industrial stock within the inner and middle ring areas is reflected in the following key findings:

- Historically, the South market has experienced the greatest annual rate of decline in undeveloped serviced land, with the annual average rate of decrease at 27 per cent between 2010 and 2016

- The Inner West market has recorded the fastest annual growth in land development over past two years at 13 per cent, subsequently the stock of undeveloped land has diminished
- Sydney's total stock of undeveloped serviced land has been decreasing as this land has been shifting to developed stock.

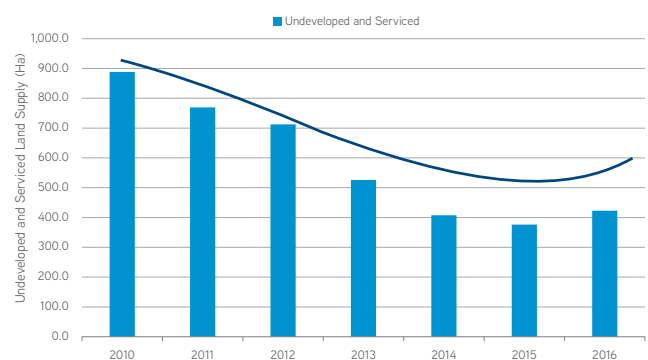
South Submarket Undeveloped and Serviced Industrial Land (2010 to 2016)



To note: includes precincts with over 5 ha of undeveloped and serviced zoned land
 Source: ELDM / Colliers International

However in 2016, the Sydney Metropolitan Area recorded an increase in undeveloped serviced land, marking an end to the trend of decreasing stock levels. This supply increase is concentrated in the Outer West sub market, with unserviced land becoming serviced and developable.

Sydney's Total Undeveloped and Serviced Industrial Land (2010 to 2016)



To note: includes precincts with over 5 ha of undeveloped and serviced zoned land
 Source: ELDM / Colliers International

Current supply

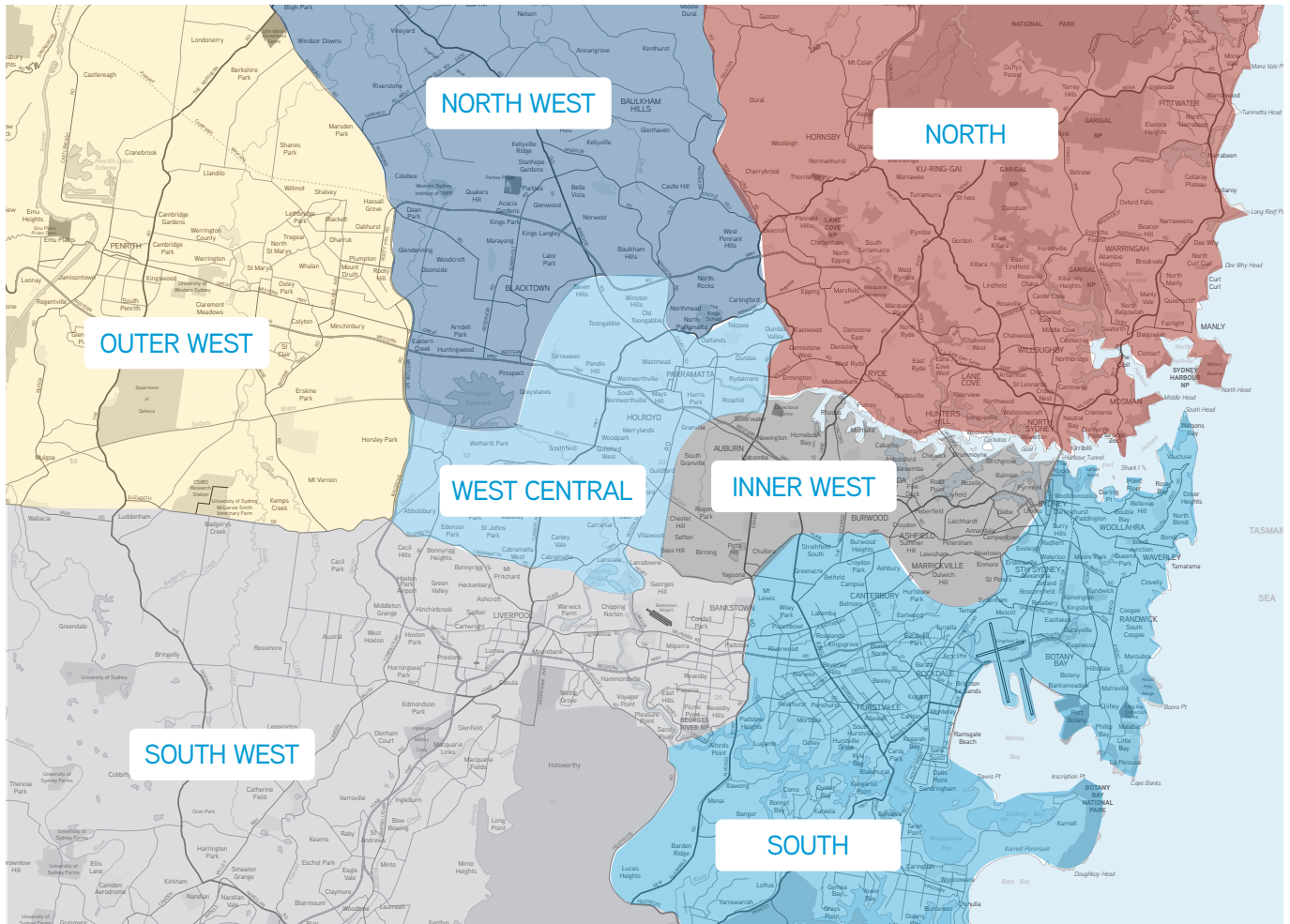
The NSW Department of Planning and Environment in early 2017 released an update on their previously known document 'Employment Lands Development Program', now the 'Employment Lands Development Monitor' (ELDM). The ELDM provides quantitative data on the current and projected stock level and location of industrial zoned land (i.e. IN1-IN4) and business parks across the Sydney Metropolitan Area. The location of current and planned supply of industrial land is also shown. This allows for the following:

- Measure the adequacy of supply to accommodate/support industry growth (demand-supply gap analysis)

- Identify and assess which areas have either short, or, medium to long term growth potential in accommodating industrial users. This is based on the amount of serviced, versus unserved, undeveloped land
- Observe the historic trend of land take-up, stock withdrawals/additions, future/planned industrial zoned areas (by sub-market) to determine the movement/demand for industrial users and space moving forward.

According to the ELDM there is currently 13,576 hectares of industrial zoned land. The share of this supply by sub-market is shown in the diagram below.

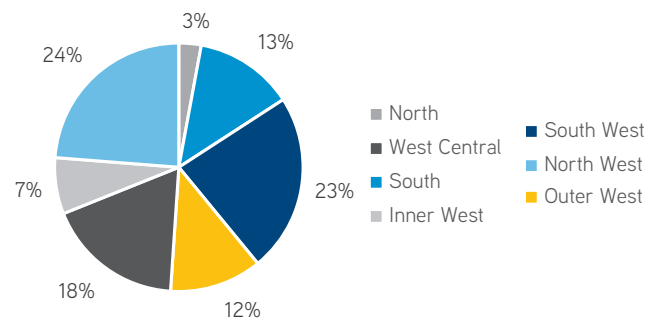
As seen in the map, industrial supply is concentrated in the North West and South West markets.



Sub-Market	Industrial Zoned Land (Hectares)	Share of Land Supply
North	395.3	3%
South	1755.1	13%
South West	3151.4	23%
Outer West	1631.9	12%
West Central	2423.2	18%
Inner West	994.5	7%
North West	3225	24%
Total	13576.4	100%

Source: Colliers Research

Share of Total Industrial Land Supply (2016)



Source: Colliers International



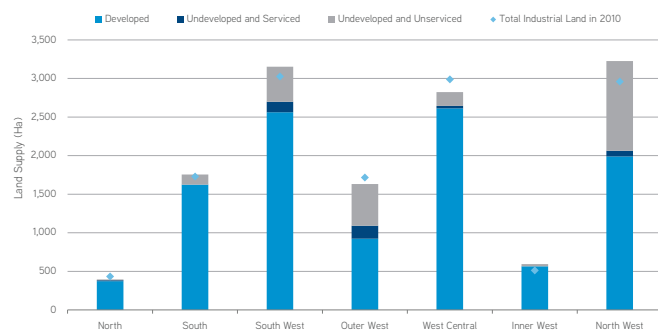
Undeveloped Serviced vs Undeveloped Unserviced

There is currently 423 ha of undeveloped serviced land, and 2,505 ha of undeveloped unserviced land in Sydney.

Undeveloped land that is serviced has greater scope to accommodate users in the short to medium term – i.e. these lands have lead-in water and wastewater infrastructure available for connection.

It is important to note that total undeveloped land may overstate actual supply. Undeveloped land does not equate to potential ‘developable’ land, as land required for roads, infrastructure requirements and environmental considerations is not deducted from total area size.

Industrial Zoned Land Supply Developed vs. Undeveloped (2016)



To note: ‘undeveloped and serviced refers to current industrial lands where sewerage / portable water service may be available for connection based on Sydney Water Source: ELDM / Colliers

Sub-Market	Precinct	Area (Ha)	%
South West	Catherine Fields	73	1.0%
	Future Industrial (Camden LGA)	88	1.3%
	Future Industrial (Liverpool LGA)	1,125	16.1%
	Lowes Creek	88	1.3%
	Lowes Creek/Marylands	64	0.9%
	Marylands	26	0.4%
	Glen Lee (Camden)	38	0.5%
	Glen Lee (Campbelltown)	112	1.6%
	Kemps Creek	447	6.4%
	Rossmore	40	0.6%
	Moorebank Defence Lands	336	4.8%
	Western Sydney Employment Area Extension	392	5.6%
Outer West	Western Sydney Employment Area Extension	4,145	59.5%
Total	Sydney Metropolitan Area	6,973	100.0%

Source: Colliers Research

Non-Industrial Zoned

Non-industrial zoned areas that also permit some industrial activity should also be considered when assessing adequate land supply. These zones include the following, and can add up to 15-20% to the total pool of industrial zoned land in Sydney:

- B5 Business Development
- B6 Enterprise Corridor
- B7 Business Park

Future ‘Employment’ Land

Land Release Areas

The table below identifies employment land precincts proposed to be rezoned for ‘employment use’, therefore may also accommodate commercial and retail uses. The potential future employment land, which has been identified in endorsed NSW Government / council documents (e.g. A Plan for Growing Sydney, Growth Centre Structure Plans) will significantly add to the existing stock of undeveloped industrial land in the future. It is important to note that these areas are still under investigation and therefore total area may be overstated.

Western Sydney Employment Area

The Western Sydney Employment Area (WSEA) encompasses 1,960 hectares of industrial zoned land, located around the M4 / M7 interchange. There is a further 4,500 hectares of land under investigation for employment uses as part of a new Land Use and Infrastructure Strategy for the Western Sydney Priority Growth Area. This does not include the planned second Sydney airport site at Badgerys Creek Airport (around 1,780 hectares).

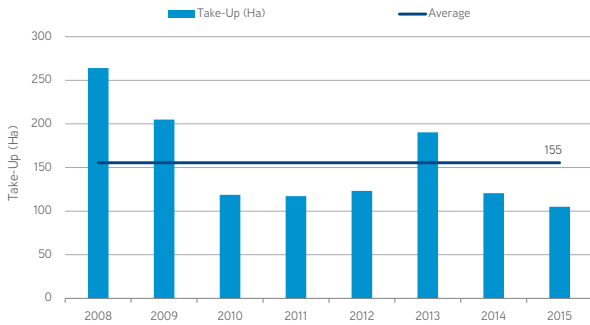
WSEA has been established by the state government to provide businesses in the region with land for industry and employment, catering for transport and logistics, warehousing and commercial space. Moving forward, Western Sydney Employment Area in particular has competitive advantages for manufacturing operations in terms of access to workforce, available land area, and separation from sensitive land uses such as residential. It is well placed to accommodate ‘upsizers’ with reasonable supply of large sites which are limited elsewhere in the Sydney region; with these groups diversifying from local manufacturing into import and distribution models requiring additional floorspace.

Industrial land demand assessment

Historic Land Take-Up

Between 2008 and 2015 the average annual take-up rate of industrial land was 155 ha. The majority of land take-up was concentrated in the West and North West market over the period.

Take-Up Trend of Industrial Land (2008 to 2015)



Source: Colliers International

Projected Land Demand

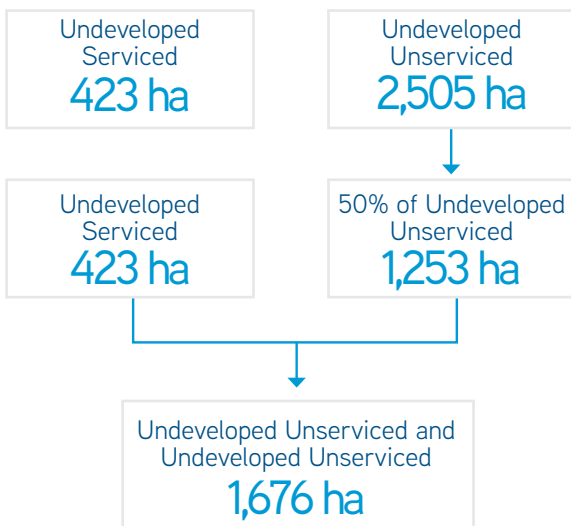
In order to determine the demand for land moving forward, the average historic land take-up rate have been applied (i.e. 155 ha per annum). This average will be considered the 'base case'. A 'high case' of 270 ha per annum (based on the highest take-up recorded over 2008 to 2015) scenario has also been considered in order to deduce a range in the years of supply left.

BASE CASE » 155 ha per annum
HIGH » 270 ha per annum

Supply/Demand Gap

Given that there is currently 423 ha of undeveloped serviced land, and taking into account half of the undeveloped unserviced land (i.e. 1,253 ha) equates to 1,676 ha of total land supply.

To note: Only half of the total undeveloped underserviced land has been added to the total supply calculations in order to take into account land required for roads, infrastructure requirements and environmental considerations, as well as possible future planning changes to alternate uses (such as residential, retail, commercial land uses).



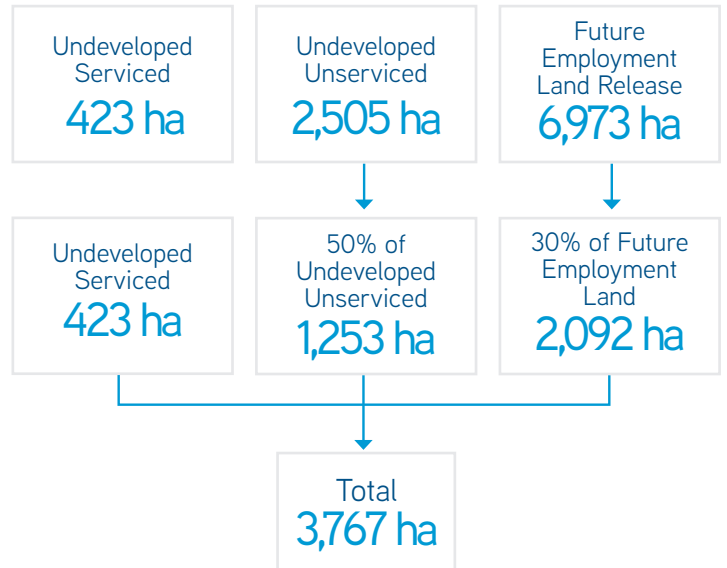
How Many Years of Supply Left? Based on 1,676 ha Total Industrial Land Supply

Case	Land Take-Up Rate (per annum)	Years of Supply Left
Base Case	155 ha	≈ 10 years
High Case	270 ha	≈ 6 years

Source: Colliers Research

In addition to undeveloped land, taking into account around 30 per cent of the total area set for future employment land release (i.e. 2,092 ha) equates to 3,767 ha of total land supply.

To note: Only 30 per cent of the total potential future employment land area has been added to the total supply calculations, as these areas are subject to further investigations at the precinct planning stage to assess suitability for development (e.g. riparian corridors, slope, vegetation, transport corridors, local roads and lot fragmentation). Furthermore, these areas are set for 'employment' uses and therefore also encompass retail and commercial space.



How Many Years of Supply Left? Based on 3,767 ha Total Industrial Land Supply

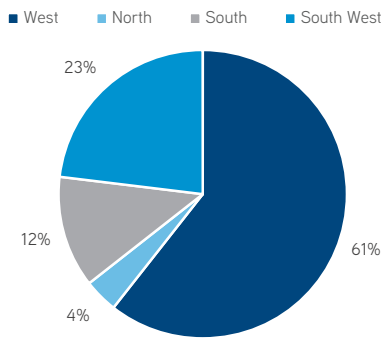
Case	Land Take-Up Rate (per annum)	Years of Supply Left
Base Case	155 ha	≈ 24 years
High Case	270 ha	≈ 14 years

Source: Colliers Research

Outlook

Given that there has been large fluctuations in the annual take-up of industrial land over the past few years, we forecast that land take-up will rise for the western Sydney sub-markets over the medium to long-run. Historic land-take up and the projected industrial development pipeline indicate that the greatest proportion of activity has been and will continue to be concentrated within the west.

Share of Supply to be Delivered between 2017 and 2020



Source: Colliers International

The strong take-up of sites within the western markets has been due to the shift in preference for industrial users. This is particularly noticeable for large users within the manufacturing and logistics industry sectors who would rather relocate than renew leases in order to increase supply chain efficiencies and reap the benefits of the following:

- Relatively cheaper land values and net face rents - land values in the west averaging at \$435/sqm are currently around 40% lower than the Sydney average, and prime grade net face rents averaging at \$123/sqm are 15% lower than the Sydney average (as at Q4 2016)
- Availability of large sites

- Availability of custom built facilities to meet modern industry requirements, as well as purpose built infrastructure to accommodate large heavy vehicles.

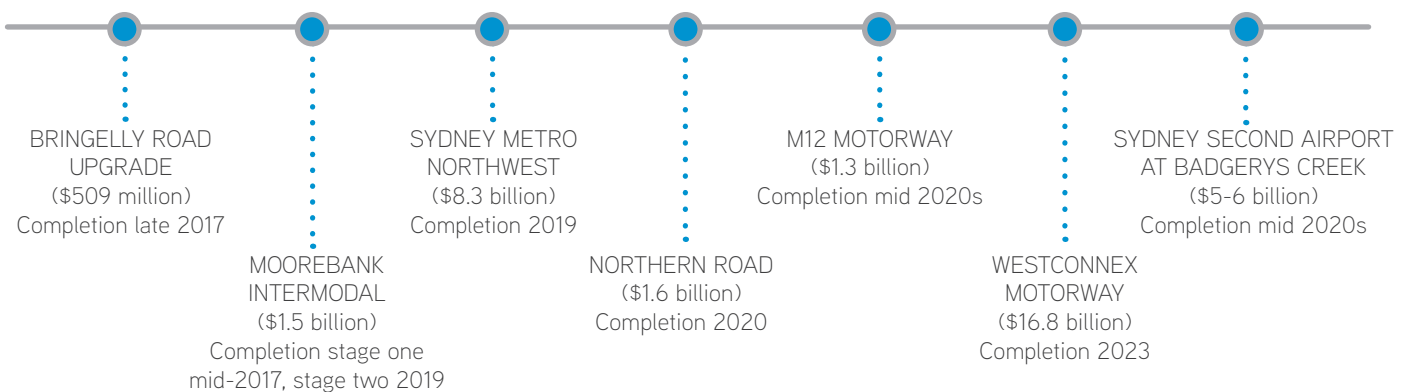
The differential between the western sub markets and the North and South sub markets' land values and net face rents are still quite large and, as such, the above benefits will still apply over the medium to long run.

It is expected that land values in the western sub markets will continue to rise as infrastructure projects near completion. Major infrastructure projects are shown in the diagram below.

As stated in 'A Plan for Growing Sydney', the NSW state's strategy for land use over the next 20 years, Western Sydney will grow in importance in the future as industrial activity continues to shift away from the inner and eventually middle markets. The Plan supports the take-up of land in outer Sydney locations by identifying:

- Future industrial infrastructure: Intermodal terminals, and transport infrastructure links (e.g. the investment of \$3.6 billion over ten years under Western Sydney's Infrastructure Plan) connecting the Outer Sydney sub markets to middle and inner areas
- Urban renewal corridors: providing increased housing, social infrastructure, and residential amenities, clustered within inner Sydney, stretching along train lines and within 'Priority Precincts' and investigation areas (such as Wentworth Point, Castle Hill, Bella Vista, Macquarie Park, Arncliffe, and Green Square). This encourages industrial redevelopment and industrial user displacement/relocation from these inner-middle markets
- WSEA growing importance, as supported by the South West and North West growth centres. The growth centres are areas planned for greenfield housing supply, thus supporting population growth and increasing access to a greater pool of workers.

Major infrastructure projects



554 offices in
66 countries on
6 continents

\$2.5

billion in
annual revenue

610

million square feet
under management

16,000

professionals
and staff

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