FINAL
LIVERPOOL INDUSTRIAL EMPLOYMENT LANDS STUDY

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SYDNEY

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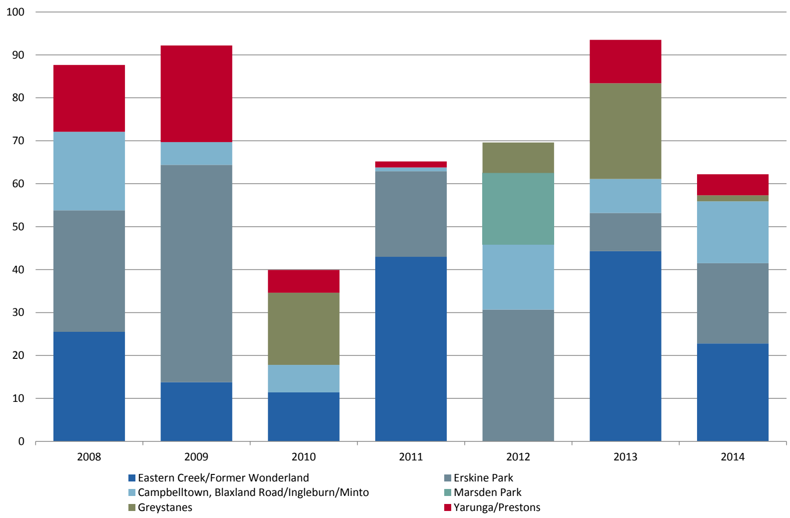
EXECUTIVE SUMMARY

This report has independently considered the current market conditions and factors affecting supply of industrial employment lands across the Liverpool Local Government Area (LGA) and the wider South West Sydney Metropolitan region where it impacts the Liverpool LGA. The report also aims to highlight both the nature and extent of likely future demand for industrial employment lands within the Liverpool LGA and identify locations and stock required for future industrial land-uses within the Liverpool LGA.

Over the last decade, industrial businesses have relocated to Western Sydney. Rising rents in established inner industrial regions and greenfield residential development (and hence population growth) motivated industrial businesses to move out to Western Sydney.

Significant investment in road and freight infrastructure facilitated this movement with industrial development, and hence take-up, being most pronounced at the intersection of the M4 and M7 i.e. Eastern Creek (see Figure 1 below). Similarly, although take-up has slowed moderately in recent years, Prestons, located at the intersection of the M5 and M7 Motorways within the Liverpool LGA, has enjoyed solid industrial demand, supported by its ability to offer more affordable industrial land. Since 2008, take-up of employment lands across Sydney has totalled 1,138.7 ha, equating to an average take-up rate of 162.7 ha per annum. However, 45% of this total has been concentrated in a few select precincts. Figure 1 below shows employment land take-up within the major selected precincts and highlights solid demand around Eastern Creek/Former Wonderland (Blacktown LGA) and Erskine Park (Penrith LGA).

Figure 1. Employment Land Take-up, by Selected Precincts, 2008-2014 (ha)



Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment

The most recent available data from NSW Planning (Employment Lands Development Program, 2015), indicated undeveloped and serviced land within the Liverpool LGA had declined to 41.1 ha. This Liverpool LGA total represents a 7.6% fall in undeveloped and serviced land compared with 2010, and a 14.2% drop over the most recent year as land uptake has outpaced the rate of new land parcels being serviced. To give some context as 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 15 ha per annum since 2008, reflecting a potential available supply of 2.8 years. However, based on future employment projections for the Liverpool LGA industrial land demand is set to total 1,176 hectares by 2031, an increase of 427 ha from the 749 developed ha identified by the 2015 EDLP Report. Annual growth in demand is projected to be 25 ha per annum between 2016 and 2021 before reducing to 18 ha per annum over the 2021-2026 period and 15 ha per annum over the five years to 2031.

Looking ahead, major infrastructure projects will ultimately determine the direction and magnitude of demand for industrial space in Sydney. In this case, the prospects for industrial development within the Liverpool LGA appear solid given its proximity to both existing transport infrastructure links such as the M5 and M7 Motorways and future infrastructure projects such as the WestConnex, Moorebank Intermodal Terminal and Sydney's second airport at Badgerys Creek.

Overall, the impacts of road, air, rail and port investment are expected to stimulate industrial development in South West Sydney. The Moorebank Intermodal Terminal would provide an efficient solution for improved movement of container freight between Port Botany and South West Sydney. The current 'sweet spot' to the north of the Liverpool LGA around the M4 and M7 intersection will be challenged by the Moorebank IMT. The WestConnex project and widening of the M5 will also shift industrial market impetus to the South West. In addition, locations to the south of the M4 and M7 junction will become more appealing due to relative affordability.

Consequently, the centre of gravity for industrial development should continue to move away from the M4 and M7 intersection, down the M7 and to the west of the M7 i.e. between Northern Road and the M7. The widening of Northern Road as part of the Western Sydney Infrastructure Plan will be a catalyst for industrial development in the region, as it will also facilitate direct access to the north west resident population market. Suitable precincts in Kemps Creek, West Hoxton and Badgerys Creek are expected to emerge.

However, with the bulk of land between Northern Road and the M7 (i.e. Kemps Creek, West Hoxton etc.) currently not zoned for industrial uses nor connected to services, these areas are not likely to be readily developable to industrial users until early to mid-2020s. However, it is important that this land is unlocked to accommodate the shift in demand south.

In order to capture future occupier demand within Liverpool, activity from institutional groups such as Goodman, Dexus, and Charter Hall etc. must occur. Land ownership represents the largest barrier for industrial development within the Liverpool LGA as the majority of land is held by smaller privates. The Liverpool LGA needs a greater presence of institutions as they are the groups who have the capacity and the capital to develop and bring tenants to the area. Put simply, smaller privates cannot compete with institutions as they struggle to take on projects of scale. From an occupier perspective, privates cannot complete in pre-leasing opportunities as occupiers require certainty which institutions can provide.

To offset this and attract institutions, Liverpool City Council needs to provide a clear blueprint of timing and servicing to bring land online. This will provide certainty to the area, thereby allowing institutions to pay the type of rates that the privates are prepared to divest their land, so that they can build scale. Without certainty an institution will not become active, nor pay the rates that privates on 5 acre lots are willing to sell for.

Key Industrial Indicators for the Liverpool LGA

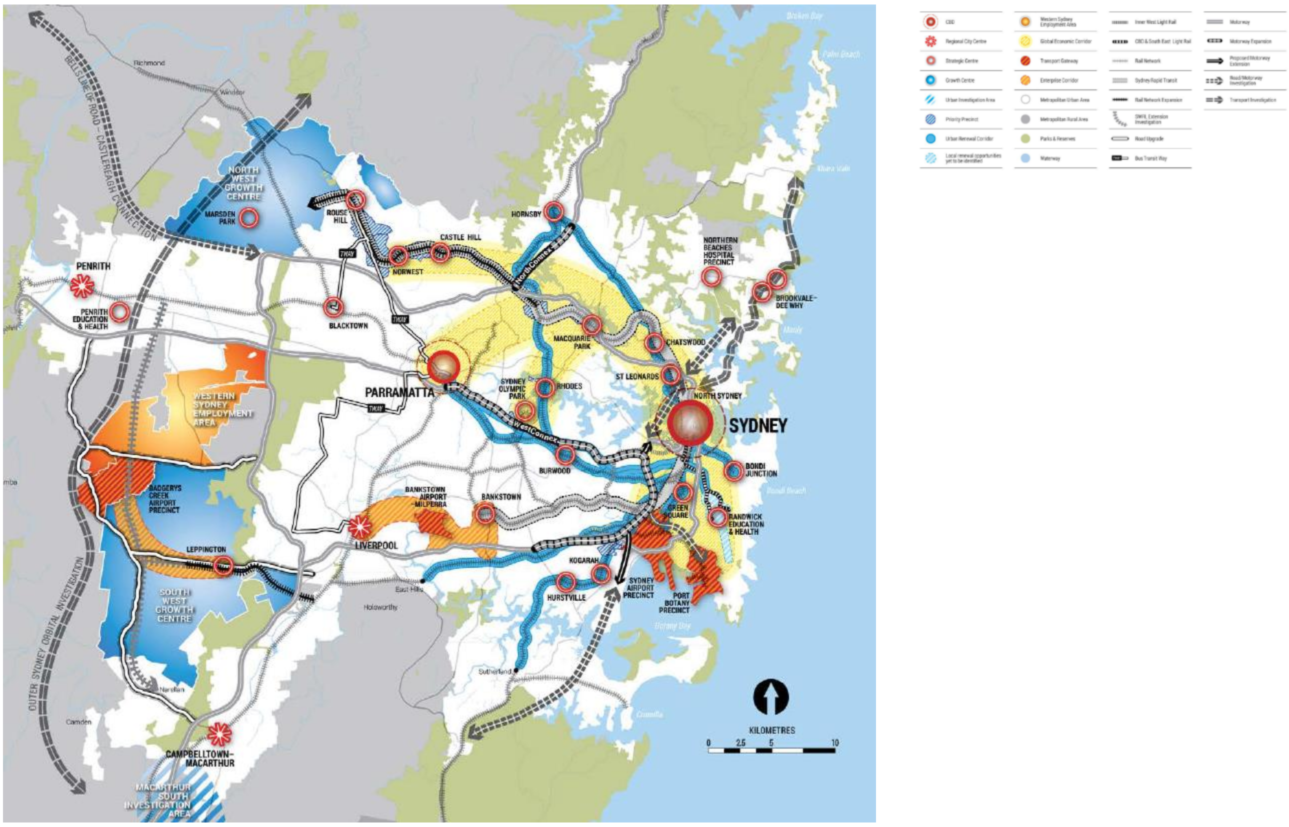
Indicator	Comment
Changing needs of industrial tenants	• There has been a decline in the demand for industrial facilities within the manufacturing sector, making way for a large increase in big-box warehousing/logistics facilities. • In response to cheaper rents, industrial businesses have gravitated towards Western Sydney, further strengthened by access to major transport infrastructure. Over the past 12 months, 65% of Sydney's leasing activity for existing buildings (5,000m²+) has been concentrated in the western regions of the Outer West and South West. Rezonings to accommodate alternative uses in inner and middle ring locations (particularly South Sydney) have also accelerated this trend. • The drive for operational efficiencies continues to underpin a clear tenant preference for prime stock, with 77% of gross absorption over the past 12 months (year to April 2016) in the Outer West and South West regions comprising prime (A-grade) stock. • Recent demand has largely stemmed for large, new and efficient warehouses which are suitable for distribution facilities and logistics operations. Similarly, the accommodation they require has also grown in size with many now requiring 15,000m²+ facilities. • Occupiers seeking supply chain efficiencies are driving development as they seek to design facilities which improve efficiencies, ultimately allowing them to control supply chain costs (rents only usually represent 5-10% of total supply chain costs). • Further outward migration of industrial based businesses is expected, however without appropriately available land within the Liverpool LGA, they will seek accommodation in other precincts across Sydney.
Liverpool's opportunities	• The large labour force located within the Liverpool LGA will ensure there is demand from Industrial occupiers wanting to be based within access to this labour force. • The Liverpool LGA has a unique position as it provides ease of access to Sydney's major transport infrastructure networks including road (M5 and M7 Motorways), rail links (including intermodal terminals providing connection to the Port of Sydney) and will ultimately benefit from a second Sydney airport at Badgerys Creek. • Logistics users will ultimately locate their operations in precincts with good accessibility to infrastructure (roads, rail etc.) → The Liverpool LGA is well placed to capture this demand. • Liverpool presents the first real opportunity for "big box" development as users migrate down the M5 Motorway. • As land within the LGA is rezoned and demand in existing industrial precincts remains strong there will be demand for more zoned employment land. • Liverpool LGA (as part of State Government statutory framework such as the Priority Growth Areas and South West Growth Area) has reserved approximately 2,340 ha for employment uses. However, to capture demand, this land needs to be unlocked. • The opportunity for Liverpool to utilise passenger rail (currently terminating at Leppington) into a broad acre new Industrial precinct will provide a significant advantage over competing precincts such as Erskine Park and Eastern Creek. • Liverpool has the opportunity to capture migrating demand as the focus shifts south of the M4 Motorway. The precinct to the west of the M7 and immediately south of Elizabeth Drive holds the greatest prospect for Liverpool.

Key risks/threats	• Liverpool is also contemplating rezoning and gentrification in some of their established precincts (Moorebank) to accommodate alternative uses including mixed-use development. This would lead to a reduction in available industrial land across the Liverpool LGA. The ability for the Liverpool LGA to capture these displaced tenants is vital to the conservation of jobs within the LGA. • With the bulk of developable zoned and serviced land now largely being absorbed, the unlocking of land for the next phase of growth is needed. • The last remaining larger parcels of un-developed zoned and easily serviceable land within the Liverpool LGA are located in Prestons, Austral and the Cross Roads in Casula. • Liverpool is running out of zoned serviced land. Based on average take-up rates since 2008, there is approximately 2.8 years' worth of available supply. Future land needs to be rezoned and serviced to accommodate growth. • Lack of larger lots → there has been significant growth in the number of 10,000m² users. • Despite there being approximately 2,340 ha reserved for future employment uses within the LGA, the hardest part of unlocking this land is having to rely upon the private sector to rezone and service the land. • Due to the fragmented nature of the land ownership within the future employment zones (mostly small lot 2 ha rural residential) larger groups are struggling to obtain the scale required to achieve a feasible broad acre lot subdivision development. • Landowners typically (once advised their land has been "reserved" for employment purposes within the statutory framework) expect traditional industrial land rates when considering divesting. • The cost to re-zone, service and sub-divide land can be as much (per m²) or higher than what the large industrial developers are prepared to pay to the landowner (per m²).

1.0 LIVERPOOL LGA IN CONTEXT

The importance to the Liverpool LGA of industrial employment lands is paramount. The State Government Metropolitan Strategy identifies Liverpool as a 'Regional City' for the South West, and is the major employment destination, transport hub and main regional retail centre for the South West. Future population growth within Liverpool, including from mixed use redevelopment and new residential estates like Middleton Grange, Edmondson Park and Elizabeth Hills, and surrounding areas within the LGA will generate the need for provision of employment lands in the local area. As such, Liverpool City and its surrounds will need to further develop as the retail, service and employment destination for the South West.

Map 1. Subject Area in Context



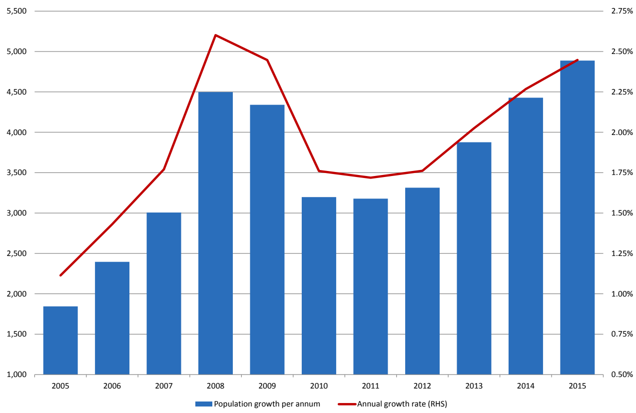
Source: A Plan for Growing Sydney, Department of Planning and Environment

Liverpool City Council has also adopted a one job per house benchmark to guide development within the Liverpool LGA to help ensure the balanced provision of employment in line with residential development[1]. This is to ensure that the LGA does not miss out on the opportunity for job creation and growth, which is in line with the establishment of an enterprise corridor which runs through the LGA. This enterprise corridor has the aim of attracting investment, stimulating employment generating development and maximising opportunities to increase economic activity.

[1] http://www.liverpool.nsw.gov.au/planninganddevelopment/strategic-planning/prestons-employment-lands

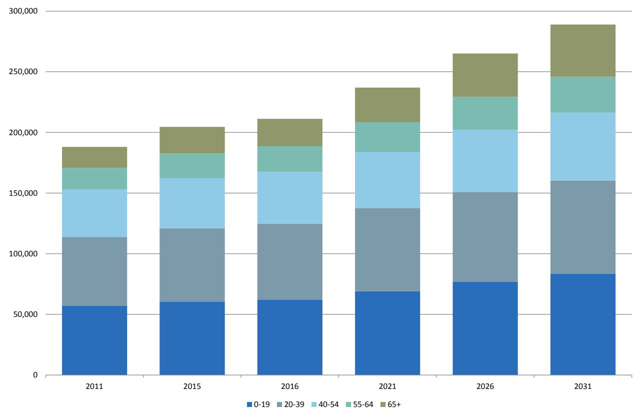
In order for the Liverpool LGA to economically prosper, job creation will be a necessity going forward, as future population growth and demographic change is expected to outpace past growth. Looking ahead, strong population growth is expected to eventuate over the next 15 years, underpinned by significant infrastructure works, the development of residential housing estates and the area's attractiveness amongst families, due to its relative housing affordability. The resident population is expected to increase from its current 204,594 persons (June 2015, latest available ABS estimates) to reach 288,900 persons by 2031 at an annualised growth rate of 2.3%, compared with 2.0% over the past 10 year period. In comparison, Greater Sydney is projected to grow at an annualised rate of 1.9% between 2015 and 2031, having recorded an annualised 10 year growth of 1.6% between 2005 and 2015.

Figure 2. Liverpool LGA Historical Population Growth



Source: Knight Frank Research, ABS

Figure 3. Liverpool LGA Population Projections

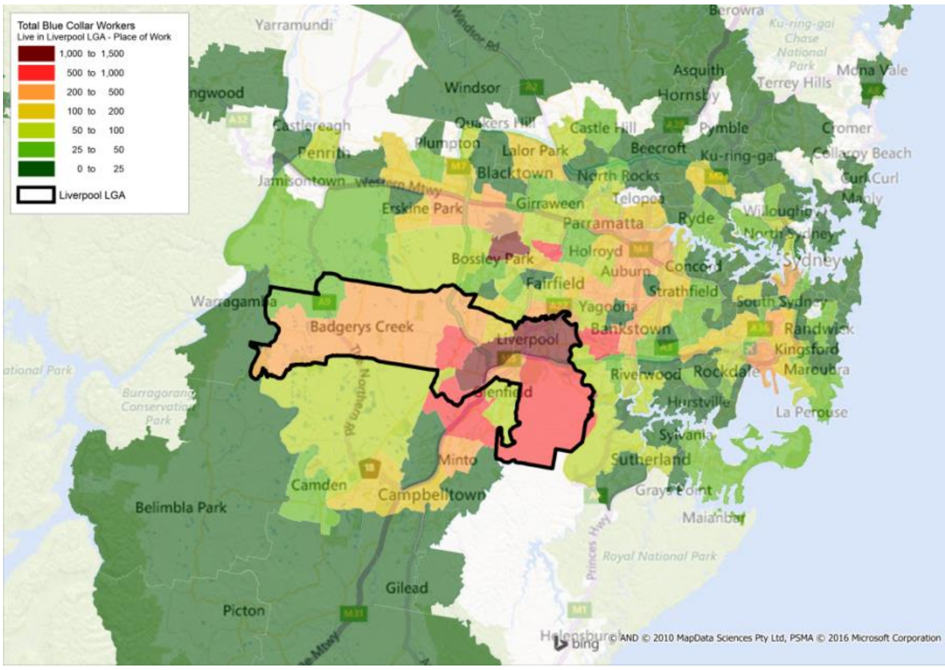


Source:Knight Frank Research, Department of Planning and Environment

Over the past few years the strong economic cycle across the NSW State and the wider Sydney Metropolitan region, underpinned by rapid growth in dwelling construction, infrastructure and the technology and financial and business services sectors, has meant that economic growth has filtered through to more regional Sydney economies.

As an example, the Liverpool LGA, recorded a 5.0% unemployment rate at December 2015 (latest available data), 2.5% lower than 18 months prior, with the number of Liverpool LGA residents employed increasing by 3,663 over the past year (see Figure 4). As the population of Liverpool LGA is forecast to grow, the need to support business and employment within the LGA will become greater, especially as the LGA is home to a large proportion of blue collar or industrial workers. Knight Frank's analysis suggests that the majority of blue collar / industrial workers resident within the Liverpool LGA live in close proximity to their place of work (see travel to work Map 2 and Map 3).

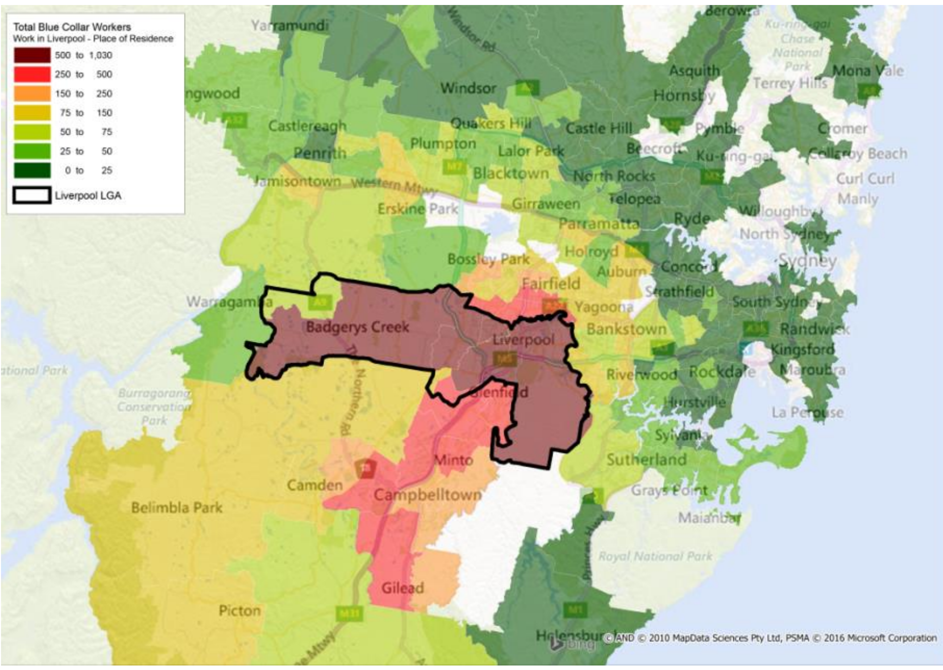
Map 2. Place of Work of Blue Collar Workers, Whose Place of Residence is in the Liverpool LGA



Source: Knight Frank Research, ABS (data at SA2 level)

The map shows the place of work of Blue Collar workers, who live in the Liverpool LGA – **the map highlights that Liverpool Blue Collar Workers tend to remain concentrated in the LGA for employment and across some areas of the immediate surrounding LGA's** – those that do travel a distance to work (from within the Liverpool LGA) are clustered in the Sydney CBD, South Sydney area and at the Sydney Airport.

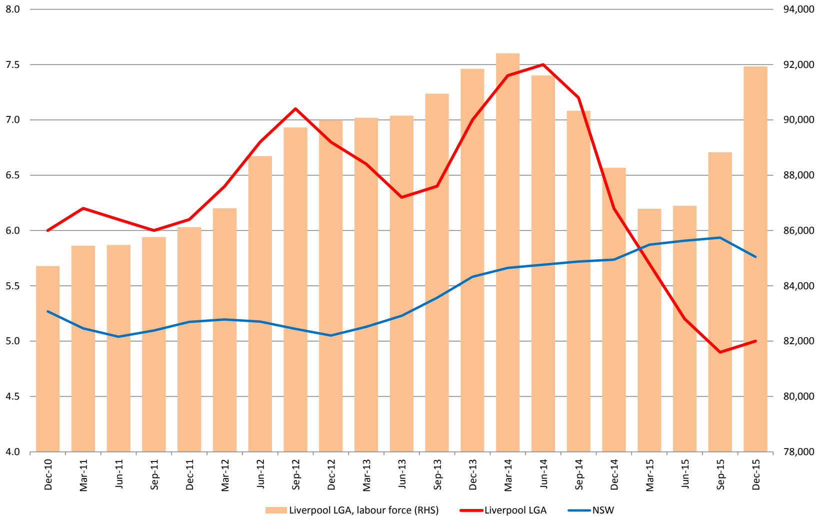
Map 3. Place of Residence of Blue Collar Workers, Who Work in the Liverpool LGA



Source: Knight Frank Research, ABS (data at SA2 level)

The map shows the place of residence of Blue Collar workers, who work in the Liverpool LGA – **the dark red colour within the Liverpool LGA highlights that a large proportion of Blue Collar workers working in the LGA live in the Liverpool LGA** – with a significant remainder of Blue Collar workers employed in the Liverpool LGA commuting from Fairfield and South of the Liverpool LGA, concentrated around the M31 motorway in Campbelltown and Camden.

Figure 4. Liverpool LGA – Unemployment Rate (%) & Labour Force (smoothed)



Source: Knight Frank Research, Department of Emlpoyment

1.1 INFRASTRUCTURE IMPROVEMENTS

Transport is critical to the efficient functioning and quality of life of Sydney and its residents. Poor or reduced accessibility can be a major constraint on the success and quality of places, their neighbourhoods and communities. Central to Western Sydney and Liverpool's future are a number of key infrastructure projects. The provision of key road and airport infrastructure investments is providing the framework for Western Sydney, and precincts within the Liverpool LGA to become a focal point for new industrial developments over the course of the next decade. As a result, demand for industrial employment lands within close proximity to gateway infrastructure will remain high and will be a key differentiator for the Liverpool LGA compared with other competing areas of the Sydney Metropolitan region. Beyond the projects mentioned below, there is potential for further infrastructure projects which would enhance Liverpool's strategic position within Western Sydney. Most notable of these mooted projects is the proposed extension to the Sydney Metro from Bankstown to Liverpool.

WESTERN SYDNEY AIRPORT

In April 2014, The Federal Government confirmed Badgerys Creek as the site for Western Sydney's new airport, which is wholly located within the Liverpool LGA boundary, and 50 kilometres from the Sydney CBD. 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 expand from two million to three million people over the next 20 years. The airport, which is expected to open in the mid-2020s, will initially operate from a single runway and cater for approximately five million passengers. As passenger numbers increase over the decades, so too would job opportunities both at the airport and in surrounding business districts.

The new airport will be a major generator of economic activity—providing employment opportunities closer to where people in Western Sydney live. Over 30,000 jobs could be generated directly by the airport's operation by 2060, and indirect employment around the airport site could contribute an additional 30,000 jobs. It is anticipated that the second parallel runway would only be required after 25 years and would provide the capacity to meet growth in demand for future air travel.

To support the airport, the Government has already 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. In addition, the Prime Minister Malcolm Turnbull confirmed the Federal Government's commitment to constructing a high-speed Western Sydney rail link to connect the CBD to the new Airport. The rail line will not only service the new airport but will provide an additional transport link for Western Sydney, and act as an employment generator.

WESTERN SYDNEY INFRASTRUCTURE PLAN

The Australian Government is delivering on its plan to build a stronger and more prosperous Western Sydney by investing $3.6 billion over 10 years in major infrastructure upgrades that will transform the region's economy. The Western Sydney Infrastructure Plan (WSIP) will provide better road linkages within the Western Sydney region and benefit the region's growing population, including through reducing commuting times (see Map 4).

In addition, the Western Sydney Infrastructure Plan will ensure the proposed new airport site will be supported by a quality surface transport network to ensure the efficient movements of passengers, employees and freight. A major part of this plan is the upgrade of The Northern Road from two lanes to a four-lane divided road along a 31 kilometre length. The total cost of the project is $1,579.5 million. The Australian Government is providing $1,228.5 million and the NSW Government is providing $351 million towards the construction of this project. Construction commences in late 2015. The upgrade will be completed in stages, with final stage to be completed in late 2019.

Another major part of the Western Sydney Infrastructure Plan is the $509 million upgrading of Bringelly Road. Construction of stage one of the upgrade commenced in January 2015 with construction of this stage expected to be completed late 2017. Bringelly Road will be upgraded to a minimum of four lanes between The Northern Road and Camden Valley Way.

The third major project within the Western Sydney Infrastructure Plan will involve the construction of a new four-lane motorway in the vicinity of Elizabeth Drive, providing access to the airport at Badgerys Creek and forming the main east-west connection between the M7 Motorway and The Northern Road. The new motorway will also involve a motorway interchange with the M7 Motorway.

MOOREBANK INTERMODAL TERMINAL

Moorebank had been identified as a priority location for a freight terminal since 2004. Its direct rail link to Port Botany and freight markets around Australia, and its proximity to major motorways, make it ideal for an intermodal facility. The Sydney Intermodal Terminal Alliance (SIMTA) will build and operate the intermodal freight precinct. SIMTA is a consortium consisting of the import export logistics company Qube Holdings and the rail freight operator Aurizon Holdings.

The new precinct will include an import-export (IMEX) freight terminal with eventual capacity for up to 1.05 million containers per year by 2030, and an interstate freight terminal with capacity for up to 500,000 containers a year. Stage 1 will see 250,000 containers per year through the IMEX facility. The first stage of the interstate terminal will have a similar capacity. Subsequent stages will be developed in line with demand.

The Commonwealth is expected to invest around $370 million in the development, including funding the rail connection between the terminal and the Southern Sydney Freight Line and land preparation works. The precinct will include 850,000m² of integrated warehousing when fully developed, with the total project costing approximately $1.87 billion over ten years. The IMEX terminal (stage 1) is expected to start operations in late 2017 and the interstate terminal in approximately 2019 and is anticipated to provide economic benefit of around $120 million a year for the economy of south-western Sydney.

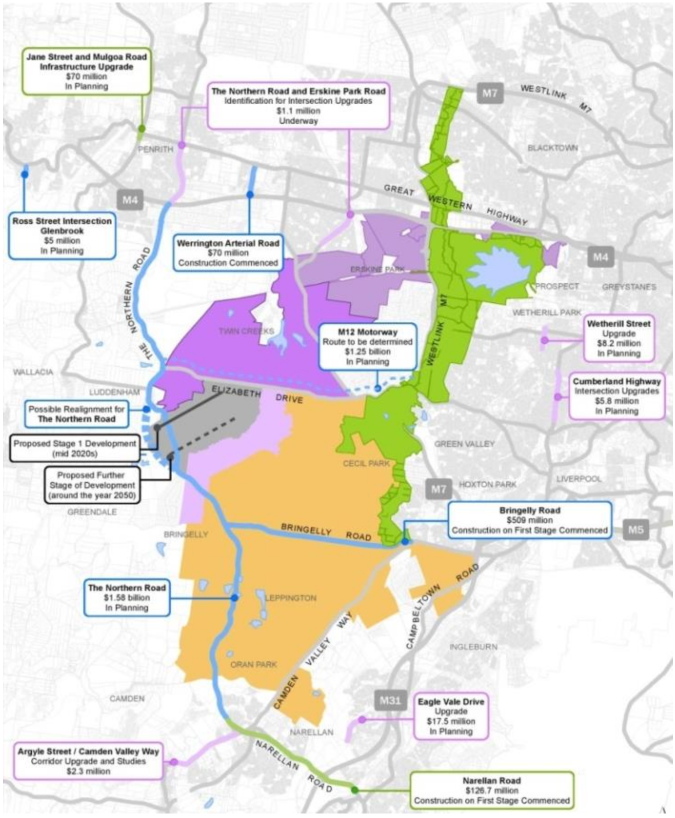
Currently, there is approximately 240,000m² of warehousing space being marketed for lease at the Moorebank IMT with anecdotal evidence from agents indicating a considerable pick-up in the level of tenant enquiry for this space. Similarly, feedback from Knight Frank agents suggest tenant enquiry has been solid in other industrial precincts in Liverpool, particularly Prestons and AMP's undeveloped Crossroads Logistics Centre at Casula given their proximity to the Moorebank IMT and the existing road networks of the M5, M7 and the Hume Highway.

Tenant enquiry for warehousing space within this precinct has been underpinned by tenants who rely on container movements to and from Port Botany. For these users, such as third party logistics (3PL) operators, by locating adjacent to an IMT (in this case within the warehousing space as part of the Moorebank IMT precinct), operational efficiencies can be achieved given their scale of operations. The motivation is that larger tenants such as 3PL groups will be able to use the adjacent warehousing space within the IMT precinct as the focal point of their operations, while using it as a base for their broader freight movements throughout Sydney and NSW. Given that these groups have tended to gravitate towards Eastern Creek in the past, the addition of these users to the area will generate a greater employment outcome for the Liverpool LGA.

PRIORITY GROWTH AREAS

Priority Growth Areas for both Sydney's South West and North West were established in 2005 by the NSW Government with the aim of creating 'attractive, sustainable new communities for up to 500,000 people by supplying land linked to key infrastructure, employment areas, parks, health and education facilities, shops, services and public transport' (NSW Government). More recently, the NSW government has announced the Western Sydney Priority Growth Area in response to Badgerys Creek becoming the location for Sydney's second airport. Both policies were aimed to provide the blueprint for development and to provide certainty to the market so that they could fast-track potential development in the area. These policies were designed to form the basis of infrastructure investment in Western Sydney.

Map 4. Western Sydney Infrastructure Plan



Source: Department of Infrastructure and Regional Development

2.0 EMPLOYMENT LANDS FOR SYDNEY

2.1 REPORT BACKGROUND – REVIEW OF ELDP 2015 REPORT

Since 2010, the NSW Government has produced the annual Employment Lands Development Program Report (ELDP Report) to monitor the supply of and demand for employment lands.

The ELDP Report contains information on:

- the current availability of undeveloped industrial lands and business parks
- where land is serviced and ready for development
- where industrial development has recently taken place
- where future industrial lands and business parks will be provided, and
- the adequacy of land stocks to meet future demand.

As reported in the 2015 EDLP Report **at January 2015 there were 13,548.2 hectares (ha) of existing zoned employment lands**, including both developed and undeveloped lands, within the Sydney Metropolitan Region. This is **an increase of 444.1 ha (3.4%) from January 2014**, resulting mainly from boundary adjustments and additional industrial sites identified through a comprehensive audit undertaken at the end of 2014 of all industrial land in the Sydney Metropolitan Region. Rezonings accounted for the remainder of total stock increase.

Of the total zoned employment lands stock, 22% or 3,029.4 ha were undeveloped at January 2015, including lands that are both serviced and not serviced. This is an increase of 170.2 ha from January 2014. The increase can be largely attributed to precinct boundary adjustments as a result of the audit.

Of the total undeveloped zoned land, 449.9 ha were serviced (water and sewer) at January 2015. This is a decrease of 13.1 ha from January 2014. The decline is mainly due to the take-up of undeveloped zoned and serviced land.

In addition to existing zoned employment lands, **there were 6,972 ha of proposed employment lands at January 2015** which were identified in planning strategies and which have yet to be rezoned. This is **an increase of 4,537 ha compared to last year**, due to the amendment of the State Environmental Planning Policy (Western Sydney Employment Area) 2009 which confirmed the new boundaries of the Western Sydney Employment Area extension.

In 2014 there were 79.2 ha of industrial zoned employment lands (IN zones) added through rezonings in the Sydney Metropolitan Region. 1.5 ha of industrial land was rezoned for other purposes in which industrial uses are not permitted, mainly residential and business zones. A further 39.6 ha were rezoned to B5 Business Development, B6 Enterprise Corridor or B7 Business Park zones which continue to permit industrial uses.

Industrial building activity increased in 2014 with $795 million worth of approvals, compared to $783 million in 2013. The increase in industrial approvals focused largely on the factories sector. **In 2014 there were 120.6 ha of employment lands taken up by industrial development** in the Sydney Metropolitan

Region. This compares with 190.3 ha in 2013 and 123.1 ha in 2012. Most of the take-up occurred in the West Central subregion.

Definitions (as per the ELDP 2015 Report)

'Employment Lands' is land that is zoned for industry and/or warehouse uses including manufacturing; transport and warehousing; service and repair trades and industries; integrated enterprises with a mix of administration, production, warehousing, research and development; and urban services and utilities.

'Undeveloped land' does not take into account the extent to which land is suitable for future industrial use and therefore does not simply equate to potential 'developable' land. In areas of new supply, it is often only an estimate of 'gross supply' derived from the size of the area zoned and does not subtract land that would be required for local roads, infrastructure requirements and environmental considerations. In existing urban areas, undeveloped land may be highly constrained due to subdivision into small and irregular parcels, access issues, a specialised economic function or land use conflicts. Much of the Sydney Metropolitan Region's undeveloped land is not serviced in terms of road access, water, sewer, gas or electricity connections.

'Serviced land' is land in the Sydney Metropolitan Region where a Sydney Water sewerage and potable water service may be available for connection (lead-in water and wastewater infrastructure). It is acknowledged that the servicing data does not include servicing in terms of power, roads or other infrastructure. The servicing data does not include instances where developers provide their own water and sewer services (e.g. water tanks, septic systems) or where services are provided under the Water Industry Competition Act 2006 independent of Sydney Water networks.

It is important to note the differences between developable and serviced land. Developable land does not always have to be serviced as long as the services are available, i.e. a developer can bring them in within a period of three months. 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. In addition it is important to understand the impacts of land ownership and the importance of size of land parcels to the delivery of land, as the ability for privates to actually service zoned land and compete for pre leases is very limited.

Note: For the purposes of this report Knight Frank has used the most recent data from The ELDP report. Knight Frank understands that this may not be the current situation as servicing to undeveloped and unserviced land over the course of 2015 and 2016 may have occurred.

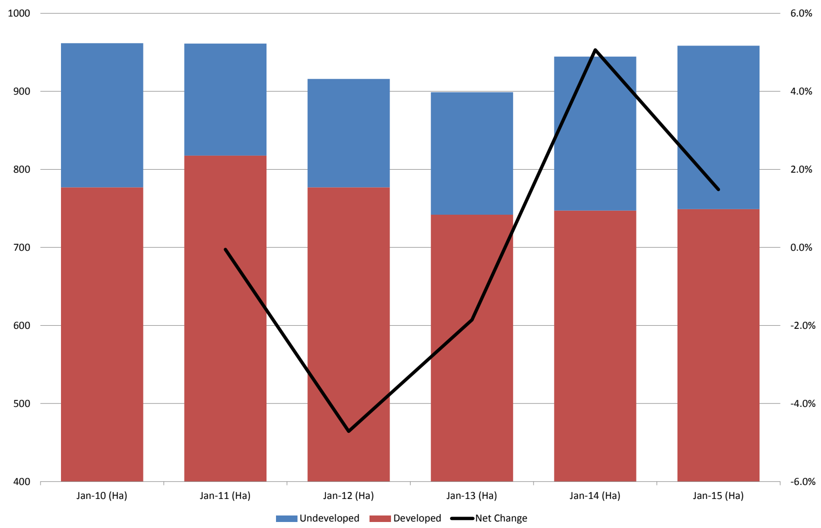
3.0 INDUSTRIAL LAND TRENDS – LIVERPOOL AND THE WIDER REGION

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. The two factors that have driven this trend are the availability of cheaper greenfield land and availability of locations at major transport hubs, both of which offer supply chain efficiencies to industrial user groups. The provision of appropriate land remains a critical issue for users and developers alike.

3.1 LAND AVAILABILITY FOR DEVELOPMENT

The residual land within the Liverpool LGA yet to be developed (209.4 ha, see Figure 5) theoretically provides sufficient land for another 14 years and beyond, based on current (an average of the last seven years) take up rates. The Liverpool LGA is home to only 6.9% of the Sydney Metropolitan region's undeveloped and zoned industrial employment lands.

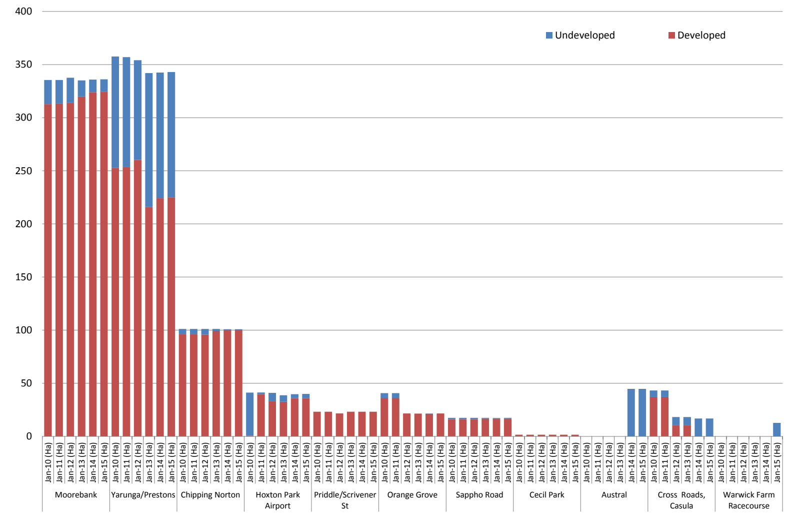
Figure 5. Liverpool LGA Zoned Land Status (Ha) – last five years



Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment

Over half of all undeveloped land zoned as industrial employment land in the Liverpool LGA is located in the Preston's precinct (56.4%, or 118 ha), and a further 21.4% is located in Austral (44.8 ha), as part of the newly rezoned South West Growth Corridor (see Figure 6). An additional, 41.4 ha (19.8%) of undeveloped zoned industrial employment land is split almost evenly between Warwick Farm Racecourse, Cross Roads, Casula and Moorebank. The remaining 2.5% or 5.2 ha of Liverpool LGA's zoned industrial employment land is located amongst Chipping Norton, Hoxton Park Airport and Sappho Road precincts.

Figure 6. Liverpool LGA Zoned Land Status (Ha) – last five years, by Precinct



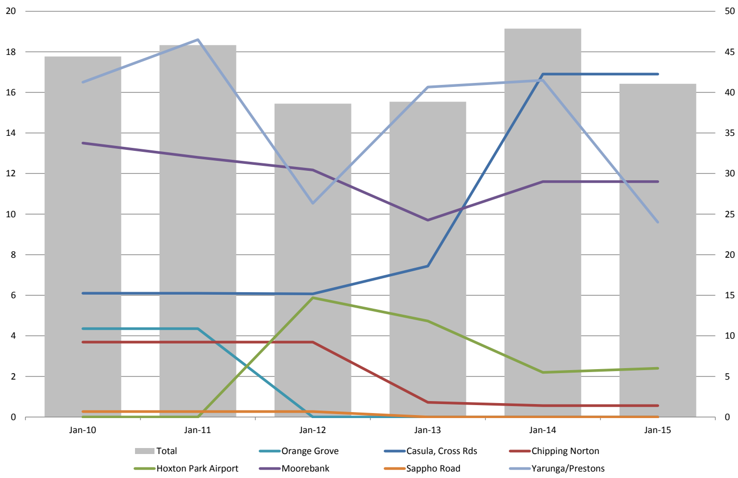
Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment

However, the availability, or lack thereof, of serviced land for immediate development within the next five 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, 2015), indicated undeveloped and serviced land within the Liverpool LGA had declined to 41.1 ha** (see Figure 7).This figure represents 9.1% of all undeveloped and serviced land across the Sydney Metropolitan region. **This Liverpool LGA total represents a 7.6% fall in undeveloped and serviced land compared with 2010, and a 14.2% drop over the most recent year as land uptake has outpaced the rate of new land parcels being serviced.**

To give some context as 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 15 ha per annum since 2008, reflecting a possible 2.8 years of available supply (see Figure 8). Although the average take up of land has fallen to around 5.5 ha per annum over the past four years, which would reflect a possible 7.5 years of available supply. In 2010 take-up of land reached 44.4 ha, which suggests that, the current land availability could be developed in one year. Take-up refers to land that has been consumed by industrial development (i.e. vacant employment lands which have been developed). It is defined as the point at which development has commenced on a site and the site is therefore no longer available for development.

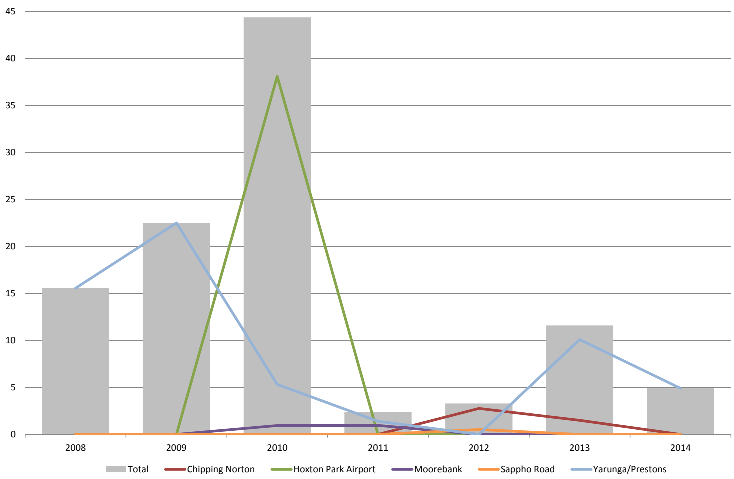
The Government is yet to formally provide a framework on how to service undeveloped land. **While institutional developers have a relatively greater capacity to fund this cost, it is a considerable impediment for smaller privates. This is providing institutional developers with the opportunity to control 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 Liverpool LGA having been developed by the major institutions over the last 5-10 years.

Figure 7. Undeveloped and Serviced Land (Ha) – by Precinct, 2008-2014



Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment (unpublished data for Chipping Norton, Orange Grove and Sappho Road)

Figure 8. Take-up of Employment Land (Ha) – by Precinct, 2008-2014



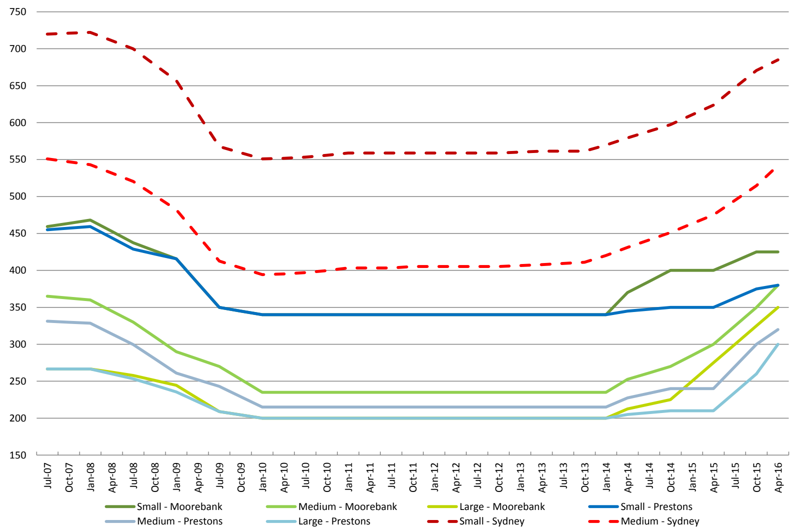
Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment (unpublished data for Chipping Norton, Sappho Road)* Take-up analysis only includes lots greater than 100m² and does not include existing lots which were already partially developed. The figures will therefore contain a small under estimation of total take-up.

3.2 LAND VALUES

The previous section of the report highlights the limited supply of available serviced employment lands for development across the Liverpool LGA. Evidence suggests that as a result of the slow release and servicing of land, in addition to increasing demand and speculation about rezoning to residential uses, the cost of land is being driven up, therefore making projects more expensive and decreasing affordability – which could lead to a flight of capital and jobs away from the Liverpool LGA. Although sale evidence has shown some variability in land rates (see Table 1), it is estimated that over the past 12 months, average land values across key Liverpool LGA industrial precincts, namely Moorebank and Prestons, have increased by an average of between 6% and 8.5% respectively for small sub-5,000m² parcels. However, medium sized parcels of land (1 ha to 5 ha) which are less readily available have increased by around 27% (Moorebank) and 33% (Prestons over the same time period. Larger lands parcels, of 10 ha+, have shown increases of 27% and 43% across Moorebank and Prestons respectively in the year to April 2016 (see Figure 9).

Despite this recent growth, values still remain approximately 17% (Prestons) to 9% (Moorebank) below the last cyclical peak in late 2007/early 2008 for small land parcels. Medium sized land parcels have recovered more strongly in Moorebank (4% above previous peak) compared with Prestons, where land values remain approximately 3% below their previous peak. For larger land parcels (10 ha+) strong value growth over the past 18 months has forced values considerably above previous peak pricing, by 31% in Moorebank and by 12.5% in Prestons.

Figure 9. Liverpool LGA Industrial Land Values* – Average values serviced lots ($/m²)

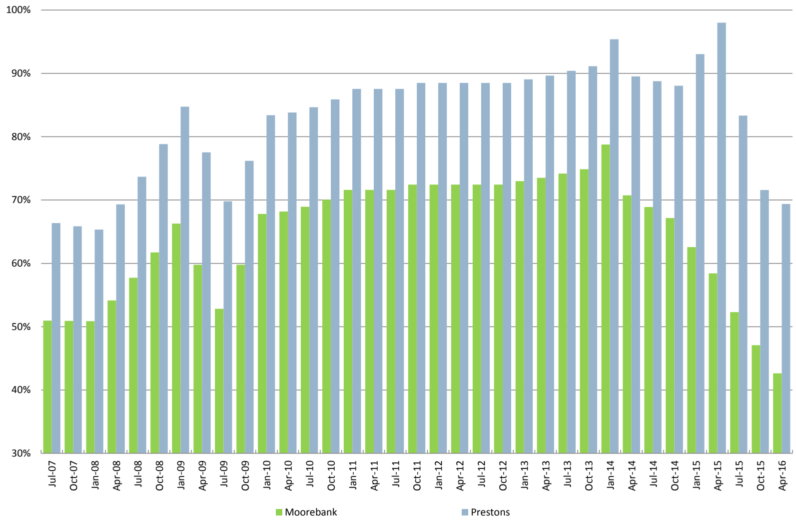


Source: Knight Frank Research
*small = 2-5,000m², medium = 1-5 ha, large = 10 ha+

Figure 9 above shows key Liverpool industrial precinct land values and their relationship with the wider Sydney average. Compared with average Sydney land values for serviced lots, land in Liverpool has historically been priced at a considerable discount. For example, for small land parcels Sydney has averaged between 60% and 65% greater than land values across both Moorebank and Prestons since July 2007. That price differential has been greater for larger land parcels, averaging 65% greater than in Moorebank and

83% greater than in Prestons over the same time period. However, since January 2014, a combination of improved and committed infrastructure projects across Western Sydney, greater demand for larger lots and a reduction in land availability for the development of larger lots, has on the whole, seen that price differential trend downward for both Moorebank and Prestons (see Figure 10). As of April 2016, that land value difference against the Sydney average sits at between approximately 45% (Moorebank) and 70% (Prestons), thus beginning to reduce the price competitiveness of Liverpool as an industrial employment location on a relative basis.

Figure 10. Price Differential vs. Average Sydney Land Values – Medium (1-5 ha) lots ($/m²)



Source: Knight Frank Research

The table below highlights the most recent and most relevant major land/development sales to have taken place within the Liverpool LGA. The sales highlighted are all zoned for industrial use, except where noted.

Table 1. Recent Land/Development Major Sales Activity – Liverpool LGA

Address	Price ($ mil)	Area (m²)	$/m² of area	Vendor	Purchaser	Sale Date
16 Bernara Rd, Prestons	5.60	19,800	283	Alex Chignone	Private	Feb-16
39 & 60 Culverston Av, Denham Court	6.70*	104,450	64.15	Government Property NSW	Prpic	Jan-16
140 Jedda Street, Prestons	4.024	16,290	247	Private	Mir Brothers	Nov-15
4-6 Browne Parade, Warwick Farm	4.00**	1,297	3,084	Otis Developments	West Diamond	Oct-15
34 Yarrunga Street, Prestons~	50.00	200,000	c.250	Private	Logos Property	Oct-15
402 Hoxton Park Rd, Prestons^	13.76^	44,300	311	AHG	Charter Hall (CPIF)	Aug-15
290 Kurrajong Rd, Prestons~	38.99	c.150,000	c.260	Private	Charter Hall (CPIF)	Jun-15
Coopers Paddock, Warwick Farm	17.20	115,000	150	Australia Turf Club	Stockland	Apr-15
29a Bernera Rd, Prestons#	2.70	28260	96		Shiny Path Pty Ltd	Aug-14
Parcel A, Hoxton Park Airport	45.00	408,300	110	Leighton Holdings	Mirvac Group	Jan-10

Source: Knight Frank Research
* Zones R5 large lot residential **Residential Development site – DA approved for 36 residential units ^ Subject to a 15 year pre-lease to AHG
# Land development agreement ~zoned yet unserviced land – retail land value (servicing of land at $90/sqm)

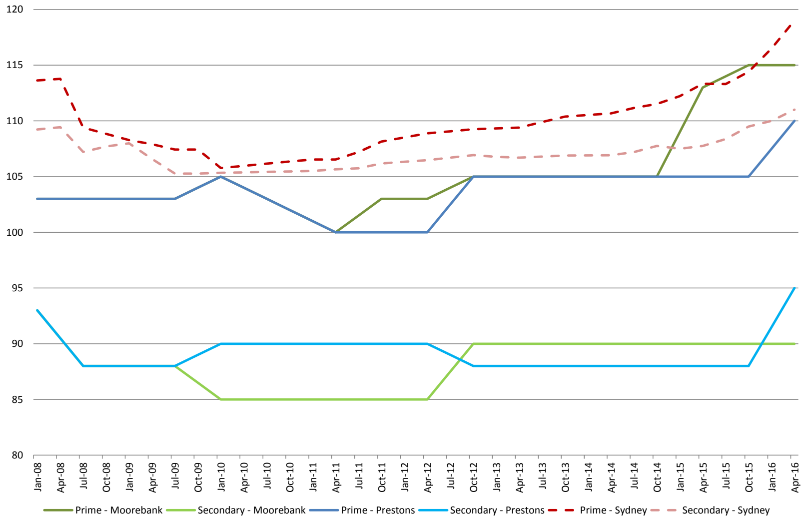
3.3 RENTAL VALUES

The NSW economy is currently experiencing favourable economic conditions underpinned by strong growth in housing investment, above average retail expenditure, elevated infrastructure investment and a jobs market that has accounted for over half of the new jobs created nationally over the past 18 months. With interest rates forecast to remain low and the dollar expected to depreciate, state economic growth is forecast to outpace the national average over the next two years. These conditions, alongside stock and land shortages are conducive for positive leasing conditions across Sydney's industrial markets, especially across Liverpool's Prime industrial markets.

These dynamics have resulted in prime industrial annual rental growth, across the Sydney Metropolitan Region, in the 12 months to April 2016 measuring around 5.0%, a rate more than double the average over the past five years (see Figure 11). Average secondary industrial rental growth has been less pronounced, albeit showing growth of around 3.0% over the past year.

Compared with the Sydney Metropolitan region, industrial rental values across the Moorebank precinct increased by 1.8% for prime space, but remained stable for secondary space. This annual growth in prime net face rents in Moorebank has pushed average values to now sit around \$115/m². Over a longer historic period, Prime Moorebank rents have grown by 15% over the past five years, outperforming growth of both Sydney and Prestons Prime and Secondary space. However, in contrast to annual growth in Moorebank, net face rental values have shown a greater increase across both the prime and secondary Prestons market over the 12 months to April 2016, 4.7% and 8.0% respectively. Upward pressure on net face rents across both the Moorebank and Prestons markets have resulted in rents sitting above pre GFC levels – except for Moorebank rents which are \$2/m² below previous highs.

Figure 11. Liverpool LGA Industrial Rental Values* – Net face rents (\$/m²)



Source: Knight Frank Research
*Average Precommit Net Rent (5,000-10,000 sqm D&C)

Rents charged are a derivative of land costs, labour costs and construction. With construction and labour being almost equal across geographical areas, land costs therefore have the biggest impact on final rents charged. Land across the Liverpool LGA is relatively expensive as a large proportion of the LGA's precincts are tightly held by privates. From a development perspective, the high cost of servicing this land essentially prices buyers out of the market, and pushes them to other competing geographical areas with more flexible and readily available developable land.

In addition, 70-80% of outgoings on predominantly a standard base build warehousing logistics user, is made up of council rates and land tax. Therefore the higher the land and council tax rates, the higher the outgoings. This in turn affects gross rents, which are the determining rents which tenants/occupiers consider when looking at the total cost of the lease. With leases now being an accounting practice, and being placed on balance sheet, historic ambiguity in rental increases over time, has now forced groups into requiring fixed rental increase in order to know the exact costs of a lease.

Liverpool City Council has a role to play in this equation due to its ability to fast track services, and by putting pressure on groups such as Sydney Water, to actually help assist in getting services to precincts to unlock the land. In turn, this will assist in reducing hurdle rates and make development easier and cheaper which in turn will keep gross rents competitive.

Table 2. Recent Industrial Leasing Activity – Liverpool LGA

Address	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
Pre-lease					
402 Hoxton Park Road, Prestons	N/A	17,200	15	AHG	Jun-16
290 Kurrajong Rd, Prestons	107	15,340	7	Bracknells	P/C
38-46 Bernera Rd, Prestons	258	13,917	15+5+5	Inghams	P/C
38-46 Bernera Rd, Prestons	127	8,183	10+5+5	Salmat Ltd	P/C
102 Enterprise Circuit, Prestons	128	3,330	5	ALP Products	P/C
30-50 Yarrawa St, Prestons	139	45,571	15	Mainfreight	Jan-15
Hoxton Distribution Park, Hoxton Park	Conf	90,000	25	Big W	P/C
Hoxton Distribution Park, Hoxton Park	Conf	42,000	20	Dick Smith	P/C
Existing Leases					
3 Ash Road, Prestons	131g	5,032	10	Private	Jan-16
126 Jedda Road, Prestons	125g	3,994	5	Pretty Girl Fashion Group	Dec-15
51 Heathcote Road, Moorebank	130	1,971	N/A	Evolution Traffic Controls	Jun-15
73 Alfred Rd, Chipping Norton	100	2,380		Impact Solutions	Jan-15
230 Hoxton Park Road, Hoxton Park	105	6,533	7	ARB Corporation Ltd (ARP)	Aug-14
1 Secombe Pl, Moorebank	120	5,332		Invenco Pty Ltd	Feb-14
66-68 Jedda Rd, Prestons	115	5,355	5	Western Pet Foods	Jan-14

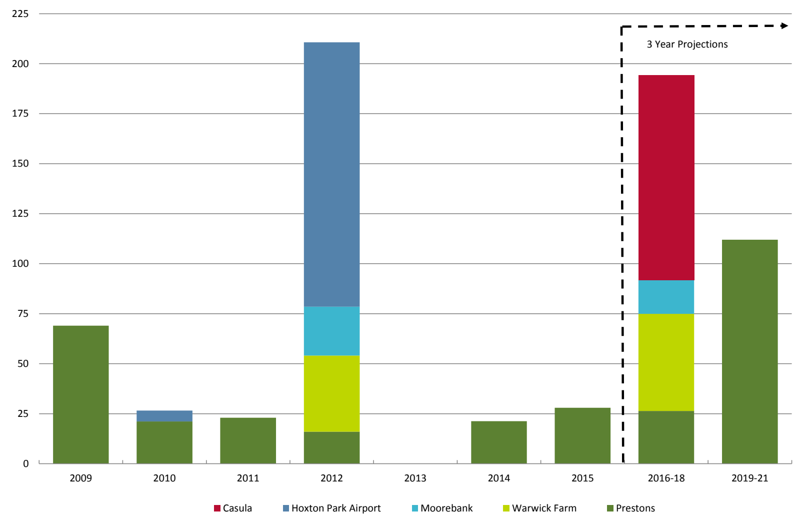
Source: Knight Frank Research

3.4 DEVELOPMENT

Since 2009 supply of new industrial employment space has been relatively benign across the Liverpool LGA, albeit for a spike in development during 2012, when approximately 132,000m² of space, 100% preleased to Woolworths Ltd, was developed by Mirvac. Following this annual development spike, the next three year period (16,400m²/annum) saw below trend industrial development activity (see Figure 12).

However, it is expected that the supply of new industrial space will again increase over the short and medium term, with approximately 194,125m² of projects already being monitored for potential development during 2016-18. This expectation is a result of the steady downward trend in vacant stock levels (5,000m²+) across the LGA, and wider region, with the bulk of this short term development phase limited to some institutional landholders and larger private land holders (see Table 3 on the following page). Over the medium term (2019-2021) we expect another 112,000m² of industrial space to be developed across the Liverpool LGA, if economic and financial market conditions remain equal.

Figure 12. Liverpool LGA Industrial Development – Annual Gross Supply (‘000 m², bldgs >5,000m²)



Source: Knight Frank Research, Cordell Connect

Table 3. Liverpool LGA Industrial Development – Future Supply (‘000 m², bldgs >5,000m²)

Project Title	Precinct	Est. Area (m²)	Developer	Est. Completion
Hoxton Park Rd Warehouse & Office 402 (Lot 5) Hoxton Park Rd	Prestons	17,200	Charter Hall - Automotive Holdings Group	2016-18
AMP Crossroads Industrial Estate Casula Lot 204 Beech Rd	Casula	32,617	AMP - Spec	2016-18
Kurrajong Rd Warehouses 29 Kurrajong Rd	Casula	25,965	Charter Hall	2016-18
Governor Macquarie Dr Warehouses - Coopers Paddock 200 (Lots 41-43) Governor Macquarie Dr	Warwick Farm	48,560	Stockland	2016-18
Kurrajong Rd Warehouse 42A (Lot A) Kurrajong Rd	Prestons	9,141	Private Investor	2016-18
Crossroads Logistics Centre - Precinct C - Warehouse 3 & 4 Lot 21 Beech Rd	Casula	26,770	AMP - Casula Dev	2016-18
Crossroads Logistics Centre - Precinct C - Warehouse 5 & 6 Lot 21 Beech Rd	Casula	17,040	AMP - Casula Dev	2016-18
Heathcote Rd Industrial Complex 37 (Lot 4) Heathcote Rd	Moorebank	6,600	Consolidated Bearing Company (Properties)	2016-18
Moorebank Av Industrial Development - Mfive Industry Park 1 Moorebank Av	Moorebank	10,231	Goodman	2016-18
Prestons Industrial Estate Lot 34 Yarrunga St	Prestons	111,980	Logos Property	2019-21

Source: Knight Frank Research, Cordell Connect

4.0 DEMAND OUTLOOK

The gravitation of industrial businesses to Western Sydney is expected to continue as rising rents in inner and middle ring locations coupled with significant investment in road and infrastructure investment will motivate additional businesses to outer ring locations. This section of the report assesses the likely future demand for industrial land within the Liverpool LGA and competing areas of demand.

4.1 DRIVERS OF INDUSTRIAL LAND DEMAND

Demand for industrial land is driven by a number of factors, however they include locational preferences (proximity to key transport infrastructure or consumers etc.), population and employment growth, overall demand for goods and services and pricing. At a high level, employment growth in industry sectors which utilise industrial demand (stemming from an increase in industrial businesses and hence a need for further industrial land) are considered the key proxy for future industrial demand given the positive correlation between the two.

The industry sectors which are broadly considered to locate in industrial areas are:

- Manufacturing
- Transport and storage
- Wholesale trade
- Construction

These industries will be used to determine the future need for industrial demand in the following sections of this report.

However, arguably the key driver of demand for employment land stems from institutional demand off the back of investment mandates to grow funds under management (expand their portfolios). If institutions buy land, and have a five or ten year projection on delivery, then they have committed funds to a project, essentially building a development pipeline. Institutions are driving demand in Sydney, by developing a pipeline as to create opportunities, to form part of their tenant retention strategies. Institutions need to retain tenants coming out of older facilities, who may require additional, more efficient or purpose built space. This is different to net transitioning, i.e. selling an asset, and moving a tenant to an existing facility. Therefore, every institution requires a healthy land bank or land reserve, to ensure their portfolios have the ability to grow over time and existing tenants are retained. A good example of the above is GPT who recently paid c$350/sqm for a six ha site in Eastern Creek, at a significant market rate. An institutions business model does not allow for a stagnant portfolio, thus competition for land is fierce, highlighted by other groups (including Frasers) being prepared to pay the same rate, to lock in land to ensure they have future strategic opportunities.

The other major demand driver for land is occupier driven demand, particularly as occupiers require bigger, newer, better designed, efficient space. An example of efficient space is when an occupier can have slow moving product stacked in sections of a warehouse where the lights remain off unless an employee is active. One other main aim when designing new facilities is reducing the labour input cost, thus reducing the amount of employees required per hectare, although not to the point of total automation.

4.2 EMPLOYMENT PROJECTIONS

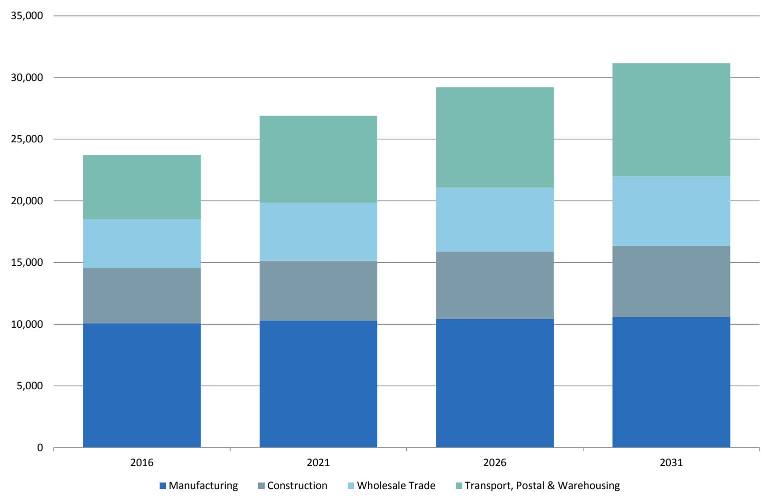
The Liverpool LGA is expected to experience significant employment growth over the next 20 years off the back of a large increase in the resident population. From an industrial employment perspective, growth is expected to be extensive.

At present, it is estimated that the industries mentioned above account for just over 23,728 jobs (2016 Knight Frank estimate), representing 31% of all jobs within the Liverpool LGA. Using Bureau of Transport Statistics (BTS) employment projections, it is anticipated that by 2031, total jobs in these industries will measure 31,160, an increase of 7,432 jobs from 2016 estimates. This represents an annual average increase of 1.7%, considerably above the Greater Sydney average of 1.1% per annum for the same period.

Given Liverpool's proximity to key road networks including the M5 and M7 motorways, Transport, Postal & Warehousing employment is anticipated to experience the largest increase in employment, increasing from 5,206 in 2016 to 9,190 by 2031. On the other hand, manufacturing employment is expected to be subdued, however remaining the largest employing industrial industry in the Liverpool LGA, increasing by 492 jobs to 10,569 jobs by 2031.

Transport, Postal & Warehousing is an emerging industry sector compared with manufacturing based industry, but one of the least labour intensive industries, and is further increasing efficiencies with technological advances in automation. As a result, demand on employment lands will be greater because those groups (Transport, Postal & Warehousing) actively seek bigger, larger, newer boxes, whereas manufactures rarely relocate due to the expensive and uneconomical cost of moving plant equipment. These groups (manufacturers) are the type of users who remain at a site for 15+ years, whereas a Transport, Postal & Warehousing operator is more likely to sign a lease for 7-10 years and then move on to the next site, if it is more efficient to do so. For example if a better racking system is designed, it may be better to offset the costs of a new racking system, and move to a new site and take the incentive offered, effectively making the move a net zero.

Figure 13. Liverpool LGA Employment Growth by Selected Industries



Source: Knight Frank Research, BTS

4.3 INDUSTRIAL LAND PROJECTIONS

The outlook for industrial land demand in the Liverpool LGA has been derived from the employment projections highlighted in section 4.2 and employment density ratios for the key industries which utilise industrial land. The employment density ratios used are:

- **Manufacturing**: 30 employees per hectare
- **Construction:** 25 employees per hectare
- **Wholesale Trade**: 25 employees per hectare
- **Transport, Postal & Warehousing**: 25 employees per hectare

The projections relate to net land demand (or allotment demand) and do not include provision for roads, reserves and buffers. High impact industry uses, and those reliant on heavy vehicle access, will require greater provision for roads, reserves and buffers than lower impact areas such as service industry precincts.

Industrial land demand indicates that future need in the Liverpool LGA from key sectors is in the order of 1,176 hectares by 2031, an increase of 427 hectares from the 749 developed hectares identified by the 2015 EDLP Report. Annual growth in demand is projected to be 25 hectares per annum between 2016 and 2021 before reducing to 18 hectares per annum over the 2021-2026 period and 15 hectares per annum over the five years to 2031.

Table 4. Industrial Employment and Land Projections

	Total Employment					Estimated Land Demand			
Industry	2016	2021	2026	2031	Emp/ha	2016	2021	2026	2031
Manufacturing	10,077	10,276	10,436	10,569	30	336	343	348	352
Construction	4,499	4,887	5,466	5,778	25	180	195	219	231
Wholesale Trade	3,946	4,680	5,159	5,623	25	158	187	206	225
Transport, Postal & Warehousing	5,206	7,060	8,154	9,190	25	208	282	326	368
Total	**23,728**	**26,903**	**29,215**	**31,160**		**882**	**1,008**	**1,099**	**1,176**
Average Annual Increase		***635***	***462***	***389***			***25***	***18***	***15***

Source: Knight Frank Research, BTS
Note: Industrial land projections are based on using the same employment density ratios over the forecast period.

The most substantial demand is anticipated to come from the Transport, Postal & Warehousing sector where 15 hectares per annum is required between 2016 and 2021 to keep pace with demand. Alternatively, limited take-up is expected to stem from the manufacturing industry.

Overlaying this against the 209.4 hectares of remaining vacant and developable land within the LGA (both serviced and not serviced), it suggests there is a significant mismatch between future supply (zoned land) and demand. It is noted that the ELDP has identified significant proposed employment land within the LGA which has the potential to add to supply over the next few decades. Proposed employment land in the LGA includes:

Table 5. Proposed Employment Land, Liverpool LGA as at January 2015

Precinct	Area (ha)
Liverpool Future Industrial	1,124.9
Kemps Creek	446.8
Rossmore	40.2
Moorebank Defence Lands	336.0
Western Sydney Employment Area Extension*	391.9
Total Liverpool Proposed Employment Land	**2,339.8**

Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment
*refers to the WSEA land located within the Liverpool LGA, a further 4,145.2 ha is located within the Penrith LGA

However, unless this land or a considerable share of it is rezoned, serviced and preserved for future industrial uses, competing areas to the North and South will capture Liverpool's industrial demand.

It is noted that the BTS employment projections do not factor the full employment impacts of the Badgerys Creek Airport given the decision on a second airport was undecided at the time of its release. Knight Frank Research estimates that employment growth will be circa 10-20% above the projections above.

4.4 WHERE IN LIVERPOOL?

In the long term, major infrastructure investment will ultimately determine the direction and magnitude of demand for industrial space in Sydney. In this case, the prospects for industrial development within the Liverpool LGA appear solid given its proximity to both existing transport infrastructure links such as the M5 and M7 and future infrastructure projects such as the WestConnex and the Moorebank Intermodal Terminal.

Overall, the impact of road and port investment is expected to stimulate industrial development in South West Sydney, particularly within Liverpool. The Moorebank Intermodal Terminal would provide an efficient solution for improved movement of container freight between Port Botany and South West Sydney. The current 'sweet spot' to the north of the Liverpool LGA around the M4 and M7 intersection will be diluted by the Moorebank IMT. The WestConnex project and widening of the M5 will also shift industrial market impetus to the south west. In addition, locations to the south of the M4 and M7 junction will become more appealing due to relative affordability.

Consequently, the centre of gravity for industrial development should continue to move away from the M4 and M7 intersection, down the M7 and to the west of the M7 i.e. between Northern Road and the M7. The widening of Northern Road as part of the Western Sydney Infrastructure Plan will be a catalyst for industrial development in the region, as it also facilitates direct access to the north west resident population market. Suitable precincts in Kemps Creek, West Hoxton and Badgerys Creek are expected to emerge.

However, with the bulk of land between Northern Road and the M7 (i.e. Kemps Creek, West Hoxton etc.) currently not zoned for industrial uses or are connected to services, these areas are likely to not be available to industrial users until early to mid-2020s. Subsequently, it is important for Liverpool that this land is unlocked (rezoned and serviced) to capture future demand. For the Liverpool LGA, this area holds the key to capturing future industrial demand.

For the purposes of this report, and in the opinion of Knight Frank, Liverpool City Council needs to open up scalable areas of employment land with certainty on delivery in terms of augmentation and servicing. In doing so, Liverpool will be able to secure institutional buy in, which is imperative as institutions are the groups who have the capacity and the capital to actually develop and bring tenants. In Sydney, as expressed throughout this report, with the way land rates are, private developers struggle to take on projects of scale, and an institution will be reluctant to take on a project unless it has scale. For example, Frasers are currently trying to source englobo, unzoned, unserviced land; however they require at least 30 ha of contiguous area. Therefore, there is a gap in the market dynamics between when activity can and cannot occur.

In the opinion of Knight Frank, Liverpool City Council's role in the above is to provide a clear blueprint of timing and servicing to bring land online. With certainty it allows institutions to pay the type of rates that the privates are prepared to divest their land, so that they can build scale. Without the certainty an institution will not become active, nor pay the rates that privates on 5 acre lots are willing to sell for. Privates are competing on the same land, and in some parts even better land than an institution for a pre lease. However, privates remain uncompetitive to a global corporate such as DHL or TNT, due to the level of risk involved during servicing and construction, in addition to the uncertainty of processes throughout a lease.

Therefore, the Liverpool LGA is not seeing a greater increase in institutional land ownership. Without institutional land ownership the Council will be overlooked, with institutions pushed down to the South West, further North and out West towards Badgerys Creek, if they can find scale. As expressed throughout this report, scale is key for an institutional developer and the majority of development on greenfield land is for bigger, more efficient space, and requires at least 2 ha+.

In the interim, demand within the Liverpool LGA over the next decade is expected to remain focussed upon Prestons. As at January 2015, there was 118 ha of undeveloped zoned employment land within Prestons which based on historical take-up rates since 2008, equates to approximately 13.8 years' worth of supply. Beyond this, Cross Roads at Casula and Austral represents the next locations within the Liverpool LGA which can accommodate substantial growth over the next decade, however is constrained by a lack of large lots which will limit demand from larger users unless site amalgamations can occur.

It is important to note that the bulk of this land is currently not serviced with just 41.1 ha of zoned and serviced land across the Liverpool LGA.

4.5 COMPETING AREAS OUTSIDE OF LIVERPOOL

In recent years, the bulk of Sydney's industrial take-up has occurred in the Blacktown and Penrith LGAs, namely concentrated in selected precincts including Eastern Creek and Erskine Park where there is ease of access to major arterial roads and availability of undeveloped land.

Looking ahead, industrial precincts to the north of the Liverpool LGA are expected to remain buoyant, underpinned by the progression and promotion of the Western Sydney Employment Area (WSEA) which is heavily concentrated within the Penrith and Blacktown LGAs. However, land across WSEA is now tightly held, with land owners reluctant to sell unless they are deriving large profits. In the past there have been big opportunities for corporates to purchase land within the WSEA, an example of that is at Marsden Park, where corporates such as Costco, Ikea, Lindt, Dulux, Aldi bought and occupy land. The reason for locating in Marsden Park was partly due to the areas connectivity, being positioned on the M7. However, the main reason was because Marsden Park was the only real opportunity these groups had to buy land.

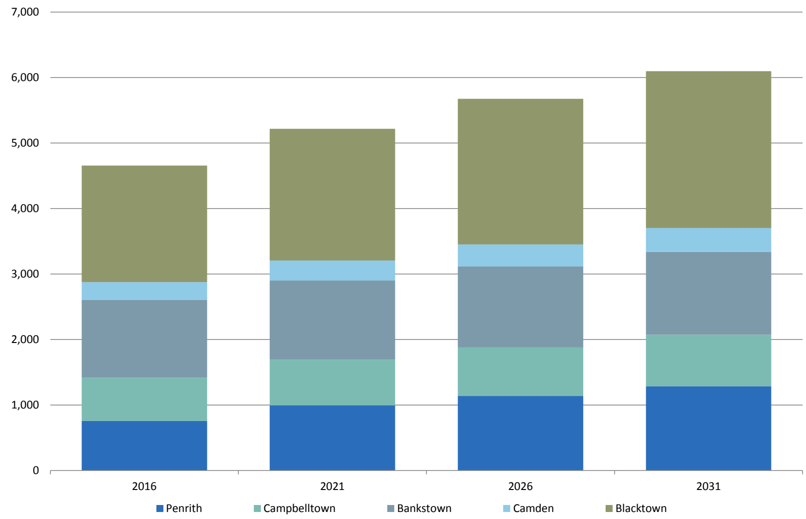
Conversely, Marsden Park is yet to secure a prelease as its price competitiveness, out of its own relative success, has become uncompetitive compared to an institutionally owned land holding. Fundamentally, the land rates Marsden Park achieved in selling to owner occupiers were essentially c$50sqm above true market value, as an owner occupier will always pay more to secure a site. Therefore, if Marsden Park is placing their land into a feasibility at, for an example price of $400m^2$, and an Institution are at $350m^2$ then the situation becomes uncompetitive, and thus land owners have to wait, as they are hesitant to take a write-down on their land value.

The issue Liverpool City Council has is the more land that is unlocked and the more certainty that is given then institutions will become more active. However, the land rates have to be feasible and competitive otherwise private landowners will sit on land. In the opinion of Knight Frank, the Liverpool City Council cannot pick small scale isolated land pockets to rezone as expectations from land owners become too high, and leaves no other competing opportunities within the LGA. In terms of development of employment lands, this strategy would result in the LGA being left behind. In the opinion of Knight Frank, it is important for Liverpool City Council to create competitive tension in the market amongst those groups who are trying to find and secure occupiers, which can be done by rezoning larger tranches of land.

Using the same method as in Section 4.3, we are able to determine the likely level of demand for nearby LGAs over the next 15 years. Over the next fifteen years (to 2031), industrial demand in the surrounding LGAs is expected to be in the order of:

- Blacktown: 614 ha (average of 40.9 ha per annum)
- Penrith: 528 ha (average of 35.2 ha per annum)
- Campbelltown: 127 ha (average of 8.5 ha per annum)
- Camden: 94 ha (average of 6.3 ha per annum)

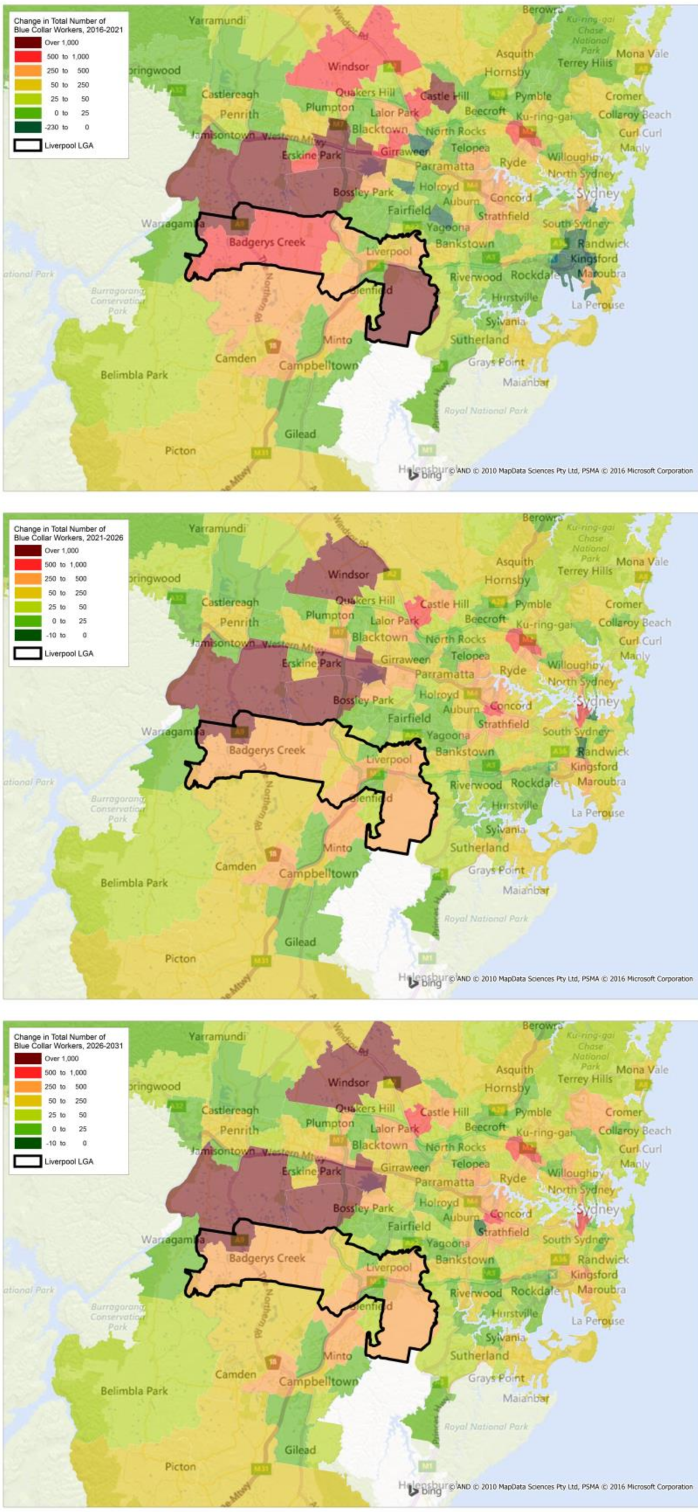
Figure 14. Industrial Demand by Competing LGAs, hectares, 2011-2031



Source: Knight Frank Research, BTS

The maps on the following page highlight regions (by SA2) where employment growth in the dominant industrial industries is expected by five year intervals. Importantly, these projections are reliant on demand being met by suitable employment land. In the case where appropriate supply is not available, demand will shift elsewhere. These trends (highlighted on Map 5) indicate that land within the Liverpool LGA to the west of the M7 Motorway should be prioritised and unlocked to accommodate future demand.

Map 5. Industrial Based Employment Gains, 2016- 2031



Source: Knight Frank Research, BTS

Between 2016 and 2021, the Horsley Park - Kemps Creek SA2 and the Mulgoa - Luddenham - Orchard Hills SA2s are expected to account for the bulk of growth. For the Liverpool LGA, the progression of the Moorebank Intermodal Terminal is expected to result in substantial land demand as industrial based employment growth is expected to exceed 1,200 jobs for the period. Elsewhere, the Badgerys Creek – Greendale SA2 region is set for solid growth while growth in Prestons is anticipated to ease from recent levels as demand shifts west of the M7 Motorway.

During the five years to 2026, employment growth in industrial industries is expected to be more concentrated in Western Sydney Employment Area, underpinned by Horsley Park - Kemps Creek, Prospect and Mulgoa - Luddenham - Orchard Hills SA2 regions. The north western area of the Liverpool LGA, surrounding Badgerys Creek is anticipated to result in substantial industrial demand while more moderate growth is antipcated elsewhere in the LGA. Notably, over the 10 years to 2026 (first two maps), a net decline in industrial based employment in South Sydney is expected as further business shift to outer west Sydney off the back of further withdrawals for alternative uses.

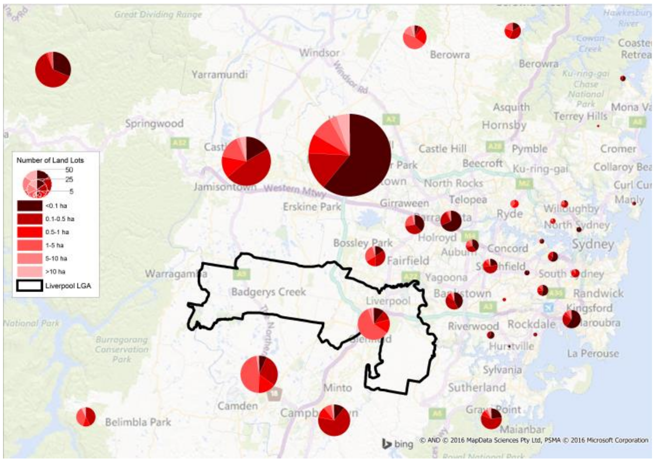
Similar to the previous five year period, employment in industrial industries **over the 2026-2031 period** is expected to remain in the area west of the M7 Motorway and south of the M4 Motorway. Industrial demand for the Liverpool LGA is expected to occur immediately south of Elizabeth Dive.

4.6 CONSTRAINTS TO FUTURE DEVELOPMENT

A lack of suitably sized lots can potentially limit industrial development. The majority of undeveloped employment land lots available for development are relatively small. Approximately 77% of all lots across the Sydney Metropolitan region are smaller than one hectare in size; a further 17.5% of all lots are between 1 and 5 ha in size (see Map 6 and Map 7).

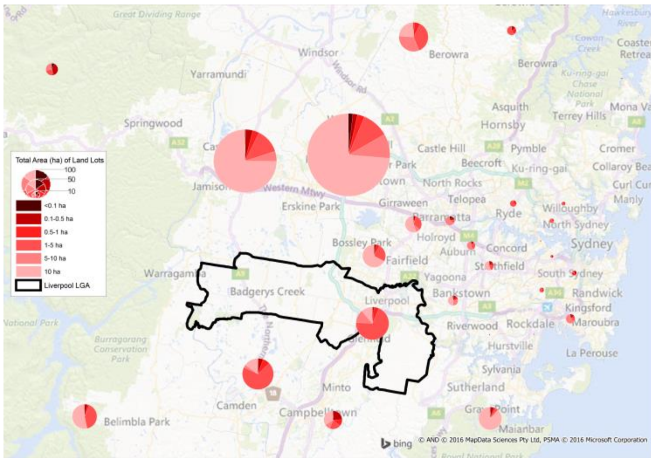
The impact from this is that development of smaller lots only appeals to certain end users or tenants. This effectively reduces the scope for market absorption and large anchor tenants, reducing the overall level of industrial construction activity. This is apparent across the Liverpool LGA, whereby the undeveloped land supply across the LGA is primarily held in parcels sized below 5 hectares, accounting for 94% of all undeveloped zoned land lots. At the same time, there are just six undeveloped zoned lots sized above 5 hectares, only two of which are sized above 10 hectares which is the ideal land parcel size to accommodate new larger users.

Map 6. Number of Undeveloped Employment Land Lots by Size, LGA



Source: Knight Frank Research, ELDP 2015, NSW Land and Property Information (data aggregated at geographic centre of LGA)

Map 7. Total Area (ha) of Undeveloped Employment Land Lots by Size, LGA



Source: Knight Frank Research, ELDP 2015, NSW Land and Property Information (data aggregated at geographic centre of LGA)

Elsewhere, Blacktown and Penrith LGAs have a greater ability to accommodate larger logistic users given the higher provision of larger lots (see Table 6 on the following page). Subsequently, in order to capture 'big box' demand in the Liverpool LGA, land to the west of the M7 Motorway will need to be unlocked through rezonings. Providing the framework for an easier re-zone process will assist developers and some larger users to acquire greenfield englobo land. Similarly, servicing of englobo land will give developers certainty on availability and timing of sites.

In the opinion of Knight Frank, Liverpool LGA has all the attributes needed to be one of the absolute prime industrial areas. The LGA has rail, roads, infrastructure, a predominantly blue collar population, ample land and has council support, the LGA now needs to tick the box to get that land unlocked. If Liverpool City Council is successful in unlocking land, then there is no reason why Liverpool LGA would not be more successful in retaining tenants and increasing development rates than for example, Eastern Creek or Erskine Park, however, there is limited opportunity at the moment.

Liverpool LGA is competing geographically, but more importantly the LGA is competing against sophisticated institutional developers. These owners, in Sydney's case, predominantly, and effectively, already have control of the tenant from an existing facility and have the relationship. Institutions can move tenants out on to other lands that they own, and have the ability to undercut a private land holder, not on a land rate basis, but on a construction basis (due to economies of scale), which ultimately affects the feasibility. For the majority of privates, they either undercut or write-down their land to give themselves a competitive edge on a construction price, however, the hardest part for a private, is credibility, capability, delivery risk and demonstrating to a global corporate that they can complete, with limited track record.

Table 6. Undeveloped Zoned Employment Lands by Lot Size, North West & South West, 2011

	Liverpool		Blacktown		Penrith		Other Sydney	
	Lots	%	Lots	%	Lots	%	Lots	%
< 0.1 ha	11	11%	327	61%	36	17%	233	25%
0.1 - 0.5 ha	10	10%	80	15%	101	47%	379	41%
0.5 - 1 ha	14	14%	41	8%	31	14%	102	11%
1 - 5 ha	60	59%	46	9%	33	15%	171	19%
5 - 10 ha	4	4%	15	3%	5	2%	19	2%
> 10 ha	2	2%	28	5%	9	4%	18	2%
Total	***101***	***100%***	***537***	***100%***	***215***	***100%***	***922***	***100%***

Source: Knight Frank Research, Employment Lands Development Program, Department of Planning and Environment

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