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Western Sydney Economic Outlook – Emerging High-Tech Industrial Powerhouse

October 2023

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Introduction

As Sydney grows, it is more important than ever to ensure that there is sufficient industrial land available to service the needs of the growing population, enabling Sydney to be home to high-value businesses and continue acting as a gateway to the world. From servicing the needs of the local population, such as having close access to distribution centres, to ensuring there is sufficient land for future businesses, there is significant need for all levels of government to manage the demand for industrial lands in light of growing pressures in the housing market.

Sydney's industrial landscape is facing a unique challenge, with industrial vacancy rates at an astonishingly low 0.2%. High demand and limited space have driven up rents, creating a significant gap compared to other cities. Sydney's geographical constraints, including the ocean and national parks, exacerbate the issue by pushing residential development into industrial areas, which further increases competition for the land in Western Sydney. Delays in industrial development approvals contribute to the problem as a shortage of skilled planners in local councils slows down the process.

This current challenge, however, has the potential to be turned into a long term advantage for the economic outlook of Western Sydney. The relocation of large-scale, land intensive uses to other locations like Melbourne and Brisbane opens the door for Western Sydney to focus on embracing innovation and simplifying planning controls that could transform Australia’s third largest economy into a leading hub of economic sophistication. It's a playful dance between constraints and creativity, promising high-paying jobs and future prosperity. Let's seize the moment!

> Western Sydney is one of the fastest growing regions in the country, however the development of job creating industrial zones has not kept pace.
>
> New developments, particularly in the Outer South West of Sydney have been zoned almost entirely residential, with little consideration for industrial land and job creation.
>
> This insightful report highlights the enormous challenges and opportunities across Western Sydney to fix this nationally significant problem. It’s imperative that the government prioritises and fast tracks the approval of more industrial land, along with the infrastructure to support it.
>
> **David Borger**
> Executive Director,
> Business Western Sydney

Table 1 Overview of the potential for market failure or strategic policy intent.

Potential risks to functioning of Greater Sydney

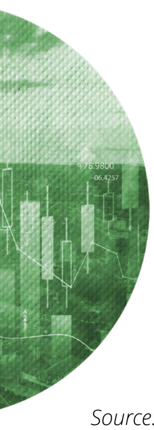
Supporting community needs

- **Optimisation of infrastructure use may be compromised** due to potential out of centre developments in industrial areas.
- **30 minute liveable cities could be harder to realise** as some local community servicing business may not be able to compete and could be displaced.
- **Reduced diversity** of local goods and services, urban services and industrial lands job opportunities.

Supporting city functionality and supply chains

- Potential loss of **key freight and logistics areas, and freight network optimisation** could be at risk (including **30 minute freight cities)**.
- **Increase in production costs could** erode the competitiveness of industries.

Supporting economic resilience and current and future business investment



- Reduced options for suitable land in appropriate locations to support investment in a variety of **existing and emerging business needs**, could arise from irreversible effects of up-zoning.
- **Encroaching competing uses** could increase negative externalities (noise, pollution, congestion) between proximate users.
- Greater **investment uncertainty** for business, and increasing speculative or unproductive land holdings.

Source: Deloitte Access Economics, Greater Sydney Commision (2022)

Economic rationale for policy intervention

Minimise externalities:

- Land use and planning decisions can create extensive **negative externalities** that aren't managed by the market (noise, light, air quality, carbon emissions, congestion and crowding).
- Loss of key freight and logistics areas can **increase congestion and crowding** along major transport routes. Loss of industrial lands in urban centres has the potential to displace businesses and **increase last miles inefficiencies**. Together these factors will further exacerbate congestion and contribute to **increased pollution and emissions from transport**. Furthermore, in the absence of a policy framework to maintain sufficient buffer zones, local amenity of land uses near industrial areas may be impacted by **noise, light and air pollution**.

Manage common pool resources:

- Industrial lands are commonly characterised as **low value uses**. However, they are integral to the efficiency of urban systems. Policies can help mitigate **underinvestment in low value industrial uses** to optimise land use decision making and infrastructure planning. Policy intervention is needed to **minimise the potential for loss of public amenity and network inefficiencies** as well as to **reduce infrastructure costs**, and existing infrastructure use.

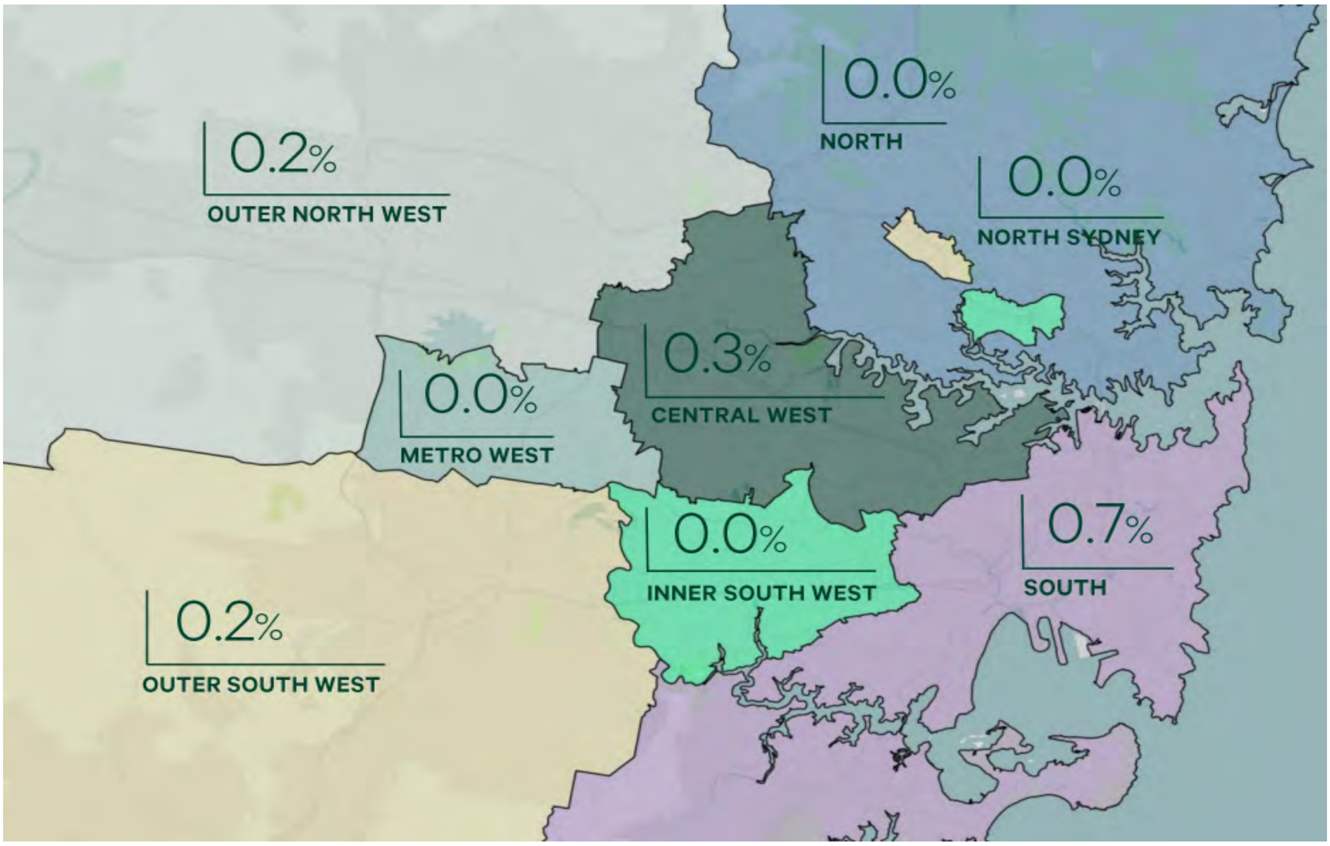
Maximise productivity for Greater Sydney in the long run:

- Policy intervention can support private markets to maximise productivity gains over a longer time horizon. 'Up-zoning' of industrial lands could result in the **loss of future option value** for the use of industrial lands to meet Greater Sydney's current and future business needs. A **coordination failure** could arise if current policies do not consider the future needs of Greater Sydney.
- Policies can take into consideration the evolving role of industrial lands to serve emerging industries and mounting pressures from a growing population thus **minimising present bias which could result in underinvestment** in low value industrial uses if the future potential of industrial lands to serve emerging industries and growing population are not considered. This could exacerbate the mismatch between supply and demand in the future.

Sydney: The tightest industrial lands market in the world

The availability of strategically located and well serviced industrial land is pivotal in driving the economic growth of cities through manufacturing, urban services, supply chains and fostering 21st century innovation. Industrial lands serve as space for a mix of light industry and urban services uses, as well as research and development activities. These spaces encourage agglomeration and collaboration to create a rich and diverse landscape of businesses across industries and enable a robust economy with job opportunities for all residents.

Chart 1: What little industrial vacancy exists is concentrated in the outer Western and Southern suburbs.



Source: CBRE Research (2022)

Sydney 2022 Vacancy by Precinct

0.2%	Outer North West
0.0%	Metro West
0.2%	Outer South West
0.3%	Central West
0.0%	Inner South West
0.0%	North
0.0%	North Sydney
0.7%	South

According to CBRE data, Greater Sydney's industrial vacancy rate was just 0.2% [1] in 2022. In large areas of the traditional industrial heartland of Western Sydney, there is effectively no well-located and serviced industrial space for a new business to set up or an existing business to expand. Where there is vacancy, it is concentrated in the outer south, south-west and north-west, far from customers, employees and other suppliers. As Sydney continues to grow, these locations will be in close proximity to western hubs of activity such as the Western Sydney Aerotropolis.

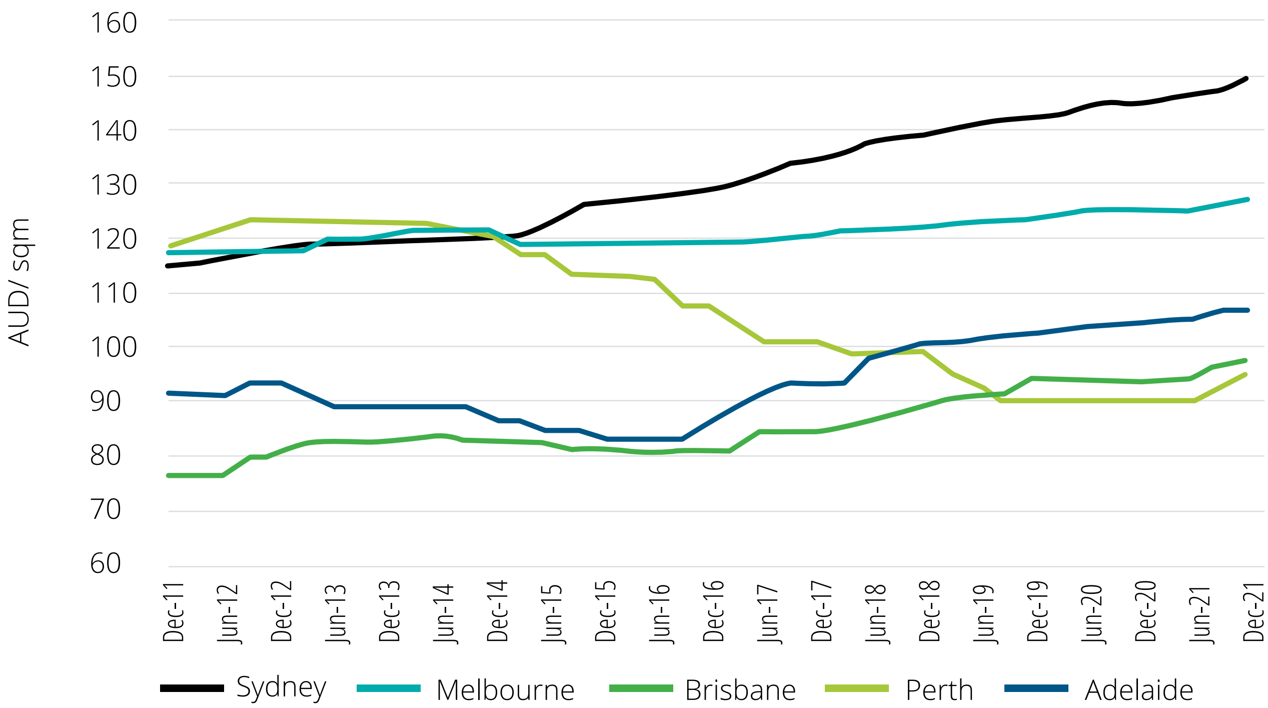
As a result, rents for industrial land in Sydney are significantly higher than anywhere else in Australia. In 2014, industrial space in Sydney, Brisbane and Perth all cost about the same, around $120 per sqm. Since then, Sydney's industrial rents have increased by 25%, opening a large gap with other cities. According to forecasts by CBRE [2], this growth is set to continue, with annual increases in the range of 5% expected to continue for at least the next five years.

Moorebank Intermodal IMEX Terminal

[1] CBRE (2023), Sydney Industrial and Logistics Land Supply 2023.

[2] Ibid.

Chart 2: Industrial rents in Sydney continue to race ahead of other capital cities.



Source: CBRE Research

Land constraints and challenges

What's driving these high prices? A major cause is Sydney's geography. Unlike Melbourne, which is surrounded by largely flat developable land, Sydney is hemmed in by the ocean, mountains and national parks on all sides. There has also been a chronic undersupply of housing in Sydney with the growth over the last decade being in greenfield house and land packages which could otherwise have been ideal locations for industrial development.

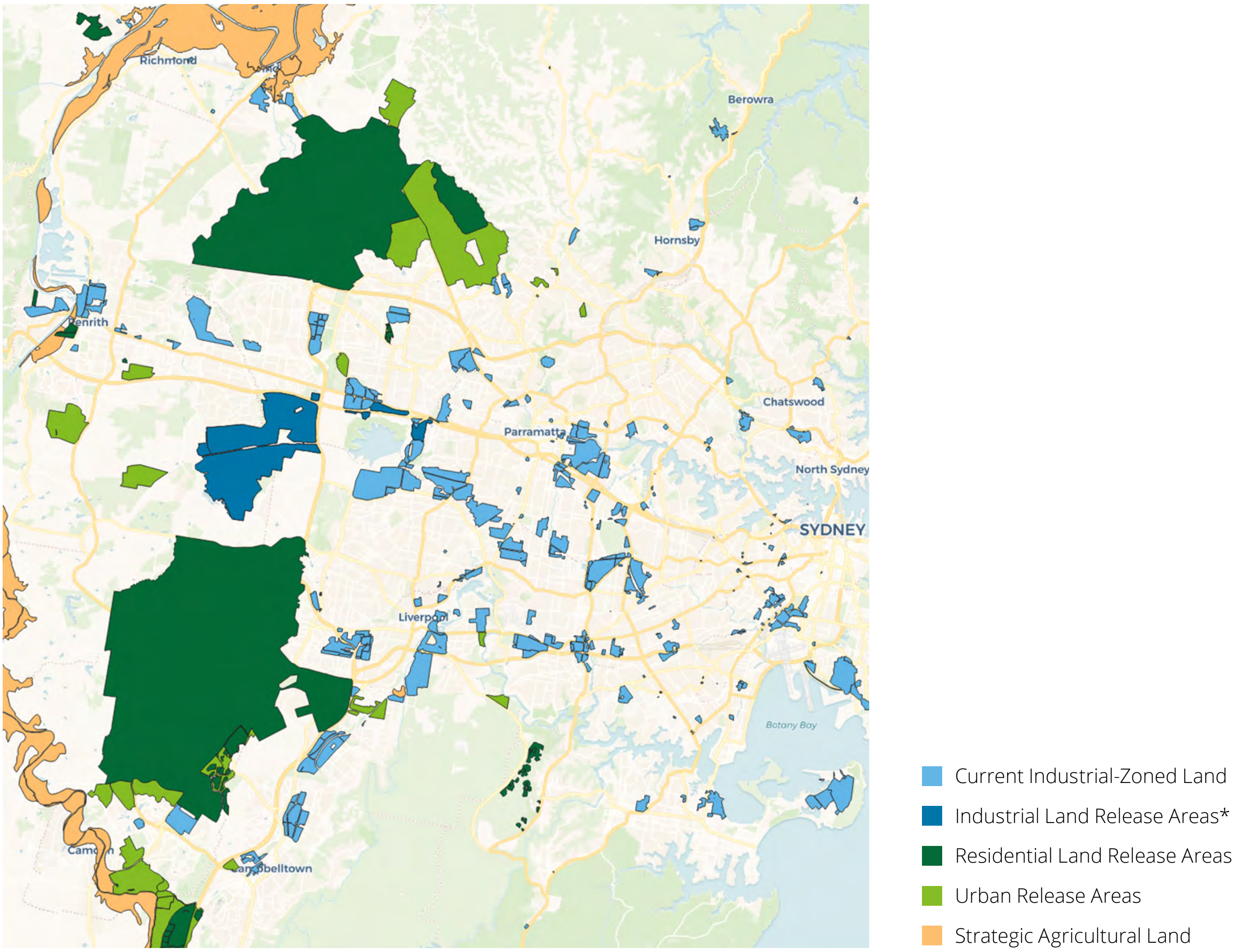
With house prices near all-time highs, there is significant pressure for what vacant land remains on Sydney's fringe, and more broadly across the city, to be developed for residential use, rather than industrial. As shown in chart 3, nine times as much land in Western Sydney is currently planned as residential land release areas (dark green in the map below) than industrial release areas (dark blue). Further, much of this 'industrial release area' at Eastern Creek has already been taken up, with only the south-west corner remaining undeveloped.

High house prices are also placing pressure on existing industrial land, in locations critical to supply chains, to be rezoned for residential use. As charts 3 and 4 show, most of Sydney's population growth over the last five years has been concentrated in the outer suburbs, while what infill growth has occurred has tended to be on former industrial sites, such as Green Square and Wolli Creek.

This has had the effect of pushing industrial activity further west, increasing the distance that goods have to travel to customers and employees have to travel to work. In 2022, Deloitte examined these issues for the Greater Sydney Commission and estimated that the benefits of additional residential development on industrial land were generally outweighed by the negative economic and environmental impacts of losing industrial floorspace. These impacts include greater freight network congestion, environmental damage from more and longer heavy vehicle trips and disruption to supply chains from forced relocation of businesses [3].

[3] Greater Sydney Commissions (2022), Industrial Lands 'Retain and Manage' Policy Review findings paper

Chart 3: Industrial-zoned land and future release areas.



Source: NSW Department of Planning and Environment, Deloitte Analysis

* Note: Substantial proportion of the Eastern Creek industrial land release area is already zoned for industrial use.

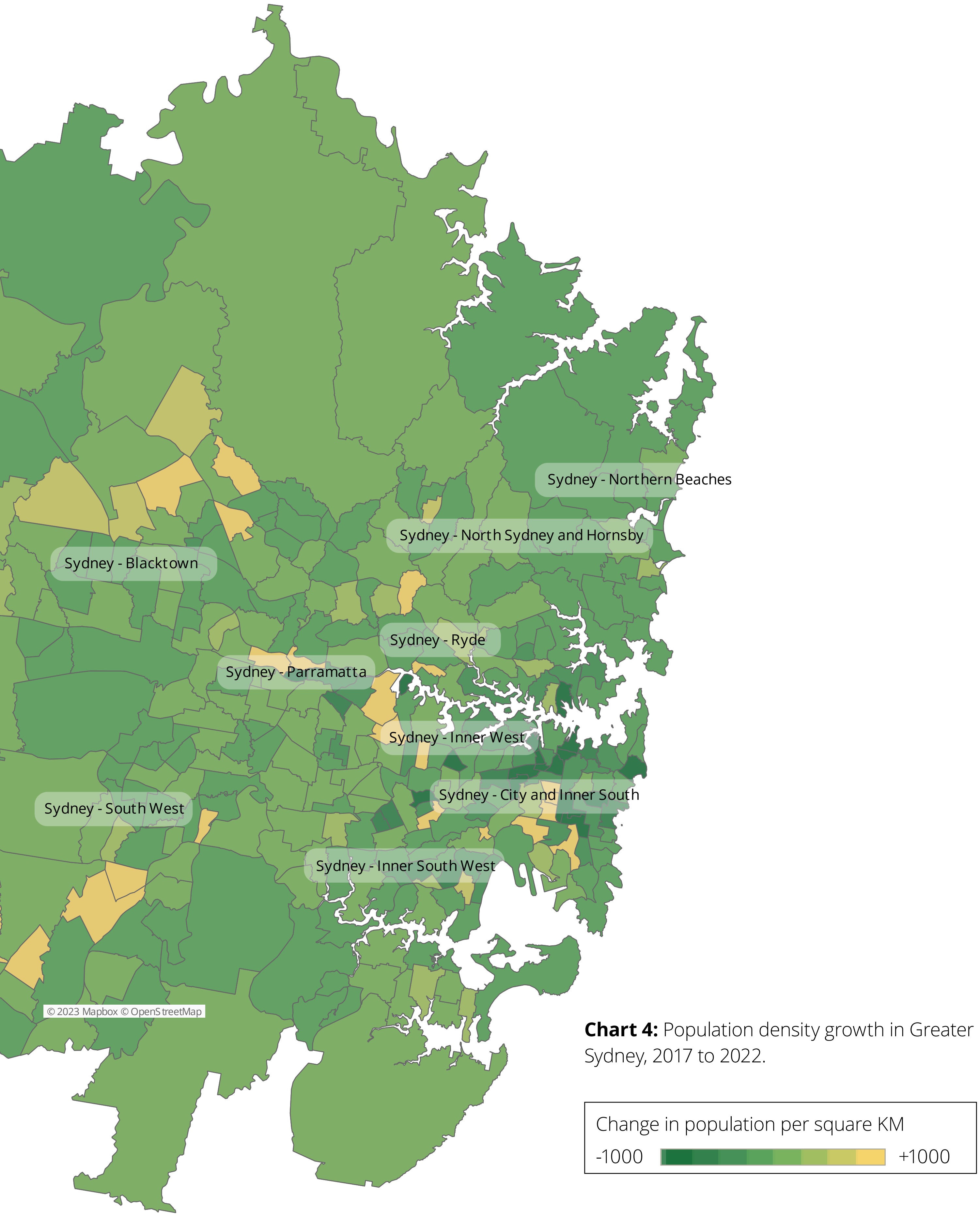
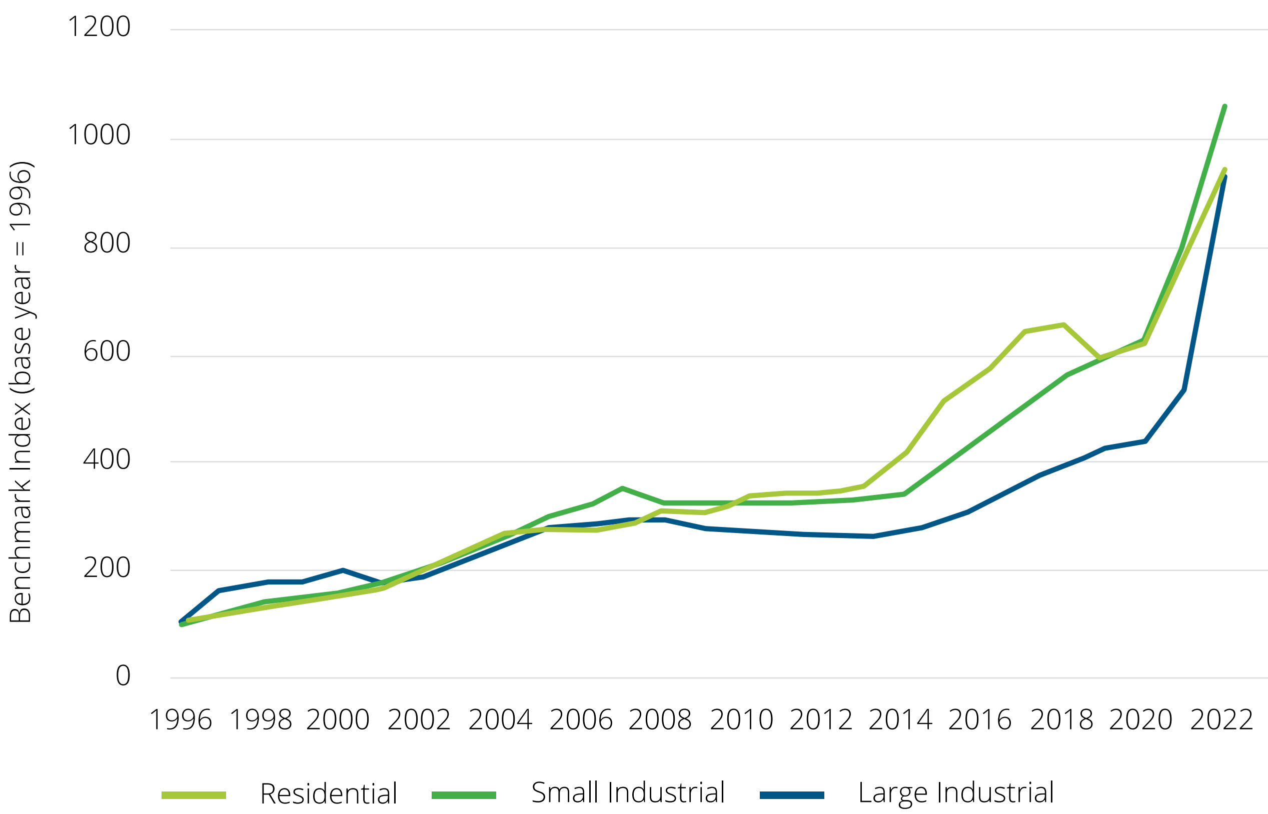


Chart 4: Population density growth in Greater Sydney, 2017 to 2022.

Source: ABS Regional Population, Deloitte Analysis
© 2023 Mapbox © OpenStreetMap

Chart 5: Sydney land value benchmark indices, 1996 to 2022.



Source: NSW Department of Planning and Environment, Deloitte Analysis

Looking at future development sites, Sydney's shortage is even more stark. For comparison, Brisbane's share of industrial land which is vacant and ready for development is more than double that of Sydney (11% compared to 4% in Sydney).[4]

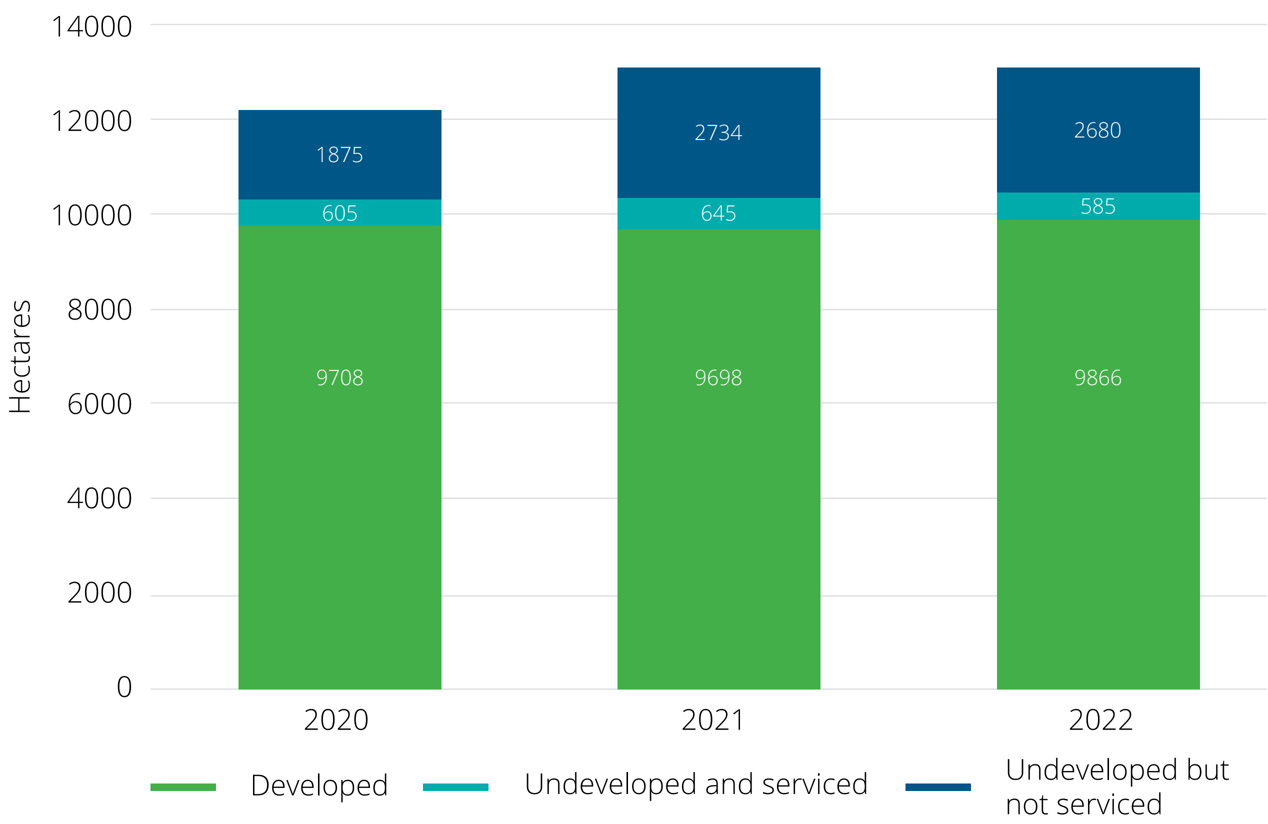
Melbourne has more than twice as much undeveloped industrial-zoned land, at around 8,200ha compared to less than 3,300ha in Greater Sydney. Unless there are significant changes to policy settings, these trends are likely to continue.

Anecdotally, infrastructure is also lagging behind the zoning of land, with an economic development manager at a Western Sydney council noting that:

> "Thousands of hectares of enterprise land has been zoned, before infrastructure plans are properly established.
>
> Similarly, delivery of fundamental state infrastructure such as roads, stormwater, sewage and power are not clear in terms of staging and timing.

[4] CBRE Sydney, Industrial and Logistics Land Supply (2023).

Chart 6: Land available and serviced for industrial uses in Metropolitan Sydney in 2022.



Source: CBRE Research (2022)

There isn't much that can be done about Sydney's geographic constraints - the harbour, ocean and the Blue Mountains are among Sydney's greatest assets. However, some of the factors contributing to high industrial rents are more controllable.

When an industrial development application is made, Sydney takes almost twice as long as Melbourne for applications to be approved.[5] These delays can add substantial costs and risks for developers, contributing to supply being less responsive to record levels of demand and, ultimately, worsening outcomes for tenants, businesses and workers.

A primary reason for this is a shortage of trained planners in local councils and state planning departments. The Australian Local Government Association estimates that more than 90% of councils in NSW are experiencing skills shortages, the second highest of any state or territory. Two thirds of Councils in NSW reported projects being impacted by skills shortages. In particular, town planners, engineers, and surveyors were highlighted as skills in critical shortage.[6]

On average, local governments are taking more than 3 months to fill vacant positions [7], and, anecdotally, more experienced planners are moving from working on industrial developments to commercial and residential developments due to current market conditions. Although large industrial developments are typically assessed by the state government, planning resources are also stretched within the NSW Department of Planning and Environment, with a high volume of applications and the challenge of balancing industrial and residential assessments.

In addition, industrial developments are becoming more complex than the simple sheds and warehouses of the past, with technologically advanced distribution centres and even multi-storey warehouses being actively developed within Greater Sydney. While these more advanced developments are a natural response to high land costs and have the potential to support a productive and efficient industrial land markets in Western Sydney, they often bump up against planning rules designed to regulate the developments of the past. For example, data centres, a new and rapidly growing form of development, are generally treated similar to warehouses, rather than recognising the different building form and infrastructure needs of this type of development. This misalignment can add to approval delays and limit developers from building what the market will find most efficient and appropriate.

These new forms of industrial development are not only more spatially efficient, but support high-productivity, higher-paying jobs in engineering, technology and management. For example - although Amazon's four-storey, robotic warehouse development in Kemps Creek requires fewer staff to manually pick and pack goods than a traditional warehouse, it has created higher-paying jobs designing, maintaining and operating complex automated systems.

[5] Deloitte analysis using NSW Department of Planning and Environment (2023) and Victorian Building Authority (2023) development application data

[6] Australian Local Government Association (2022), 2022 Local Government Workforce Skills and Capability Survey

[7] ibid

From Warehouses to Research Hubs - what this means for Western Sydney

Other cities might be winning the battle for large-scale warehouse space, but this may not necessarily be a bad thing in the long run. The outlook for Western Sydney may include a future where industrial land is occupied by highly sophisticated activities such as advanced manufacturing, automated distribution centres and research hubs. These facilities can take advantage of proximity to Western Sydney International Airport to move the region higher up the value chain.

Western Sydney's future comparative advantage will not be in cheap land but in the concentration of highly productive, sophisticated businesses and a highly educated workforce ready to respond to the needs of the 21st century. With growing technological and intellectual prowess, Western Sydney is growing in readiness to meet this challenge.

Industrial land is the foundation of a thriving manufacturing, R&D, logistics and industrial sector for Western Sydney. Getting it right has the potential to deliver higher incomes, shorter commutes and a less congested freight network, while servicing the needs of the growing population.

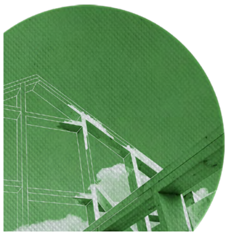
Western Sydney's geographic constraints are not going away; there are increasingly limited opportunities to subdivide further and further on the urban fringe. State and local governments should recognise this and commit to making the most of what land is available.

We see ***3 key actions for governments*** to contribute to and better manage Western Sydney's emergence as an economic powerhouse:

1. 

Identify and protect key industrial lands.

As Western Sydney grows, it is vital that high-value industrial land and freight corridors are protected, and planning for residential expansion considers future industrial needs. Key priorities should be preserving future transport corridors, and integrating the utility and freight networks into strategic land use planning. Existing industrial land should generally be preserved, with conversions only permitted where the strategic and economic benefits outweigh the substantial costs from loss of industrial land. Particular sites, such as the Mamre Road precinct, should be fast-tracked for approval to address the immediate shortfall in industrial land. Infrastructure planning and delivery should be accelerated, to ensure that currently zoned land can be activated as quickly as possible.

2. 

Alleviate the pressure.

Recognising that high house prices have an impact on industrial land markets, government should encourage residential development within the existing urban footprint – particularly increasing infill development around key strategic centres in existing residential areas. Development should be encouraged near new and existing transport infrastructure, with upcoming Sydney Metro station precincts and the introduction of a 'transit-oriented development' SEPP[8] presenting key opportunities to alleviate the pressure on existing industrial land and greenfield development.

3. 

Plan for the industry of the future.

A prosperous Western Sydney will need complex, high-tech industrial developments. Planning rules should be simplified, standardised, and clarified to minimise the amount of time that applications spend waiting for approval. Governments should undertake a review of planning and environmental policies relevant to industrial development, aiming to modernise and align legislation with the developments of the future including data centres and multi -storey warehouses. At the same time, governments should explore options to address the skills shortage in planning, such as implementing new technologies, pooling resources between councils and state government and investing in new training programs, particularly for new and emerging forms of development.

[8] State environmental planning policies (SEPPs) apply across the state and set the rules that control what development can occur on land.

Western Sydney
Ready Reference

Table 1: Key economic forecasts

	Western Sydney			Rest of Sydney		
	2022 Historical	2025 Forecast	2030 Forecast	2022 Historical	2025 Forecast	2030 Forecast
Regional GDP ($b)[9]	166.2	176.3	197.5	374.8	404.1	458.5
per employee ($)	165,637	162,856	164,725	240,102	241,430	262,866
per capita ($)	81,661	84,758	88,709	123,045	128,267	137,967
Employment (000s)	1,004	1,083	1,199	1,561	1,674	1,744
Population (000s)	2,036	2,080	2,226	3,046	3,150	3,323

Source: Deloitte estimates based on DAE Business Outlook, ABS Regional Population, NSC SALM

[9] Note that GDP figures differ significantly from Edition 1 due to the correction of a transcription error and are not comparable to prior estimates.

Table 2: Key Census statistics

	Western Sydney		Rest of Sydney	
	2016	2021	2016	2021
Number of people who speak a language other than English at home	750,125 43.0%	933,457 46.6%	1,340,772 56.8%	1,415,267 55.6%
Number of people who were born overseas	626,354 38.1%	776,473 40.7%	1,098,986 42.7%	1,188,881 43.1%
Number of people with at least a bachelor's degree	288,539 17%		785,075 29%	
Number of households who spend more than 30% of their income on mortgage repayments	47,376 24.6%	42,451 19.5%	54,372 25.8%	38,853 18.9%
Number of people in the labour force who are employed	790,025 6.7%		1,343,077 5.6%	
Number of females in the labour force who are employed	364,083 7.1%		636,172 5.6%	

Source: Deloitte estimated based on ABS Census data

Table 3: Key transport statistics

	Western Sydney				Rest of Sydney			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Number of trips made by car (000s)	3,492	3,544	3,487	3,600	4,850	5,061	5,179	5,103
	48%	48%	47%	47%	36%	36%	36%	35%
Number of trips made by public transport (000s)	596	617	648	672	1,489	1,509	1,556	1,700
	8%	8%	9%	9%	11%	11%	11%	12%
Number of trips made by walking (000s)	1,553	1,514	1,546	1,586	1,553	1,514	1,546	1,586
	21%	20%	21%	21%	11%	11%	11%	11%

Source: Deloitte estimates based on ABS Household Travel Survey data

Table 4: Key economic statistics by Western Sydney LGA, 2022

Local Government Area (LGA)	Regional GDP ($b)	Regional GDP per employee ($)	Regional GDP per capita ($)	Employment* (000s)	Population* (000s)
Western Sydney					
Blue Mountains	3.1	77,060	39,744	40.2	77.9
Camden	6.2	94,141	48,248	65.5	127.8
Campbelltown	9.8	115,587	54,552	85.1	180.4
Hawkesbury	6.6	180,795	96,865	36.4	67.9
Penrith	14.8	127,265	66,939	116.2	220.9
Fairfield	12.0	148,976	58,006	80.5	206.8
Liverpool	14.3	137,643	59,848	104.2	239.8
Wollondilly	26.0	889,125 [10]	466,795	29.3	55.8
Blacktown	24.2	116,065	58,859	208.4	410.9
Parramatta	32.7	240,177	125,589	136.2	260.4
The Hills Shire	16.5	162,247	88,122	101.6	187.1
Western Sydney	**166.2**	**165,637**	**81,661**	**1,004**	**2,036**
Rest of Sydney	**374.8**	**240,102**	**123,045**	**1,561**	**3,046**
Greater Sydney	**541.1**	**210,963**	**106,468**	**2,565**	**5,082**

Source: Deloitte estimates based on DAE Business Outlook, ABS Regional Population, NSC SALM

* Population and employment totals are as at June 2021.

[10] Note that GDP figures are considerably higher in the Wollondilly LGA due to mining activity in the region.

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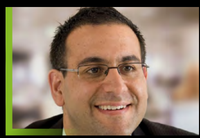

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