more than money

Australia's Engine Room

Greater Western Sydney:
A story of entrepreneurship & ambition

NAB Horizons Special Report

By the numbers

A force to be reckoned with

Greater Western Sydney is an economic powerhouse – and one that is primed for further growth. We share the key numbers behind this phenomenal region.

1 in 11 Australians

Greater Western Sydney is today home to 1 in 11 of Australia's population

↑25% population growth

Over the next decade, the region is predicted to grow by 25% to 3.2 million

1/3 of Sydney's economic output

GWS produces 31% of Sydney's Gross Regional Product and is the third largest economy in Australia

2/3 of new residents

Over the next 20 years, GWS will absorb two-thirds of Sydney's entire population growth

↑18% increase in education borrowing

The top borrowing sector was education, at 18%, with 8 sectors seeing growth above 10%

9.9% overall lending growth

Lending to businesses in GWS is up 9.9% YoY, compared to 7.1% for NSW as a whole

↑8% deposits growth

Deposits in GWS grew at a healthy pace in 2023, 1 percentage point above the 7% national average

↑16% house growth in top areas

Auburn and Blacktown delivered the highest residential house value increases, at 16.1% and 15.3% YoY

$1.2m per acre

Around Western Sydney Airport, prime greenfield sites are transacting at $1.2m per acre

0.5% industrial vacancy rate

Industrial warehousing vacancy rates, in some areas at 0.5%, equal the lowest in the world

Introduction

Why the future looks bright for Greater Western Sydney

It's an exciting time to live and work in Greater Western Sydney. With the region's eyes set on even greater success, we dive into the data and insights driving its growth.

Julie Rynski
Executive – Metro and Specialised,
NAB Business and Private Banking

For generations of Australians, Greater Western Sydney has been the place to join a community, raise a family and build a business. But it's also where the spirit of entrepreneurship has burned bright as the region has quietly developed into the engine room of Australia's economy.

The plains and mountains are now experiencing a boom in population, cultural vibrancy and economic activity. Sydney's west is entering a transformational phase of community and economic life. Since the Greater Sydney Commission first floated the 'Three Cities' concept in 2017, all eyes have been looking west.

And the west hasn't disappointed. Along with the evolution of Parramatta into a bustling new urban hub, dozens of new roads, freight and commuter train lines, hospitals, educational campuses and even entire suburbs and precincts have blossomed. Established businesses have grown and new ones have taken root – whole new industries, in fact, are appearing.

It's an opportune moment, then, to pause and take stock. Interest rates and inflation have hopefully peaked, and businesses are looking for the investment opportunities that will bear fruit in the years to come.

Much of what's to come will centre around the new Western Sydney Airport at Badgerys Creek, which will mark a culmination in this latest phase of growth for Greater Western Sydney and its transition into the next.

The indications – in our data and in our conversations with customers – point to a renaissance for the west; a time of opportunity for all those home-grown businesses looking to connect with the world. For all that, cost of living concerns are still the main source of stress to consumers surveyed in NAB's consumer sentiment survey, and consumers continue to make targeted cutbacks to spending. Thankfully, it looks as if these cost of living pressures will begin to ease early in 2025.

In this report you'll find the insights we've drawn from our extensive business network, combining NAB's unique datasets with our on-the-ground knowledge of the region. We'll let you know what we've learnt from the year past – and what we're seeing over the horizon.

The opportunities in Greater Western Sydney have never been greater, and things look set to get better. We're looking forward to helping local businesses discover those opportunities – to kindle that spirit of entrepreneurship, take advantage of a new economy and step forward into a bright future.

An already impressive economy prepares to soar

A new airport, new infrastructure and a whole lot of new residents are set to drive Sydney's west to new heights of success.

For more than a decade, Western Sydney Airport has dominated discussion of Greater Western Sydney's economic future. Now, as the long-awaited 'aerotropolis' nears completion, the surrounding region is preparing for a new gold rush.

Investors are piling in; established businesses are growing and new ones emerging; and everywhere from Homebush to Lithgow, the Hawkesbury to Sutherland, there are opportunities to be embraced.

The airport itself, projected for a late 2026 opening, will be a game-changing piece of infrastructure for those living and working in GWS. An easy-access bridge to global markets for local industries and businesses, it should lock the region's manufacturing and logistics sectors into a new phase of growth, creating 35,000 jobs once open[1] and pushing $24bn[2] into the region annually. Operating freight and passenger services 24 hours per day,[3] the airport will bring in 10 million visitors annually by 2033[4] – many of them, no doubt, to work, enjoy and invest in the region.

> As the long-awaited 'aerotropolis' nears completion, the surrounding region is preparing for a new gold rush.

GWS, already home to 1 in 11 Australians,[5] is set for a population explosion – the region predicted to grow by 25% to 3.2 million over the next decade.[6]

Many new residents will be young, and many will be new arrivals. Students, both local and international, are already being drawn to GWS, attracted by the expanding campuses of Western Sydney University. There's now no need for an exodus east to attend university – local kids have the option of a first-class educational institute on their doorstep.

New arrivals to GWS are likely to be skilled, or up-skilling through training and education, and excited about joining communities and building families. The breadth and concentration of logistics and other infrastructure across the region – including but certainly not limited to the new airport – attract and support those with an entrepreneurial mindset to launch new businesses.

High-profile projects like Penrith Beach and the WestConnex tunnel have already brought lifestyle and economic upgrades to the west. But the final push to put supporting infrastructure in place is on, and that means lots more work for the local construction sector (lending to which grew 13% in 2023, according to NAB data), as well as supporting businesses.

Projects underway include the M12 upgrade and the new Metro service, which will reverse the historic phenomenon of 'squinters' driving east into the rising sun for work of an early morning.

In Parramatta, a forest of cranes is expected to dominate the skyline for years to come. Office workers are already igniting the local economy, led by large government departments and corporates opening head or satellite offices in its revitalised CBD. Commuters are flooding west, enjoying a thriving daytime economy and burgeoning after-office cultural and recreation options.

Any improvement in macroeconomic conditions should lower the barrier to entry for new businesses borrowing to invest – in 2024, expect to see the emergence of many new lifestyle and personal services businesses in the region, servicing its residents and the many new commuters.

The big picture

Looking ahead to growth and better times

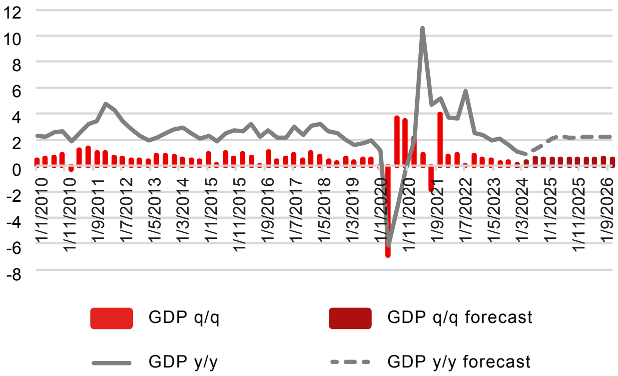
It's likely to be late in 2024 and into 2025 before Australians see real improvement in economic conditions, reports the NAB Economics team.

An ongoing slowing of the Australian economy saw Australia's economy grow just +0.1% q/q (+1.0% y/y) in the first quarter of 2024, which was in line with our expectations and slightly weaker than the RBA forecast earlier this year.

Looking forward, we expect the June quarter to remain soft, but to see a pickup in the second half of the year as pressures on households ease a little and consumption has a chance to rebound. This could see the Australian economy grow at a below-trend result (or lower) of around 1.5% this year, but closer to trend in 2025.

Real GDP growth forecasts

(%)

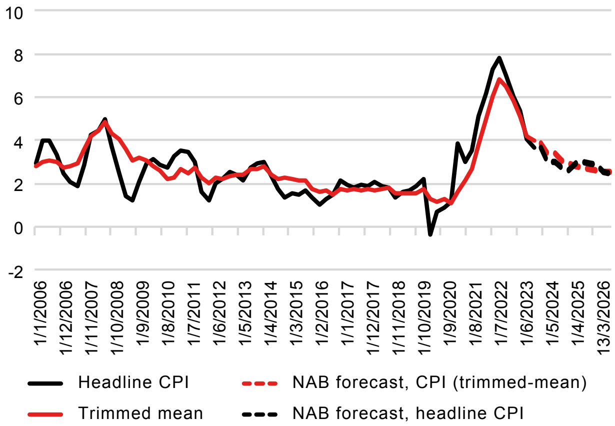


Source: Macrobond, NAB Economics

Inflation is coming down and, despite its bumpy path, we expect further progress this year, with the trimmed mean measure falling to just above 3% by the end of 2024 and to the top half of the RBA's target band by the end of 2025. But for now, it still remains above the RBA's target band and was a touch higher than our expectations in the first quarter of this year. The risk to our inflation outlook remains that it stays higher for longer, with services inflation still strong.

Inflation forecasts

(% y/y)



Source: Macrobond, NAB Economics

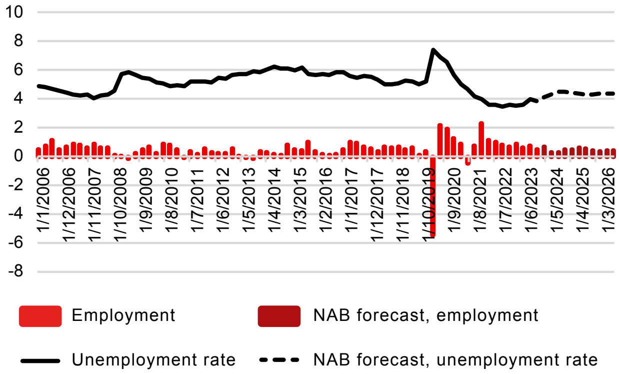
The big picture

Much of our economic outlook depends on the future of household consumption, which has been hit as high interest rates and inflation have weighed on disposable incomes. Our hope is that the Australian consumer will be better off in the second half of 2024 as some of the pressures on them start to be relieved. The further falls in inflation that we expect will be welcome, as will the Government's stage 3 tax cuts (which come into effect July 1) and other Budget measures built to help consumers, such as the $300 power subsidy for all households. A lot of the outlook for household consumption depends on the impact of the Budget measures (including tax cuts). In response to a recent NAB survey of consumers, around 60% said they would either save the cuts or use them to pay down debt.

What will happen also hinges on the labour market, which has experienced some cooling recently though the data remains volatile month-to-month. Unemployment fell by 0.1 percentage points to 4.0% in May. Labour demand remains elevated, but employment growth is slightly below the pace of population growth, which should see the labour market ease over the year (we forecast a peak in the unemployment rate of around 4.5% later this year).

Much of our economic outlook depends on the future of household consumption.

Employment and unemployment forecasts
(% quarter average)



Source: Macrobond, NAB Economics

We continue to expect that the RBA will cut rates in November – but we wouldn't rule out a later start date for cuts, depending on the incoming data. While the inflation data came in above the RBA forecast, the weakness in GDP growth in the first quarter of the year should go some way to comforting the RBA that inflationary pressures will ease. We still see four cuts in 2025, which would bring the cash rate down to 3.10% by the end of 2025.

Property

Why GWS can expect a lot more construction to come

With space for development and investors piling in, Greater Western Sydney's property market has strength in spades.

Residential property snapshot

Greater Western Sydney already houses half of Sydney's population and will absorb two-thirds of the city's population growth in the next 20 years, according to Western Sydney University research, meaning a coming uptick in development and construction activity. In major hubs, such as the new-look Parramatta, as well as in emerging suburbs, expect new builds to blossom.

It also means that asset valuations are likely to prove strong in coming years, no matter how much supply comes onto the market. Land and property valuations have held up well across GWS, despite headwinds in national markets. Certain markets remained more heated than others – the Parramatta residential market looks set for continued strength for years to come. And new developments like Western Sydney Lakes shone.

Transaction volumes remain elevated too, with Campbelltown and the Macarthur region standing out, but property continues to be highly sought after across GWS.

The GWS property market is a rapidly evolving space and it's thrilling to watch the transformation of the region happening before our eyes. For businesses and investors, as well as homeowners, there are plenty of exciting new developments on the horizon.

Top 5 GWS residential growth areas

Suburb	YoY house value change
Auburn	**16.1%**
Blacktown	**15.3%**
St Marys	**15.0%**
Mount Druitt	**13.7%**
Merrylands/Guildford	**13.6%**

Source: CoreLogic for NAB – May 2024

Commercial property snapshot

Office space in GWS is focused in Parramatta, where yields softened by 0.25% on the upper end and 0.75% on the lower end to range between 5.88% and 7.25%. The Parramatta headline vacancy rate decreased 0.8% to 24.2%. Despite the fall, this remains one of the highest vacancy rates since 1990 given new net supply and some consolidation of space requirements.

Large tenants are moving into the area after the recent completion of Parramatta Square. The next big project is 85 Macquarie Street, offering an additional 10,000 sqm of working space.

GWS industrial vacancy levels remain at record low levels – around 0.5% – and are aligned with wider Sydney. Positive face rental growth continues, with year-on-year growth of 30% (above wider Sydney at 23%). Headline yields from prime properties are now at 5.5%, having eased 0.31% over the final quarter of 2023, according to CBRE, with secondary property yields 6-6.5%.

Across Sydney for 2023, gross take-up volumes totalled approximately 1.05 million sqm (deals above 3,000 sqm), with the Outer West and South West markets being the most active, reflecting pre-commitment and speculative-driven demand. While take-up is down from 2020-2022, it remains well above pre-pandemic levels.

Industrial land values held steady in Q4 2023, averaging ~$1,500/sqm in Western Sydney for 1- to 5-hectare lots. Industrial warehousing will continue to experience high demand due to constrained supply, reflecting vacancy rates at the lowest levels in the world (and regularly marked at below 0.5%).

In the vicinity of Western Sydney Airport, prime greenfield sites are transacting at approximately $1.2m per acre – for those businesses willing to pay, there are still opportunities. That's also true of developed and undeveloped land in strategic sites.

Whether residential or commercial, the GWS property market will continue to be a rapidly evolving space. For homeowners, businesses and investors, the result will be a multitude of exciting opportunities.

Lending boom underpins the GWS success story

A soaring population, and the industry, infrastructure and services that follow, is driving massive investment and the lending to support it.

Across the board, businesses in Greater Western Sydney are borrowing to invest at a rate outpacing the economy at large. Overall, lending to businesses in the region grew by 9.9% in 2023, compared to 7.1% for the rest of NSW and 8.1% for Australia.

Within this widespread activity, some sectors stand out.

The Education sector grew its borrowing at an astounding 18% in 2023, representing both the University of Western Sydney's major 'lighthouse precinct' project and broad growth in response to the demands of a population boom. International students, as well as domestic and local, are now looking to educational opportunities in GWS from Western Sydney University and the satellite campuses of other major universities.

Similarly, the massive uptick in lending to the Sport and Recreation sector (17%) demonstrates the impact of large projects, as well as a general acceleration in demand and activity. Existing and new sports franchises – including Western Sydney Wanderers, the GWS Giants and Macarthur FC – have sprouted and taken hold in the region, and their expansions have come alongside investment. Projects like Penrith Beach and a planned indoor snow resort for the city's Riverlink Tourism Precinct have also drawn plenty of attention.

Hospitality (15%) and Personal Services (12%) grew at a healthy tick too, showing that locals and visitors to the region are driving the demand and carrying the cash for a little bit of indulgence. Construction (13%) and Property Services (10%) also pushed ahead, on the back of a population boom that includes new arrivals and locally raised first-home buyers.

Transport (11%) and Manufacturing (10%) are in GWS's DNA, and will always remain key components of the local economy. But with the imminent opening of Western Sydney Airport at Badgerys Creek, as well as the improved road and rail infrastructure to support it, expect further growth.

Lending trends: The top 15 growth sectors in GWS

Rank	Industry	% growth
1	Education	**18%**
2	Sport and Recreation	**17%**
3	Hospitality	**15%**
4	Construction	**13%**
5	Personal Services	**12%**
6	Transport	**11%**
7	Manufacturing	**10%**
8	Property Services	**10%**
9	Personal and Household Good Wholesaling	**9%**
10	Business Services	**9%**
11	Machinery and Motor Vehicle Wholesaling	**8%**
12	Agriculture	**6%**
13	Personal and Household Good Retailing	**6%**
14	Community Services	**5%**
15	Motor Vehicle Retailing and Services	**5%**

Source: NAB 2023 data

As businesses in GWS expand and mature, they're increasingly looking to Business Services (9%) to add to their core competencies. Owner-operator and family businesses, whatever their size, remain a significant element of the GWS economy. But as investment continues to flood in, from external capital and lending, there will be more demand for accountants, lawyers, IT consultants and other professional services in the coming years.

Spending for growth the name of the game

With cash to spare, and external funds keen for a piece of the action, the GWS business environment is all about investment in new projects.

Deposits in Greater Western Sydney grew at a healthy pace in 2023, with businesses increasing their cash accounts by 8%. That's a slightly higher rate than Australian businesses at large (deposit growth of 7%) but a tick lower than NSW as a whole (10% growth).

In some areas, such as South Western Sydney, deposit growth was higher but, in general, the data reflects an economy eager to spend rather than one keeping its powder dry.

From on-the-ground interactions with businesses in GWS, our bankers report plenty of spending in the local economy, but also that investment opportunities are too attractive to pass up. Despite an interest rate environment conducive to parking funds in term deposits, and trading conditions less amenable to investment than in recent years, GWS businesses are continuing to invest cash into new projects.

> Our bankers report plenty of spending in the local economy, but also that investment opportunities are too attractive to pass up.

In part, the deposits data reflects an evolution of the local economy. While owner-operator businesses still prevail – many of them in the same family for generations – merger and acquisition activity is increasing. Businesses with the money to do so are eager to expand and consolidate their market share, or to open up new lines of business, rather than simply relying on organic growth. The number of businesses for sale – and the number of successful transactions – speaks to the level of turnover and new growth in GWS.

External investment is also pouring in, pushing more money into the GWS economy. Private equity funds have discovered the untapped opportunities in the region; some of these funds are thematic, looking for specific opportunities, while others are simply hoping for a chance to buy into the GWS growth story. As foreign and domestic funds continue to pop up in GWS, expect more businesses and owners to be holding cash on hand in coming years.

The watching brief will be whether deposits increase in the near future, or whether cash will continue to revolve straight back into new projects. Traditionally, property has been seen as the beginning and end of investment opportunities for high net worth individuals in GWS, but as the local economy becomes faster-paced, more complex and more globally interlinked, new asset classes – including trading businesses – are emerging as alternatives.

Equipment finance

Infrastructure upgrades likely to fuel demand for finance

As Australia enters a new phase for equipment finance sales, there's no reason to suspect a surging GWS won't remain in lockstep with the nation.

Despite some difficult conditions, the national appetite for equipment finance grew by 13% in 2023, with demand now 46% higher than pre-pandemic.

Zooming in on these figures, we see Australian businesses more in love with their cars, utes and trucks than they've ever been, with Greater Western Sydney no exception.

The big stories in equipment sales in 2023 were the end of the instant asset tax write-off scheme and the easing of supply chain woes that have caused so much frustration.

Those two factors have dominated equipment sales trends in recent years, combining to produce abnormally high demand and low supply. We've seen assets snapped up at any price where they've been available, wait times to delivery extending beyond two years and frenzied bidding at second-hand auctions, where used equipment has sold at as-new prices.

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There will be a hangover for both of these factors: supply chain issues in particular, while easing, have not yet been fully worked through. And the risk of new, unforeseen disruptions is always present.

It's fair to say, however, that 2023 marked the beginning of a new phase for equipment sales, with more assets entering the country.

From a more local perspective, road infrastructure in GWS has improved by leaps and bounds in recent years, and will continue to do so for the near future. The final stage of the WestConnex project, the Rozelle Interchange, opened at the end of 2023 and has vastly reduced transit times for commuters and road freight between Sydney Harbour to the West. The coming four-lane upgrade to the M12 will also have a big impact.

Importantly, the Western Sydney Infrastructure Plan, set to further improve regional transport links, will also make accommodation for traffic flows that will improve mobility and quality of life for GWS residents.

Together, the ongoing rollout of infrastructure is expected to increase demand for vehicles and transport equipment among existing and new GWS businesses. As Western Sydney Airport opens, pushing up activity among the local logistics and transport sectors, expect a boom in equipment finance to follow.

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