National

INDUSTRIAL

E-commerce growth provides strong tailwinds

Market Report | March 2021

KEY INSIGHTS

Online retail growth ensures demand, as investors throw their weight behind the sector

$8.8b
investment sales turnover 2020

2mil
SQM new supply 2020 East Coast

732k
SQM vacancy take-up Q42020 East Coast

7%
Qtr decrease in vacant space East Coast Dec-2020

50%
tenant pre-commitments in Sydney were retail & logistics 2020

$3.5b
volume of online retail turnover 2020

National investment volumes have risen to a decade-high, reaching $8.8 billion in 2020, reflecting the increasing popularity of the sector.

Increased spending on consumer staples and a rise in the manufacturing and storage of pharma goods is helping to drive tenant demand.

Despite an initial dip in activity at the onset of the pandemic, **Sydney industrial leasing volumes in 2020 were 7% higher than the five-year average.**

More than 1 million sqm of new industrial stock is tipped to be completed in the Melbourne during 2021, with half of this supply expected to be delivered in the west.

In Brisbane, more than a third of leasing take-up for 2020 was negotiated in Q4 and this momentum has continued into 2021, underpinned by demand from retail and logistics.

There has been an **uplift in sales activity for vacant industrial land in Adelaide's northern areas**, with increased competition from owner-occupiers driving an increase in land values.

There has been a **spike in demand for large warehouses in Perth in the 3,000-10,000sqm** range in parallel with the increase in government spending and significant infrastructure project commitments.

Key Indicators Q4-2020

MARKET	PRIME NET FACE RENT $/SQM	SECONDARY NET FACE RENT $/SQM	SUPER* PRIME MARKET YIELD RANGE %	LAND <5,000sqm $/SQM	LAND 1-5 ha $/SQM
Sydney	121#	105#	4.50 – 4.75	743^	608^
Brisbane	113	94	5.00 – 5.50	396	314
Melbourne#	88	71	4.50 – 4.75	543	385
Adelaide	98	70	5.50 – 6.00	275 ~	167 ~
Perth	89	69	5.50 – 6.00	371	238

Source: Knight Frank Research *Yield range assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0 years +
#Excludes South Sydney and Melbourne Fringe ~Blended ^Blended Outer West / South West

ECONOMY

The sector's exposure to consumer staples and reliance on logistics, both storage and distribution, amid growing demand for online retail and focus on supply chain efficiencies has only strengthened its position as signs begin to emerge that an economic recovery is underway.

National Overview by Katy Dean | Associate Director | Research & Consultancy

Accelerated shift to digital sets a 'new normal' and bolsters demand for industrial real estate

2020 saw digital technology quickly adopted with consumers shopping online and businesses making changes to their supply-chains and inventory.

While the adoption of online shopping was already underway pre-COVID, the pandemic has driven higher rates of e-commerce and online retail usage and bolstered demand for warehouse and distribution space across the country.

IBM said in its annual Retail Index report last year that the pandemic had accelerated the shift to digital shopping by up to five years.

Indeed, in Australia, recent yearly data shows that online retail sales have almost doubled since 2019 and despite a slight easing of retail sales in recent months, spending levels remain close to the new baseline that was established at the onset of the pandemic, averaging 10.3% of total retail sales since April 2020. This compares to a 6.1% share in 2019.

The transition to digital has changed consumer and business preferences and the sustained uptick in online sales suggests the market will continue to see more rapid growth over the next few years.

Australian Online Share of Total Retail

Online Share of Total Retail Turnover (%, Year to)

Source: Knight Frank Research, ABS (Original Estimate)

Signs local manufacturing is remerging, as companies ramp up jobs

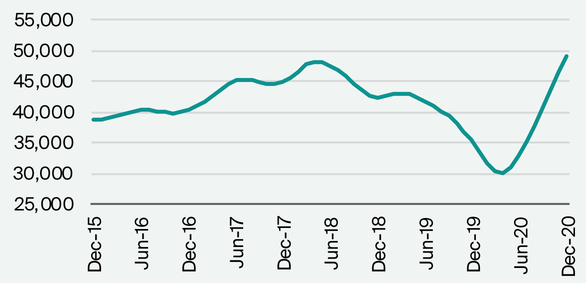
The change in preferences has translated into increased demand for larger scale and more advanced warehousing to accommodate bigger inventories. While retail, transport and logistics are at the forefront of this demand, recent payroll data from the ABS suggests that manufacturing is faring better than expected. Demand for pharma (including chemical products) and a potential shift from some manufacturers to reshoring due to COVID may increase the sector's overall GDP footprint.

Surge in industrial job ads points to strong growth and further expansion

There have been strong increases in employment levels and recovery in average hours worked, with recent figures showing that national employment numbers are just 0.3 percentage points below pre-pandemic levels in March. In a sign of this confidence, industrial job ads, which includes machinery operators and drivers, labourers, technicians and trade workers, have been increasing since May 2020. Following an initial dip during March and April, they are now showing a YoY increase as at December of 38.7%. Job ads for machinery operators and drivers as a standalone segment, are up 40.1% nationally, reflecting growth in transport and logistics on the back of online retail and e-commerce demand.

Australian Industrial Job Advertisements

Number of Jobs per month as at December 2020



Source: Knight Frank Research, LMIP (Includes Technicians and Trade Workers, Machinery Operators and Drivers, Labourers)

LEASING MARKET

New industrial property development has continued its rapid upwards trajectory as developers race to meet demand for prime warehousing facilities.

Retail growth and a rise in the manufacturing and storage of pharma goods drives tenant demand

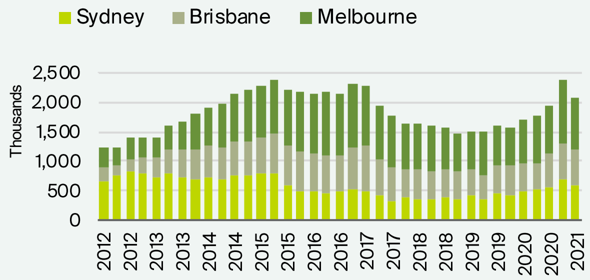
Increased spending on consumer staples and a rise in the manufacturing and storage of pharma goods is driving tenant demand. Sydney, Melbourne and Adelaide have been targets for expansion by major supermarket chains Coles and Woolworths, while pure-play retailer Amazon began construction on the 200,000sqm facility in Sydney and is set to double its footprint in Melbourne. Recently, DHL committed to a new pharma DC in Western Sydney. This follows news they would be launching four new healthcare-grade facilities across Sydney, Melbourne, Brisbane and Perth.

There is also strong demand from logistics occupiers trying to fulfil mandates for 3PL contract space and this is helping to absorb some of the speculative (spec) space that has been delivered recently. Despite this demand, rental growth has been subdued in 2020 and there has been a slight uptick in incentive levels under COVID-19 conditions.

Take-up of vacant supply rebounds

Due to the large volume of new spec supply that was delivered as the market entered the pandemic, there was an increase in availability rates, particularly in Sydney, Brisbane and Melbourne. This has rebound on the east coast, where the volume of available vacant supply has declined by 7% in the last quarter of 2020.

Eastern Seaboard Industrial Vacancy
'000s sqm, Quarterly



Source: Knight Frank Research

In a sign of confidence, developers move forward with new projects

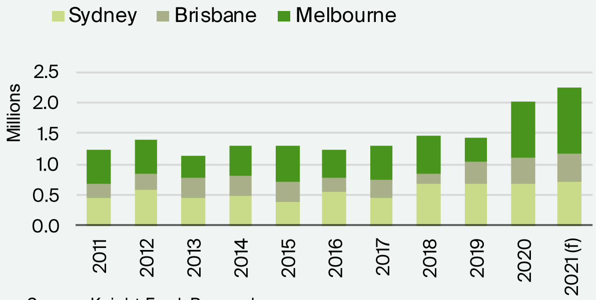
While institutions have been actively expanding land banks for a few years, there was a clear shift in strategy last year to increase asset allocations to the sector through their development pipelines. This shift coincided with the pandemic, which saw consumer shopping behaviours change and the intensity of demand from e-commerce related users accelerate.

The ramp up in activity to increase exposure has seen several major institutions raise capital to acquire new assets and develop new product. Despite the pandemic, spec schemes are still high on the radar, with most major REITs still maintaining high occupancy rates. Between Dexus, Charter Hall, GPT, Mirvac and ESR there's more than $8 billion in capital for potential future projects, reflecting the substantial shift in investor preferences and increasing confidence in the sector.

New development reaches 13-year high as it tries to keep pace with growth in demand

New industrial development in 2020 reached 2.0 million sqm on the eastern seaboard, a 13-year high for the sector and the outlook for 2021 is likely to exceed that with 2.2 million sqm in the pipeline. 80% of this is expected to be delivered in Sydney and Melbourne.

Eastern Seaboard Industrial Supply
2011-2021 (f), sqm



Source: Knight Frank Research

INVESTMENT

Massive growth in retail spending during the pandemic has provided further impetus to investors looking to deploy capital into the sector nationally, driving volumes to a decade-high.

Industrial investment reaches a decade high, confirming investor long-term confidence

Sustained optimism that demand for industrial will continue well beyond the pandemic has underpinned the run of deals through 2020 that has buoyed national volumes to $8.8 billion, up from $7.7 billion in 2019.

Demand growth and plans to increase exposure to industrial was already gaining ground pre-COVID and the capital pool was expanding, as demonstrated by the equity raisings that occurred in 2019 and 2020 that were over-subscribed. Acquisitions and disposals were subdued early in the pandemic, with many REITs in a trading halt as earnings forecasts were abandoned, but as restrictions began to ease sentiment for the sector lifted. In a sign of this confidence, Charter Hall raised a further A$2.6 billion in equity commitments in two separate raisings between April and November 2020. More recently, Blackstone has been gearing up for the sale of a A$3.5 billion portfolio of logistics properties in Australia.

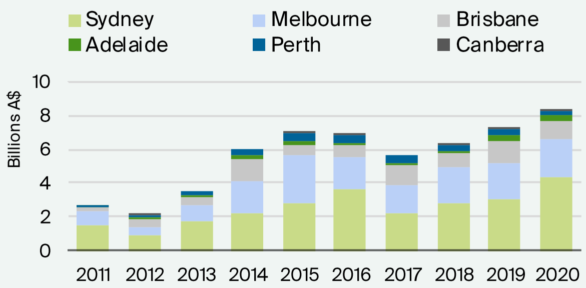
Portfolio sale and leaseback activity has been high but trend gaining traction with individual assets

Sale and leaseback activity re-emerged last year, initially headlined by Charter Hall's acquisition of two tranches of Aldi's portfolio in April and then again in June but was later backed up by Treasury Corporation and Logos Property JV to acquire two Sigma facilities in Sydney and Brisbane on a 15 year leaseback. Two of Charter Hall's funds also acquired a three property portfolio in Sydney, Melbourne and Adelaide from Owens-Illinois Australia for $215 million on a 20-year leaseback. The trend was not exclusively portfolio acquisitions, with individual asset sale and leaseback arrangements being negotiated in some markets, including leasebacks to Visy, Bidford, Border Express, Greenlit Brands and FKG Group.

Rise of new capital partnerships

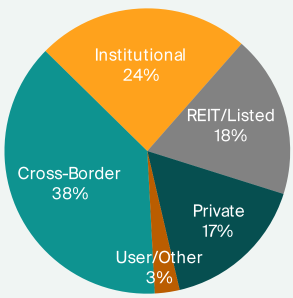
Rising industrial property returns are now outperforming the office sector, driven by e-commerce growth and its safe-haven status in the wake of COVID-19 pandemic. Domestic and offshore institutional capital are stepping up their exposure through development and there has been a significant increase in new JV capital partnerships recently. Stockland formed a JV with JP Morgan Asset Management to expand their portfolio of industrial properties to $1 billion over the next three years. GIC committed $480 million to a development partnership with ESR Australia, increasing their stake from 45% to 80%. GIC also acquired an additional 24% stake in Dexus Australian Logistic Trust. In the second tranche of Aldi assets that sold, Charter Hall formed a JV with Allianz Real Estate.

Industrial Sales by Capital City
$10m+, Calendar Year



Source: Knight Frank Research, RCA

Australian Industrial Sales by Buyer Type
$10m+, 2020



Source: Knight Frank Research, RCA

SYDNEY

The industrial sector continues to benefit from robust fundamentals including e-commerce growth, food and pharma logistics and record infrastructure spending.

By Katy Dean | Associate Director and **Marco Mascitelli** | Senior Research Analyst

Online retail growth bolsters demand as leasing volumes run above the average

Despite an initial dip in activity at the onset of the pandemic, leasing volumes in 2020 were 7% higher than the five-year average. The surge in online retail sales during the year, particularly for consumer staples, saw retailers and distributors ramp up operations. The government's call out for local businesses to retool in response to the demand for pharma and chemical products, such as sanitiser, also played a part in the recovery of tenant demand levels from May onwards.

As a result, the demand for warehousing and distribution space continued to mount and by the end of 2020 more than 1 million sqm of industrial stock had been leased in Sydney.

Furthermore, the demand for larger facilities that incorporate automation and robotics, has also risen and underscores much of the major pre-lease activity that has occurred recently as major occupiers seek to expand their fulfillment capabilities.

Retailers looking to scale-up their logistics drive up pre-lease volumes

The surge in last-mile delivery demand has spurred major retailers to invest heavily in automation to improve productivity, in turn driving pre-commitment leasing volumes.

Pre-commitment activity accounted for nearly half of 2020's leasing volumes led by Amazon's 200,000sqm commitment at Goodman's at Oakdale West. Marley Spoon (14,000sqm), Woolworths (40,700sqm) and Coles (30,000sqm) also secured lease pre-commitments for future operations.

" E-commerce acceleration is at the forefront of occupier demand trends "

There has been a marked increase from logistics occupiers with mandates for 3PL contract space on the back of growing e-commerce demand, including Linfox with 54,952sqm at Forrester Distribution Centre and LF Logistics at Marsden Park Logistics Estate. Overall logistic operators and retailers accounted for over 68% of the leasing volumes, reflecting increased demand for more storage space and the upswing in online deliveries during the pandemic.

Sustained demand drives new development

In 2020, c.688,000sqm of new stock was delivered in Sydney. Approximately 704,000sqm of new supply is planned for 2021, predominantly in the Outer West and South West precincts, as more institutional owners launch new funds and activate projects.

Pre-commitment leasing accounts for about 35% of the new projects due in 2021 and the appetite for spec product remains strong, with the potential for spec to account for at least 60% of new development in 2021.

Although the availability of vacant space has risen due to new supply in 2020, the take-up of this space has begun to rebound. The volume of vacant supply has declined by 17% between October 2020 and January 2021, from 690,866sqm to 575,145sqm, in line with the long-term average.

Rental values maintain but growth expected to return

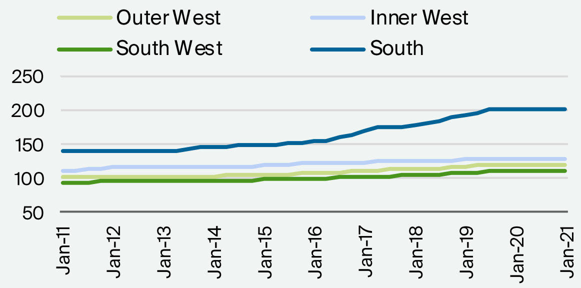
Rental growth was subdued across all precincts in 2020, although there was a slight uptick in incentive offerings from landlords. The underlying strength behind retail and logistics demand is contributing to a rise in take-up volumes and the demand for modern logistics facilities remains partly unsatisfied. This is likely to see rental growth rates improve over the next 12 months.

Yield compression on the horizon

There remains a large pool of capital seeking to increase allocations to the sector globally and there are still some big transactions in the pipeline, including Blackstone's A$3.5billion portfolio. That sale, amongst other competitive plays locally, has the potential to drive further prime core yield compression over the coming 12 months.

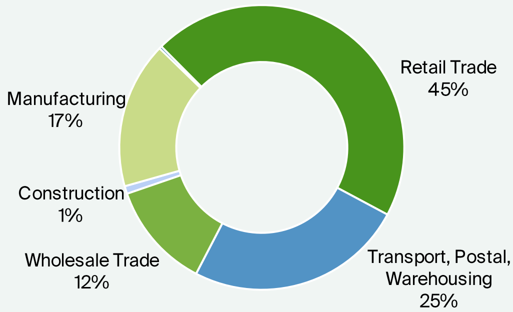
TAKE-UP (SQM) 2020	MOST ACTIVE SECTOR	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
1,024,762	**44%**	**575,149**	**704,300**
7% ABOVE FIVE YEAR AVERAGE	RETAIL TRADE	-17% Q/Q	Estimated 2021 (f)

Sydney Industrial Rents by Precinct
Average Prime Net Face Rent, $/sqm



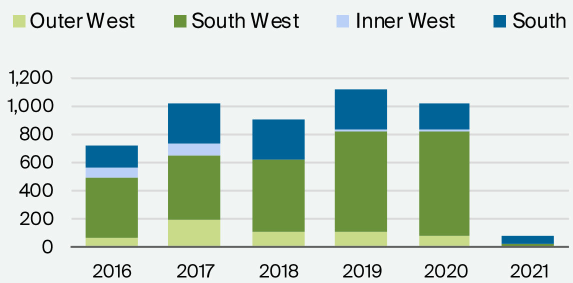
Source: Knight Frank Research

Share of Leasing Take-up by Industry
% Share by sqm leased in 2020



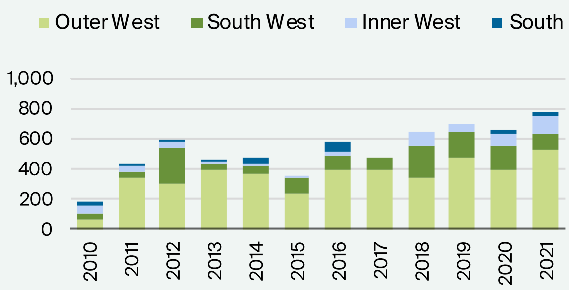
Source: Knight Frank Research

Leasing Take up by Region
'000sqm by precinct, 2016 to 2020



Source: Knight Frank Research

Sydney Industrial Development
'000sq m by Precinct



Source: Knight Frank Research, Cordells

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
William Sonoma#	The Horsley Park Estate	Outer West	16,755	U/D	7
TTA Logistics~	71 Owen Street, Glendenning	Outer West	6,500	125	10
Bremwick Fasteners#	WH4b, M5/M7 Logistics Park	South West	12,935	115	10
Aust Pharmaceutical Industries#	Sydney Business Park, Marsden Park	Outer West	32,506	U/D	15

Pre-commitment ^ Lease of speculatively developed space ~Existing space U/D=Undisclosed

MELBOURNE

Logistics is driving demand for industrial assets in Melbourne, and the market has responded with unprecedented levels of new supply hitting the market in 2020.

By Finn Trembath | Associate Director and **Kanwal Singh** | Research Analyst

Robust levels of take-up despite the pandemic affecting the economy more broadly

Compared to the office and retail sectors, the COVID-19 pandemic did not have a profound impact on the Melbourne industrial market. Indeed, take-up of vacant space throughout 2020 was not appreciably below recent years take-up (2018: 671,549sqm; 2019: 756,942sqm; 2020: 617,905sqm).

The western region accounted for the bulk of take-up in 2020, including pre-commitments and existing warehouses, accounting for 726,563sqm, or 45%, of the total. By business sector, logistics dominated leasing demand, with 842,948sqm (39%) of take-up stemming from this sector.

Melbourne receives a substantial injection of new supply

In 2020, the Melbourne industrial market received 927,429sqm of new supply. The amount of new supply received was more than double what was recorded in 2019 (416,394sqm) and represented the highest level of new stock received for over a decade.

"Melbourne's industrial market received a record 927,429 sqm of new supply in 2020, it's highest level in over a decade."

More than half (61%) of the new supply emanated from the western region (569,939sqm) - most notably, Charter Hall's development at 442-450 Dohertys Road in Truganina which was leased to Toll added 44,075sqm to the market, while Dexus' development at Lot 15, 11-167 Palm Spring Road in Ravenhall, which was leased to Scalzo, added 35,300sqm to the market.

Vacancy levels start to decline amid e-commerce led demand for high-quality space

Melbourne was placed under hard lockdown conditions in Q3 but signs that industrial leasing demand was recovering emerged in Q4 with vacant space declining by almost 20% over the quarter, from 1,104,068sqm in Q3 to 886,314sqm in Q4. Strong take-up of 228,387sqm was recorded during the quarter, with much of this stemming from the northern region (139,774sqm, or 61% of all take-up) where most notably 115,000sqm was leased by DHL at Polaris Road in Mickleham.

The weight of demand for industrial property assets, which has been largely driven by the e-commerce sector, is such that 2021 is tipped to be another bumper year for new development completions.

Record amount of new industrial supply expected in 2021

In the range of 1,066,240sqm of new stock is tipped to be completed in the Melbourne industrial market in 2021, with half (51%, 540,116 sqm) of all new stock expected to be delivered in the west. Almost half (46%) of this is already pre-committed (498,318sqm).

Reflecting the ongoing warehouse demand from the e-commerce sector, in October 2020 it was announced that internet retail giant Amazon had committed to a new development in Ravenhall in Melbourne's west. Upon completion, the 37,000sqm fulfilment centre is expected to house upwards of six million items for sale.

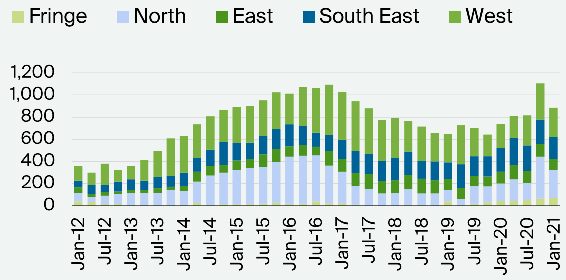
Melbourne achieves a record amount of industrial sales volume over 2020

Melbourne reached a record $2.67 billion in industrial sales in 2020, with ALDI's sale to Charter Hall of 41-59 Colemans Road in Dandenong, for $158.6 million at $2,788/sqm a standout deal. Yields have firmed over 2020. Average prime yields are 5.28%, representing a contraction of 62 bps over the past 12 months.

TAKE-UP (SQM) 2020	MOST ACTIVE SECTOR	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
1,607,192	**39%**	**886,314**	**1,060,240**
23% ABOVE PREVIOUS PERIOD (2019)	TRANSPORT & WAREHOUSING	-20% Q/Q	Estimated 2021 (f)

Melbourne Industrial Vacancy

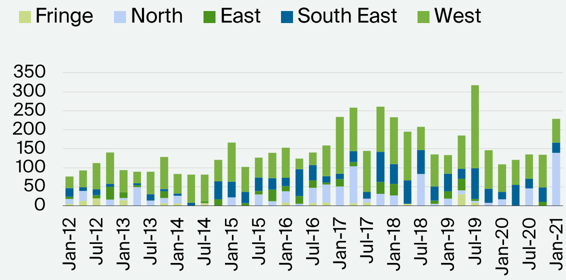
'000sqm by precinct



Source: Knight Frank Research

Melbourne Industrial Vacant Take-up

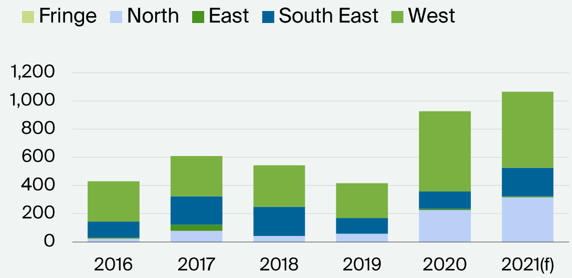
'000 by precinct excl. Design and Construct



Source: Knight Frank Research

Melbourne Industrial Supply

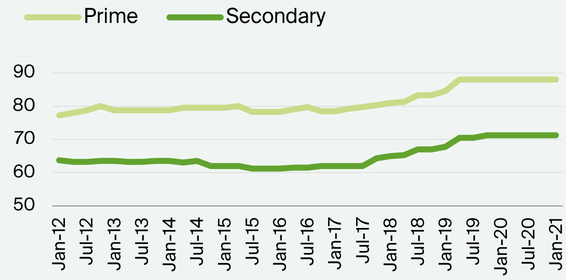
'000sqm by precinct



Source: Knight Frank Research / Cordells

Melbourne Industrial Rents

$/sqm net rents, excl. fringe



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Allied Sea Freight ~	27-43 Toll Dr, Altona North	West	16,229	85	10
Toll Group#	Beyer Rd, Braeside	South East	10,787	90	1.5
MotorOne#	1/885 Mountain Hwy, Bayswater	East	6,462	100	10
Trans Aus. Freight^	61 Sunline Dr, Truganina	West	6,618	75	5
Ford Australia#	Merrifield Business Park	North	51,595	U/D	10

Pre-commitment ^ Lease of speculatively developed space ~Existing space U/D=Undisclosed

BRISBANE

After subdued activity for much of 2020 the Brisbane market roared back to life in Q4 and this momentum has been sustained in early 2021.

By Jennelle Wilson | Partner | Research & Consultancy

2020 take-up impacted by border closures delaying decisions; but activity is accelerating

Total take-up in 2020 was 430,208sqm, which is a reduction of 23% on 2019, a figure boosted by large pre-commitments. While underlying demand, particularly from retail and aligned distribution businesses was strong, and grew during the year, the border closures and inability to inspect options for much of the year did dampen activity. As restrictions eased or companies found away around the inspection hurdle activity has accelerated. More than a third of the take-up for 2020 was negotiated in Q4 and this momentum has continued into 2021.

Vacancy up by 30% y-o-y with competition for tenants taking incentives to new highs

Sustained spec construction during 2020 and lower activity through Q2 & Q3 saw vacancy reach 612,732sqm in January 2021, a 30% increase over the past 12 months.

Secondary vacancy decreased by 50,000sqm in the final quarter of 2020, largely due to short term overflow leasing by logistics users, but remains 12.8% higher than a year ago. As expected, with strong spec availability, the prime vacancy increased steadily through the year to be 52% above the levels of a year ago.

While underlying demand remained on a growth trend, the lack of tenant activity during the middle of 2020, plus growing availability in prime market, resulted in the level of competition between landlords to attract tenants increase markedly. This saw prime incentives increasing to unprecedented levels.

Initially in the spec and pre-commitment space but more recently spreading to existing stock, incentives of 25%+ for larger lease deals are now in evidence. Across the industrial market incentives have tended to be under-reported and market averages will take time to catch up to the coal face as a wider cohort of owners document incentives. Although leasing activity is increasing, the choice for prime tenants remains high and incentives are expected to remain elevated throughout 2021.

Record construction in 2020 set to be exceeded in 2021; land value growth back after a pause

The well-documented demand from occupiers for new, highly efficient space and the weight of money seeking industrial investment has continued to boost construction levels. Dominated by the South and South West precincts, supply reached a record high in 2020. This has the potential to be exceeded in 2021 with more than 200,000sqm of industrial space under construction. Accelerated land take-up and limited new releases have resulted in land price appreciation in late 2020 and increasing sales at active estates.

Spec construction accounted for 32% of new supply in 2020, above the five year average of 24%, and has the potential to account for almost 50% of 2021 construction. However, the leakage of potential spec development to pre-committed is common and likely to reduce the spec component as the year progresses. Active spec developments include Wembley Business Park 16,270sqm (GPT), Freeman Central stage 2 19,355sqm (Dexus) & 42 Hoepner Rd, 9,568sqm (Centuria) with Goodman/Ascendas REIT 38,649sqm and Mapletree 60,000sqm soon to start construction in Crestmead.

Sales volume surged in Q4 with yields contracting as demand escalates

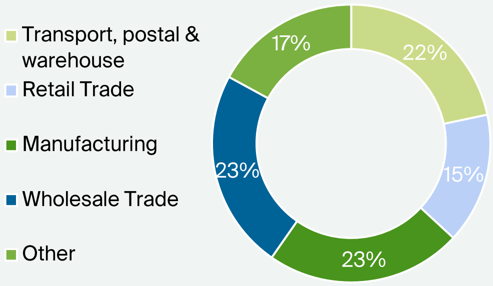
Industrial sales turnover was $1.42 billion in 2020 a 27% reduction over the record 2019. After a slower start to the year the final quarter of 2020 provided almost half of the sale volume and that supercharged activity has continued into 2021 with a number of deals recently finalised or imminent. These range from fund through developments to expansive, but older style, warehouses in central locations such as Acacia Ridge being purchased for medium term redevelopment as likely delivery hubs (338 Bradman St, $114million Mapletree & 1502 Beaudesert Rd, $93 million ESR/GIC).

The growing number of assets of scale in the Brisbane market and the associated greater penetration into the ownership base by offshore investors has contributed to continued yield contraction. This recent tightening has only been confirmed as transactions flowed through in Q4 and into early 2021.

TAKE-UP (SQM) YTD	MOST ACTIVE SECTOR	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
430,208	**23%**	**612,732**	**437,198**
23% BELOW 2019	WHOLESALE TRADE	+30% Y/Y	+22% ABOVE 2019

Brisbane Industrial Take-up

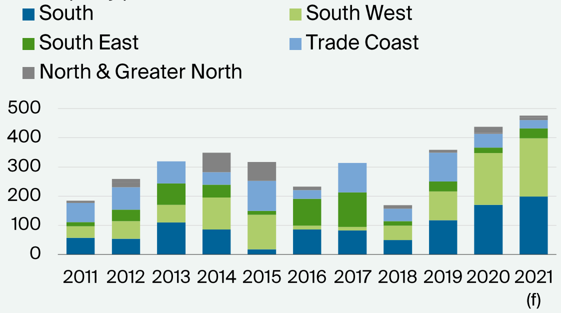
CY 2020



Source: Knight Frank Research

Brisbane Industrial Supply

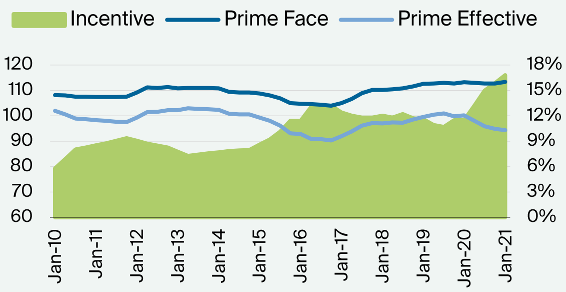
'000 sqm by precinct



Source: Knight Frank Research

Brisbane Prime Rents

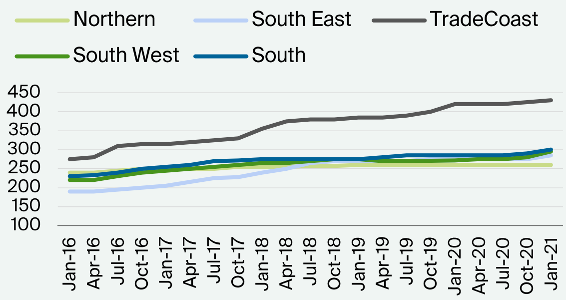
Prime Face & Effective $/sqm (LHS), Av Incentive % (RHS)



Source: Knight Frank Research

Brisbane Land Values

$/sqm average for sites 1-5ha



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
QLS~	29 Forest Way, Berrinba	South	10,280	110	c4.5yrs
Dixie Cummings#	183 Viking Dr, Wacol	South West	12,246	U/D	3
ACR^	425 Freeman Rd, Richlands	South West	12,104	112	5
Products for Industry~	Bld 4, 36 Archerfield Rd, Darra	South West	10,523	U/D	5
James Lane^	425 Freeman Rd, Richlands	South West	9,956	112	5

Pre-commitment ^ Lease of speculatively developed space ~Existing space U/D=Undisclosed

ADELAIDE

Increasing national appetite for institutional grade stock and the value proposition in South Australia has driven industrial yields to record lows.

By Yee Ng | Research Analyst | Valuation & Advisory SA

Leasing demand strengthened, while rents and incentives remained steady

COVID-19 resulted in some businesses delaying their relocation decisions last year. However, the market is starting to see an increase in business confidence as the recovery becomes more clear. Industries such as retail, logistics and manufacturing have strengthened, with leasing demand coming primarily from these industries.

Anecdotical evidence suggests that large occupiers such as national/corporate tenants preferred to pre-commit to new development or purchase vacant land with plans to purpose build facilities, given the historically low cash rate.

Industrial rents have remained steady over quarter. As at January 2021, the average blended prime industrial net face rents range from circa $75/sqm p.a. to $125/sqm p.a.

COVID-19 has resulted in some upward pressure in incentives, more particularly in institutional stock. However, small to medium prime industrial assets remained relatively stable. Prime incentives are currently circa 5% to 15%.

Significant amount of supply in 2020, but supply will remained limited in 2021

In 2020, there was more than 280,000sqm of new supply added to the Adelaide industrial market. New supply has been driven by expansion and relocation to better quality accommodation. Notable completed developments over the include the 94,000sqm expansion of Woolworths Adelaide Regional Distribution Centre at Gepps Cross, O-I Glass distribution centre (33,980sqm) at Kilkenny and Drakes supermarkets distribution centre (48,400sqm) at Edinburgh North. More recent (Q4 2020) completed developments are Metcash DC (68,000sqm) at Gepps Cross and Cochrane's (7,500sqm) at Gillman.

New supply in 2021 is likely to remain limited, however, developments such as Hobson Engineering (8,000sqm) at Direk and SA Health DC (11,000sqm) at Gepps Cross are due to completed.

Vacant land in northern precincts benefits from improved infrastructure

The North to South Corridor infrastructure development and increasing density in the Inner North precinct has positively impacted land values and demand for vacant land in the Inner and Outer North precincts.

Over the past 12 months, there has been an uplift in sales activity for vacant land in northern areas with the majority of the transactions located in Outer Northern areas such as Edinburgh and Direk. A notable example is the Vicinity industrial base at Direk which had almost 20 vacant land transactions in 2020.

The land values in the Outer North have increased by approximately 7.7% for sites below 1 ha and 6.1% for sites between 1ha and 5ha. Buyers to date have been predominantly owner-occupiers given the low interest rate environments.

Despite the pandemic, sales volumes remained strong and yields are at a record low

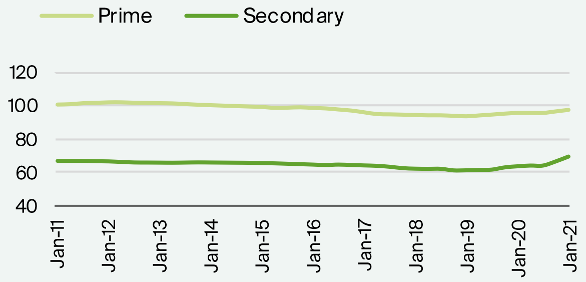
2020 year saw total industrial sale volume s reach $324.55 million for properties above $5 million. This figure is approximately 28% off the record high of $452.56 million in 2019, however, the average sale price per transaction has increased approximately 24% to $29.5 million. Buyers have predominately been interstate and offshore property funds.

South Australia's value proposition and an increasing national appetite for institutional grade industrial stock continued to show a firming bias in industrial yields. As at January 2021, the average blended yields range between 6.25% to 7.25% for prime assets across all precincts, representing a 50 to 150 basis point spread above prime east coast yields. Meanwhile, super prime assets are reflecting a yield of circa 5.50% to 6.00%.

PRIME RENTAL GROWTH	OUTER NORTH LAND VALUE	YIELD SPREAD	NEW DEVELOPMENT (SQM)
2.0%	**7.7%**	**50-150**	**280,000**
AVERAGE PRIME RENTAL GROWTH Y/Y	AVERAGE GROWTH Y/Y ON SITE < 1 ha	SA VS EAST COAST YIELD SPREAD	2020

Adelaide Industrial Rents

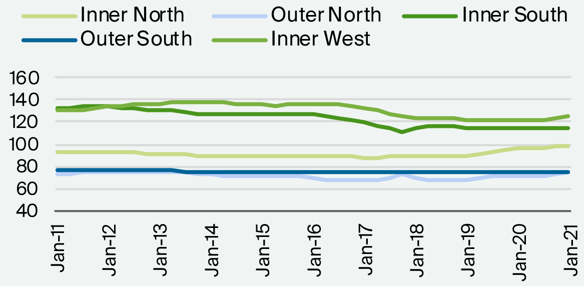
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide Industrial Rents

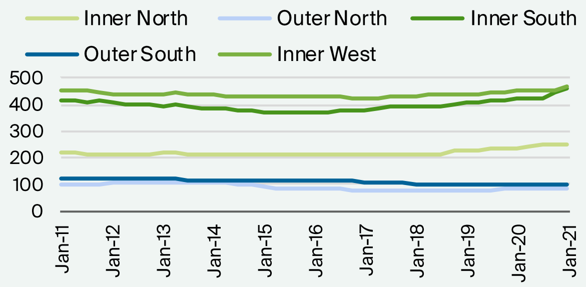
Prime average $/sqm p.a. net face by precincts



Source: Knight Frank Research

Adelaide Industrial Land Values

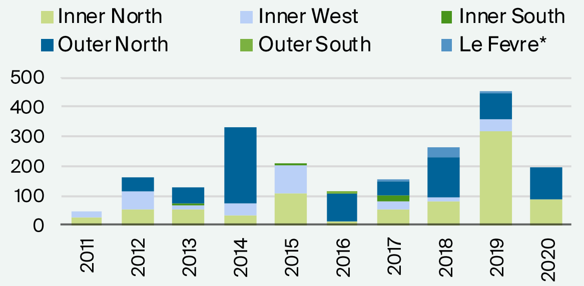
Average $/sqm by precincts for land <5,000 m^2



Source: Knight Frank Research

Adelaide Industrial Sales

$Millions by precincts,+$5mil sales



Source: Knight Frank Research *Le Fevre Peninsula

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Farquhar Group~	17 Francis Road, Wingfield	Inner North	2,271	80	4
Matic Transport~	21-27 Cormack Road, Wingfield	Inner North	765	248 *	5
Pura Tap~	34-44 Pedder Crescent, Dudley Park	Inner North	2,306	91	5
Winning Group~	Building 21, 2/853-867, Port Road,	Inner North	7,372	80	4
Huntleigh Healthcare~	489 South Road, Regency Park	Inner North	1,600	100	3

Pre-commitment ^Lease of speculatively developed space ~Existing space *Rate per sqm reflects low site coverage

PERTH

Although the pandemic reduced activity, the state's export-oriented economy has been well-equipped to handle the rise in e-commerce adoption, helping to maintain current rents and yields.

By Katy Dean | Associate Director | Research & Consultancy

Green shoots emerge on jobs rebound and positive sentiment in the resource sector

Despite an initial sharp contraction in activity, the WA economy has been recovering at a faster rate than some of its East Coast counterparts. Notwithstanding the snap lockdown that occurred recently, there have been a number of green shoots emerging, underpinned by the state's export-oriented economy and industry structure that is geared towards mining and resource sector. Demand from online shopping is also driving demand. At the onset of the pandemic, Australia Post said more than 200,000 shoppers started using e-commerce for the first time, highlighting East Perth and Perth as two of the 10 locations with the highest percentage of new online users.

Australian trade flows have also been increasing since November 2020, and exports have risen on the back of record exports of iron ore. Higher commodity prices on that front are providing significant tailwinds to the state's sentiment and sales guidance for the 2020 calendar year from the world's largest iron ore producers suggests that a further rise is imminent.

Jobs improving amidst record infrastructure spending will buoy demand from industry

Employment conditions have improved since the onset of the pandemic in March, with WA recovering 71% of the initial job losses between February and May 2020. The record $27.1 billion investment infrastructure is planned over the next four years creates a significant pipeline of work for local industry and jobs, which bodes well for further improvement in occupier demand in 2021. Leasing demand has already begun to improve following the contraction in activity at the initial onset of the pandemic, though mostly demand is been directed at the prime segment in the traditional core markets.

Resource sector spending to help recovery in industrial property demand

The state has more than $15 billion in major iron ore projects under construction or at committed stage. Rio Tinto is developing Gudai-Darri (formerly Koodaideri), which is scheduled to start operations in early 2022 and BHP is developing South Flank to replace Yandi mine production by mid-2021. The State Government is projecting business investment to increase strongly from 2021-22 onwards due to further expected increases in resources projects but also a gradual recovery in non-mining business investment. Demand for processing, storage and distribution, as well as project space when in construction mode will also help recovery in industrial property demand over this period.

Enquiry levels dominated by mining sector but rents remaining steady

The leasing market continues to be spurred on by the mining and resources sector with enquiry levels remaining strong throughout the latter part of 2020. We have seen a spike in demand for large warehouses in the 3,000-10,000sqm range in parallel with the increase in government spending and significant infrastructure project commitments.

With tenant demand gaining momentum on the back of a favourable export-led economy, we could see a return to rental growth conditions from mid-2021 onwards, particularly with the supply of suitable warehouse stock above 5,000sqm diminishing.

Investment transactions have dropped below average, but yields are maintaining low levels

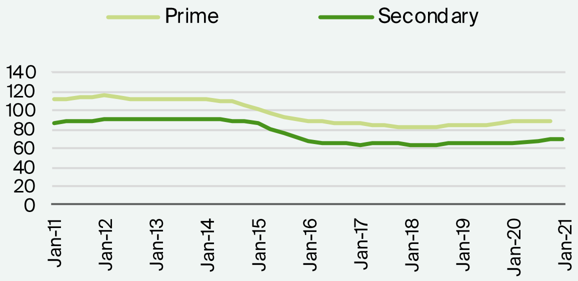
There were signs of yield compression in the first quarter of 2020, however there have been few on-market opportunities to bolster sales volumes, which have now dropped below the five-year average. Investors remain attracted to well-located, prime quality, long-term leased product with recent national portfolio sale and leaseback transactions reflecting this demand.

Continued improvements to overall sentiment will increase buyer competition, potentially triggering further yield compression.

PRIME RENTAL GROWTH	MOST ACTIVE BUYER	INDUSTRIAL JOB ADS	NEW INFRASTRUCTURE (A$)
3.5%	**75%**	**30,508**	**$27.1BN**
AVERAGE PRIME RENTAL GROWTH Y/Y	INSTITUTIONAL SHARE ABOVE 5 YR AVERAGE 48%	+27% Y/Y	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

Perth Industrial Rents

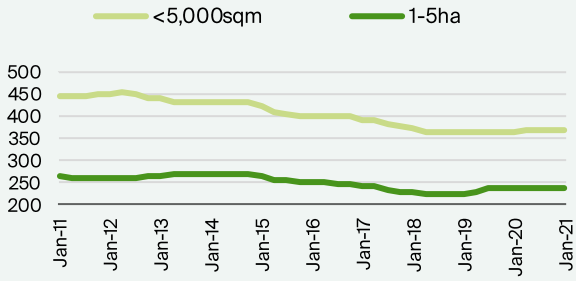
$/sqm net face, average



Source: Knight Frank Research

Perth Land Values

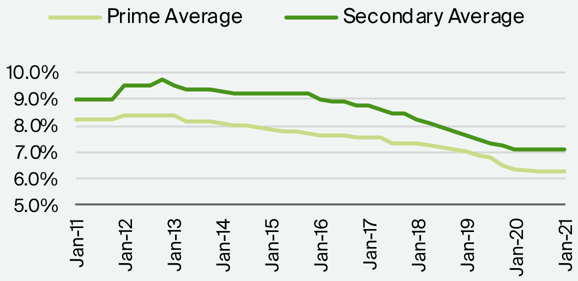
Small vs Medium Lots, Blended $/sqm



Source: Knight Frank Research

Perth Industrial Core Market Yields

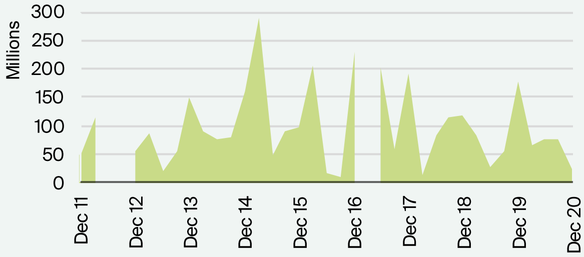
Prime vs Secondary (Averages)



Source: Knight Frank Research

Perth Industrial Sales $10m+

Quarterly Volume to December 2020



Source: Knight Frank Research, RCA

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Iron Mountain~	449 Victoria Road, Malaga	North	10,000	U/D	10
Centurion Garage~	2 Metal Circuit, Malaga	North	9,691	U/D	3
Glass & Co~	36 Gauge Circuit, Canning Vale	South	4,461	U/D	5

Pre-commitment ^ Lease of speculatively developed space ~Existing space U/D=Undisclosed

RECENT SALES

Recent significant sales

CITY	PROPERTY	PRICE $M	SIZE SQM	$/SQM	PURCHASER	VENDOR	YIELD %[1]	WALE
Melbourne	1816-1862 Dandenong Road, Clayton ^	416.7	26,139	15,942	Centuria Industrial REIT	Telstra Holdings	4.25	30
Sydney	2 Imperata Close, Kemps Creek	133.6	41,405	3,227	Logos	Sigma Healthcare Limited	4.50	15
Melbourne	Foundation Estate	127.6	44,100	2,893	GPT	Charter Hall	4.35	8.1
Brisbane	338 Bradman Rd, Acacia Ridge	114.0	55,009	2,072	Mapletree Logistics Trust	Blackstone	5.05	5.2
Brisbane	1502 Beaudesert Rd, Acacia Ridge	93.0	76,907	1,209	ESR/GIC	Blackstone	7.01	2.1
Sydney	130-170 Andrews Road, Penrith #	88.4	50,886	1,737	Charter Hall [3]	O-I Operations	5.12	20
Perth	50 Hasler Road, Osborne Park	75.0	42,561	1,762	Primewest	Seven West Media	5.73	15
Melbourne	Polaris Rd, Mickleham +	73.5	51,595	1,425	Dexus 51% [4], GIC 49%	MAB Corp /Gibson Property	5.25	10
Sydney	67-69 Mandoon Road, Girraween #	73.1	25,418	2,877	Centuria Industrial REIT	Bidford	5.13	7.0
Perth	22 Geddes Street, Balcatta	63.5	26,392	2,406	Charter Hall (DIF4)	Stockland	6.17	13.9
Adelaide	16-26 Caribou Drive, Direk	63.1	11,113	5,673	Moelis Australia	Cromwell Funds Management	4.92	14.7
Melbourne	45 Fulton Drive, Derrimut	49	11,068	4,427	Centuria Industrial REIT	Deutsche Asset Management	5.25	5.8
Brisbane	80 Southlink Pl, Parkinson#	49.0	8,413	5,842	Centuria Industrial REIT	DWS	5.50	6.1
Brisbane	53 Wayne Goss Rd, Berrinba ^	38.6	14,990	2,575	Logos	Sigma Healthcare Limited	5.00	15
Sydney	5 Williamson Road, Ingleburn	38.2	18,426	2,073	EG	Leda	5.43	3.5
Brisbane	25 Backhouse Pl, Eagle Farm #	38.2	17,200	2,221	Tradecoast Central	EB Games	5.40	10
Melbourne	41-59 Colemans Road, Dandenong^#	158.6	56,882	2,788	Charter Hall	ALDI	4.75	7.0
Adelaide	114 Cross Keys Road, Salisbury South #	22.0	19,020	1,156	Primewest	Border Express	6.54	5.0
Sydney	144 Hartley Road, Smeaton Grange	16.4	8,710	1,883	Myuna Pty Ltd	Centuria Industria REIT	5.58	7.75
Perth	13 Modal Crescent, Canning Vale	12.4	5,477	2,265	Mair Property Funds	Sentinel Property Group	6.27	9.77

[1] Core Market Yield [2] Passing Yield # Sale & Leaseback ^Part of Portfolio +Fund Through ~Cold Store

[3]Charter Hall Funds:DIF4 & CPIF [4]Dexus Logistics Trust

DATA DIGEST

Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
WALE: Weighted Average Lease Expiry
Vacancy Methodology:
This analysis collects and tabulates data detailing vacancies (5,000m²+) within industrial properties across all of the Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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