25-50bps
yield compression

23%
decline in vacancy

c.788,190sqm
In spec developments

Australian Industrial Review

Surging investor demand triggering prime yield compression

Q2-2021

knightfrank.com/research

KEY INSIGHTS

Demand continues to surpass expectations as it drives record take-up volumes and pushes vacancy to new lows. This has intensified the weight of capital now focused on the sector, resulting in sharp yield compression and an influx of new development.

$10.2b
investment sales volume 2020

2.2m
SQM new supply 2021 East Coast

670k
SQM take-up of vacant stock East Coast Q2-21

23%
Q/Q decrease in vacant space East Coast Q2-21

25-50
bps compression super prime yield s Q2-21

27%
Y/Y increase in spec developments East Coast 2021

Despite economic headwinds due to the pandemic, demand for warehouse and distribution space has been robust, leading to **record take-up volumes on the east coast**.

Strong investor demand for the sector is driving sharp yield compression of between 25 and 50bps across the country

Sydney recorded its largest Q/Q decline in vacancy, dropping 47% Q/Q as demand from Transport/ Logistics and Wholesale Trade sector surges on the back of e-commerce growth tailwinds.

Take-up of vacant space in Melbourne increased 56% in Q2, mirroring pre-COVID levels, as 3PLs and fulfilment operators expanded requirements to meet the e-commerce driven demand for storage and distribution.

In Brisbane, land values have grown 19.5% Y/Y for 1-5ha lots, and 12% Y/Y for smaller lots sub-5,000sqm, as the construction of spec stock reaches a record high.

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.

Developers looking to increase their exposure to Perth are putting upward pressure on land values, which have risen across most precincts during the last quarter.

Key Indicators Q2 2021

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	122#	105#	3.50 – 4.00	771^	653^
Brisbane	115	92	4.00 – 4.50	432	362
Melbourne#	89	72	3.75 – 4.25	598	493
Adelaide	100	72	4.75 – 5.25	291 ~	167 ~
Perth	85	67	4.75 – 5.25	381	251

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, North Sydney and Melbourne Fringe ~Blended ^Blended Outer West / South West

ECONOMY

The pandemic has driven higher rates of e-commerce usage and bolstered demand for space across the country, while targeted stimulus measures have assisted investment in logistics infrastructure.

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

Pandemic has catalysed e-commerce growth, further bolstering demand for industrial logistics

More than 1.3 million new households began shopping online for the first time at the start of the pandemic and according to Australia Post, almost half of this new contingent have become regular online shoppers. At the height of the pandemic, online share of total retail spend peaked at between 11.1% and 16.3%, according to the ABS and AusPost. Since December, online retail has sustained a share of total spend of around 9.2%.

Since the national lockdown was eased in June 2020, the states have battled their own lockdown and restrictions, the most recent being in June and July in SA, Vic and NSW. With non-essential retail closing their doors, e-commerce usage has once again ramped up. The impact of these various outbreaks and rising cases overseas has not only resulted in an exponential growth in e-commerce, but it has severely disrupted supply-chains. Businesses are having to invest in their supply-chain management and partner with suppliers, be it for tech, distribution or storage capability to mitigate future capacity pressures. There has also been significant growth in suburban last-mile freight tasks due to the rise in online shopping.

Take-up reaches a historical high, as demand for modern stock starts to outpace supply

Reflecting the continuing need to meet these requirements, pre-leasing activity is up 141% on Q1. This has contributed to exponential growth in overall take-up volumes on the east coast, which are up 57% on Q1 and 80% above the long-run average. Take-up of existing supply, including speculative projects is now running 54% above its historical average.

Demand for freight tasks ramps up

Australia's merchandise imports have remained relatively stable despite air-freight volumes dropping, suggesting an increase in road and rail freight, according to a recent report by Infrastructure Australia. Interestingly, road vehicle imports have been increasing since the start of the pandemic and are now at a record value of $4.2 billion. While this is spread across several vehicle categories, imports for vehicles used for the transport of goods have been a significant contributor, further supporting the demand for freight tasks due to the increase in e-commerce usage. This is significantly increasing the demand for warehouse and distribution space, leading to record take-up volumes on the east coast.

High value of construction shows the resilience of industrial property and growth in e-commerce

Infrastructure investment is at a record high, with $110 billion in the pipeline over the next decade and there's an increased focus on shovel-ready projects to increase private sector development to stimulate economic recovery. While arguably, the sector has been in expansion mode since 2018, investment in new industrial buildings has remained comparatively strong against other sectors during the pandemic, reflecting the resilient outlook for industrial property.

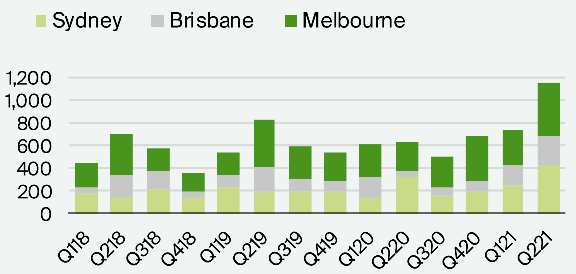
Australian Online Share of Total Retail

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

Source: Knight Frank Research, ABS (Original Estimate)

Eastern Seaboard Industrial Take-Up

By quarter, '000sqm, (>5,000sqm)*



Source: Knight Frank Research

LEASING MARKET

Demand for prime warehousing facilities continues to surge, pushing vacancy to record lows, intensifying competition for land as developers work fast to build new supply.

Sustained growth trend positions industrial and logistics as real estate's best performer

Accelerating growth in online/ e-commerce usage and rising investment in supply-chain drivers by business are showing no signs of slowing down. The heightened need for speed to market, as well as the demand for higher quality and often larger facilities to accommodate automated supply chain requirements, is elevating the demand for logistics and warehouse space.

Demand surges in Q2, as the East Coast records its largest quarterly vacancy decline in a decade

The effect of this rapid upswing in demand is particularly evident on the east coast, where the volume of available vacant supply (+5,000sqm) has declined by 23% during Q2. This is the largest quarterly decrease since the series began in 2010/11. Sydney recorded the largest decline, falling 47% over the quarter, from c.412,905sqm to c.219,503sqm, followed by Melbourne with a 23% decline to c.714,115sqm and Brisbane with a 9% decline to c.545,435sqm.

Demand for space is flowing into future supply plans, elevating the development pipeline

2021 is expected to reach a new tipping point with c.2.2 million sqm of new industrial supply forecast to be completed on the eastern seaboard, with a further c.2.1 million sqm due in 2022.

Rising demand for the distribution and storage of goods from food and beverage, electronics and healthcare sectors is increasing the pressure on existing availabilities to the point that demand is starting to outpace supply and vacancy is declining.

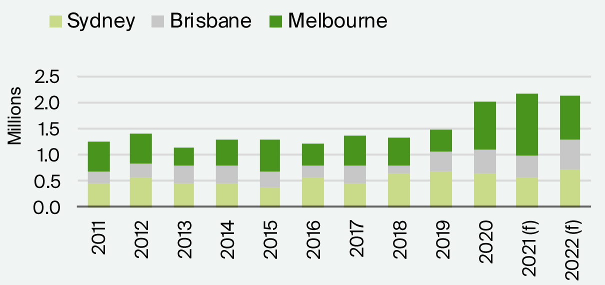
In a sign of confidence, developers have been quick to scale up to meet demand with spec completions on the east coast now expected to reach a new record high of c.788,190sqm in 2021, surpassing the previous peak of c.620,536sqm in 2020. While Melbourne accounts for the largest share of this supply, spec completions in Sydney and Brisbane are growing exponentially, up 77% and 40% respectively on last year.

Demand surge will keep pressure on vacancies and if it outpaces supply, rents will rise

A pause in construction in NSW was announced in July, which may result in a delay to some planned completions in the second half of 2021. Additionally, with the return of lockdown conditions in Sydney, Queensland and Melbourne plus strict internal border closures in July, there is likely to be a further increase to distribution and storage demand, particularly as more businesses assess safety stock levels to accommodate these future shocks. This will intensify the pressure on available options especially in those locations with already historical low vacancy levels, such as Sydney's Outer West, Melbourne's West and South East, resulting in rent and further land value growth.

Eastern Seaboard Industrial Supply

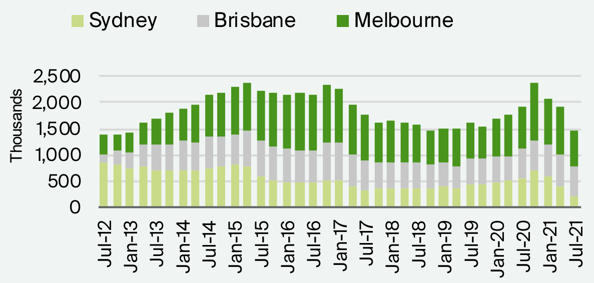
2011-2022(f), sqm



Source: Knight Frank Research

Eastern Seaboard Industrial Vacancy

'000s sqm, Quarterly



Source: Knight Frank Research

INVESTMENT

As allocations to the sector become a priority, investor appetite for assets is being supercharged by e-commerce tailwinds and robust leasing demand.

Investment volumes surge after landmark portfolio deal

Fuelled by strong e-commerce tailwinds, investor interest in the sector has been enormous. The landmark price of A$3.8bn achieved on Blackstone's Milestone 45-asset portfolio (including a portion of value put on its management platform) to ESR and its sovereign wealth fund partner, GIC, at a 40% premium to its December valuation, validates how hot the industrial and logistics asset class is right now. Arguably, the c.4.5% initial yield on the portfolio is now a key benchmark for the sector. To echo this, shortly after Milestone was announced, PGIM Real Estate and partner Manulife acquired a 90% stake in the 20-asset Fife portfolio from Blackstone for $850 million on a cap rate of 4.5%.

Notably, many investors were tied up in the first round of bids on the portfolio, while others were waiting to see how the result would direct pricing on any forthcoming transactions. As a result, investment activity for Q1 was the lowest since Q1 2017, with Q2 quickly rebounding after the portfolio sales. Total volumes in 2020 reached c.$10.2 billion, up 63% on 2019. 2021YTD is sitting at c.$8.0 billion, suggesting volumes will remain above historical averages again in 2021.

Logistics benefiting from uplift in revaluations as yields compress

Many REITs have reported an uplift in the revaluations of their logistics assets over the last quarter and the appetite to acquire or develop assets is pushing yields to new lows in most markets. The sector has shown its resilience and growth potential since the start of the pandemic and the investor pool is expanding rapidly. This trend, combined with a lack of high-quality assets in some markets, is intensifying competition and more investors are now willing to bid at lower yields.

Competitive bidding over the last quarter has seen super prime yields compress between 25 and 50 basis points (bps) nationally, with Sydney and Brisbane seeing the largest rate of compression to average 3.75% and 4.25% respectively in Q2. In Melbourne, yields compressed 25 bps over the quarter to 4.00%. Adelaide and Perth have tightened 38bps to average 5.00%.

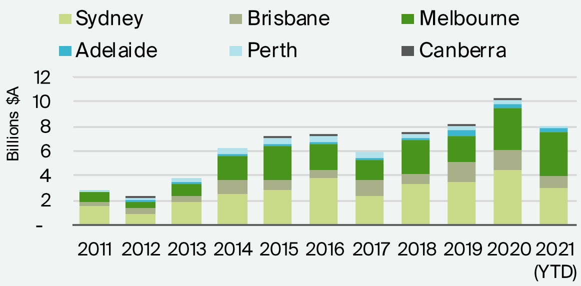
Industrial now a priority, underpinned by sustained high occupancy rates and rising returns

Demand is expected to remain robust due to the sustained growth rates in e-commerce usage and supply-chain investment. Record infrastructure spending will also continue to open up new logistics and development opportunities, further supporting the outlook for a sustained high level of development and investment activity. With vacancy at record low levels, investors will increasingly be anticipating rental growth in coming years, leading to further downward pressure on yields in the near term.

Australia is far from alone here, as surging investor demand for industrial property is a global theme and has seen yields compress in major international gateway markets to as low as 3%. While this begs the question as to how low can yields go here, it also puts Australia in a unique position to capture more investment from the increasing global pool of capital chasing industrial property.

Industrial Sales by Major City Market

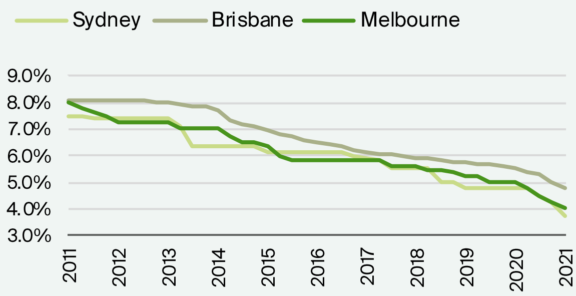
$10m+, Calendar Year



Source: Knight Frank Research, RCA

Eastern Seaboard Super Prime Yield

Average %, 2011-2021 (Q2)



Source: Knight Frank Research

SYDNEY

E-commerce tailwinds continue to bolster demand for space, pushing vacancy to its lowest level on record as it increases the competition for space and outlook for income growth.

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

Unprecedented levels of tenant demand driving leasing volumes

The positive momentum in the industrial and logistics market at the beginning of the year has not only continued but amplified throughout Q2 with unprecedented levels of tenant demand being recorded.

Leasing volumes have eclipsed 704,000sqm thus far in 2021 with over 516,000sqm being leased in Q2, nearly triple the level in Q1. Underpinned by the Techtronic Industries (73,920sqm) pre-commitment at the Yards Industrial Estate in the Mamre Road precinct, take-up levels in Q2 have been dominated by Transport/ Logistics and Wholesale Trade operators, accounting for 73% of activity. Heightened demand from these sectors highlights the strong link between e-commerce growth and increased demand for more warehouse space.

Vacancy drops to lowest level on record

The e-commerce driven boom is proving to be a game-changer for the sector, as vacancy records its largest quarterly decline on record. A sharp upswing in tenant demand during Q2 pushed the volume of vacant supply to 219,503sqm, its lowest level on record. This represents a 47% decline Q/Q and a 60% decline Y/Y.

Notably, the largest decrease by precinct was recorded in the Outer West, with a 65% decline in vacant supply Q/Q to just 56,116sqm, down from 161,865sqm in Q1. The sharp decrease reflects strong leasing demand for larger scale warehousing, which has traditionally been located there, and suggests there has been an increase in the number of companies moving away from 'just in time' inventory practices to higher inventories that require more storage space, including for reverse-logistics.

Increased demand provides rental uplift

With limited existing stock on the market available to lease in conjunction with higher quality warehouses being developed, landlords have begun to push rents up and drop incentives in Q2. This follows a period of minimal to no growth since the onset of the pandemic in 2020.

Across all Sydney sub-markets average rents have grown by 1.1% over the quarter, with a fall in incentives to average between 15-18%, resulting in net effective growth of 2.2% for the quarter.

Elevated development activity driving next wave of land value growth

Development activity remains robust on the back of solid pre-commitment activity driven by occupiers seeking larger facilities that incorporate high tech automation and provide scope for future expansion space. This quarter saw over 200,000sqm of pre-commitments and this is driving the delivery of new stock. By year end 583,709sqm of new stock is expected to be delivered, of which over 50% is pre-commitment led.

The strong appetite from institutions to increase their exposure has seen an uplift in land values over the quarter. Given the tightly held nature and recent yield compression for existing assets, institutions are seeking land opportunities in order to pursue and increase their own development pipelines. Over the quarter land values have increased by 6% in Western Sydney for 1-5Ha lots to average between $750-$800 per sqm, this follows a period over the last 18 months of limited growth.

Landmark transactions reset industrial yields

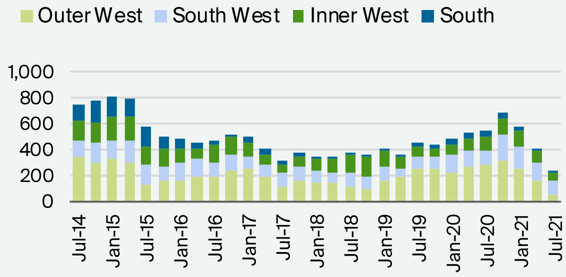
There has been a dramatic shift in yield metrics on the back of the large pool of capital, both from domestic and offshore investors, increasing allocation to the industrial and logistics sector. Following the landmark transaction of the Blackstone Portfolio in Q2, in addition to Lendlease acquiring the Best and Less facility in Eastern Creek on a sub 4% yield, industrial yields have reset across the market.

Since Q1 there has been significant yield compression of at least 50– 75bps on average across the Western precincts with prime yields averaging 4.50%. For super prime assts, yields are ranging between 3.5%-4.0%, reflecting compression of approximately 50bps over the quarter. Yield compression is likely to continue given the large amount of capital still seeking industrial assets.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR Q2	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
516,498	**38%**	**219,503**	**636,540**
NEAR TRIPLE Q/Q	TRANSPORT, POSTAL, WAREHOUSING	-47% Q/Q	Estimated 2021 (f)

Sydney Vacancy

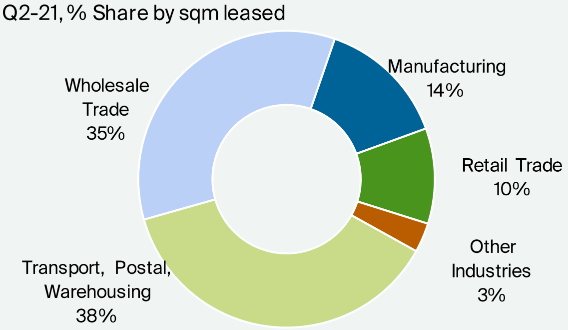
'000sqm by precinct



Source: Knight Frank Research

Sydney Take up by Industry

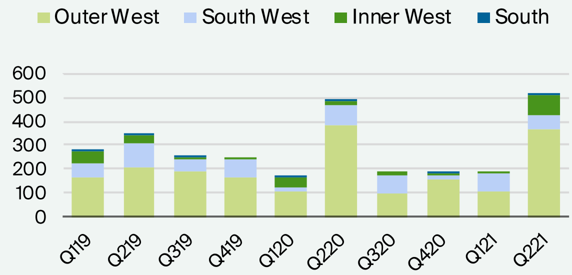
Q2-21, % Share by sqm leased



Source: Knight Frank Research

Sydney Leasing Take-up by Precinct

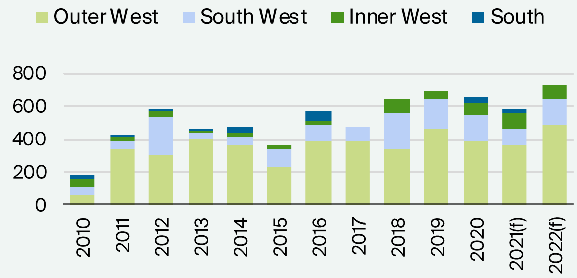
'000sqm by precinct, by quarter



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
Techtronic Industries #	The Yards Industrial Estate, Kemps Creek	Outer West	73,920	U/D	10
Ventia	13 Lldco Street, Arndell Park	Outer West	7,263	118	7
EWE Group ^	WH3b, 37-39 Stennett Road, Ingleburn	South West	11,239	105	7
Total Tyres ^	42 Cox Place, Glendenning	Outer West	17,196	128	10
Cameron Logistics	68 Lockwood Road, Erskine Park	Outer West	25,395	125	6

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

MELBOURNE

The Melbourne market continues its strong performance, as an insatiable demand for logistics and fulfilment drives new development.

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

Leasing volumes rise as e-commerce propels logistics and retail expansion

An improved business outlook underpinned by the momentum of a rebounding economy has bolstered occupier demand with record take-up levels witnessed in the second quarter of 2021, led by the West and the South East precincts.

Leasing volumes for Q2 totalled 672,969sqm, representing a 70% increase over the Q1 figure of 396,289sqm. Major retail and wholesale tenants, buoyed by strong marginal growth due to a lift in non-discretionary spending, represented 23% of total leased space, with 75% committing to facilities over 20,000 sqm as digital transformation boosts supply chain advancements.

Take-up of vacant space reached 301,967sqm, increasing 56% Q/Q, mirroring the pre-COVID levels (317,374sqm) recorded in Q2-19, as 3PLs and personalised fulfilment operators expanded their operational space to meet the e-commerce driven demand for storage and distribution.

Developers accelerate spec development to meet robust demand

The Melbourne industrial market is tipped to receive another boost of development, with 1.16 million sqm of new supply expected to enter the market in 2021, after 921,035sqm was delivered in 2020, with similar levels not witnessed since 2008, when 1 million sqm was added.

Even with this heightened level of activity, the market is struggling to meet the vigorous demand from occupiers, with 70% of the developments in the pipeline pre-committed, and 62% of the 350,393sqm of potential speculative stock already leased.

Institutional owners and real estate funds, fuelled by business confidence, are recalibrating their portfolios and forging partnerships to bulk up their funds under management to take advantage of the tightly held market.

In the South East, Centuria Industrial REIT and GPT JV with Quadreal, have both partnered with Cadence Property Group to deliver a 40,460sqm estate in Dandenong South and a 60,640sqm speculatively built estate, in Keysborough in separate fund through transactions. In the West, Frasers Property plans to deliver a 27,358sqm building in Tarneit and Dexus, partnering with MAB Corp and Gibson property, has committed to build a 21,370sqm facility in the Merrifield Business Park, in the North.

Land scarcity with record low vacancies proving to be the perfect storm for land values

Declining land supply coupled with accelerated tenant demand is putting upward pressure on land prices as owner-occupiers compete with institutional owners for prime locations. Land values in the West witnessed the most noticeable increase with <5,000 sqm and 1-5Ha lots rising 14% and 12% respectively in the second quarter of this year.

A lack of quality sites in infill locations is prompting tenants, wanting to take advantage of the economies of automation, to explore areas beyond dominant industrial hotspots where large scale expansion opportunities exist.

Rents post nominal gains as incentives hold

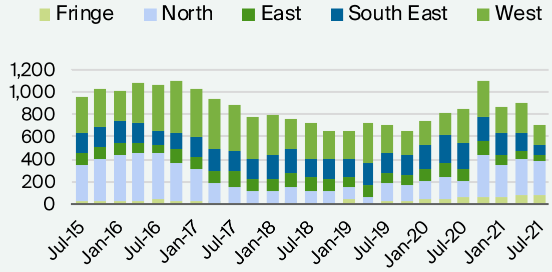
A downward trending vacancy rate in a land constrained market is having a flow-on affect on Melbourne's industrial rents, with prime rental values posting nominal gain of 2% and 1% in the South East and West precincts Q/Q. Further growth is expected over the course of the year, as incentives remain static and the e-commerce boom continues to drive demand.

Market dynamics to fuel further yield compression

Yields have continued to harden as investors rally on the bullish outlook for the sector and the associated risks diminish further. Average prime yields have contracted 65bps over the last 12 months with major portfolio sales setting new benchmarks for the industry. While funding costs remains cheap, and rental growth becomes more pronounced, it is anticipated that yields will compress further as the industrial sector continues to outperform.

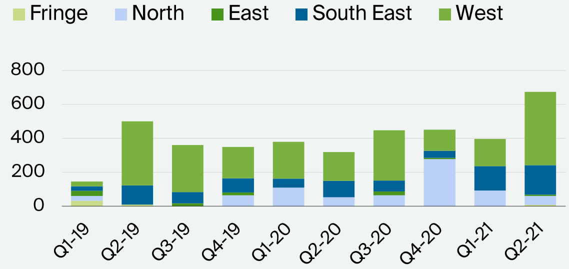
TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR Q2	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
672,969	**29%**	**714,115**	**1,168,378**
2+ TIMES 5Y-AVG	TRANSPORT & WAREHOUSING	-21% Q/Q	Estimated 2021 (f)

Melbourne Industrial Vacancy
'000sqm by precinct



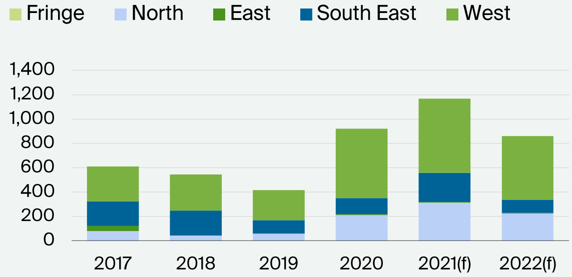
Source: Knight Frank Research

Melbourne Leasing Take-up
'000sqm by precinct



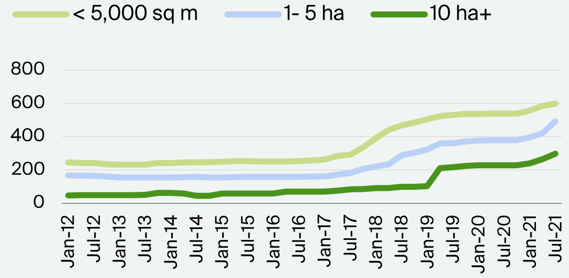
Source: Knight Frank Research

Melbourne Industrial Supply
'000sqm by precinct



Source: Knight Frank Research / Cordells

Melbourne Industrial Land Values
$/sqm by precinct, excl. fringe



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Electrolux#	11-167 Palm Spring Rd, Ravenhall	West	19,960	U/D	10
Ron Crouch Transport^	121-139A Doherty's Rd, Altona North	West	9,531	85	5
Scania Australia~	40 Adecco Dr, Campbellfield	North	9,365	U/D	10
Statewide Transport^	Spec 3, Vision St, Dandenong South	South East	8,352	97.5	5
TigerPak Packaging^	1 Cargo Ct, Dandenong South	South East	5,508	100	7

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

BRISBANE

Momentum across all facets of leasing, investment sales and land sales has continued to build throughout 2021

By Jennelle Wilson | Partner | Research & Consultancy

Back to back strong quarters of take-up as tenant activity builds

Leasing take-up in Q2 2021 was 280,215sqm, more than double the five year average, as activity has continued to build from Q4 2020. Pent up demand from the border closures of 2020 is being converted into leasing activity with tenant confidence and decision making remaining on an upward trend. The two largest southern precincts of South West (36%) and South (35%) dominated leasing activity for the quarter.

The-take-up of vacant space is strong however in the past quarter secondary space was dominant, accounting for 66% of vacant space absorbed. Take-up of speculative space was 19% with existing A grade space the remaining 15% of the total.

There has also been an increase in pre-commitment activity in H1 2021 with approx. 142,000sqm of space committed to, well above the level for the whole of 2020 (101,500sqm). There remains a substantial pipeline of potential pre-commitment deals to be signed during the remainder of the year.

Vacancy falling despite new speculative build starts, face rents increasing but so too incentives

Total vacancy tracked by Knight Frank fell by 9% (-51.282sqm) during Q2 and now sits 7% below the level of a year ago, but remains 22% above the recent low-point in Q1 2020. Available speculative space now accounts for just over a third of all vacancy in the Brisbane market, and over half of all prime vacant space. Speculative space increased by 20% in the past quarter with new starts of 58,682sqm across two projects. The pipeline for further potential starts remains high.

The increase in tenant activity during 2021 has allowed for minor increases in Brisbane prime face rents, up by 2.1% over the past year to $115/sqm. Incentives, which accelerated during 2020, have assisted in triggering tenant decision-making, and have continued to grow, now 17.3% on average, but frequently higher for large scale or speculative space. Effective prime rents have stabilised at $95/sqm with potential for incentives to begin to fall in 2022, however the steady expected additions of speculative space may dampen or delay this recovery.

Land value growth accelerating to 19.5% Y/Y for 1-5ha lots, construction pipeline strong

Land transactions have accelerated both in quantum and price as the amount of formed and serviced land continues to diminish and be more consolidated in its ownership. While smaller lots sub-5,000sqm have continued to appreciate (up 12% Y/Y to $432/sqm) the real growth has come in larger lots, more the focus of institutional buyer/developers, with 1-5ha lots up 19.5% to $362/sqm on average and larger englobo lots up 25% to $300/sqm. There has been greater purchasing of brownfield sites in central locations, plus secondary assets are being priced with an eye for medium term redevelopment.

Construction completion expectations for 2021 have lowered slightly since the start of the year with 427,540sqm of new space expected to be delivered, on a par with 2020. Weather delays and staging of spec projects in line with uptake have seen some timelines to completion grow. The South West (40%) and South (38%) will continue to dominate supply in 2021. Speculative supply is expected to account for 46% of 2021 supply, up from a record high of 32% in 2020.

Sales volumes building with prime yield contraction continuing at 23bps over the quarter

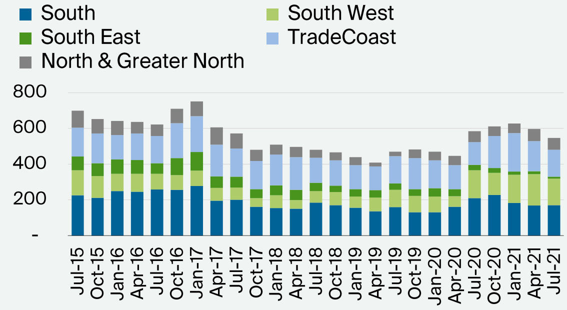
Transaction activity has continued to accelerate throughout 2021 with strong demand from all investor types. While there have been a number of large portfolio sales which included Brisbane assets, the majority of turnover has come from individual sales. From active domestic purchasers such as Charter Hall feeding both REIT and wholesale platforms, there have also been emergent buyers such as Irongate and Arrow Capital actively purchasing assets, frequently off-market. The low stock levels have also seen an increase in VP fund through purchases as buyers scramble to gain a position in the market.

Purchasing criteria for institutional buyers has broadened, once only seeking assets of scale, more major buyers making forays into the $15-20million price bracket, particularly where the potential to amalgamate holdings exists. Yields across all grades have contracted 75-115bps over the past year with this momentum being maintained into H2.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR FY21	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
280,215	**25%**	**545,435**	**427,540**
2+ TIMES THE 5Y-AVG	RETAIL TRADE	-9% Q/Q	Estimated 2021 (f)

Brisbane Industrial Vacancy

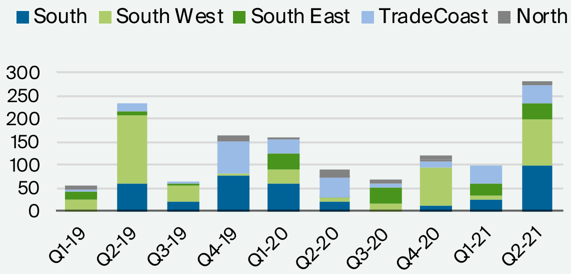
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane Leasing Take-up

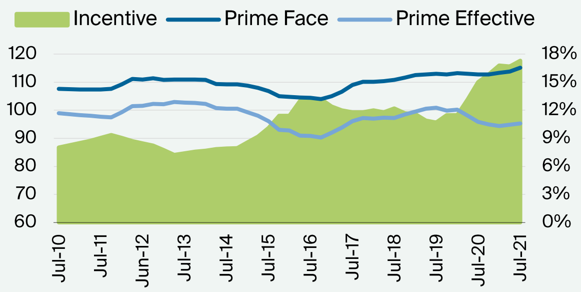
'000sqm by precinct



Source: Knight Frank Research

Brisbane Prime Rents

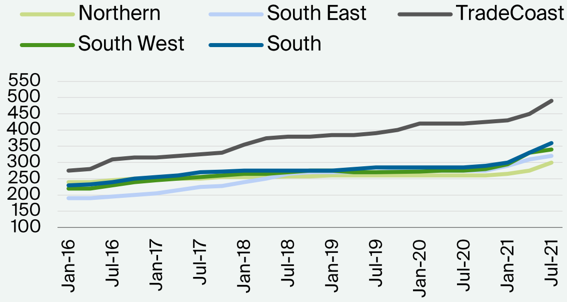
Prime Face & Effective $/sqm (LHS), Av Incentive % (RHS)



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
CHEP#	Bld B 11 Interchange Place, Rochedale	South East	15,347	118	13
Volvo Trucks^	2/77 Bandarra St, Wacol	South West	14,600	112	3
SPAR Australia#	1502 Beaudesert Rd, Acacia Ridge	South	13,400	U/D	10
Vida Wood ~	41 inghams Pl, Hemmant	TradeCoast	12,000	105	7
Zenexus#	10 Morshead Ct, Redbank	South West	10,000	105	5

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

ADELAIDE

Strong appetite for institutional grade stock combined with the value proposition in South Australia continues to drive industrial yields to record lows.

By Tristan Mellett | Research Analyst | Valuation & Advisory SA

Leasing market continues to strengthen, with expected growth in the short to medium term

Leasing activity has increased, underpinned by transport and logistics occupier demand connected to the growth in e-commerce. CTI Logistics, BRI International and M3 Logistics have all leased facilities recently, with the outer north a particular focus due to its direct links to major interstate rail and road networks. Leasing demand for the smaller market (sub 1,000sqm) has also received a strong level of enquiry, particularly from the local market.

Rising leasing demand starting to drive prime rental growth

Although the state's recent snap lockdown is expected to see business confidence levels decline in the short-term, record levels of infrastructure investment and the government's shovel ready program have already activated a number of new projects, particularly in the inner north. Demand for this new stock has put some pressure on prime net face rents in the inner north, which have risen 4.8% over the quarter. This has resulted in an increased of the blended (all precincts) prime net face rent rate by 1.1% Q/Q.

Developments of purpose built facilities reflecting firm yields

Strong interest from developers is being observed primarily within the North and Western precincts, as developers look to service the rise in occupier demand from the logistics sector.

The availability of vacant land suitable for industrial zoning is allowing for the purchase and development of purpose-built facilities for owner occupiers or for tenants under pre-commitment terms. The travel benefits associated with the development of the North South corridor is also driving further demand for acquisitions recently. This trend has been particularly evident from the logistics and distribution sector as represented by the recent sale of 63-75 Kaurna Avenue, Edinburgh, a development site for a purpose built facility that sold for $9.72 million with a pre commitment lease negotiated to M3 Logistics reflecting a yield of 5.75%.

Investor confidence reflects a firming of prime yields

Industrial prime yields have firmed significantly in Q2, on the back of increased investor demand for industrial assets, particularly those seen to be 'defensive' such as distribution facilities and transport depots associated with e-commerce and fresh food sectors. Recent evidence for a property in the outer northern region, comprising a modern, part temperature -controlled facility with a 9.6 year lease term certain to an ASX listed tenant sold for circa $63 million reflecting a yield of 5.88%. In the next six months we expect to see further firming in prime yields across all precincts.

Eastern seaboard investors turning toward South Australian industrial assets

Recently, industrial property has been the preferred asset class for many investors on a national basis as it has shown resilience throughout the COVID-19 pandemic. There has been increased appetite from institutional investors for fully leased industrial property, particularly long WALE assets with strong lease covenants reflected in the strong metrics shown in recent transactions. As at July 2021, industrial sales volumes were $240.58 million for properties above $5 million, compared to a recorded sales volume of July 2020 at $198.24 million, reflecting an increase of around 21%.

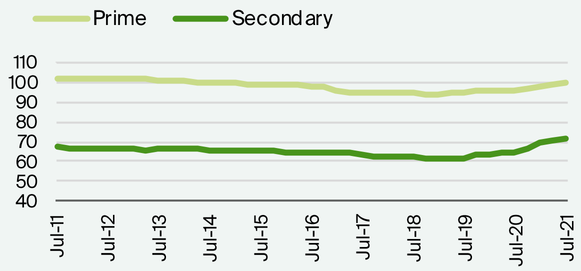
There has been an increased focus in South Australian assets in the last 6-12 months from eastern seaboard buyers, with the firming of yields reflecting increased competition and increased demand.

This is illustrated by the two recent transactions of major facilities acquired by interstate funds through off market transactions in 2021, being 68 Kapara Road, Gillman and 589-599 Torrens Road, St Clair. 68 Kapara Road, which comprises a purpose-built logistics facility, was purchased by Sydney based fund Centuria. 589-599 Torrens Road comprises an older style industrial facility constituting various buildings utilised for plastic moulding manufacturing. It was purchased by Western Australian Group Ascot Capital.

PRIME NET FACE RENT $/SQM Q2	LAND VALUES (<5,000SQM) $/SQM Q2	LAND VALUES (1-5HA) $/SQM Q2	NEW INFRASTRUCTURE (A$)
$100	**$291**	**$167**	**$17.9BN**
+1.1 % Q/Q AVG INCREASE	+3.1% Q/Q BLENDED AVG	NO CHANGE Q/Q BLENDED AVG	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

Adelaide Industrial Rents by Grade

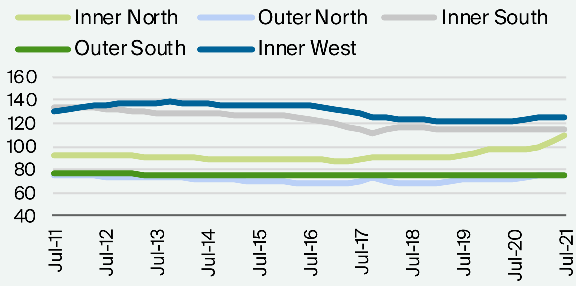
Average Prime v Secondary, Net Face Rent, $/sqm pa



Source: Knight Frank Research

Adelaide Industrial Rents by Precinct

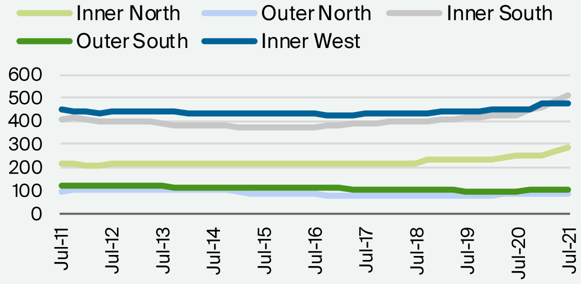
Average Prime Net Face Rent, $/sqm pa



Source: Knight Frank Research

Adelaide Industrial Land Values

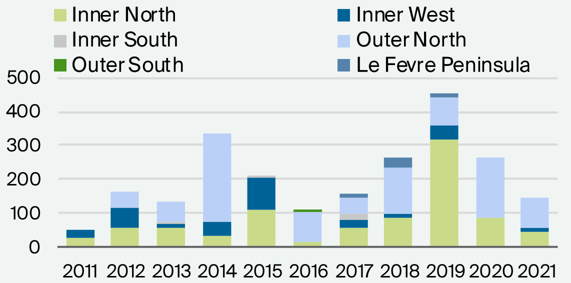
Average $/sqm by precincts for land <5,000 m2



Source: Knight Frank Research

Adelaide Industrial Sales by Precinct

$Millions,+$5mil sales, 2011 to 2021YTD



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
M3 Logistics #	63-75 Kaurna Avenue, Edinburgh	Outer North	6,732	83	7
BRI International	72-78 Purling Avenue, Edinburgh	Outer North	19,561	80	5
CTI Logistics	122-132 Purling Avenue, Edinburgh	Outer North	17,493	85	5
Winning Group	2/853-867 Port Road, Woodville	Inner West	7,372	97	4
Snowy's Outdoors	87 Jervois Street, Torrensville	Inner West	5,355	91	5

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

PERTH

Driven by the growth of e-commerce, leasing demand has risen. This shift is intensifying investment demand as more investors seek out logistics as a key source of sustainable income.

By Katy Dean | Associate Director | Research & Consultancy

Demand for commodities is helping to boost demand for industrial logistics

The WA economy has shown great resilience throughout the pandemic, closely linked to the strength of the iron ore price, which has been trading at an all-time high recently. BHP reported that its full year output of iron ore put it within the top end of its target range despite labour shortages and COVID-19 travel restrictions. The flow on effect of production growth is the demand for transport and logistics warehouse and storage space, as well as demand for the delivery of additional new trucks to meet the upswing in production levels. Additionally, resource sector spending will help drive further recovery in industrial and logistics property demand.

Leasing activity rebounds as confidence returns, improving rental growth outlook

While leasing activity during 2020 was relatively subdued, enquiry levels have rebounded with strong demand for all industrial precincts. Despite some volatility remaining with the threat of border closures and snap lockdowns across the country, there has been a resurgence in business confidence levels since the first quarter. Although this is likely to drop a little in July due to the outbreaks in other states, locally, the acceleration in enquiry has finally led to an improvement in leasing activity.

The sub-10,000sqm warehouse seems to be the most active, however faces some challenges with limited stock available. This is starting to put some pressure on rents in the prime segment, with rental growth expected to return in the second half of 2021, after holding stable over the last year.

The pre-commitment market remains very competitive

The sector continues to benefit from the growth in e-commerce, as more consumers increasingly choose to shop online. Australia Post recently reported that the growth in online purchases in WA grew 31% in 2020 and although there was a spike when the pandemic was declared in April 2020, those growth rates have remained elevated. In response, businesses have been looking to scale up operations, improve supply-chain efficiencies and increase storage space to manage inventories above the previous 'just in time' model. This has begun to intensify the demand for modern, well located assets, particularly near or around major transport links such as Perth Airport and there are a number of active pre-lease mandates for new stock expected to be announced in the second half of 2021 from logistics and retailer occupiers.

Developers actively pursuing land, putting upward pressure land values

There has been increased interest from developers over the last quarter, actively seeking land banks and redevelopment sites. The market faces a low level of available high-quality product to meet demand and the recent increase in enquiry for pre-lease space is providing developers the confidence to pursue opportunities in Perth. Although the majority of this enquiry is coming from local privates, increased competition on the east coast is seeing some REITs and east coast active developers look to increase their exposure to Perth through acquisition and development. This is starting to put pressure on land values, which have risen across most precincts during the last quarter. The blended land rate for small lots has increased 3.3% and large lots is up 1.3% over the quarter. In areas such as the South and East where there are high barriers to new land supply, small lots have increased between 3.6% and 7.4%. This pressure is expected to remain in the short-term.

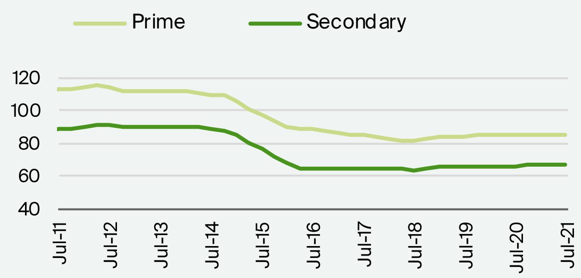
Yield compression reflects weight of capital

The heightened interest from a diverse range of investors to increase their exposure to industrial logistics is rapidly rising, as is the willingness to purchase at lower yields to take advantage of the e-commerce growth tailwinds. That weight of capital has resulted in significant yield compression during Q2, with prime yields compressing on average between 13 and 25bps across all precincts. Yields will remain under pressure to compress over the second half of the year, compounded by the tightening market conditions on the east coast and lack of large scale, modern logistics asset currently on market in Perth.

PRIME NET FACE RENT $/SQM Q2	LAND VALUES (<5,000SQM) $/SQM Q2	LAND VALUES (1-5HA) $/SQM Q2	NEW INFRASTRUCTURE (A$)
$85	**$381**	**$251**	**$27.1BN**
NO CHANGE Q/Q BLENDED AVG	+3.3% Q/Q BLENDED AVG	+1.3% Q/Q BLENDED AVG	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

Perth Rents by Grade

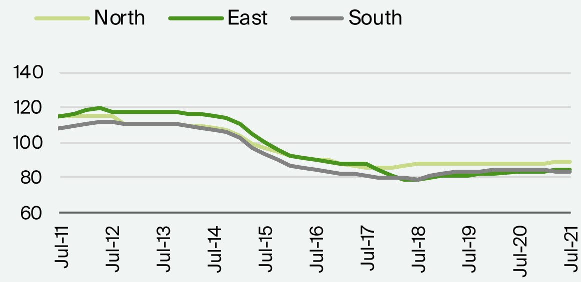
$/sqm net face pa, blended average



Source: Knight Frank Research

Prime Average Rents by Precinct

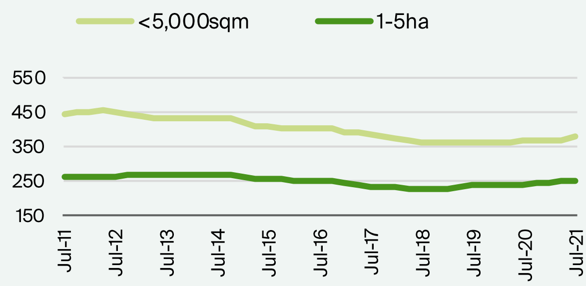
$/sqm net face



Source: Knight Frank Research

Perth Land Values

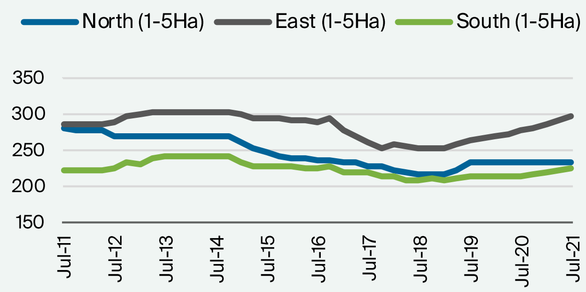
Small vs Medium Lots, Blended $/sqm



Source: Knight Frank Research

Perth Land Values by Precinct

Average $/sqm, Medium Lots



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Mercer Mooney	38 Gauge Circuit, Canning Vale	South	3,150	U/D	10
Blackmores	60 Baile Road, Canning Vale	South	1,800	U/D	5
DXN Limited	3 Dampier Road, Welshpool	East	1,758	108	2
Big River Timbers	255 Treasure Road, Welshpool	East	2,495	92	5
Kitchen Warehouse	4/310 Spearwood Avenue, Bibra Lake	South	5,000	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	1061 Mountain Highway, Boronia	106.0	33,878	3,129	Charter Hall (CPIF)	GlaxoSmithKline	4.00	2.3
Melbourne	95-105 South Gippsland Highway, Dandenong South +	88.8	40,380	2,199 [3]	Centuria Industrial REIT	Cadence Property Group	Site	-
Melbourne	110 Northcorp Boulevard, Broadmeadows	37.1	30,660	1,209	Centuria Industrial REIT	Licciardi Super Property	4.90 [2]	11.5
Melbourne	28-46 Bald Hill Road, Pakenham	76.0	22,384	3,422	Charter Hall Direct Industrial Fund No.4	Australasian Foods Pakenham Pty Ltd	4.21	30
Melbourne	169 Princes Highway, Bairnsdale	65.0	23,791	2,732	Charter Hall Direct Industrial Fund No.4	Australasian Foods Pakenham Pty Ltd	4.69	30
Sydney	1 Eucalyptus Place, Eastern Creek	130.1	36,404	3,574	APPF Lendlease Industrial Fund	AMP Capital (Swiss Pillar Investments)	3.62 [2]	13.81
Sydney	100-104 Euston Road, Alexandria	24.4	4,070	5,995	Private	Private	3.92	2.2
Sydney	160 Newton Road, Wetherill Park	33.5	13,233	2,532	Centuria Industrial REIT	Leda	4.46	1.0
Sydney	75 Long Street, Smithfield	13.0	4,830	2,692	Private	Private	4.60	3.4
Sydney	28 Penelope Crescent, Arndell Park	27.0	9,395	2,874	Centuria	Private	4.44	2.17
Sydney	19-24 Loyalty Road, North Rocks	57.0	19,187	2,971	Leda Holdings	Private	4.18	2.77
Brisbane	51-81 Freight St, Lytton	194.0	51,831	3,743	Charter Hall Group	Goodman Property Group	4.07 [2]	6.3
Brisbane	29 Ron Boyle Crescent, Carole Park	83.1	30,605	2,715	Charter Hall Long WALE REIT	Simon National Carriers	4.10 [2]	15.0
Brisbane	62 Stradbroke Street & 82 Noosa St, Heathwood	40.95 60.65	24,548 37,965	1,688 1,598	Arrow Capital/Altis	CapitalLand	6.02 5.64	3.40 2.08
Adelaide	123-145 Pellew Road, Penfield	98.0	44,772	2,111	AM alpha	SCT Logistics	5.14	9.6
Adelaide	589-599 Torrens Road, St Clair	18.8	15,011	1,252	Ascot Capital Ltd	Prosperity Assets	5.64	7.6
Adelaide	68-70 Kapara Road, Gillman	10.5	7,187	1,461	Centuria	Kerry Logistics	6.79	3.3
Perth	13 Modal Crescent, Canning Vale	12.4	5,477	2,265	Mair Property Funds	Sentinel Property Group	6.27	9.77
Perth	22 Geddes Road, & 20 Kenhelm Street, Balcatta	63.5	26,392	2,406	Charter Hall	Stockland	6.16	13.9

[1] Core Market Yield [2] Passing Yield [3] Land/Development Site # Sale & Leaseback ^Part of Portfolio +Fund Through ~Cold Store

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 (5,000m^2+) 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.

Research
Ben Burston
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

Research
Katy Dean
+61 2 9036 6612
Katy.Dean@au.knightfrank.com

Industrial Logistics National
Darren Benson
+61 2 9036 6728
Darren.Benson@au.knightfrank.com

Industrial Logistics NSW
Mark Silva
+61 2 9036 6889
Mark.Silva@au.knightfrank.com

Industrial Logistics NSW
Angus Klem
+61 2 9028 1110
Angus.Klem@au.knightfrank.com

Industrial Logistics Qld
Mark Clifford
+61 7 3246 8802
Mark.Clifford@au.knightfrank.com

Industrial Logistics Vic
Joel Davy
+61 3 9604 4674
Joel.Davy@au.knightfrank.com

Industrial Logistics Vic
Scott Braithwaite
+61 3 9604 4689
Scott.Braithwaite@au.knightfrank.com

Industrial Logistics ACT
Daniel McGratth
+61 2 6221 7882
Daniel.McGrath@au.knightfrank.com

Industrial Logistics SA
David Ludlow
+61 8 8233 5273
David.Ludlow@au.knightfrank.com

Industrial Logistics WA
Geoff Thomson
+61 8 9225 2436
Georff.Thomson@au.knightfrank.com

Occupier Services
James O'Neill
+61 2 9036 6766
James.O'Neill@au.knightfrank.com

Valuations National
Alistair Carpenter
+61 2 9036 6662
Alistair.Carpenter@au.knightfrank.com

Project Management & Building Consultancy
Andrea Brown
+61 2 9036 6853
Andrrea.Brown@au.knightfrank.com

Asset Management Services
Lisa Atkins
+61 3 9604 4710
Lisa.Atkins@au.knightfrank.com

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