1 *Surging rental growth*

2 *Sustained uplift in land values*

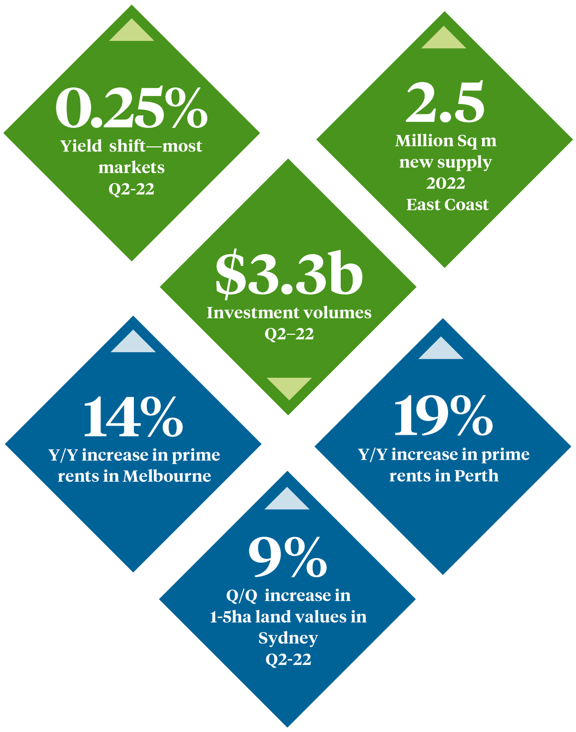
3 *Prime yields rise for first time since 2009*

knightfrank.com/research

Australian Industrial Review

Q2-2022

KEY INSIGHTS



The leasing market continues to be very strong, driving widespread rental growth, but higher funding costs have seen a change in sentiment in the investment market, with yields rising by 0.25% in most markets.

In Sydney, vacancy has declined further, and there is now under 50,000 sq m of prime space available across all precincts. Tenants are increasingly required to pre-commit to new stock due to the lack of available space to lease.

Melbourne has the nation's largest development pipeline, with 1.2 million sq m expected to complete deliver in 2022. Over half of this stock is in the Western precinct.

Brisbane saw record high take-up in Q2, with 319,000 sq m leased. This has resulted in a further fall in vacancy, with the amount of secondary space available now very low.

In Adelaide, land values continue to spiral upward, with 1-5 hectare lots rising by a further 19.0% Q/Q to be up by 84% Y/Y led by the Inner North and Outer North precincts.

Perth is experiencing the fastest pace of rental growth nationally, with prime rents up by 18.6% Y/Y as the market responds to strong tenant demand and rising construction costs.

Key Indicators Q2 2022

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 #	171	147	3.25 – 3.75	2,013	1,724
Brisbane	124	107	3.95 – 4.60	534	505
Melbourne *	115	93	3.50 – 4.00	1,172	899
Adelaide	107	81	4.00 – 4.50	468	326
Perth	113	88	4.25 – 4.75	455	322

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 +
Indicators are based on a blended average of the city precincts. *#Western Sydney prime net face rents average $131/sqm, secondary: $116/sqm; small lots: $1,269/sqm, 1-5ha lots: $1,180/sqm.*
**Melbourne (excluding the Fringe) prime net face rents average $104/sqm, secondary: $93/sqm; small lots: $915/sqm, 1-5ha lots: $699/sqm.*

ECONOMY

Retail spending continues to drive strong economic growth, but surging inflation and construction costs are starting to weigh on sentiment.

Retail sales still driving industrial demand, but consumer sentiment now cooling

Retail sales continue to grow rapidly, as households gradually draw down on the savings built up during the pandemic and respond to the buoyant labour market. The latest data to end-June confirms that aggregate sales have risen by 12.0% over the past year, with strong spending across all of the major categories. The online share of aggregate spending remains high but has stabilised in recent months and stands at 10.5% overall and 16.1% for non-food goods.

While aggregate spending remains strong and continues to propel tenant demand for logistics space, recent months have seen a decided cooling in consumer sentiment globally, including in Australia, as higher inflation – including a steep rise in construction costs – and the anticipated impact of sequential interest rate rises feeds through. Consumer sentiment in Australia has fallen by nearly 30% since the peak in 2021, and by 42% in the US, indicating that the pace of retail spending and aggregate economic growth is likely to slow in H2 2022.

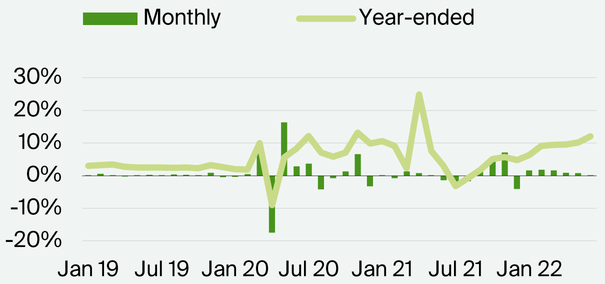
Yield curve edges down as central banks seek to regain control of the market narrative

The RBA has now raised rates for the third consecutive month taking the cash rate to 1.85% with further hikes expected in coming months. However, for industrial property markets, the cash rate is merely playing catch-up with the sharp uplift in bond yields and swap rates witnessed since January. The recent moves from the RBA have helped to reassure markets that they remain firmly committed to the medium-term inflation target and in so doing have tempered fears of inflation rising in a disorderly fashion. As such, sequential 50 basis point moves and similar steps from other central banks globally have actually resulted in a reduction in 2-5 year interest rates in recent weeks.

Nonetheless, the sharp rise in rates has directly impacted funding costs and hedging costs for offshore investors. This is now impacting pricing and will be a key driver of market performance in H2.

Retail Sales

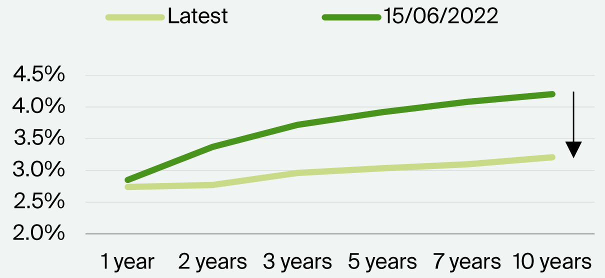
Per cent change



Source: Knight Frank Research, Macrobond

Yield Curve

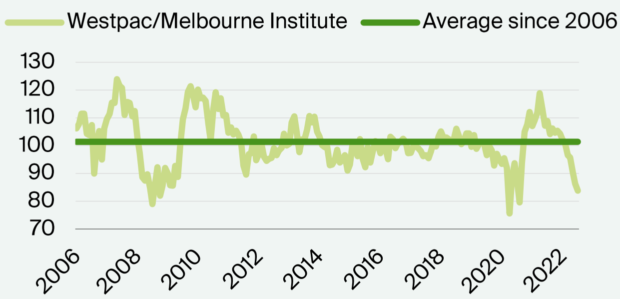
Australian government bonds, per cent



Source: Knight Frank Research, Macrobond

Consumer Confidence

Index, value above 100 denotes optimism



Source: Knight Frank Research, Macrobond

LEASING MARKET

Competition for available industrial space, especially new stock, has intensified as vacancy reaches its lowest point in more than a decade triggering strong rental and land value growth rates.

Supply shortages driving rapid rental escalation

Tenant demand remains strong, with take-up of 716,000 sqm recorded for the quarter across the major Eastern cities. However, this was led by record take-up in Brisbane (319,000 sqm) and another strong quarter in Melbourne (210,000 sqm) with Sydney (187,000 sqm) held back by a lack of available stock across both prime and secondary grades.

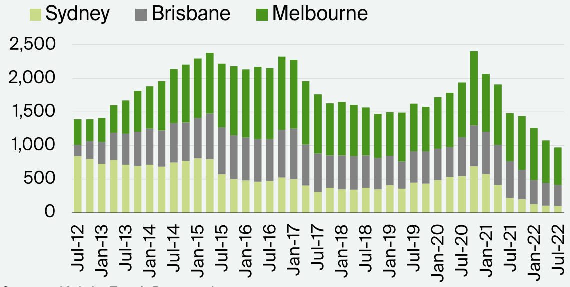
The quantum of vacant stock fell by a further 101,000 sqm to total 972,000 sqm across the three cities, with Sydney the tightest market of all with only 99,000 sqm of available stock. Within Sydney, the South, South West and Outer West precincts now have close to zero available supply.

In response to the lack of supply and widespread recognition of the rapid escalation in construction costs nationally, rents continue to rise across all markets. In Melbourne, average prime rents rose by a further 4% in Q2 to be up 14% over the past year. In Sydney, rents also rose by 4% to be up by 9% over the past year. Alongside diminishing incentives, growth in effective rents has been even stronger and is occurring most rapidly in precincts where rents have historically been lower, such as Sydney's Outer West and South West and Melbourne's West.

Similar growth is occurring in Brisbane and Adelaide (both up 7% Y/Y), while Perth is seeing even stronger growth (19% Y/Y).

Eastern Seaboard Industrial Vacancy

'000sqm, Quarterly, 5,000 sqm+



Source: Knight Frank Research

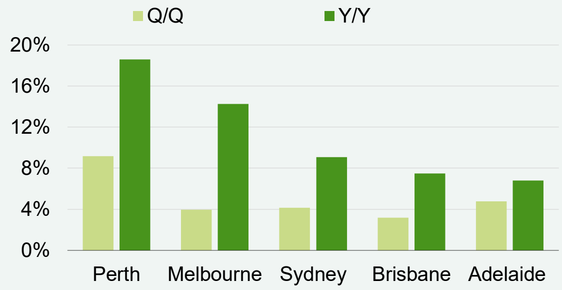
Substantial development pipeline in Melbourne and Brisbane

The growth of tenant demand and the prospect of rising rents is leading to higher development activity, with total completions forecast to hit 2.5 million sqm across the three major markets this year. The bulk of new supply is coming in Melbourne (1.2 million sqm) and Brisbane (700,000 sqm). In Melbourne, development is focussed on the Western and South Eastern precincts, while in Brisbane, development is currently focussed on the South and South West.

However, rising construction costs and uncertainty over the availability of labour and materials are impacting delivery timeframes, and this is also factoring into negotiations with tenants, by rebasing the economic rent needed to ensure project viability .

Prime Rent Growth

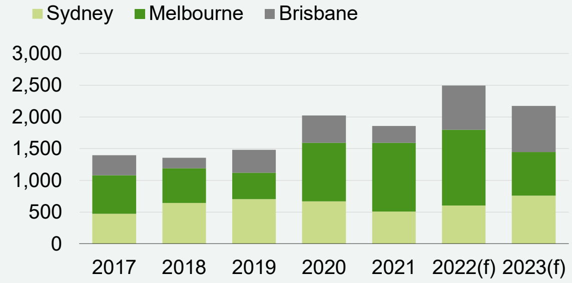
Average across major precincts



Source: Knight Frank

Eastern Seaboard Industrial Supply

'000s, sqm completed 2017-2022(f)



Source: Knight Frank Research

INVESTMENT

After a decade of compression, yields edged upward in Q2 in response to the higher cost of debt, but land values continued their ascent.

Investors grappling with uncertainty over the rates outlook

Rising inflation locally and globally has resulted in significant uncertainty over the economic outlook and whether central banks will be able to act quickly enough to rein in these cost pressures while also engineering a soft landing. The underlying questions of how high rates will rise and whether they will persist at higher levels or drop back down in 2023-24 are critical to the outlook, and in this environment many asset owners and investors are pausing to allow conditions to settle.

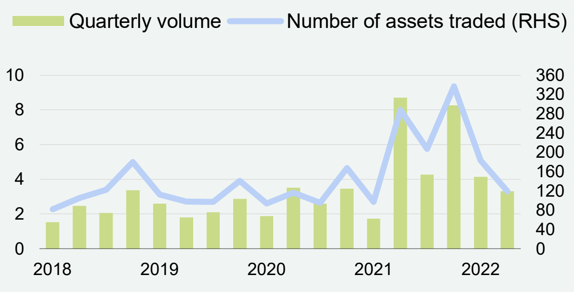
Reflecting this shift, deal volumes dropped back to more normal levels in Q2 after a sustained burst of high transactional activity over the past 12 months. $3.0 billion was traded, 20% down on Q1. Demand for the industrial sectors continues to be strong, but heightened uncertainty over the outlook is resulting in deals taking longer to transact.

Yields shift up in most markets

While the uplift in bond yields has partially retraced in recent weeks, the increase in the cost of debt since the start of the year is still dramatic and has caused a shift in sentiment in many markets. Prime yields have risen by 25 basis points in Melbourne and Perth, and by 20 basis points in Brisbane. Sydney yields held firm in Q2 in the face of limited transactional evidence, but will be tested more thoroughly during Q3 and Q4 as new transactions emerge.

Industrial Investment Volume

AUD billion, covering deals over USD5m



Source: Knight Frank Research, RCA

Land values continue to escalate

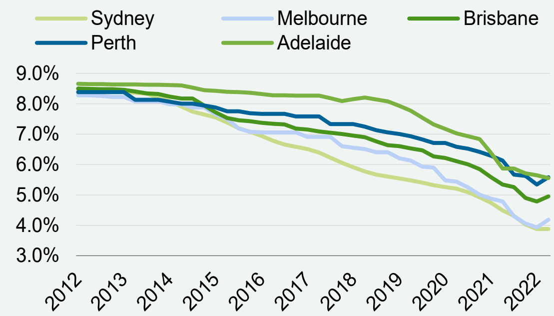
The impact of rising capital values continues to filter through to the land market, and along with an expanding occupier market this drove further growth in Q2, led by Adelaide and Sydney where medium sized (1-5 ha) land values are up by an extraordinary 84% and 50% respectively over the past year.

Land values tend to respond with a lag to the growth of rents and capital values, and the current uplift is partly a response to the rise in values during 2021. Desirable locations with good access to transport infrastructure are increasingly scarce and the larger scale of tenant requirements is another driver of growth, with markets such as Perth seeing a narrowing of the spread between the values of smaller and larger lots.

Looking ahead, the insatiable appetite for land will be tested by rising interest rates, construction costs and project delays.

Average Prime Yields - Major Cities

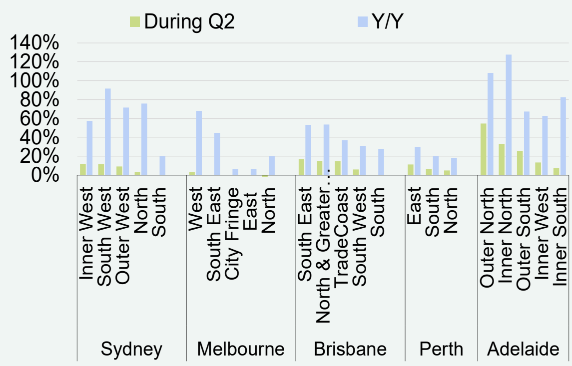
Average across precincts (5,000 sqm assests, 5 year WALE)



Source: Knight Frank Research

Land Value Growth by Precinct

Annual growth for medium lots (1-5 ha) to Q2 2022



SYDNEY

Surging rental growth across the market amidst record low vacancy levels

By Marco Mascitelli

Retail trade and logistic operators continue to drive demand

Despite some economic uncertainty in the market driven by rising interest rates and significant inflationary pressures, specifically from rising fuel costs, energy costs and construction costs, occupier demand for industrial space still remains strong.

With global supply chains still struggling to keep pace with demand, transport and logistic operators have been at the forefront of tenant demand. 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 and online retail capabilities.

Take up in Q2 totalled 187,441 sqm, which was underpinned by Winnings Group pre-committing to c.66,600 sqm at Mirvac's Aspect Industrial Estate and CEVA Logistics also committing to 33,000 sqm at the estate. Transport/ logistics and retail trade operators, accounted for 85% of activity in Q2.

Vacancy remains at historical low

Vacancy remains at record low levels on the back of strong occupier demand. Occupier demand in Q2 resulted in a 4% decline Q/Q in vacancy to measure 99,247 sqm. On a Y/Y basis this is a 55% decline.

Stock levels are so tight that between the Outer West and South West there is only 43,771 sqm available, in comparison with the same time last year when there was 164,169 sqm of vacant space across the two regions. Many warehouses with upcoming vacancies are being renewed or even leased well ahead of lease expiries or being marketed for lease.

The record low vacancy in the Western precincts is a reflection of the strong demand for larger warehousing and suggests there has been an increase in the number of occupiers moving away from 'just in time' inventory practices to higher inventories that require more storage space or are simply building in future resilience.

Unprecedented rental growth driven by limited stock and inflationary pressures

Global supply chains are presenting significant headwinds to the sector at a time when demand for warehouse space is elevated, and there has been a cost shift feeding through to rental growth. With inflationary pressures and land value prices surging, landlords have continued to push rents.

On a blended basis, prime net face rents are up 4.1% Q/Q, with incentives averaging 12.5%. In Y/Y terms, average prime net face rents have risen 11.3%, well above yearly growth rates of the past decade, which averaged no more than 2-2.50%. The Outer West and South West experienced the strongest growth over the quarter with 3.8% and 4.1% respectively. Further rental growth is expected throughout 2022 given the supply chain constraints and inflationary pressures, particularly for construction costs, which leave owners and developers no choice but to push rents.

Land values rise further

Despite supply chain challenges and rising construction costs, development completions are tipped to reach over 600,000 sqm by the end of 2022. Over 90% of the development activity is in the Outer West and South West precincts.

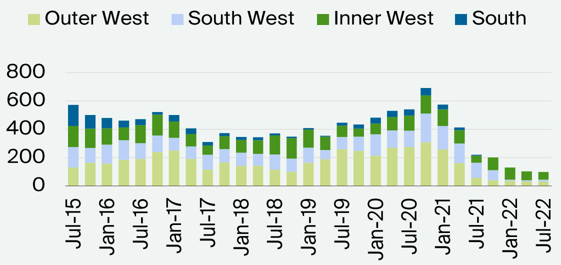
Land values have accelerated further over the last quarter, rising by 11% in Western Sydney for 1-5 ha lots to be up by 60% Y/Y. Continued growth reflects robust demand from developers and end users competing for expansion space to keep pace with Sydney's large and dispersed range of infrastructure projects underway.

Competition for assets reaffirms tight yield metrics

The unprecedented level of capital and yield compression experienced over the last two years has likely come to an end given the rising interest rate and inflation environment. With yield compression of over 140bps in the last two years and industrial assets trading well below 4%, this is the first quarter with no movement in yield metrics. There is limited upside for assets to be trading at this level given government bonds are now at over 3.0%, and this will likely see yields soften throughout the year.

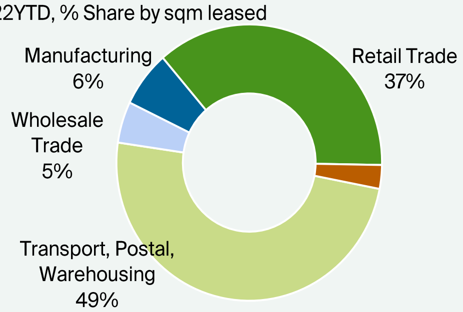
TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR YTD	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
187,441	**49%**	**99,247**	**604,000**
Steady Q/Q	TRANSPORT, POSTAL, WAREHOUSING	-4% Q/Q	Estimated 2022 (f)

Sydney Vacancy
'000sqm by precinct



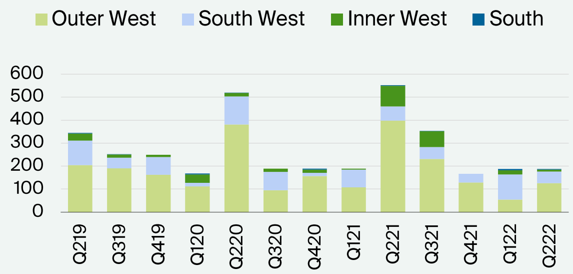
Source: Knight Frank Research

Sydney Leasing Take up by Industry
2022YTD, % Share by sqm leased



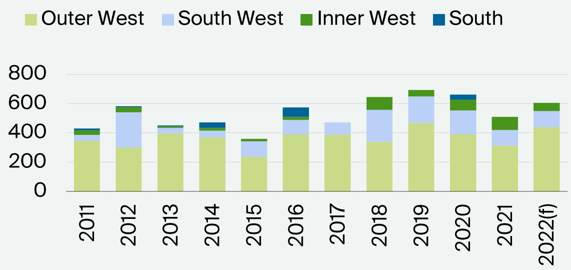
Source: Knight Frank Research

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

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Nth. Syd. Bus Charters~	20 Worth St, Chullora	Inner West	15,681	170	10
Winning Group#	Aspect Industrial Estate	Outer West	66,610	U/D	10
Austral Wires~	Huntingwood East Dist Centre	Outer West	10,196	123	7
InterCentral Logistics^	WHB, Kookuburra Logistics Estate	South West	11,590	127	7
ACFS Port Logistics^	5 Yarrawara Street, Prestons	South West	15,028	130	7
Asset Global Transport~	168 Newton Road	Outer West	4,672	160	7

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

MELBOURNE

Continued high demand for space maintains rental growth momentum, even as yields start to tick up from their historic lows.

By Tony McGough

Vacancy rates keep dropping on strong secondary demand

Vacant space continued to decline through Q2, down 10% from Q1 to c 561,000 sqm. This was driven by a 60% drop in secondary vacant space in the quarter (and 73% Y/Y). In the North precinct, several large deals dried up secondary availability, as the trend to take good secondary space due to a lack of prime continued. Secondary space availability is now the scarcest since before the GFC.

Take-up continues to broaden its appeal amongst tenants

Total leasing take-up declined Q/Q down to 209,512 sqm as limited stock availability slowed the flow of deals. Manufacturing tenants again topped the table with 61% of leasing take-up, compared to 25% for logistics. For the financial year though logistics leasing came out on top with 32% of the deals, just beating retail trade (31%) with manufacturing close behind (28%). There is now a broad spread of sectors after industrial space, which is showing a strengthened depth of tenant demand in the market.

Expected supply for 2022 remains high but much is pre-committed

New supply is still expected to reach record levels in 2022. However most construction remains in the West (59%) and South East (32%), thus availability will remain tight in the East and North precincts. Some respite may be expected in 2023 as early figures show nearly 30% of planned construction will occur in the North, 190,000 sqm is already pencilled in, double this years expected delivery.

Even in those areas where construction is occurring there is high levels of pre-committed building taking place. In fact of the 1.194million sqm expected to be built in 2022, 58% is already pre-committed or owner occupier builds. Also much of the 42% speculative development already has interest shown or has commitments on it.

Rents continue to rise as demand outpaces supply

Strong rental growth across all precincts continued as tenant demand continued to outpace supply. For prime industrials, the West precinct led the way with net face rents up 8.8% Q/Q (16.5% Y/Y) to $99 sqm. Rents in the East showed the largest Y/Y growth of 19.6%, with 6.8% this quarter alone to $110 sqm on the back of very tight supply. Evidence that perhaps there is a limit to rental growth came in the expensive City Fringe where rents remained flat for the quarter at $160 sqm and up only 6.7% Y/Y. In line with increased leasing activity, secondary rents generally performed stronger than prime, led by the West which has seen secondary rents jump 20.3% in the quarter to $95 sqm (30.1% Y/Y) as tenants pay near prime rent levels to get space.

Land value growth decelerates

Excluding the City Fringe land values continued to edge up over the quarter though at a markedly slower rate than in previous periods, at around 3%. In an environment with a marked increase in concerns regarding the economy and development costs a note of caution has appeared when purchasing land. Highlighting this, the City Fringe remained flat following strong growth in the last year.

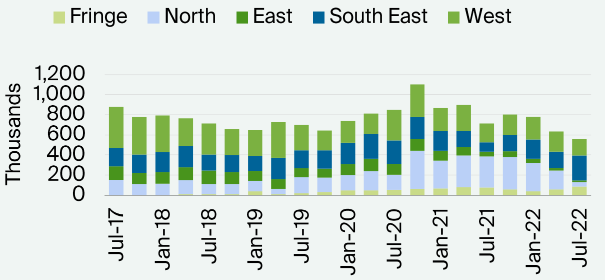
Yields tick up from record lows

Back in October 2009 prime Melbourne industrial yields (excluding the Fringe) were 8.7%. Since then, there has been a continuous downward trajectory which led to Q1 2022 yields being below 4% at 3.97% and the Fringe at 3.75%. Several interest rate rises later, and with uncertainty about the overall economy, Q2 finally broke the spell . Yields generally edged upwards 25bps as some caution was added to investor sentiment in a sector that has been hitting new records quarter by quarter. Whilst the sector is still performing strongly, with high tenant demand and limited vacancy, a wariness about overpaying in uncertain times has impacted the market.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR Q1	VACANCY (SQM) Q1	NEW DEVELOPMENT (SQM)
209,512	**61%**	**560,840**	**1,194,787**
39% below the 5 Y-AVG	MANUFACTURING	-10% Q/Q	Estimated 2022 (f)

Melbourne Industrial Vacancy

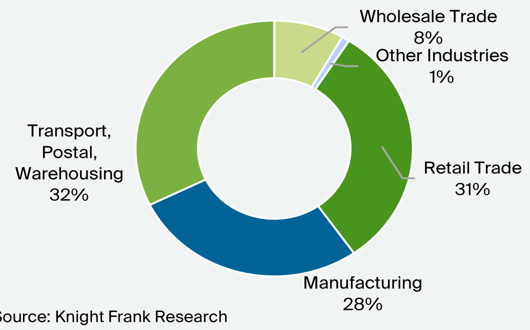
'000sqm by precinct (excl. Design & Construct)



Source: Knight Frank Research

Melbourne Leasing Take-up

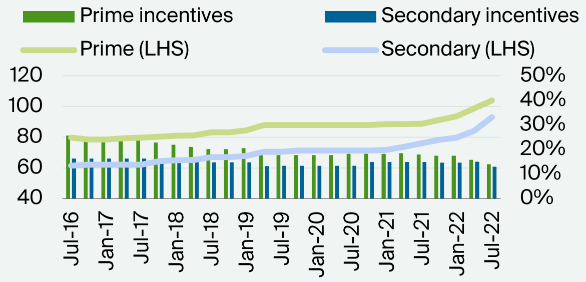
FY2022 by industry, % Share by sqm leased



Source: Knight Frank Research

Melbourne Industrial Rents & Incentives

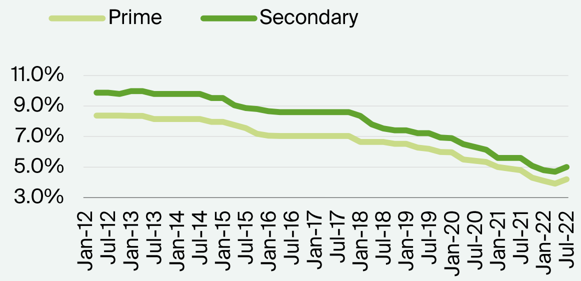
$/ sqm net rents, % incentives; excl. fringe



Source: Knight Frank Research

Melbourne Industrial Yields

% median core market yields



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
AMA Group ^	880 Cooper Street, Somerton	North	19,612	85	7
Kitchen Warehouse ^	Spec 1A, 410 Cooper Street, Epping	North	16,500	U/D	10
Shaw Fabrics ^	61 Sunline Drive, Truganina	North	15,125	85	5
Ligentia ^	W-4, 285 Palmers Road, Truganina	West	13,555	83	7
Interior Secrets ^	143 Foundation Road, Truganina	West	10,170	U/D	7
Galaxy Hub ~	348 Cooper Street, Epping	North	6,044	85	3

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

BRISBANE

Tenant demand continues to be strong, focussed on new stock, with limited existing vacancy. Rental growth accelerating as investment appetite pauses.

By Jennelle Wilson

Strong leasing in Q2 has kept the annual take-up just below a million square metres

Leasing activity in Q2 was higher than the previous three quarters with 319,069sqm of take-up across existing, speculative and pre-commitment assets. This has seen the rolling 12 month total remain at just under a million square metres, record levels. Take-up was strongest in the TradeCoast (126,236 sqm) and South (125,083 sqm) during the quarter. On an annual basis the South remains the strongest precinct with 35% of market activity, fuelled by development availability , with 45% of take-up being precommitments and 38% speculative space.

Retail take-up still dominating the market with a new focus on pre-commitments

Transport, postal and warehouse users with 32% of take-up have overtaken retail tenants (28%) as the most active sector over the past 12 months. While some of these commitments were to existing space (mostly shorter term leases) the majority were to speculative (Phoenix, Bunnings, Visy) and pre-lease (CEVA, Direct Couriers, Aramex). Across Brisbane pre-commits accounted for 54% of take-up in Q2 and spec 28% with only 18% coming from existing space as availability remains low.

Vacancy fell by a further 8% in Q2 to another nine-year low

Vacant space fell a further 8% in Q2 to be 43% lower than a year ago. Absorption of vacant space was up by 78% over Q1 to 145,421 sqm, dominated by speculative space absorption of 80,000 sqm. With only 311,990 sqm of vacant space available, and take-up of 319,000 sqm in Q2, this will continue to push demand into new stock and increase competition over any available existing assets if the requirement is immediate.

Secondary vacancy has fallen by 25% over Q2 to 90,302 sqm and is 57% below the level of a year ago. Secondary vacancy is presently at the lowest level ever recorded for the series, which commenced in 2007. Prime available space increased by only 2% in Q2 and is 34% down Y/Y. Of the 221,688 sqm of prime vacancy only 104,123 sqm is currently available with the remainder speculative developments still under construction.

Rental growth accelerating with tenant demand remaining high

Average prime face rents increased by 7.3% Y/Y to $124/sqm net, average incentives have ticked down across existing stock to 14.2%. The secondary market has jumped by 15.6% Y/Y to $107/sqm net, now at record highs after exceeding the past peak of 2008-09, responding to the particularly tight vacancy. Economic rents continue to be pushed by land and construction cost appreciation and softer capital markets.

Supply pipeline remains robust despite ongoing construction cost appreciation

New supply is set to accelerate in 2022 after a weather-impacted low in 2021 of 267,485 sqm. Over 90,000 sqm has been completed in 2022 to date with a further 205,000 sqm under construction. Supported by the strong demand for new accommodation, particularly large format, efficient space, in the order of 700,000 sqm is forecast to be completed this year. This will be matched by a further 750,000 sqm in 2023.

Investment volumes reduce as purchasers eye debt cost increases

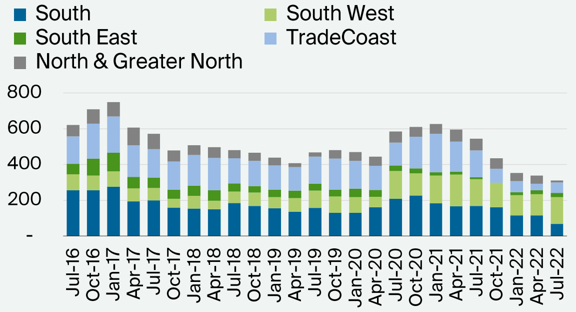
Land values have continued to appreciate, particularly in the inner/middle ring locations, as land supply remains low. The price premium for smaller lots (<5,000sqm) compared with medium lots (1-5ha) continues to narrow and in some precincts has now completely disappeared. Prices for blocks 1-5ha are now 39% above the levels of a year ago at $503/sqm on average, with the strongest Q2 growth in TradeCoast, North and South East markets. The land value of southern markets (South, South West and South East) have now aligned.

The significant sale of Q2 was 69 Tingira St, Pinkenba, bought off-market by Sims Metal for $88 million. Leased to Incitec Pivot the low site cover asset was acquired for future owner occupation and reflected a land rate of $635/sqm on the 13.8ha site. The investment market cooled over Q2 with prime yields considered to have softened 15bps to 1 July with limited sales providing little direction. As debt costs continue to react to global cash rate increases, further softening is expected.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR RTM	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
319,069	**32%**	**311,990**	**696,986**
91% ABOVE THE 5Y-AVG	TRANSPORT, POSTAL & WAREHOUSING	-8% Q/Q	Estimated 2022 (f)

Brisbane Industrial Vacancy

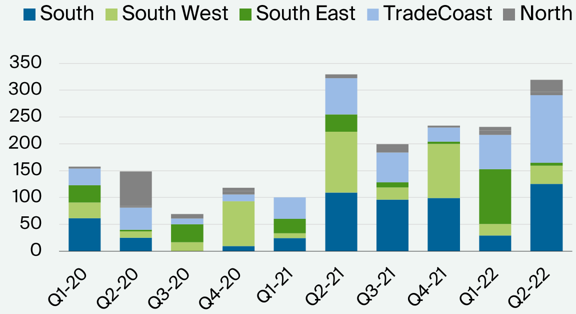
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane Leasing Take-up

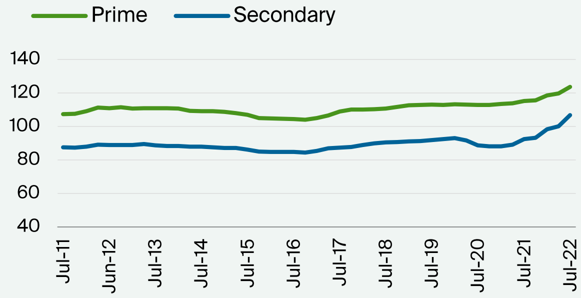
'000sqm by precinct



Source: Knight Frank Research

Brisbane Industrial Rents

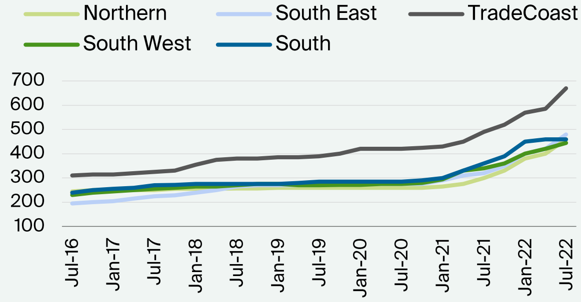
$/sqm average net face



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
Visy#	Anton Rd, Hemmant	TradeCoast	46,179	u/d	15
QLS#	4 Gilmore Rd, Berrinba	South	15,690	105	u/d
Spicers Paper	TradeCoast Central	TradeCoast	10,400	120	10
Arrow Transport~	157 Holt St, Pinkenba	TradeCoast	10,307	130	3
Ligentia~	62 Pineapple St, Zillmere	North	6,000	140	1

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

ADELAIDE

Investor confidence still high with record low vacancy rates amongst the industrial and logistics sector, resulting in a surge of both land and rental values

By Amanda Azariah

Domestic investors continue to seek land in Adelaide

The development market has continued to grow during the first half of 2022 as developers act to meet and capitalise on the high demand for industrial assets.

Charter Hall, Centuria, Fife, and Commercial & General are pursuing strategically located land and properties with value-add and/or refurbishment potential. Comparatively, SA has more affordable land values than those within the eastern states adding to the current demand from interstate groups.

Stage 1 of the Charles Sturt Industrial Estate and Nexus North Industrial Estate sold almost fully pre-committed further implying the strong demand for industrial assets.

Land values for both smaller sized lots and larger lots have increased in the past twelve months with growth ranging from 40-135% between the precincts. The Outer North and Outer South observed the greatest increase of 132.95% and 56.10% respectively.

The Outer North continues to benefit from ample land supply, accounting for approximately 57.2% of forecasted development to be completed by 2025.

Growth in tenant demand resulting in market expansion to Outer North and Outer South

The rise in demand for industrial assets can be attributed to the growth within the technology, mining and e-commerce. With interest rates increasing for the first time since November 2010, a continuing rise in construction costs and supply chain issues, the supply of industrial assets will likely be hindered from meeting demand levels, pushing up rental growth for existing stock.

Historically low vacancy rates within the industrial sector have left both current and prospective tenants with no choice but to opt for properties situated further from the city. Regions such as the Outer North and Outer South are rising in popularity among investors and tenants as the sectors with the most available land.

The rental rates across all grades for prime and secondary assets have converged in the last quarter to sit at $107/sqm net and $81/sqm net respectively.

Yields hold firm in Q2 despite moves in other cities

Both blended prime and secondary yields have remained relatively stable to sit at 5.55% and 6.65% respectively this quarter. The combination of high rental rates and low land values in Adelaide compared to the eastern states has highlighted SA as a prime location for all investor groups.

27-30 Sharp Court, Cavan SA, comprising a community titled distribution facility made up of two fully leased office warehouses, sold for circa $23.25 million reflecting a market yield of 4.21% and GLA rate of $2,825/sqm. Current investment volume for industrial assets as at July 2022 is $284.47 million, with approximately $135.7 million or 47.7% occurring within the Outer Northern industrial precinct.

Outlook for further growth in rents and land values

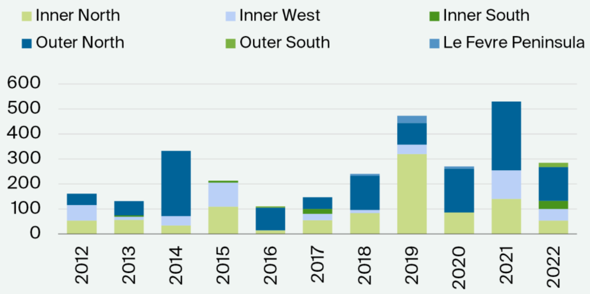
As the speculative developments that commenced in the second and third quarters of 2021 reach practical completion, this will alleviate supply pressures. However, land values and rental rates are still expected to increase further as parties that are still seeking suitable facilities compete over incoming stock.

Despite macro headwinds and supply chain issues, the outlook for Adelaide remains positive and it looks set for relatively strong performance compared to other cities. In the current climate, we expect continued demand for value-add sites in particular, as investors seek opportunities to benefit from recent rental growth.

TAKE-UP (SQM) YTD	VACANCY (SQM)	NEW DEVELOIPMENT ($)	NEW DEVELOPMENT SQM
20,697	**421,998**	**232.5 M**	**245,543**
(5,000SQM +)	(5,000SQM +)	Completions 203 (F)	Forecast completion by 2023

Adelaide Industrial Sales

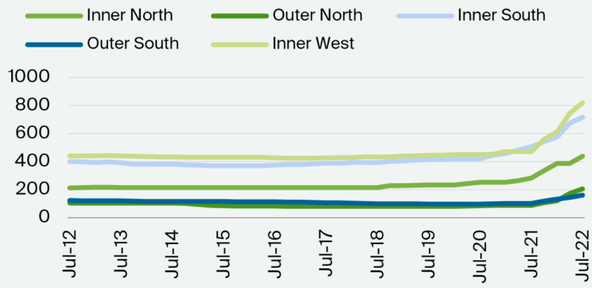
$5mil sales, 2012 to 2022



Source: Knight Frank Research

Adelaide Industrial Land Values

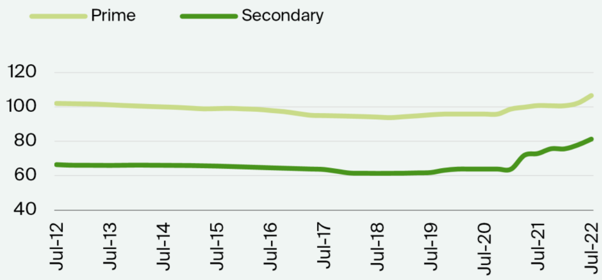
Average $/sqm by precincts for land <5,000 m²



Source: Knight Frank Research

Adelaide Industrial Rents

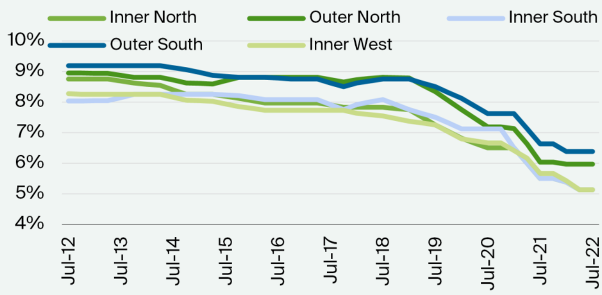
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide Industrial Yields

% core market avg. yields by precinct



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Baiada Poultry~	51-53 Diagonal Road, Pooraka	Outer North	7,636	149	10
Minetech Operations~	32-54 Kaurna Avenue, Edinburgh	Outer North	17,078	76	10
Wine Storage	60-70 Purling Avenue, Edinburgh	Outer North	17,890	60	3
A.S. Marshall Holdings*	33-44 Starr Avenue, North	Inner West	8,225	77	5
M3 Logistics~	63-75 Kaurna Avenue, Edinburgh	Outer North	6,732	83	7

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

PERTH

Perth playing catch-up to East Coast markets with fastest rental growth nationally.

By Ben Burston

Strongest rental growth since 2008

A robust WA economy continues to drive the industrial leasing market. Retail sales are up by 10.0% in WA over the past year, and the labour market is among the tightest nationally with 3.4% unemployment and 28% of businesses reporting current staff vacancies.

Demand is strong across the board, but particularly in the East and South precincts and this is increasing the pressure on supply levels and driving sustained rental growth.
After taking longer to feel the onset of rising tenant demand associated with e-commerce, and hence the onset of rental growth, the Perth market is catching up with the performance of the larger East Coast cities and has recorded the strongest average rental growth over the past year.

Perth prime rents rose by 9.1% on average during Q2 to record 18.6% growth over the past year. This has been led by the eastern and southern precincts with 24% and 19% growth (y/y) respectively, with similar growth rates for both warehouses and manufacturing facilities.

The rapid growth is a function of tight supply but also escalating construction costs which are increasingly understood by tenants and impacting negotiations on pre-commitments and hence wider market sentiment.

Eroding land supply

With restricted availability of existing space and a deepening of tenant demand to encompass e-commerce as well as traditional manufacturing and mining industries, demand for space is rapidly absorbing the supply of zoned and serviced land and expanding the footprint of the market into new areas.

In particular, the supply of land in the South and East precincts is tightening and this is adding to the pressure on pricing in the land market. Additionally, the lagged impact of capital value uplift during 2020-21 continues to filter through to underlying land values.

Sustained land value escalation

Land values for medium-sized lots rose by 7.9% on average during Q2 to be up by 23.3% over the full year. Values are highest in the East precinct, where the growth has been driven by big increases in Forrestfield, Kewdale and Welshpool.

Land values are traditionally much lower in the South and North precincts, but are now rising sharply in locations such as Canning Vale, O'Connor, Hope Valley and Kwinana as the expansion of the market continues beyond traditional boundaries.

Another feature of the tightening land market is the erosion of the traditional discount for larger lots. The gap between the value per sqm of sub 5,000 sqm lots and 1-5 ha lots has decreased substantially. This did not occur during the previous upswing and reflects the flow-on impact of the increase in large scale requirements from many tenants and hence greater confidence in the land market.

Investment market adjusting to higher funding costs

After a prolonged period of yield compression, the Perth market is beginning to see pricing adjust in response to the higher cost of debt. While transactional activity has been limited over the past two months, the attitude of buyers has clearly shifted and current sentiment points to softening of yields.

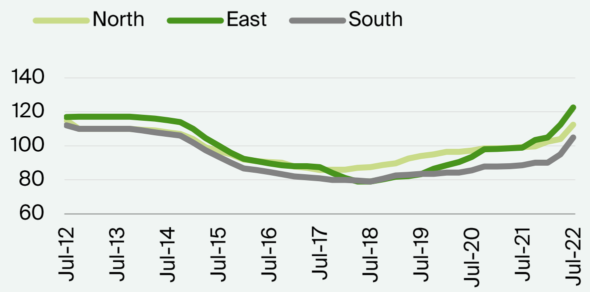
Average prime yields edged out by 25 basis points, with uplift across all precincts. Secondary yields have also edged out, but buyer appetite for secondary remains strong with several investors searching for yield after sustained yield compression over recent years.

Notwithstanding the pricing adjustment, the market remains active and investor demand for Perth remains strong, as evidenced by Charter Hall's acquisition of the Roe Highway Logistics Park for circa $300 million.

PRIME RENTAL GROWTH	LAND VALUE GROWTH (<5,000SQM)	LAND VALUE GROWTH (1-5HA)	PRIME YIELD SHIFT
8.2%	**15.0%**	**23.3%**	**+25 BPS**
Q/Q AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	YIELDS MOVE OUT IN Q2

Prime Average Rents by Precinct

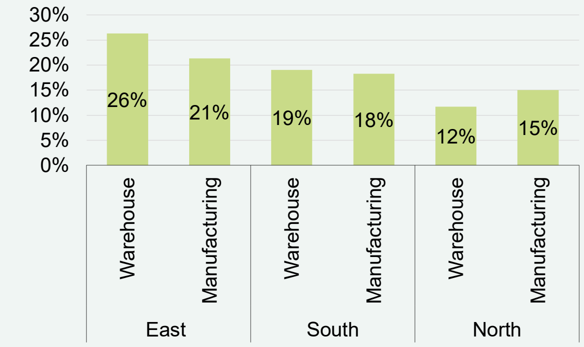
$/sqm net face



Source: Knight Frank Research

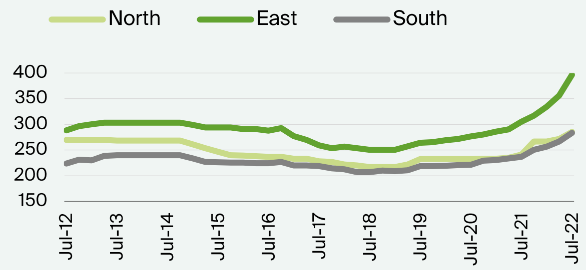
Prime Rent Growth by Precinct

Year on year to June 2022



Perth Land Values by Precinct

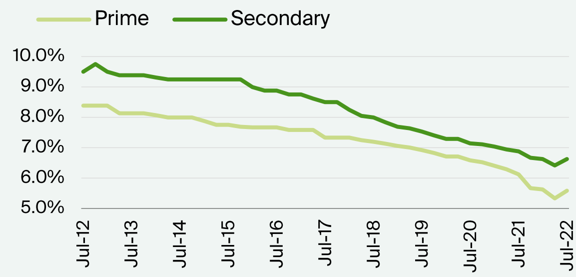
Average $/sqm, Medium Lots 1-5ha



Source: Knight Frank Research

Perth Industrial Market Yields

Prime vs Secondary (Averages)



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Allied Express~	881 Abernethy Road, Forrestfield	East	5,380	108	5
Mining Wear Parts~	74 Sparks Road, Henderson	South	3,619	190	5
Sinopec ~	21 Logistics Boulevard, Kenwick	East	2,825	170	10

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	1,5,13&17 Magnesium Place, Truganina	64.2	25,085	2,561	Frasers	Goodman	3.65	6.5
Melbourne	22 Chifley Drive, Prestons	18.8	5,490	3,441	Private	Capello Pty Ltd	3.97	5.5
Melbourne	Andrew Fairley Avenue, Greater Shepparton #	66.0	126,000	522	Charter Hall (Direct Industrial Fund 4)	SPC	6.06	30.0
Melbourne	28 Jones Road, Brooklyn [4]	46.0	4,431	10,381 [4]	Dexus	Argus Property Investments	3.75	11.1
Melbourne	175 McKellar Way, Epping	44.0	16,137	2,696	Aliro Group	151 Property	3.64	9.8
Sydney	13 Ferndell Street, South Granville	57.0	15,302	3,725	Hines	Pipeclay Lawson	3.3	3.3
Sydney	132 Newton Road, Wetherill Park	45.5	15,360	2,962	Private	Private	4.0	1.5
Sydney	5 Yarrawa Street, Prestons	58.3	15,066	3,870	Pittwater Industrial	Loftex Property	3.3	7
Sydney	36-48 Ashford Avenue, Milperra	27.0	7,733	3,492	Private	Private	3.78	0.95
Brisbane	680 Macarthur Avenue, Penkenba	15.6	13,270	4,094	Centennial Property Group	Private	4.26	0.2
Brisbane	99 Sandstone Place, Parkinson	177.4	55,245	6,422	U/D	Deutche Asset Management	4.25	10
Brisbane	88 Moreton Street, Heathwood	75.0	21,982	3,412	Charter Hall	Private Investor	3.81	9.14
Adelaide	27-30 Sharp Court, Cavan	23.2	8,200	2,835	Centuria	Harmony	4.21	5.4
Adelaide	5 Talisman Ave, Edwardstown	20.1	9,500	2,121	MA Financial	Private	4.56	6.6
Adelaide	300 Richmond Road Netley	71.3	134,714	42,112	Harmony Corporate	Charter Hall	4.45	2.5
Perth	189 & Lot 59 Bushmead Road, Hazelmere	23.5	6,160	3,815	Altis	Private	4.83	6.2
Perth	178 Railway Parade, Bassendean	22.8	2,574	8,891	ESR	Harmony	4.43	3.1
Perth	431 Victoria Road, Malaga	10.8	4,536	2,381	Centuria	V10 Property	4.90	6.7

[1] Core Market Yield [2] Passing Yield [3] Land/Development Site [4]Specialised, purpose built shipping container storage yard with substantial concrete container rated hardstand [6] includes a service station component [7] reported #Sale & Leaseback ^Part of Portfolio +Fund Through ~includes cold Store/ambient temperature areas

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.

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

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

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

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

Industrial Logistics– Investments VIC
Scott Braithwaite
+61 3 9604 4689
Scott.Braithwaite@au.knightfrank.com

Industrial Logistics QLD
Mark Clifford
+61 7 3246 8802
Mark.Clifford@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

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

Industrial Logistics TAS
Tom Balcombe
+61 3 6220 6999
Tom.Balcombe@au.knightfrank.com

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

Client Solutions, Occupier Strategy & Solutions
Andrea Brown
+61 2 9036 6853
Andrrea.Brown@au.knightfrank.com

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

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

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank