c.$19bn
Investment volumes YTD ($10m+)

c.555,117sqm
Leasing take-up on the east coast in Q4

c.687,000sqm
Spec developments on the east coast in 2021

knightfrank.com/research

Australian Industrial Review

Weight of capital feeds on strengthening occupational drivers

Q4-2021

KEY INSIGHTS

The accelerated growth in e-commerce, alongside the evolving situation regarding supply-chain disruption and onshoring of manufacturing is generating new demand for warehouse and distribution space, in turn driving up occupancy rates and investor confidence.

$19b
investment sales volume est.
2021

1.9
SQM
new supply
2021
East Coast

461k
SQM
take-up of vacant stock
East Coast
Q4-21

12%
Q/Q decrease in vacant space
East Coast
Q4-21

25
bps compression of super prime yields
Adelaide / Perth
Q4-21

8.2%
Q/Q increase in 1-5ha land values
Q4-21

Tenants have been quick to lock down warehouse space, resulting in a **12% contraction of existing vacant space on the east coast** and the continuation of rental growth rates of c.2.0% over the quarter in most markets.

In Sydney, c.1.2 million sqm of industrial stock was leased in 2021, surpassing the previous two years, as vacancy declines to record lows, driving up prime rents 2.3% in Q4 and new development to new highs in 2022.

As leasing demand reaches unprecedented levels, Melbourne industrial land values continue to grow, driven by developer appetite for the west and north regions, where the value of 1-5 hectare lots have risen by 81% and 54% Y/Y.

In Brisbane, vacant space has fallen a further 19% in Q4 to be 44% lower than at the start of 2021. Land value growth has accelerated, with prices of 1-5ha sites up 39% Y/Y, reflecting strong demand and limited stock.

Prime yields reach a new benchmark in Adelaide, as land constraints amid a sustained upswing in demand levels drives land value growth, with small lots in outer south, inner west and inner north markets rising on average 30% in 2021.

Perth faces a low level of available high-quality product to meet demand and the increase in enquiry for pre-lease space has resulted in growth in land values Y/Y, with blended rate for small lots rising 10.7% and 1-5ha lots 8.9%.

Key Indicators Q4 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 #	162	138	3.50 – 4.00	1,739	1,481
Brisbane	119	98	3.90– 4.40	437	372
Melbourne	105	86	3.25 – 3.75	1,008	842
Adelaide	101	76	4.50 – 5.00	366	263
Perth	99	73	4.50 – 5.00	415	272

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 $127/sqm, secondary: $109/sqm; small lots: $1,058/sqm, 1-5ha lots: $943/sqm.*

ECONOMY

Despite recent disruptions to economic recovery, demand for the industrial sector is expanding at a rapid rate as users grasp the severity of supply chain volatility amid the sustained e-commerce tailwinds.

National Overview by Katy Dean | Director | Head of Industrial Research

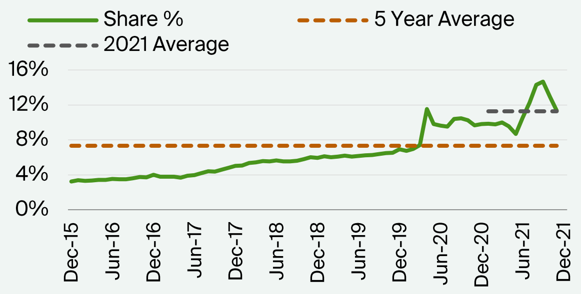
Online retail sales remain elevated despite a dip in total spending during December

Online retail has continued to diversify, driving demand for warehouse and distribution space across the country from a broadening range of industries. Without a doubt, this remains a compelling driver behind industrial real estate demand. However, after three months of consecutive rises, including +7.3% in November, the highest month on month increase since April 2020, total retail spending fell 4.4% in December. Although total spending is still above pre-pandemic levels, this is the largest monthly fall since the start of the pandemic. While the data suggests that some consumers brought forward their Christmas spending to November to take advantage of online events like Cyber Monday and that demand was elevated from coming out of lockdowns in October, the spread of the Omicron variant has been disruptive to confidence and this may have also impacted overall retail spending levels.

Despite the decline in total retail sales, online retail spend and its share of total retail spend is still elevated. In December 2021, total online sales were $3.6 billion, well ahead of the $1.9 billion spent in December 2019, according to the ABS (seasonally adjusted). Online represents 11.3% of total retail sales in December, similar to its November share of 11.4%. This is above its five year average of 7.3% and about double its share pre-covid (c.6.3%), suggesting that many of the habits gained during the last two years are here to stay.

Australian Online Share of Total Retail

Online Share of Total Retail Turnover (%)



Source: Knight Frank Research, ABS (Seasonally Adj)

Supply chains and pent-up demand pushing up inflation

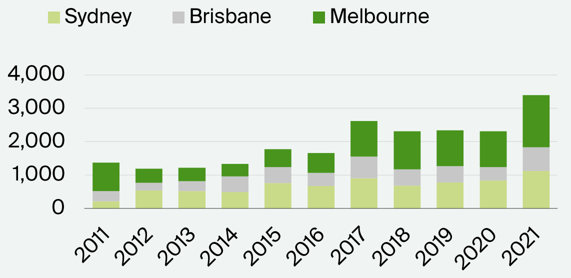
Supply chain disruption, alongside a run-up in demand for global commodities, has contributed to an upswing of inflation to record highs in many major economies, adding price pressures to goods.

Further exacerbating both supply constraints and ongoing price issues, has been the above-average demand for goods purchased online during the last two years and more recently labour constraints due to covid cases. Transport and logistics operations, retailers, and manufacturers have been overwhelmed. Even though some recovery momentum was established in Q4 after emerging from the lockdowns on the east coast, the arrival of a new variant interrupted the recovery and pent-up demand has just kept building as seen in online retail chart below.

In the December quarter, CPI rose 1.3% and 3.5% Y/Y, according to the ABS. The RBA is forecasting that underlying inflation will be higher in the near term, increasing to 3.25% by mid-2022, reflecting the cost pressures to consumer prices due to supply chain pressures. For the industrial sector, these pressures have escalated industrial building construction costs and caused project delays. However, the effect of the Omicron variant is expected to be limited compared to previous lockdown periods, with the RBA and other forecasters expecting stronger GDP, income and investment growth from the middle of this year.

Eastern Seaboard Industrial Take-Up

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



Source: Knight Frank Research
*Take-up of vacant space, includes pre-commitments

LEASING MARKET

The sector is growing increasingly competitive, reflecting a sentiment of continued growth in both leasing take-up and future demand for development stock that is showing no signs of abating in the near-term.

Tailwinds from e-commerce and supply chains continues to strengthen demand and push rents

Transport and logistics, retail/wholesale and even manufacturers shifting to onshore operations, have been quick to lock down warehouse and distribution space. While this has kept leasing activity elevated, it has increased the pressure on vacancy in Q4 to the point that some markets are now facing a critical shortage of good quality product to fulfil this demand. This continues to create powerful tailwinds, resulting in a 12% contraction of existing vacant space on the east coast and the continuation of rental growth rates of c.2.0% over the quarter in most markets. Over the year, this has led to a rise (blended average) of 6.4% in Sydney, 4.6% in Brisbane, 4.2% in Melbourne, 4.4% in Perth and 3.8% Adelaide, with some individual precincts recording much higher growth rates.

Pent-up demand intensifying the competition

Supply chain disruptions, amid lockdowns and new variants have impeded shipping activity, material and product availability and weighed on prices, compounding the level of demand in the sector from occupiers. Many businesses have been forced to scale-up operations quickly to factor in a greater level of resilience in their inventory or add more hubs or spokes to create efficiencies in their supply chain. This has happened much faster than expected with pent-up demand intensifying the competition for space.

This competition for space, particularly to build in that inventory buffer or add swing space, has been the most notable in the secondary segment in the second half of 2021. That urgency for space has resulted in the fifth consecutive Q/Q decline in the volume of available secondary supply (+5,000sqm) on the east coast. Secondary vacant space is now at its lowest level since 2011 and is 55% less than a year ago.

Completions are at a record high but demand still unfulfilled as land values continue to grow

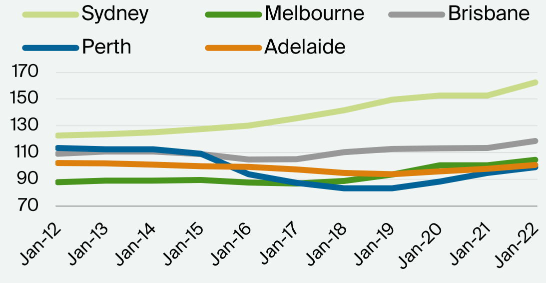
Despite material shortages, price rises and construction delays, new development completions are at a record high, with the east coast expected to see more than 2.7 million sqm in new completions in 2022. Take up of pre-leasing space has also been a record high during the last two years, with 2021 topping out at just over 1.2 million sqm.

Although there has been an upswing in speculative (spec) development, particularly in Sydney and Melbourne, tenant demand has been overwhelming and there are space shortages in most markets. The persistent shortages, against a backdrop of high demand, not just due to supply chains but the need to modernise to prevent obsolescence or to be in a particular catchment area for growth, is providing significant tailwinds to land value growth rates. The average aggregate price of small lots increased 7.8% and 1-5ha lots increased 8.2% Q/Q.

Expansion of e-fulfillment will continue to result in competition for infill locations and transport-oriented outer locations, leading to a continuation of the growth in land and rental values in 2022. Higher growth rates are expected in those precincts facing critical land shortages in the short-term, such as Western and South Sydney, South East and East Melbourne, Brisbane South and Trade Coast and Perth East.

Average Prime Net Face Rents

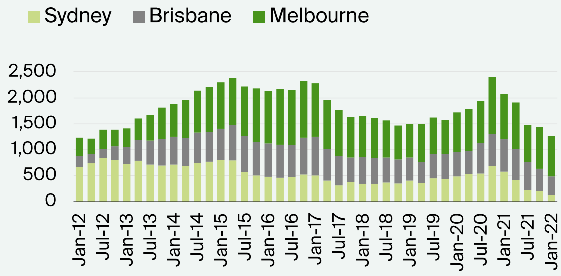
By Capital City, Blended average# rate $/sqm pa



Source: Knight Frank Research #Blended averge rate across all precincts within each capital city

Eastern Seaboard Industrial Vacancy

'000sqm, Quarterly, 5,000sqm+



Source: Knight Frank Research

INVESTMENT

Investors continue their rally on industrial real estate, propelled by the sustained surge in warehouse demand and significant value creation potential from increasing exposure to the sector.

Unprecedented as investment volumes surge to highest on record

Investment volumes have surged past previous estimates, with 2021 tipping over $19.0 billion, by far the highest on record for the sector. The estimate for 2021 is 84% above 2020 investment volumes and 134% above the pre-pandemic high of c.$8.0 billion in 2019. Investor demand has been exceptional, with an unprecedented amount of capital targeting the sector.

While the year started with the sale of Blackstone's Milestone 45-asset portfolio to ESR and its partner, GIC, for $3.8 billion, it finished with the initial settlement of Jandakot Airport in Perth to Dexus and APN Industria REIT for $825 million (of the total purchase price of $1.5 billion, including surplus developable land) and the completion of the sale of Qube Holdings' 100% interest in the warehouse and property components of Moorebank Logistics Park in Sydney to the LOGOS Property Group Consortium for c. $1.69 billion.

Yield play on individual assets illustrates long term positive trend of the sector

The appetite for scalable industrial assets and development ready land bank opportunities is driven by confidence in the strength of occupier demand and the consequent outlook for rental growth. Capital inflows have been broad-based, and although there has been a trend to get market share through portfolio acquisitions, individual assets are also trading strongly. Charter Hall recently acquired Netley Commercial Park, near Adelaide Airport, on a yield of 4.45%, while in Brisbane, ESR has added a Wagners prefab plant in Wacol to its portfolio on a yield of 3.54%. In Melbourne, GPT acquired 235-239 Boundary Road, Laverton, leased to Spotlight on a yield of 3.8% and in Sydney, Centuria Industrial REIT acquired a logistics facility in Gregory Hills, leased to GMK Logistics on a market yield of 3.7%.

Investor appetite seems unstoppable

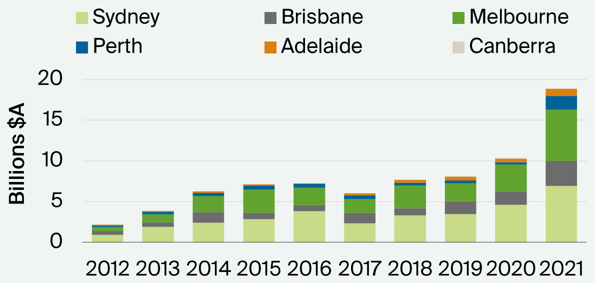
There has been a rise in the number of lesser-known players increasing their exposure. Reflecting the shift in expectations regarding the pandemic duration and ongoing border closures, there have been an increasing number of joint venture capital partnerships, particularly the mixing of offshore capital with local expertise, and acquisitions that target management rights.

Starting to see yields converge nationally

Melbourne super prime yields# compressed 50bps in Q3 and are now holding in Q4 at 3.50%. Sydney is stable at 3.75% in Q4, after rapid pace of compression in the first half of 2021. Perth and Adelaide yields compressed 25bps in Q4 to 4.50%, while Brisbane compressed 5bps to average 4.15%. With vacancy at record low levels, investors are anticipating further rental growth in coming years. Current market momentum indicates that further compression may occur, but arguably there is more potential for compression Brisbane, Perth and Adelaide where yields are above those in Sydney and Melbourne.

Industrial Sales by Major City Market

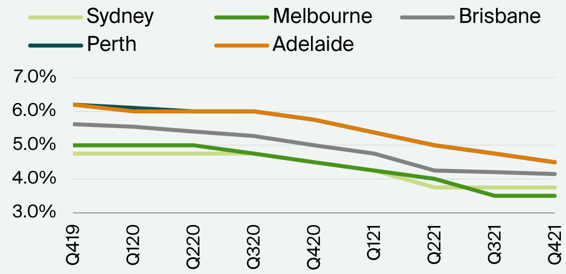
In billions, sales $10m+ by calendar year



Source: Knight Frank Research, RCA

Average Super Prime Yields

By Major Capital City, Average %, quarterly, 2019-2021



Source: Knight Frank Research #assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0+ years +

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 | Director, Head of Industrial Research and **Marco Mascitelli** | Associate Director

Retail trade and logistic operators drive take up volumes to record levels

An improved business outlook underpinned by the momentum of a rebounding economy capped off a strong end to 2021. The demand for warehousing and distribution space continued to mount and by the end of 2021, c.1.2 million sqm of industrial stock had been leased in Sydney, surpassing the previous two years, and setting a new record high.

The demand for larger facilities that incorporate higher specs, such as automated storage and retrieval systems, has risen and underscores much of the pre-lease activity that has occurred recently as occupiers seek to expand their fulfillment capabilities and build resilience into supply chains. Additionally, there's been an increase in demand from some manufacturers to onshore, plus short term or swing space to manage deeper inventory levels, as well as add-on functions such as reverse logistics.

Take up in Q4 totalled 123,529sqm, which was underpinned by Australia Post pre-committing to c.34,000sqm at Goodman's Oakdale West and eStore Logistics leasing 19,310sqm at Altis' Altitude Estate. Transport/ logistics and retail trade operators, accounted for 95% of activity in Q4. The ongoing need to build resilience and structural changes in retail and logistics due to technology and customer expectations will keep demand elevated. However, low vacancy may impact on short-term deal flows until some of supply chain pressures begin to ease.

Existing stock in the west near non-existent

Vacancy continues to decline to record low levels. Strong tenant demand in Q4 resulted in a 36% decline Q/Q in vacancy to measure 129,061sqm. On Y/Y basis this is a 78% decline. The bulk of activity remains in the Outer and South West precincts with vacancy declining 86% and 96%, respectively Q/Q.

Record low vacancy in the Western precincts reflects 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. With supply chain challenges and rising material costs pushing out completion dates, some occupiers have opted for short term leases to cope with the surge capacity, as they await or seek new opportunities for purpose built facilities.

Limited stock and elevated occupier activity driving rents to new highs

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 which is feeding through to rental growth. First signs emerged in Q3, but with limited existing stock on the market to lease at a time of high demand and inflationary pressures, landlords have continued to push rents and drop incentives. On a blended basis, prime net face rents are up 2.3% Q/Q, with incentives averaging 16%, resulting in net effective rental growth of 3.1%. In Y/Y terms, average prime net face rents have risen 6.4%, well above yearly growth rates of the past decade, which averaged no more than 2-2.50%. Further rental growth is expected throughout 2022.

Land values rise amid development activity

Completions for 2021 were lower than expected (537,000sqm) as a number of project timelines were pushed into 2022. A record year is now anticipated for 2022, with over 750,000sqm of new stock tipped to be completed. With a backlog of infrastructure projects and increased costs, it is expected that some 2022 due dates might get pushed out to 2023, further intensifying the pressure in an already tight market.

The strong appetite from institutions to increase their exposure saw significant uplift in land values at the backend of 2021. Over Q4-21 land values increased by 19% in Western Sydney for 1-5Ha lots to average between $900-$1,000/sqm, with examples of sites selling for more than $1,000/sqm.

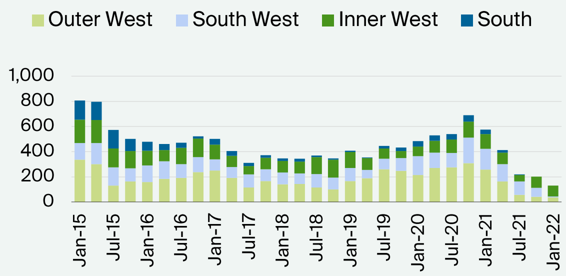
Record sales activity reaffirm tight yield metrics

Transaction volumes reached c.$6.7 billion in 2021, more than double the five year average. The unprecedented level of capital entering the sector has showed no signs of slowing with a number of mandates still seeking to deploy capital. The competition for assets has reset yield metrics and in Q4, prime yields tightened on average 20bps across all precincts.

TAKE-UP (SQM) Q4	MOST ACTIVE SECTOR	VACANCY (SQM) Q4	NEW DEVELOPMENT (SQM)
123,500	**51%**	**129,061**	**755,000**
26% lower than same period last year	TRANSPORT, POSTAL, WAREHOUSING	-36% Q/Q	Estimated 2022 (f)

Sydney Vacancy

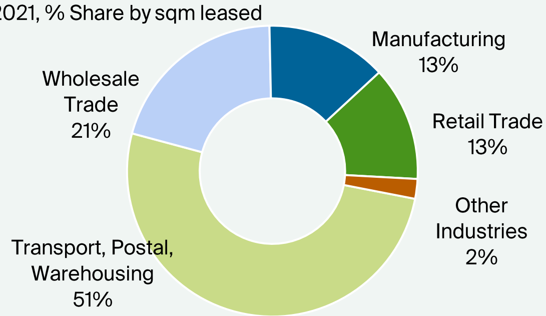
'000sqm by precinct



Source: Knight Frank Research

Sydney Take up by Industry

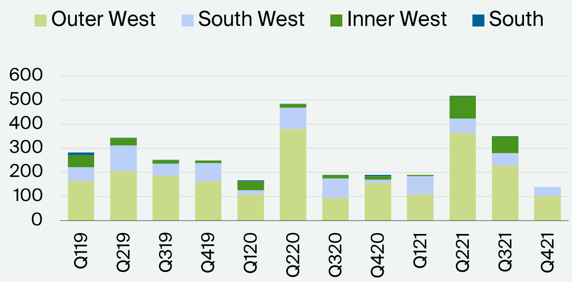
2021, % Share by sqm leased



Source: Knight Frank Research

Sydney Leasing Take-up by Precinct

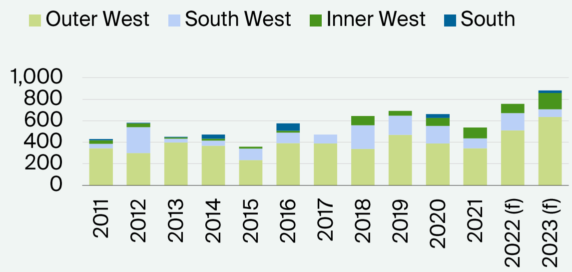
'000sqm by precinct, by quarter



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 (yrs)
Northline Transport~	28 Britton Street, Smithfield	Outer West	17,073	110	1.5
ACFS Port Logistics^	5 Yarrawara Street, Prestons	South West	15,028	130	7
eStore Logistics^	Altitude Estate, Bankstown	South West	19,310	U/D	10
QLS Logistics#	Huntingwood East Logistics Estate	Outer West	21,810	U/D	10
Booktopia~	34-38 Cosgrove Road, Enfield	Inner West	13,251	145	11

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

MELBOURNE

Despite the challenges of the pandemic, it's been an extraordinary period of growth in Melbourne's industrial market.

By Katy Dean | Director | Head of Industrial Research

Leasing volumes double in five years

The dramatic shift in demand has led to record leasing volumes, which after reaching an inflection point in Q2-21, saw more than 2 million square metres of industrial space (including pre-commitments) leased for the year. This is 10% more than 2020 and more than double the volumes recorded five years ago. However, low vacancy rates, combined with low levels of new uncommitted supply options, is beginning to hamper deal flow with Q4 dropping to c.266,745sqm, its lowest level since March 2019.

Secondary vacancy reaches lowest level since 2012

The volume of vacant space declined 2.8% Q/Q to measure 779,522sqm overall. With many companies forced to ramp up inventory levels due to supply chain disruption, add a buffer or take on swing space, there has been a heightened need to take on more space quickly. While some spec space has been delivered in the West and South East, there may be signs of it falling short of immediate demand needs. Some occupiers have opted to take secondary space in those markets where it has been difficult to get prime space in the short-term. As a result, secondary vacant space has declined 24% Q/Q to measure c.212,212sqm. This is the fifth consecutive quarterly decline in secondary vacancy, representing a 56% fall Y/Y.

E-commerce tailwinds fuelling demand but uptick occurring in other sectors

While structural changes to demand have contributed to the urgency in leasing requirements, it has been the most acute for transport, logistics, retail and wholesale trade occupiers. In aggregate, these sectors account for 74% of leasing volumes in 2021. Demand from construction increased in 2021. Although coming from a lower base than the traditional sectors, this shift reflects the rapid uptick in industrial building development.

The west accounts for 41% of lease deal volumes in Q4. This is below its five year average share of 51% but follows two very strong quarters of lease commitments including Electrolux (20,000sqm), Mitre 10 (c.50,900sqm), Myer (40,000sqm) and Glen Cameron (c.23,700sqm).

Rental growth underpinned by back of strong increases in the south east and west

Rental growth began to pick up pace in Q3 and has continued in aggregate during Q4, with average prime rents showing a Q/Q increase of 2.2% and Y/Y growth of 4.1%. There was more surprise on the upside in the South East and West, which increased 12.9% and 4.8% respectively over 2021. Further growth is expected in the short-term.

Spec in focus but demand outweighs supply

New development remains elevated, with c.1.3 million sqm of new supply forecast to be delivered in 2022. More than half of this is expected in the West (57%) and almost 31% will be in the South East. Developers are increasingly focused on building spec, particularly in areas where there is low vacancy. This trend has been around since 2019 and estimates for 2022 suggest that spec completions could reach as high as 600,000sqm, double the completions of 2021. It is important to note that nearly all of the new specs coming online this year have already been pre-committed. This will further intensify vacancy pressures and drive urgency in leasing negotiations.

Land rates continue upward trajectory

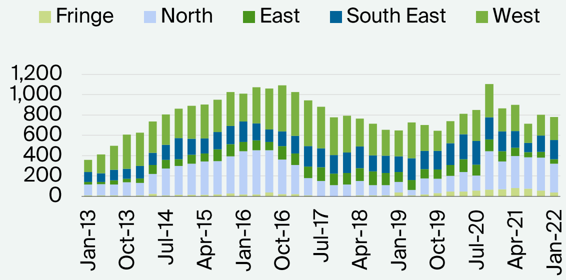
Land values are expanding at a faster rate, with the record pace in Q4 reflecting supply constraints amid the e-commerce demand tailwinds. In aggregate, the value of <5,000sqm lots have risen by 28% Y/Y (+5.2% Q/Q), and 1-5 hectare lots are up 30% Y/Y (+2.4% Q/Q). However, by precinct, small lots in the South East are up 11% Q/Q and in the West 13.6%, with medium lots showing a 6.3% and 9.1% respective increase.

Increased competition for secondary assets sees yield compress

Average prime yields have compressed by 25bps Q/Q, and 95bps Y/Y, with increasing examples of prime assets trading below 4.0% across all precincts. Similarly, increased competition has seen secondary yield compression accelerate, with the average tightening 35bps Q/Q and 87bps over the year. The sizable yield compression in recent months reflects the strong underlying land value and future income returns.

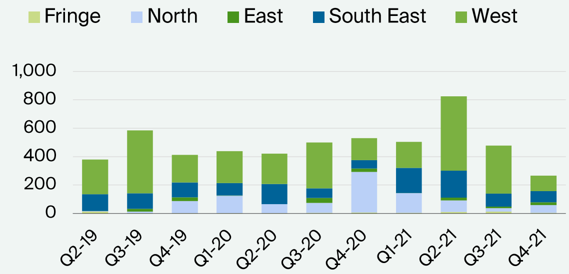
TAKE-UP (SQM) Q4	MOST ACTIVE SECTOR Q4	VACANCY (SQM) Q4	NEW DEVELOPMENT (SQM)
266,745	**41%**	**779,522**	**1,334,749**
50% lower than same period last year	TRANSPORT & LOGISTICS	-2.8% Q/Q	Estimated 2022 (f)

Melbourne Industrial Vacancy
'000sqm by precinct



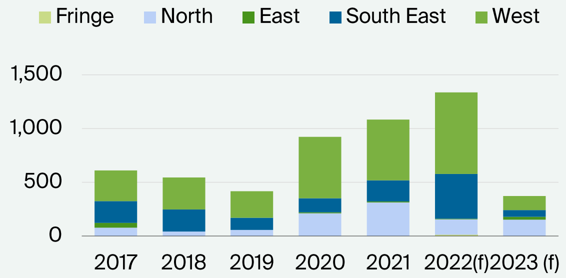
Source: Knight Frank Research

Melbourne Industrial Take-up
'000 by precinct excl. Design and Construct



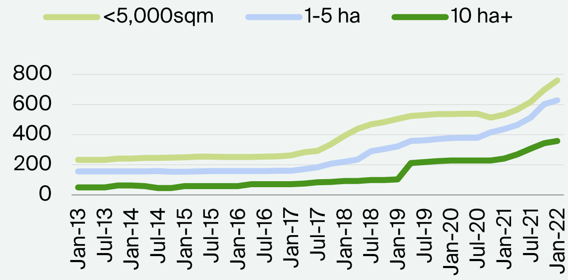
Source: Knight Frank Research

Melbourne Industrial Supply
'000sqm by precinct



Source: Knight Frank Research / Cordells

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



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Zenexus ^	W2, Spec 2 ,Fox Drive, Dandenong	South East	15,04	98	7
Toll Group ~	244 Greens Road, Dandenong South	South East	10,196	95	5
Norman Carriers ~	5/22 Fitzgerald Road, Laverton North	West	8,500	100	10
Shaw Fabrics ^	Canvas West, Tarneit	West	12,219	85	5
Ligentia	285 Robinsons Road, Truganina	West	13,520	83	5

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

BRISBANE

Effective rental growth has returned as demand from tenants is high, reducing vacancy by 44% in the past year and triggering significant speculative development

By Jennelle Wilson | Partner | Research & Consultancy

Leasing activity buoyant with 2021 take-up almost double that of 2020

Leasing take up decreased to 168,050sqm in Q4 from the exceptional levels of Q2 and Q3. Despite moderating, this remained well above the five year average quarterly take-up which lifted annual leasing take-up (826,260sqm) 92% above the 2020 results. Boosted by speculative stock and recent pre-commitments the South had the greatest take-up over the year with 39% of take-up followed by the South West at 29% and TradeCoast with 20%.

Retail tenants dominate leasing activity

The resilient retail sector was the major driver of occupier demand in the Brisbane market during 2021 with retail trade accounting for 34% of all take-up. This was followed by Transport, Postal and Warehousing at 20% of activity as the greater inventory levels and faster delivery times required by consumers translates to new warehouse and distribution facility requirements in the market. Manufacturing or fabrication based users were also active in the market, accounting for a further 15% of activity from users as diverse as Chep Pallets, Oceania Glass and many packaging suppliers and metal engineering and fabrication tenants. Wholesale trade tenants also accounted for a further 11% of demand.

Vacancy fell by 44% in 2021 with secondary vacancy now at a nine-year low

Vacant space fell a further 19% in Q4 to be 44% lower than at the start of 2021 due to back to back strong quarters of take-up. With a total of only 353,692sqm of vacant space currently available in the market, options for tenants have considerably narrowed in the past year with little choice across a number of locations and size brackets and increased completion between tenants for particular vacant tenancies. The amount of secondary vacant space has fallen to a nine year low with only 113,309sqm available. Prime space has also fallen but remains buoyed by speculative construction starts. Of the 240,383sqm of prime space 65% is speculative space as opposed to existing stock. Further significant levels of speculative construction is expected in 2022, subject to construction costs.

Rental growth has returned to both prime and secondary space

Average prime face rents increased by 4.6% in the past year to $119/sqm net, average incentives have also ticked down across existing stock to 15.6%. The secondary market, after 12 years of flat rents, has jumped by 11% in 2021 to $98/sqm net, its highest since early 2009. Secondary incentives fell marginally to 14.4%, on average. With construction costs on the increase it is expected that the next round of new pre-lease or speculative deals will contain higher metrics than recently seen.

Supply to accelerate in 2022 despite higher construction costs

After inclement weather saw some projects fail to reach completion and delayed commencement of new speculative stock in 2021, the total supply added to the market was lower than expected at 267,485sqm. With more than 200,000sqm already under construction in the first weeks of the year the 2022 total is expected to be significantly higher, in excess of 600,000sqm, with at least a third of this pre-committed space.

Capital market and land values reflect the strong demand and limited stock

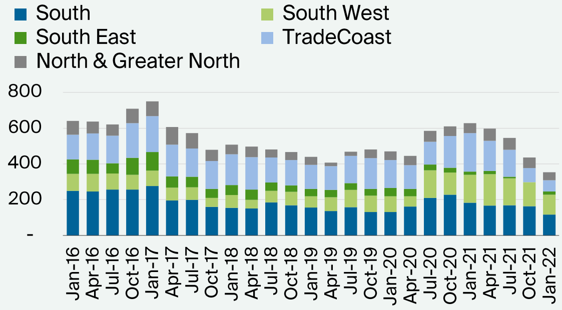
Land value growth further accelerated in 2021 with institutional investor acquisitions of formed, englobo and brownfield sites from buyers such as Aliro, ISPT, Charter Hall and Logos. Prices for blocks 1-5ha are now 39% above the levels of a year ago at $440/sqm on average, highest gains have been in the South (+50%) and North (+43%) as institutional focus has moved to new areas such as Crestmead and Brendale. The discount for larger land parcels of 25ha+ continues to erode.

Underlying appetite for industrial investments has kept yields on a firming trend. Prime yields contracted by 33bps in Q4 to 4.90% on average and are down by 93bps over the past year. The contraction in secondary assets remains stronger, fuelled by underlying land prices and long-awaited rental growth, with 58bps in Q4 and 139bps over the year as buyers, facing a lack of opportunities have turned their attention to secondary acquisitions either for refurbishment or land banking.

TAKE-UP (SQM) Q4	MOST ACTIVE SECTOR RTM	VACANCY (SQM) Q4	NEW DEVELOPMENT (SQM)
168,050	**34%**	**353,692**	**635,000**
18% ABOVE THE 5Y-AVG	RETAIL TRADE	-19% Q/Q	Estimated 2022 (f)

Brisbane Industrial Vacancy

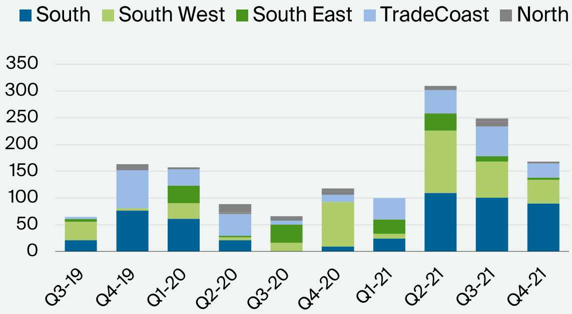
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane Leasing Take-up

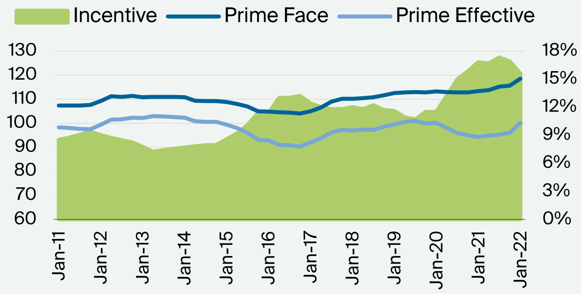
'000sqm by precinct



Source: Knight Frank Research

Brisbane Prime Rents

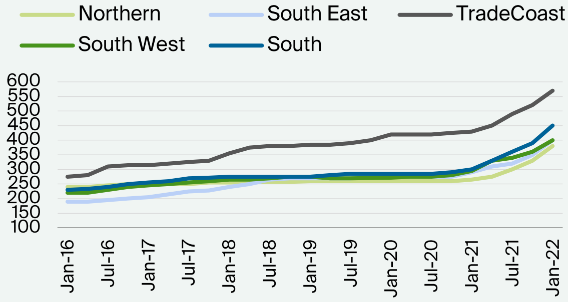
Prime Face & Effective $/sqm (LHS), Av Incentive % (RHS)



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
Pet Circle^	500 Green Rd, Crestmead	South	26,665	110	10
Eagers Auto~	5 Viola Place, Eagle Farm	Trade Coast	14,570	U/D	11
BevChain~	62 Stradbroke St, Heathwood	South	9,446	115	3
Boeing~	48 Alexandra Pl, Eagle Farm	Trade Coast	8,626	110	5
Nature's Best^	Wembley Business Park, Berrinba	South	6,674	110	7

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

ADELAIDE

Prime industrial assets are continuing to trade at yields in the 4% range reflecting enthusiastic interest by well financed investors.

By Tristan Mellett | Research Analyst | Valuation & Advisory SA

Land values on the rise as owner occupiers and developers seek limited land supply

The growth within the development market continued into the final quarter of 2021, further displaying developers intentions as they seek to capitalise on rising demand for industrial stock.

Developers and owner occupiers are actively pursuing brownfield sites, with demand far outweighing the current supply in the market. Evidence shows that owner occupiers are primarily purchasing properties in the Northern precincts, with the intention to construct purpose-built facilities in Direk and Edinburgh. Although there is still interest in small business hub developments, large format warehouses are the primary development asset expected to enter the market in the short-term, such as the development of 36 Caribou Drive, a proposed 21,780sqm high clearance ESFR sprinklered office warehouse.

The limited land supply and strong demand drivers within the outer south, inner west and inner north markets have resulted in a Y/Y increase in land values for smaller sized lots of 29.3%, 36.6% and 21.5%, respectfully. Larger lot sizes have likewise experienced a surge in land values with the inner south, inner west and the inner north displaying the sharpest increases. The outer north continues to benefit from ample land supply, accounting for approximately 57.2% of forecasted development to be completed by 2025.

Continued resistance to COVID drives leasing interest higher

The recent increase in local COVID cases associated with the easing of restrictions in the eastern states has slightly dampened the rising demand within the leasing sector, with some businesses delaying relocation decisions. Due to the uncertainty of the market, both the prime and secondary blended rental rates remained stable at $101/sqm and $76/sqm in Q4. However, it is worth noting this follows strong growth rates in Q3, which have contributed to a 3.2% increase in prime net face rents over the year.

As restrictions begin to ease and confidence rises surrounding Adelaide's resistance to the pandemic, demand is expected to outstrip forecasted supply levels. Notably, the smaller market (sub-1,000m²) has received strong enquiry from the local market. Vacancy rates are at historical lows, with the potential tenants primary issue being the lack of available space on the market.

Popularity for industrial asset class persists

The industrial asset class performance has retained its popularity through the final quarter of 2021. Investors are focussing less on the traditional benefits such as the location of assets and are opting for assets with favourable lease covenants with longer a WALE. Prime assets continue to trade at yields c.4.00%, highlighting the upswing in investor confidence and extensive capital circulating in the market. For example, 300 Richmond Road, Netley, comprising the Netley Commercial Park, was acquired by Charter Hall with a 2.5 year WALE for $71.3 million, reflecting a passing yield of 4.45%.

Units 1 & 2/3A & 3B Newcastle Crescent, Cavan comprises two fully leased community strata titled office warehouse units that sold in conjunction for circa $6.82 million, reflecting a yield of 4.77% and GLA rate of $2,030/sqm. Total investment volume for industrial assets in 2021 was $487.46 million, with approximately $274.77 million or 56.37% occurring within the outer northern industrial precincts.

Industrial assets displaying a positive outlook for 2022

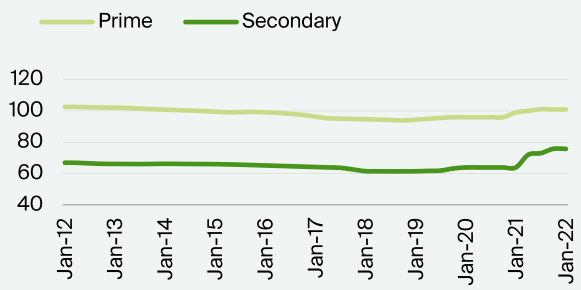
The anticipated early completion of significant infrastructure developments, such as the Torrens to Darling stage of the North to South Corridor project, combined with recent government-related defence employment opportunities, is contributing to a positive outlook for industrial assets within South Australia.

As the spec developments that commenced in the second and third quarters of 2021 reach practical completion, supply issues will slowly be relieved. As a result, land values and rental rates are forecasted to increase as pent-up demand from parties seeking suitable facilities will increase competition on the incoming stock.

TAKE-UP (SQM) YTD	NEW DEVELOPMENT FACILITIES	VACANCY (SQM) Q4	NEW DEVELOPMENT ($MILLION)
13,636	**44%**	**364,943**	**$53.1**
(5,000SQM +)	Large Format Warehouses	(5,000SQM +)	Estimated completion in 2022

Adelaide Industrial Rents

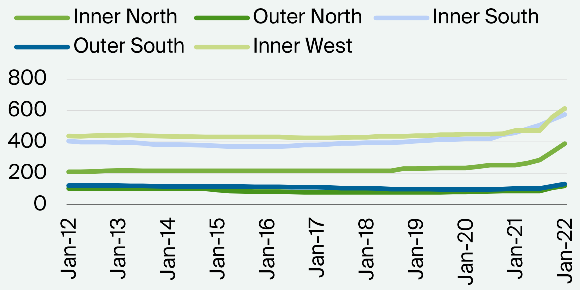
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide Industrial Land Values

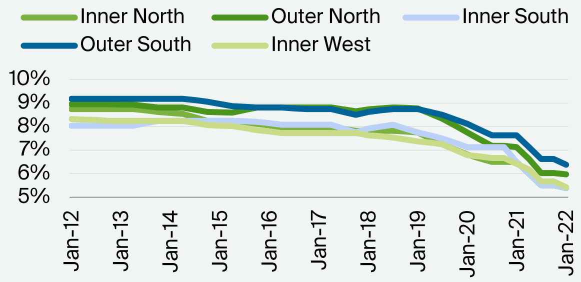
Average $/sqm by precincts for land <5,000 m²



Source: Knight Frank Research

Adelaide Industrial Yields

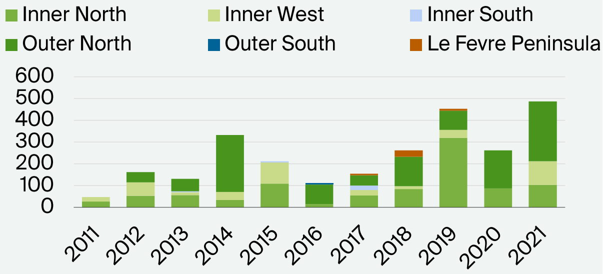
% Core market average prime yield by precinct



Source: Knight Frank Research

Adelaide Industrial Sales

$5mil sales, 2011 to 2021



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Wine Storage Logistics	60-70 Purling Avenue, Edinburgh	Outer North	17,890	60	3
A.S. Marshall Holdings	33-44 Starr Avenue, North Plympton	Inner West	8,225	77	5
M3 Logistics	63-75 Kaurna Avenue, Edinburgh	Outer North	6,732	83	7
BR 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

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

PERTH

Leasing demand continues to surge, but remains largely unfulfilled due to low vacancy, as investors circle for opportunities to deploy pent-up capital to tap into Perth's outlook for strong growth.

By Katy Dean | Director | Head of Industrial Research

Leasing demand gains momentum as rental growth cycle emerges

The pandemic continues to create new demand for industrial and logistics space, supported by a sustained uptick in e-commerce and supply chain challenges. The surge in demand, particularly for the east and southern precincts, has increased the pressure on existing stock and vacancy is declining and rental growth is emerging. Key eastern suburbs where this is occurring includes Kewdale and Welshpool. In the South, it's other key industrial hubs such as Canning Vale and Bibra Lake, while in the North, Malaga. The trend suggests that it is areas within the 5km and 10km ring road with businesses, particularly transport and logistics operators, realigning their locations close to key catchment areas to maximise distribution and reduce transport costs.

On a blended basis, prime net face rents are up 1.6% Q/Q, led by a much faster rates of growth in the north and east, where rents grew 2.8% on average Q/Q. In Y/Y terms, average prime net face rents have risen 4.4%. Low vacancy in the prime segment has started to spill over to secondary in Q3, particularly in the East, but rents now appear to be holding as at Q4. However, in Y/Y terms, secondary rents have increased 4.3%. Further rental growth is expected second half of 2022.

East Coast developers looking to gain a foothold in Perth

Businesses are looking to scale and increase storage space to manage inventories as a result of supply chains. This has intensified the demand for modern, well located assets, particularly near or around major transport links such as Perth Airport, which remains largely unfulfilled given the land shortages in some areas.

Pent-up demand from the growth in e-commerce, alongside transport and logistics, has meant that new space is being quickly absorbed further lifting the confidence levels of developers looking to gain a foothold in Perth. There has been a notable rise in enquiry levels from east coast based developers/investors with a keen interest to acquire development ready sites and land banking opportunities. The acquisition by Dexus and its partner, APN Industria REIT, of Jandakot Airport, its logistics estate and surplus surrounding land for $1.5 billion is one example at scale. However, land sales in Q4 have slowed down due to the lack of available stock and the rising cost of construction. This is expected to pick up in the second half of the year, which will contribute to growth in pre-lease rents.

Developers focus on spec but rise in construction costs may delay short-term plans

The private development market continues to be active with spec projects as developers are achieving strong take-up rates on or before completion from transport and logistics occupiers. This is adding further pressure in an already tight market, especially in the south east corridor. However, there has been a large rise in construction costs over the past year due to supply chain disruption, with the prices of key building materials such as steel and timber further compounding the cost of construction. While some projects have proceeded, the costs are beginning to be passed on through rent and some developers are holding back short-term plans until pricing shows signs of tapering off.

Strong demand profile pushes up land rates

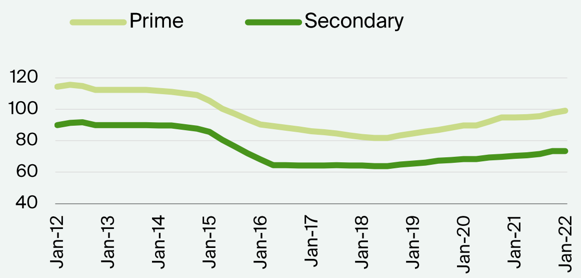
The market faces a low level of available high-quality product to meet demand and the increase in enquiry for pre-lease space triggered a new growth cycle in land values in Q3 that has stabilised in Q4. In Y/Y terms the blended rate for small lots has risen 10.7% and 1-5ha lots are up 8.9%. Further growth is expected in land values in the second half of the year, following an uptick in land sales.

Yields are expected to continue to compress through to 2022

The blended average for prime yields compressed 73bps in 2021 and although the pace of compression picked up in Q3, no change is reported in Q4. The yield premium remains a substantial drawcard for investors seeking to deploy capital outside the traditional Sydney and Melbourne markets but that arbitrage is beginning to narrow. Yields are expected to continue to compress through to 2022.

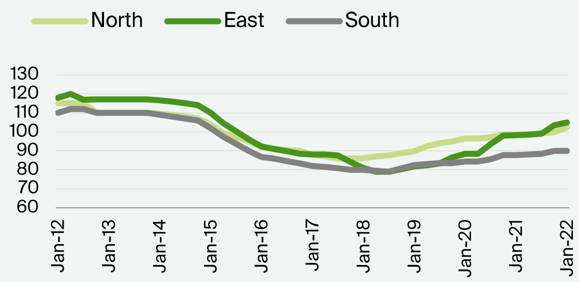
PRIME NET FACE RENT $/SQM Q4	LAND VALUES (<5,000SQM) $/SQM Q4	LAND VALUES (1-5HA) $/SQM Q4	NEW INFRASTRUCTURE (A$)
$99	**$415**	**$272**	**$30.7BN**
+1.4% Q/Q BLENDED AVG	No change Q/Q BLENDED AVG	No change Q/Q BLENDED AVG	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

Perth Rents by Grade
$/sqm net face pa, blended average



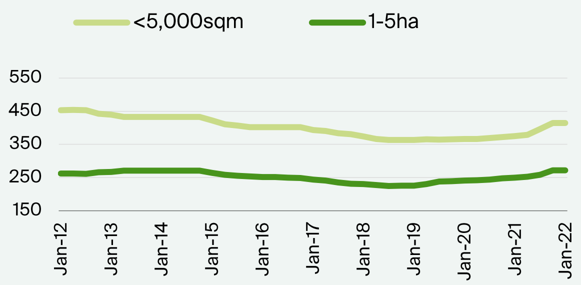
Source: Knight Frank Research

Prime Average Rents by Precinct
$/sqm net face



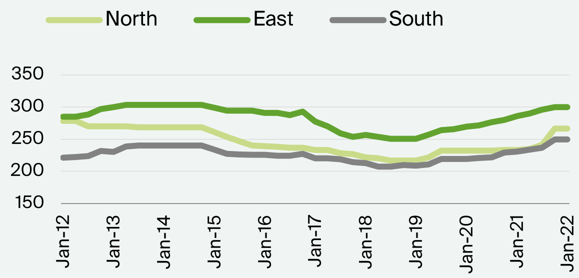
Source: Knight Frank Research

Perth Land Values
Small vs Medium Lots, Blended $/sqm



Source: Knight Frank Research

Perth Land Values by Precinct
Average $/sqm, Medium Lots 1-5ha



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
PEP Transport ~	26-28 Glassford Road, Kewdale	East	10,034	85	5
TRS ~	10 Ferguson Street, Kewdale	East	3,300	100 (building)	6
Wheel Pros ~	Unit 6, 16 Aspiration Circuit, Bibra Lake	South	2,476	88	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	96-126 Ordish Road, Dandenong South	20.0	4,500	4,444	Private	SC Capital Partners	3.25	2.00
Melbourne	20 Calarco Drive, Derrimut	20.85	9,265	2,250	Private	Private	3.30	9.50
Melbourne	125 & 145 Northcorp Blvd, Broadmeadows #	15.36	8,725	1,760	Westbridge Funds Management	Holman Industries	4.90 [7]	7.00
Melbourne	262 Lorimer Street, Port	81.6	15,246	5,352	Institutional Investor	Jreissati Family	3.68	13.0
Melbourne	5-7 Leslie Road & 6-10 Pipe Rd, Laverton North	42.8 ~	14,747	1,412	Mapletree Logistics Trust	KM Laverton North Property Fund	4.3	13.0
Sydney	82 Rodeo Road, Gregory Hills	70.0	22,481	3,114	Centuria Industrial REIT	Private	3.71	5.1
Sydney	18 Forrester Street, Kingsgrove	65.7	13,650	4,813	Private	Private	3.91	2.8
Sydney	149 Airds Road, Minto[3]	75.3	76,800	980	Charter Hall prime Industrial Fund	Private	N/A	N/A
Sydney	164-166 Newton Road, Wetherill Park	36.8	11,883	3,093	Centuria Industrial REIT	ESR REIT	4.01	3.5
Sydney	52 Lisbon Street, Fairfield	200.2	60,223	3,324	Centuria Industrial REIT	AMP Capital Investors	3.75	4.2
Brisbane	175 Wacol Station Road, Wacol	38.3	6,838	5,586	ESR Group	Wagners Group	3.50 [7]	1.1
Brisbane	9 Boron Street, Narangba	44.5	11,840	3,758	Dexus Industria REIT	Private	4.60	6.9
Brisbane	18 Gorrick Street, Bundamba	41.0	12,345	3,321	GPT	Walker Corporation	4.05	6.0
Adelaide	300 Richmond Road Netley	71.3	134,714	42,112	Harmony Corporate	Charter Hall	4.45	2.5
Adelaide	91 Transport Avenue, Netley	10.6	12,486	6,520	Local Private	Local Fund	5.28	3.9
Perth	22 & 72 Hyne Road, South Guildford [5]	50.8	19,174	2,516	Charter Hall (DIF4)	Private	4.4	8.58
Perth	48-54 Kewdale Road, Welshpool	35.1	20,349	1,724	Centuria Industrial REIT	Private	6.3 [2]	2.9
Perth	41 Baile Road, Canning Vale	16.2	10,460	1,550	Mair Property Funds	Private	5.47	4.14

[1] Core Market Yield [2] Passing Yield [3] Land/Development Site [4] Australian Prime Property Fund (APPF) [5] includes c8,354sqm development site
[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 (5,000m^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—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


Project Management & Building Consultancy
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.