1
Surging rental growth

2
Yields continue to soften

3
Transaction volumes ease

Knight Frank

Australian Industrial Review

Q4-2022

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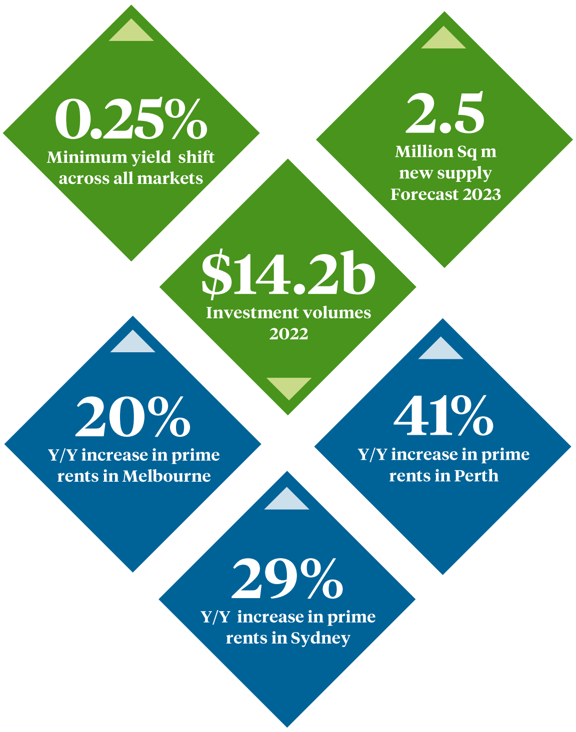
KEY INSIGHTS



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 at least 25bps across all markets.

Vacancy rates across the Eastern Seaboard continue to sit at record low levels with 547,748sqm, a 56% drop in availability over the year.

After a record year for industrial investment in 2021, with $23.2 billion traded, **activity levels dropped back to $14.2 billion in 2022.** However, this reflects a return to normal levels of trading activity rather than a fundamental loss of appetite

2023 is forecast for a record year of new developments across the East Coast with 2.5m sqm expected to be delivered, Brisbane is leading this with over 1 million sqm to be delivered.

Land values have stabilised across all capital cities, with some select precincts beginning to see a dip in value, this follows consecutive periods of record growth in values.

Perth is experiencing the fastest pace of rental growth nationally, with prime rents up by 41% y/y as the market responds to strong tenant demand and rising construction costs.

Key Indicators Q4 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 #	210	172	4.00-4.50	2,005	1,716
Brisbane	137	123	4.50-5.00	521	488
Melbourne *	126	109	4.25-4.75	1,142	890
Adelaide	113	113	4.75-5.25	512	365
Perth	133	86	4.75-5.25	456	334

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 $164/sqm, secondary: $132/sqm; small lots: $1,269/sqm, 1-5ha lots: $1,180/sqm.*
**Melbourne (excluding the Fringe) prime net face rents average $113sqm, secondary: $102/sqm; small lots: $878/sqm, 1-5ha lots: $688/sqm.*

ECONOMY

After a sustained period of strong growth led by the consumer, spending is now moderating as higher interest rates take effect

Retail sales now moderating as households respond to reduced spending power

After an extended period of rapid retail sales growth, which underpinned strong economic growth nationally throughout 2022, Q4 started to see a moderation with retail sales volumes contracting by 0.2% compared to Q3. In value terms, sales continued to grow, but amidst high inflation there is a wider than normal gap between the two metrics and the contraction in volumes is a signal that consumer demand is now slowing, led by a contraction in discretionary retail spending as households respond to the twin forces of falling real incomes and higher interest rates.

Other key metrics continue to reflect a robust economic backdrop, with a persistently tight labour market, high commodity prices and the gradual return of population growth all supporting the economy and hence the demand for industrial floorspace.

Construction cost inflation finally starts to abate

Falling real incomes are the result of elevated inflation, with Q4 data confirming an increase in the headline rate to 7.8%, the highest since 1990. There are increasing signs of broadening of inflationary pressures across most parts of the economy, as reflected in inflation rates well above the 2-3% target in ten out of the eleven major spending categories.

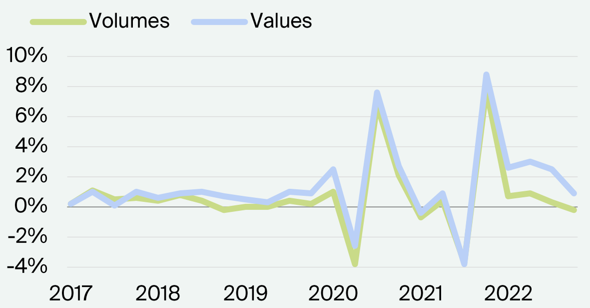
Construction costs continue to be a key contributor to the elevated CPI reading, with the cost of building materials up by 14% over the past year. However, the pace of cost inflation is now easing as global supply chain pressures abate as evidenced by falling shipping and air freight costs.

Global inflation now easing but further rate hikes still expected

The RBA continues to take steps to quell demand and dampen inflation, with the cash rate shifting to 3.35% in February. Further increases have been flagged for coming months, but with global inflationary momentum now moderating this should soon feed through to lower inflation in Australia and allow the RBA to pause to monitor the unfolding impact of the escalation in rates in the second half of the year.

Retail sales - values versus volumes

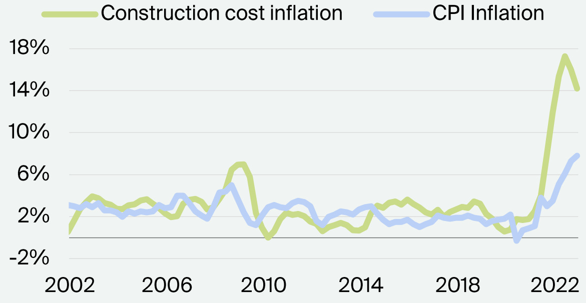
Quarterly growth rate



Source: Knight Frank Research, ABS

CPI and construction cost inflation

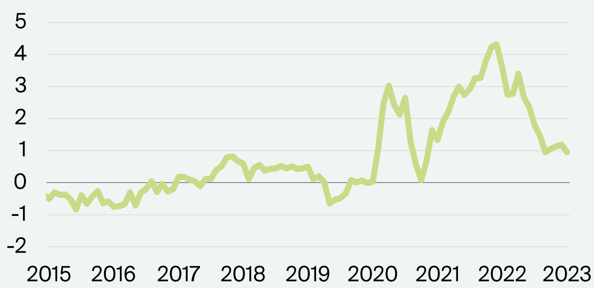
%y/y



Source: Knight Frank Research, ABS

Global supply chain pressure

Normalised index – index average = 0, positive values indicate the number of standard deviations above average



Source: Knight Frank, Federal Reserve Bank of New York

LEASING MARKET

Competition for available industrial space, especially new stock, has intensified as vacancy sits at a record low, triggering unprecedented rental growth across the board

Limited availability and pent up demand driving unprecedented rental escalation nationally

Vacancy rates across the Eastern Seaboard continue to sit at record low levels with 547,748sqm available across the Eastern Seaboard capital cities, this is an 8% fall over the quarter and a 56% drop in availability over the year. Sydney remains the tightest market with 89,1292sqm of available stock, followed by Brisbane (219,060sqm) and Melbourne (231,640sqm).

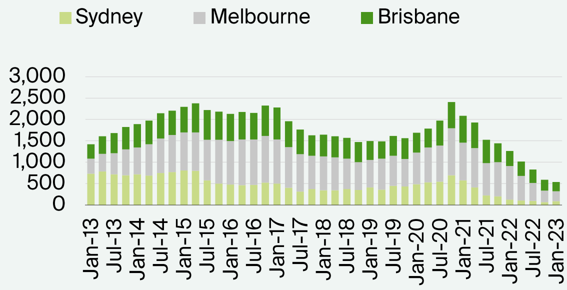
The lack of availability has coincided with sustained demand from occupiers particularly logistics and retail trade operators across all capital cities. Across the Eastern Seaboard total take up for Q4 reached 799,845 sqm, with Sydney the highest of the three main markets at 321,959 sqm.

As a result of the record low vacancy levels and sustained occupier demand, significant rental growth continues to be recorded across all capital cities. Perth recorded growth of 7% over the quarter to recorded the highest growth in the country on an annual basis of 41%. Sydney followed suit with 12% growth over the quarter and 29% growth over the year, with the South West precinct seeing the strongest growth of the submarkets with 37%. Similar growth is occurring in Melbourne and Brisbane increasing 19% and 16% respectively over the year, while Adelaide has seen growth of 12% y/y.

Alongside face rental growth, incentives have also fallen slightly, which has seen stronger growth in effective rents, particularly in precincts where rents have historically been lower, such as Sydney's Outer West and South West and Melbourne's West.

Eastern Seaboard industrial vacancy

'000sqm, quarterly, 5,000sqm+



Source: Knight Frank Research

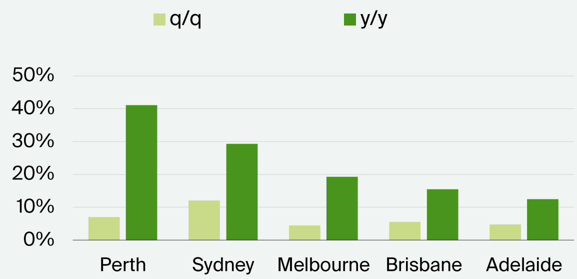
Substantial development pipeline for 2023

Despite shortages, price rises and construction delays, completions reached c2.3million across the Eastern Seaboard for 2022, this was led by Melbourne with over 1.3 million sqm in new supply. Given the construction delays in 2022, multiple projects were pushed into 2023 and thus forecast for a record year of new developments which will provide some relief to the undersupplied markets.

The major space coming through will be in Brisbane, with over 1 million sqm expected to be added, this is more than triple the historical average, the new supply is concentrated in the South and South West, notably over half of the new supply is already pre-committed. Furthermore, Sydney is expected to add 855,000sqm and Melbourne 670,000sqm.

Prime rent growth

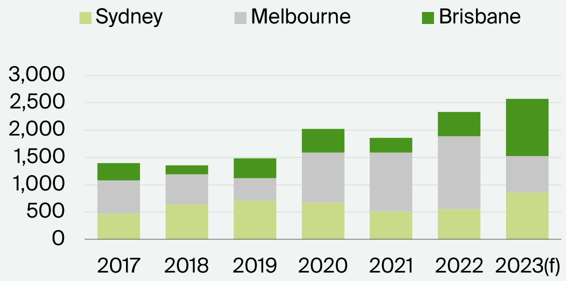
Average across major capital cities



Source: Knight Frank Research

Eastern Seaboard industrial supply

'000sqm, completed 2017-2023(f)



Source: Knight Frank Research

INVESTMENT

Yields continue to shift up, but the impact on capital values is being offset by surging rental growth and varies by location and the structure and length of the lease

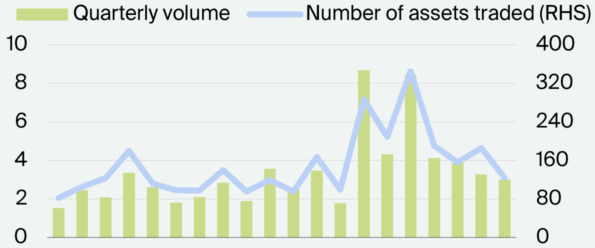
Investment volumes return to earth in 2022

After a record year for industrial investment in 2021, with $23.2 billion traded, activity levels dropped back to $14.2 billion in 2022. However, this reflects a return to normal levels of trading activity rather than a fundamental loss of appetite for industrial assets, as a wide range of global and local investors continue to seek exposure to the sector. Sydney led the way with $5.7 billion traded, followed by Melbourne ($3.7 billion), Brisbane ($1.8 billion) and Perth ($800 million).

Higher funding costs and uncertainty over the outlook are resulting in deals taking longer to transact, as reflected in a relatively subdued Q4 with fewer large deals taking place. Over the full year, cross-border investors remained dominant buyers of industrial stock, accounting for $4.8 billion of total acquisitions, spearheaded by Blackstone, ESR and PGGM (in partnership with Charter Hall).

Cash rate still rising but the cost of debt has stabilised

While the cash rate continues to rise, the cost of debt has stabilised over recent months, with two-year and five-year bond yields holding in the range of 3.0 – 3.5% after escalating sharply during the first half of last year. Recent comments from the RBA have been taken to indicate that further cash rate increases are likely, but this has not impacted medium-term rate expectations, and hence funding costs for industrial investors have remained broadly stable since mid-2022. Prime yields rose further in Q4, with the average prime yield

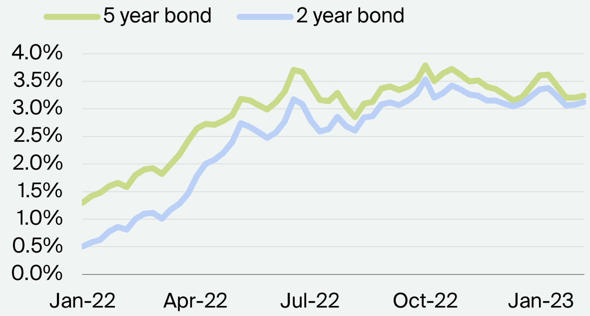


Source: Knight Frank Research, RCA

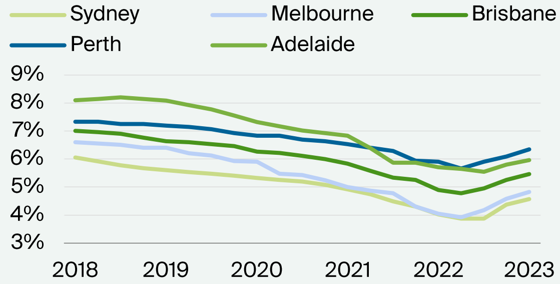
Yield expansion continues but rental growth is a powerful offset for capital values

shifting up by 20 basis points in Sydney (to 4.6%), Melbourne (4.8%), Brisbane (5.45%), Adelaide (6.0%) and by 25 basis points in Perth (6.3%). However, in Sydney a contrast is now emerging between infill locations and larger precincts in the outer suburbs, with South Sydney proving more resilient than the large Outer West and South West.

Despite continued yield shift, the outlook for capital values remains finely balanced because of surging rental growth and varies significantly by location and at asset level. Rapid rental growth in Sydney and Perth has so far out-stripped the impact of yield expansion resulting in further capital growth on average in Q4, whereas the picture is more finely balanced in Melbourne, Brisbane and Adelaide.



Source: Knight Frank Research, Macrobond



Source: Knight Frank Research

SYDNEY

Intense occupier competition encourages leases to be settled well ahead of expiry, resulting in double-digit annual rental growth in 2022

Marco Mascitelli | Associate Director | **Naki Dai** | Research Analyst

Logistics and retail occupiers continue to drive demand

Supported by the sustained uptick in e-commerce, take-up in Q4 totalled c.322,000 sqm, which accounted for 35% of total occupier activity in 2022. While the take-up volumes were limited in the South and Inner West markets due to the limited availability, Outer West and South West markets accounted for 91% of total leasing activity recorded over the quarter. By occupier type, transport/logistics and retail trade occupiers dominated 77% of activity for Q4.

Pre-lease activity remained buoyant, contributing almost 50% of lease volumes in Q4 reflecting the demand continuing to outstrip supply. This was underpinned by Mainfreight pre-committing 55,800 sqm at Logos' Moorebank Logistics Park and Mars pre-committing 33,198 sqm at GPT's Yennora logistic estate.

Vacancy fell by 31% in 2022, emphasising the chronic supply shortage

Shaped by the robust demand fundamentals, industrial vacancies have been at extremely low levels throughout the year. The end-of-year vacancy stands at 89,192 sqm, which indicates a 31% fall y/y.

Among different precincts, the South is the tightest market which has recorded no vacancy since Q3-2021 whilst the Inner West and Outer West experienced significant vacancy decline in 2022, with the available space tightening 65% to 30,010 sqm and 36% to 23,434 sqm accordingly. The limited vacancy levels has left tenants no choice but to negotiate or renew leases for space 3-12 months in advance.

Unprecedented double-digit annual rental growth recorded in 2022

Landlords have benefited from double-digit annual rental growth caused by intense competition among occupiers. Unprecedented net face rental growth was recorded in 2022, with the average prime and secondary net face rent rising 29.1% to $210/sqm and 24.6% to $172/sqm respectively.

Notably, the South West precinct outperformed other Sydney precincts achieving prime net face rental growth of 37% over the year.

On a q/q basis, average prime and secondary net face rents increased by 11.9% and 9.5% respectively. What is notable is that the secondary net face rent growth surpassed the prime rate in the South Sydney market, with quarterly growth of 16.0% and 7.9%.

Developers presented with opportunity for spec developments in last-mile location

The practical completions in 2022 totalled 550,630 sqm, with pre-committed development dominating 73% of new supply. The Outer West region undoubtedly led the development activity, with 74% total supply contributing to the market. On the other hand, developers' appetites vary in different precincts. While 90% of the development in the Inner West area was delivered as speculative stock, 89% of new supply in the Outer West was pre-commitment led.

The construction material supply constraints and soaring building costs have continued piling pressures on project delivery. The development activity in 2022 was 6% below the 5 -year average, with several projects including The Yards Industrial Precinct (73,920 sqm) delayed into 2023.

Yields soften across all precincts again in Q4

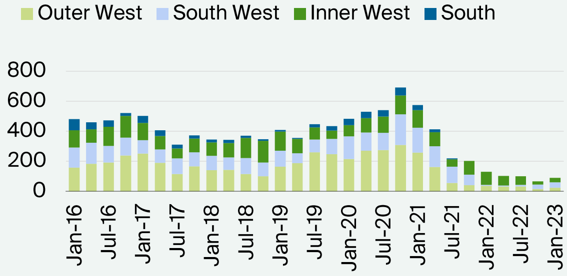
The Sydney average prime and secondary yield softened by around 20bps q/q to 4.6% and 5.1% respectively. This is now a 75bps softening since mid last year.

Compared to different markets, Outer West, South West and Inner West expanded by 25 bps whereas the South mildly expanded by 13 bps on prime assets over the quarter. With elevated debt costs, further yield expansion is expected over the first half of the year.

TAKE-UP (SQM) CY22	MOST ACTIVE SECTOR Q4-22	VACANCY (SQM) Q4	NEW DEVELOPMENT (SQM)
917,630	**46%**	**89,192**	**855,000**
-27% Y/Y	TRANSPORT, POSTAL, WAREHOUSING	34% Q/Q	Completions 2023 (f)

Sydney vacancy

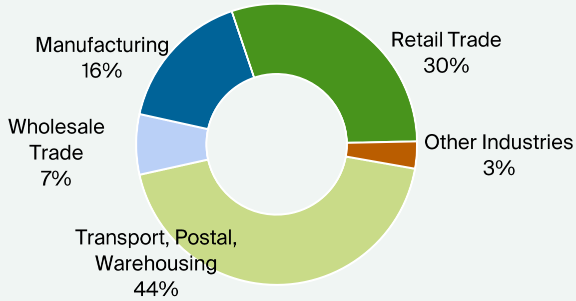
By precinct, '000sqm



Source: Knight Frank Research

Sydney leasing take-up by industry

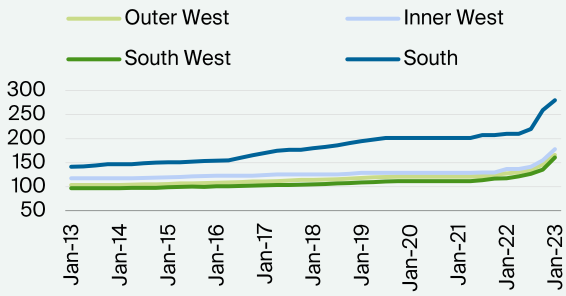
2022, % share by sqm leased



Source: Knight Frank Research

Sydney industrial rents by precinct

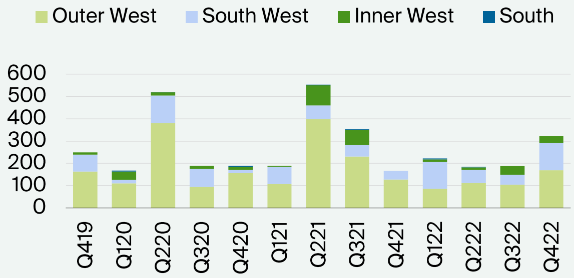
Average prime net face rent, $/sqm



Source: Knight Frank Research

Sydney leasing take-up by precinct

By quarter, '000sqm



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Mars#	38 Pine Rd, Yennora	Outer West	33,198	175	10
Harris Farm Markets#	Bldg. 2/44 Clunies Ross St, Prospect	Outer West	18,535	254	15
The Iconic~	11-13 Berry St, Clyde	Inner West	17,925	200	4
Bunnings~	157 Hartley Rd & 23 Anzac St, Smeaton Grange	South West	16,785	156	5
EzyMart~	82 Belmore Rd, Riverwood	South West	16,169	135	7

Pre-commitment ^ Lease of speculatively developed space ~Existing space

MELBOURNE

Market ends the year with vacancies at a record low as record supply absorbed from strong demand and pre-commitment activity

By Tony McGough

Vacant space continues to fall to more than a year-end low

Continuing the trend from throughout the year the amount of vacant space fell to a new low finishing at 231,640 sqm. Strong demand and precommitments meant all new supply was all absorbed. A couple of larger leasing deals in the South East (such as the Spicers deal in Keysborough for 16,065 sqm) saw nearly 50,000 sqm drop off as vacant space in that precinct, leaving all precincts with availability below 80,000 sqm. Availability of prime space is becoming more of an issue, with only 17 buildings (over 5,000 sqm) available within the Melbourne area, and several precincts having only 1 or 2 buildings.

Logistics holds on to take-up top slot in 2022

The continued demand for logistical space, which took 53% of total take up in Q4, meant that it remained the main sector demanding industrial space in 2022, as the main global industrial trends impacted on the Australian market. Manufacturing remained a close second, Total take-up in Q4 fell by a third to 234,206 sqm as availability issues limited deals. The West was the most active, with two thirds (157,250 sqm) of deals and pre-commits coming through in the quarter particularly in Truganina.

Supply in 2023 expected to be less than half 2022

2022 saw virtually all expected developments delivered resulting in a record 1,304,638 sqm of space arriving on the market. Expectations for 2023 have dropped slightly from last quarter with just over half the 2022 figure now expected to be developed. 670,944 sqm would normally be considered a reasonable level of supply but following on from 2021 and 2022 it looks limited. This is particularly the case as over a quarter of the space is already pre-committed/owner occupier. The West will be providing over half of the new space with 354,173 sqm set to be available. As projects finalise, the split for new space becomes clearer with 50+:20+:20+ to the West, North and South East; with very little activity in the East, and the Fringe providing a small amount of new space for the first time in a few years.

Rental growth moderates after a strong 2022

Rental growth moderated further in Q4 with prime rents rising 1.8% for the quarter (20.5% y/y) and secondary showing a 2.0% growth (27.9% y/y). In the East and South East rents were flat, and there was limited growth in prime rents in the West (up 1.9%, with secondary flat). Growth returned in the Fringe, up 12.5% on the quarter after being quiet for most of the year. The North also remained active with rents rising by 4.9% (prime) and 8.7% (secondary), but on activity limited by availability. At the same time incentives have remained at historic lows of around 10-12%. Forecasts for 2023 are for continued but slightly more nuanced rises in rents following last year's surge.

Land values hold their value at historic highs

Land values remained flat overall in the quarter, with a continued slight weakness in the smaller sizes (<5000 sqm) which saw the most rapid rise in the last couple of years. Values in the West rose to mainly recapture slight losses in Q3, while the North also saw a continued steady rise across lot sizes of 1-4%. While the City Fringe was flat the East and South East saw slight falls off historic highs. A slight note of caution has hit the market following strong rises through 2021-22. Though construction cost inflation has moderated in recent months, the acknowledgement that global market slowdowns will impact Australia to some extent, means that rental growth is not unlimited, though the market is expected to still perform well in 2023.

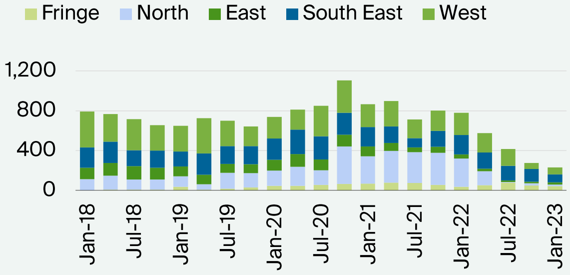
Yields continue their steady rise

Q4 saw yields move 25bps out across the board with prime yields now at 4.8% (4.9% excl. Fringe) and secondary at 5.6%. The continued rise in interest rates was not fully reflected in yield pricing as government bonds stabilised. Unsurprisingly Q4 was quieter than Q3, though some major sales continued including Douglas Street in Port Melbourne for $41.5m. A flurry at the end of the year saw two sites at South Gippsland Highway and Princes Highway, both in South Dandenong sell for a combined $135m. Clearly interest remains in the sector as continued growth is expected in the market in 2023.

TAKE-UP (SQM) Q4	MOST ACTIVE SECTOR Q4	VACANCY (SQM) Q4	NEW DEVELOPMENT (SQM)
234,206	**53%**	**231,640**	**670,944**
-33% Q/Q	TRANSPORT, POSTAL, WAREHOUSING	-14% Q/Q	Estimated 2023 (f)

Melbourne industrial vacancy

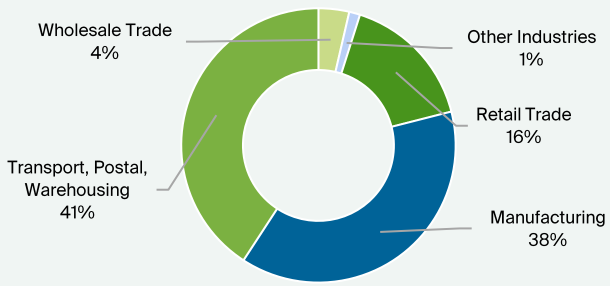
'000sqm by precinct



Source: Knight Frank Research

Melbourne leasing take-up by industry

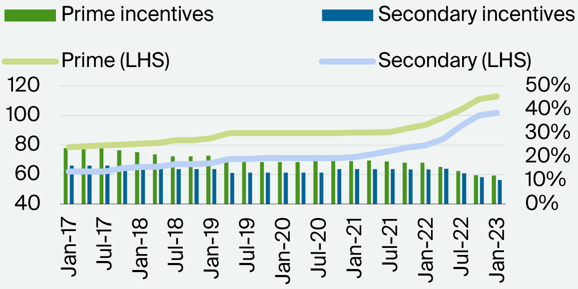
2022CY, % share by sqm leased



Source: Knight Frank Research

Melbourne industrial rents & incentives

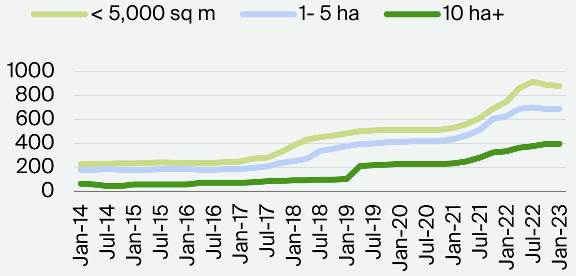
$/sqm net rents, % incentives; excl. fringe



Source: Knight Frank Research

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)
FDM Warehousing~	33 Archer Road, Truganina	West	15,228	U/D	4.5
Mondelez#	90 Palmers Road, Truganina	West	42,774	U/D	10.0
Spicers Australia~	WA, 150-168 Atlantic Drive, Keysborough	South East	16,065	98	5.0
Freedom^	Spec 3C Goodall Close, Dandenong South	South East	14,760	120	10.0
Qube Logistics~	34 Australis Drive, Derrimut	West	25,243	95	5.0

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

BRISBANE

Tenant demand has remained elevated while limited vacancy and a supply pipeline constrained by slow completions and higher delivery costs fuels rental growth

By Jennelle Wilson

Over 1 million square metres taken up in Brisbane during 2022

Leasing activity in Q4 fell slightly to 242,948sqm, but remained at the elevated levels seen in the market since 2021. The annual take-up was 1.1 million square metres, a record level and the highest across the East Coast markets for 2022. During Q4 the strongest take-up was for pre-committed space, totalling over 94,000sqm, followed by existing space with 92,600sqm and speculative developments at 56,000sqm. Take-up was highest in the South West with 35% of the quarterly activity.

Transport and logistics users remain dominant in the market

Transport, postal and warehouse users were the most active tenant type with 32% of take-up during 2022, ahead of manufacturers at 21% and 16% for retailers. Major leasing agreements in Q4 included Tasman Logistics (22,700qm) and Australia Post (11,798sqm) into speculatively developed space, Australian Comfort Group (10,200sqm) and DHL (10,031sqm) into existing space and Essity (13,000sqm), Chep (8,163sqm) and API (c20,000sqm) agreeing to pre-commitments.

Vacancy fell a further 14% in Q4, sitting at 10-year lows

Vacant space fell a further 14% in Q4 to be 38% lower than a year ago and 65% (408,000sqm) below the recent peak in early 2021. Absorption of vacant space was lower at 86,353sqm in Q4 as opportunities continued to contract. More than half (56%) of vacancy absorbed was in speculative space, all of which was still under construction with no completed speculative space available across the Brisbane market. Existing prime space accounted for a further 20% of take-up. The demand to occupy immediately or within three months remains high with more deals than ever occurring before the sitting tenant has vacated and the asset becoming formally vacant.

Secondary vacancy increased slightly in Q4 to 90,800sqm but remains near record lows and 74% below the recent late 2020 peak. Of the 12 secondary options only three are above 10,000sqm with most only accommodating smaller tenants.

Rental growth still surging as incentive levels reduce

Average prime face rents increased by 15.5% y/y to $137/sqm net, while average incentives reduced for existing stock to 10.8% and have made meaningful reductions for speculative/pre-commitment deals. This resulted in effective prime rental growth of 22% y/y. Secondary market rents have continued to outpace prime, increasing by 24.7% y/y for face ($123/sqm) and 30% y/y on an effective basis.

Supply expected to be higher in 2023, but headwinds remain to trigger new starts

Delivery of new supply accelerated during 2022 reaching 446,000sqm, albeit with some projects delayed by weather and materials/labour shortages into 2023. Supply for 2023 may top 1 million square metres, underpinned by pre-leases of 500,000+sqm. However as construction delivery timeframes continue to blow out to 10+ months, completions for 2023 may moderate, pushed into 2024 if projects do not commence in the short term. Economic rents for new development continue to increase, which will maintain upward pressure on rents while vacancy remains low.

The gap between vendor and purchaser price expectations has constrained turnover volume

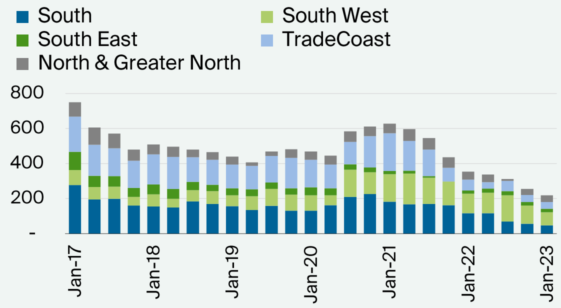
Land values remain historically high, but prices have begun to moderate as feasibility deterioration (higher yields & construction costs) has softened prices by an estimated $10-20/sqm. Owner occupiers are active, with the motivation to secure long term premises front of mind for many users.

Investment sales remained slow in Q4 with the gap in pricing expectation between vendor and purchaser still a hurdle to greater investment turnover. The largest recent sale has been the $32.25million transaction for 112 Cullen Ave, Eagle Farm, divested by Dexus. The multi-tenanted asset was sold on a core market yield of 5.63% and a WALE of 1.5 years. Yields appear to have softened by 15-30 basis points in Q4 and a total of 55-60bps from early 2022. A further lift in sales volume is required to determine the stabilised yield levels.

TAKE-UP (SQM) Q4	MOST ACTIVE SECTOR RTM	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
242,948	**32%**	**219,060**	**1,045,000**
38% ABOVE THE 5Y-AVG	TRANSPORT, POSTAL & WAREHOUSING	-14% Q/Q	Estimated 2023 (f)

Brisbane industrial vacancy

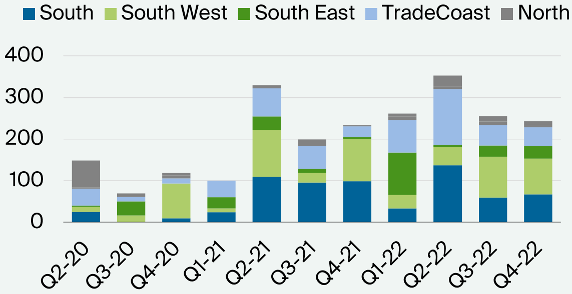
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane leasing take-up

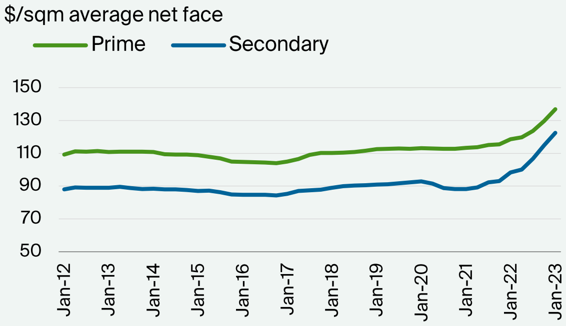
'000sqm by precinct



Source: Knight Frank Research

Brisbane industrial rents

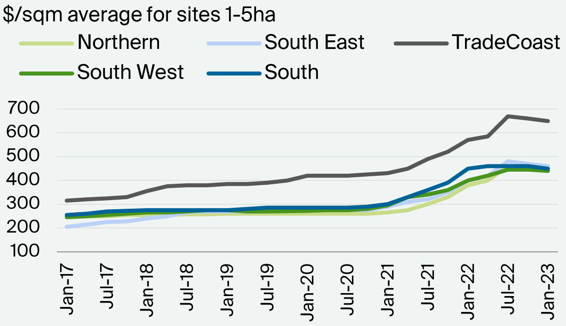
$/sqm average net face



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
Tasman Logistics^	40 Barracks Rd—Bld 2, Wacol	South West	22,700	125	10
Australia Post^	33 Goodman Pl, Murarrie	TradeCoast	11,798	150	10
Australian Comfort Group~	29 Southlink Pl, Parkinson	South	10,200	115	3.75
Mayo Hardware#	Wacol Logistics Hub, Wacol	South West	9,200	110	7
Intercentral Logistics^	2 Wattlebird Close, Berrinba	South	6,700	125	5

Pre-commitment ^ Lease of speculatively developed space ~Existing space

ADELAIDE

With continued increases across land and rental values, coupled with a softening of yields, the market remains strong despite uncertain macroeconomic factors.

By Bradley Tobiassen

Demand continues despite a shifting market

In the second half of 2022, the industrial development market experienced a slowdown, primarily due to increased debt and construction costs. Despite this, demand for industrial assets remained strong, particularly in the parcel delivery, transportation, and logistics industries. These sectors have taken up substantial land near Adelaide Airport and Inner North. As evidence of this demand, two ground leases have been signed to developers for the construction of new facilities for DHL and FedEx at Transport Avenue, Adelaide Airport.

Land values for both smaller and larger sized allotments have increased in the past twelve months with growth ranging from 18-127% approximately between the precincts. Smaller allotments in the Outer North observed the greatest increase of 127%, followed by larger lots with an increase of 114%. This is highlighted by the recent resale of Allotment 302 Hercules Drive, Direk experiencing a 48% rise in sale price within an eight month period.

Approximately 85.5% of forecasted development to be completed by 2025 is to occur in either the Inner or Outer North precincts (Cordell Connect). The Outer North precinct has grown in popularity among investors and tenants as one of the regions with the greatest available and most affordable land, and due to the north/south connector improving accessibility.

Tenant needs adjust to rising rents

Continued rises in construction costs and supply chain issues has hindered forecasted supply of industrial assets from meeting pent-up demand levels, pushing up rental growth for existing stock. Average rental rates across all grades for prime and secondary assets have risen in Q4 by 4.62% to $113/sqm p.a. and 3.60% to $86/sqm p.a. net, respectively. Furthermore, due to continued strong demand for industrial assets, the average incentive for prime stock in Q4 has remained stable at the 10-year low of 7.00%.

In response to current market uncertainty, both tenants and lessors are moving from longer leases to shorter leases as a means to minimise risk. This is particularly true for institutional tenants, who have been more inclined to consider sub-7 year leases. In addition, vacancy for industrial space has grown slightly, from 421,988 sqm to 493,097 sqm over the last six months.

Sales volume grows despite softening yields

In Q4 2022, both blended prime and secondary yields have softened from 5.80% and 6.89% to 5.97% and 6.94% respectively, reflecting the second consecutive quarter where yields have softened. The sale of 113 Ledger Road, Beverley provides evidence that yields are moving. The fully leased office/warehouse recently sold for $14,225,000 on a market yield of 6.19% with a GLA rate of $1,736/sqm.

Total sales volume for industrial assets above $5m in the 2022 calendar year was $596.37 million (incl. $30.64 million regionally), with approximately $453.38 million or 76.02% occurring within the Inner and Outer Northern industrial precincts. There were less sales by number in 2022 compared with the year prior, yet sales value growth showed an approximate 22.34% increase.

Outlook for industrial sector remains positive despite current conditions

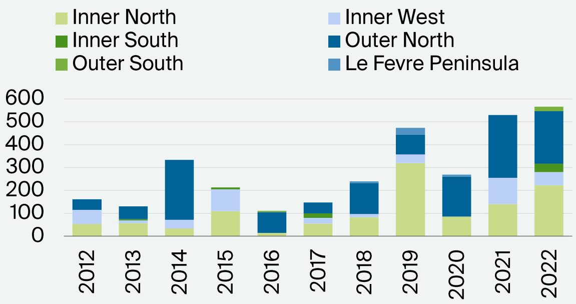
Faced with rising inflation and the challenges posed by the limited availability and high cost of debt, market activity has persisted, albeit at a slower pace. Many market participants are adopting a cautious "wait and see" approach until the impacts of these factors on asset values become clearer.

The disparity between high rental rates and lower land values in Adelaide in comparison to the eastern states has garnered attention, positioning South Australia as an attractive location for all types of investors. Despite the slowing market due to rising interest rates, elevated construction costs, and supply chain difficulties, industrial assets remain a secure investment option, with historically low vacancy rates and projected rental growth.

TAKE-UP (SQM) 2022CY	VACANCY (SQM)	NEW DEVELOPMENT ($)	NEW DEVELOPMENT (SQM)
334,944	**493,097**	**310.12M**	**177,125**
(5,000SQM +)	(5,000SQM +)	Forecast completion by 2025	Forecast completion by 2025

Adelaide industrial sales

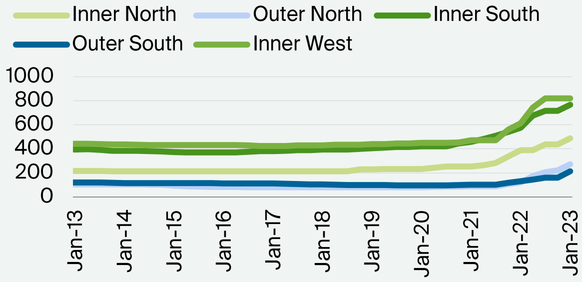
$5mil sales, 2012 to 2022



Source: Knight Frank Research

Adelaide industrial land values

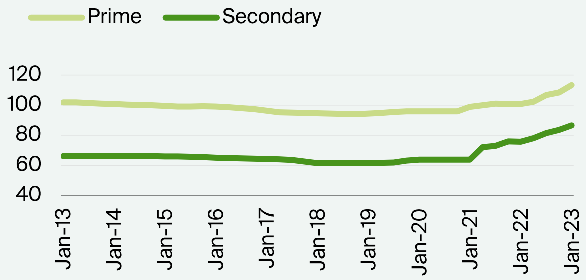
Average $/sqm by precincts for land <5,000 m2



Source: Knight Frank Research

Adelaide industrial rents

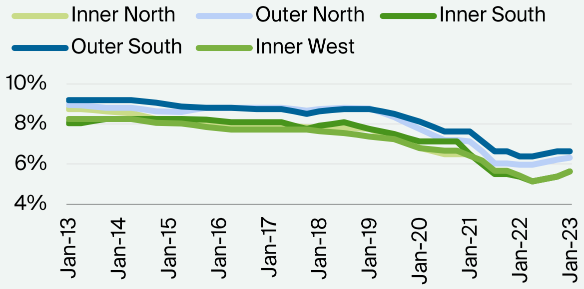
Average $/sqm p.a. net face by grade



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)
Myability	1/550 Churchill Road, Kilburn	Inner North	1,700	159	5
VALO	93 Ferries McDonald Road, Monarto South	Outer South	64,459	50	7
Apex Steel	36 Caribou Drive, Direk	Outer North	21,780	92	15

PERTH

Occupier demand remains strong with significant rental growth in a market punctuated by supply shortfalls

By Theodore Connell-Variy

Continued demand and strong growth

Q4 continued Q3's trend with sustained strong demand across submarkets and supply well below 100,000 sqm. Q4 showed stronger signs of rental growth indicative of this strong demand – notably in the North and East where rents increased 12.7% and 7.4% respectively. The continued expansion of the logistics sector as well as sustained demand upticks from major online retailers underpins demand. Changing operational praxis' means existing tenants are requiring additional space and new market entrants have new requirements, with increased space requirements as logistics utilise more, regular, smaller shipment models that require high stock turnover. In turn, this has further increased competition for scarce stock and continued to push sub-markets to new highs.

Perth's prime average market rents increased by 7% in Q4, lifting the annual growth rate to 41.1%, putting Perth's industrial market considerably ahead of the next-best performing industrial market nationally, Sydney. Within Perth the South (Inner and Outer) precinct is still performing strongly – increases of 3.8% and 4.3% for the quarter respectively. The East precinct also performed strongly with an annual growth rate of 38.1%. The container terminal to be developed in Kwinana (planning in progress) suggests that the South precinct will see further rental growth in the near term with supply continuing to tighten.

Land is at a premium

Land values have remained stable from Q3 to Q4, similar to other markets. The three most highly sought after areas in the recent quarter are Kewdale/Welshpool, Canning Vale/Jandakot and Kenwick. In these areas any available stock has been quickly snapped up. Strong demand continues to come from the mining industry, manufacturing the e-commerce sector, although we note the latter's continuing evolution and, with this, changing demand profile. This, it would appear, has resulted in a transfer of demand to secondary markets for example in Naval Base, Forrestdale and Hazlemere. Land supply is generally tight across Perth's industrial areas but has tightened most notably in the South precinct, with developers refocusing, increasingly looking for value in areas that have traditionally been seen as secondary.
Continued strong demand combined with limited supply has

The South remains the highlight

meant that land prices have exhibited sustained growth. Land values for medium-sized lots remained stable into Q4 to be up by 19.8% over the year. Despite unvaried land value movements captured this quarter medium lot land values in eastern and inner southern precincts were both up by 25% over the year. Large, multi-hectare sites are market leading and achieving land prices in the high $500/sqm. That said, it is clear that smaller sites are too in demand and there is an increasingly small differential in prices between differently sized products coming to market.

Yields continue to soften, albeit only slightly

The Perth industrial property market has continued to experience a softening of yields, albeit slightly, almost uniformly across markets. Generally, the continued pricing adjustments following on from Q3 2022 have seen yields soften a further 25 bps. Continuing challenges around debt pricing suggest this will continue. There was limited activity this quarter, however high-quality space in preferred locations were still sought out and the changed perceptions on the market and shifting buyer sentiment has continued the emergent trend of softening yields from the previous quarter.

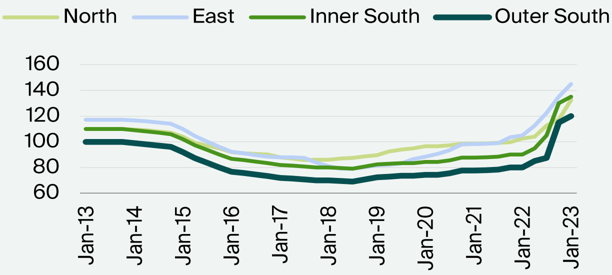
Most precincts experienced a modest yield expansion of 25 bps over Q4, with the average prime yield at 6.34% and the average secondary yield at 7.03%. Yields have shown quarter-on-quarter softening, and this is resultant from rising debt costs and expected to continue in the near future.

Perth's industrial market is now more in-line with the nation broadly, with the softening of yields occurring across the board. Albiet, it appears investors still see a unique value proposition in Perth with yield expectations still above eastern seaboard capitals and we believe that this will continue in the short term.

PRIME RENTAL GROWTH	LAND VALUE GROWTH (<5,000SQM)	LAND VALUE GROWTH (1-5HA)	PRIME YIELD SHIFT
7%	**16.1%**	**19.8%**	**+25 BPS**
Q/Q AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	YIELDS MOVE OUT IN Q4

Perth industrial rents by precinct

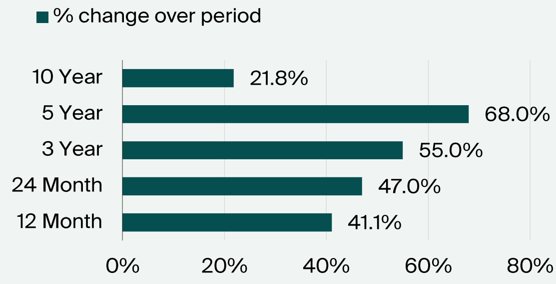
Average prime net face rent, $/sqm



Source: Knight Frank Research

Perth % growth net face rent

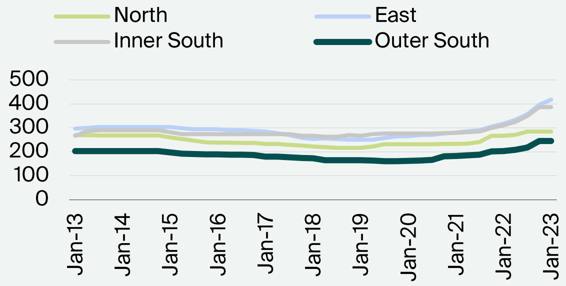
% Growth rate of $/sqm pa net face, blended rate



Source: Knight Frank Research

Perth land values by precinct

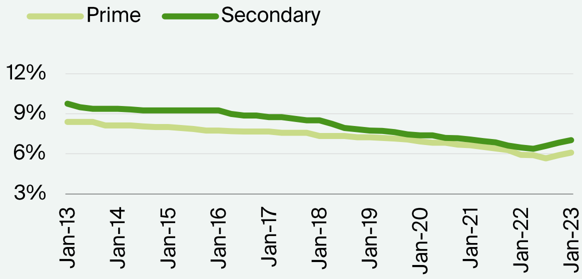
average $/sqm, medium lots 1-5ha



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)
Independence Australia	20 Aitken Way, Kewdale	East	3,139	126	10
Sinopec ~	21 Logistics Boulevard, Kenwick	East	2,825	170	10
U/D	8 Gauge Circuit, Canning Vale	South	6,698	140	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	20-50 Waterview Close, Dandenong	19.8	9,291	2,131	Centennial I&L	APACK	5.21	3.0
Melbourne	45-49 Vella Drive, Sunshine West	11.0	5,350	2,056	Centennial I&L	Australian Securities	4.40	3.8
Melbourne	4 Healey Road, Dandenong South	15.0	10,914	1,347	ESR Cayman	Osprey Property Group	-	5.7
Melbourne	4-6 Burns Road, Altona	21.2	7,055	3,001	Fal Logistics 1	U/D	4.22	10.0
Sydney	30 Clay Place, Eastern Creek	34.5	6,183	5,580	FIFA Capital	Centuria	3.48	3.4
Sydney	137-147 McCredie Road, Smithfield	30.3	10,210	2,963	Madad Property	3M Australia	4.44	U/D
Sydney	13 Ferndell Street, South Granville	57.0	15,320	3,725	Hines	Pipeclay Lawson	3.31	3.3
Brisbane	112 Cullen Ave, Eagle Farm	32.3	12,034	2,680	Altis Property Partners	Dexus	5.63	1.5
Brisbane	63 Tile St, Wacol	16.3	7,804	2,089	Centennial Property Group	GM Property	5.97	4.4
Brisbane	47 Acanthus St, Darra	15.9	3,937	4,039	(Private Investor)	Dexus	5.52	4.3
Adelaide	1161-1171 Main North Road, Pooraka	26.5	9,165	2,891	(Private Investor)	Bricktop Group	5.29	5.4
Adelaide	113 Ledger Road, Beverley	14.2	8,194	1,736	Leyton Funds	(Private Investor)	6.19	1.7
Adelaide	300 Richmond Road Netley	71.3	134,714	42,112	Harmony Corporate	Charter Hall	4.45	2.5
Perth	2-10 Kewdale Road, Welshpool	20.0	11,449	1,747	U/D	Bend-tech Group	6.10	10.0
Perth	198-202 Bannister Road, Canning Vale	14.7	7,808	1,883	Harmony	Gianni Redolatti	5.94	10.8
Perth	64 Great Eastern Highway, South Guildford	16.0	4,593	3,484	Westbridge	Acure Asset Management	5.36	6.1

[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 (5,000m^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

Industrial Logistics NSW
James Reeves
+61 2 9036 6728
James.Reeves@au.knightfrank.com

Industrial Logistics, National
James Templeton
+61 3 9604 4724
James.Templton@au.knightfrank.com

Industrial Logistics– Investments
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

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

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

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