Australian Industrial Review

Q4 2023

Tenant demand has remained robust as green shoots emerge in the investment market due to greater financial market stability

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Key Insights

The following are significant insights extracted from our data and research that provide a deeper understanding of the Australian Industrial Market.

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+7%

Vacancy increase across the Eastern Seaboard q/q

Vacancy has increased for the third straight quarter across the Eastern seaboard, although it is still 42% below the level of two years ago.

$2.4b

Investment volume Q4-2023

Investment volumes fell by 26% in 2023 impacted by higher funding costs. Yields have now substantially reset, and deal flow is expected to pick up through 2024.

2.9m

Sqm of new supply in 2024

New supply in 2024 is forecast to top record levels of 2023 (2.6m sqm) with over 2.9m sqm forecast across the Eastern seaboard. Over 1 million sqm of this is under construction in Q1-24.

+1.8%

Q/Q prime rental growth in Perth

Perth saw the highest quarterly prime rental growth, with average prime net face rent up by 1.8% q/q to $139/sqm.

25bps

Prime yield softening in Melbourne q/q

Ongoing yield softening was most pronounced in the growth areas of the North and West.

20bps

Prime yield softening in Sydney q/q

Investor types are broadening with buyers not usually active in the market taking advantage of the recently lower institutional appetite.

Key Indicators Q4 2023

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*	245	200	5.00-5.50	2,005	1,716
Brisbane	157	140	5.50-6.00	534	490
Melbourne**	135	113	5.00-5.50	1,143	894
Adelaide	127	93	5.75-6.25	557	392
Perth	139	116	5.50-6.00	485	362

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 $202/sqm, secondary: $166/sqm; small lots: $1,269/sqm, 1-5ha lots: $1,180/sqm. *Melbourne (excluding the Fringe) prime net face rents average $124/sqm, secondary: $107/sqm; small lots: $879/sqm, 1-5ha lots: $668/sqm.

Leasing Market

Accelerated supply in a climate of steady tenant demand is eroding the severe undersupply of 2023, allowing for a return towards more normal vacancy levels and rental growth

VACANCY IS GRADUALLY NORMALISING

Available industrial space increased by 7% in Q4 across the eastern seaboard, however, remains 42% below the level two years ago and 70% below the 2020 peak. This lift is being driven by greater secondary vacancy which was up 30% in the quarter. While secondary vacancy fell in Brisbane there were increases in Sydney (+7,592sqm) and Melbourne (+95,063sqm). Prime vacancy decreased by 5% in Q4, as an increase in existing prime space was balanced by falls in speculative availability. Speculative space is 29% of total vacancy, still well above average (20%) but the lowest proportion for 2.5 years.

Sydney remains the tightest market with only 76,175sqm available, up from 48,716sqm in Q3 but still functionally at gridlock. Melbourne vacancy lifted by 18% while Brisbane fell by 10%.

ACCELERATED SUPPLY SUPPORTED BY TAKE-UP

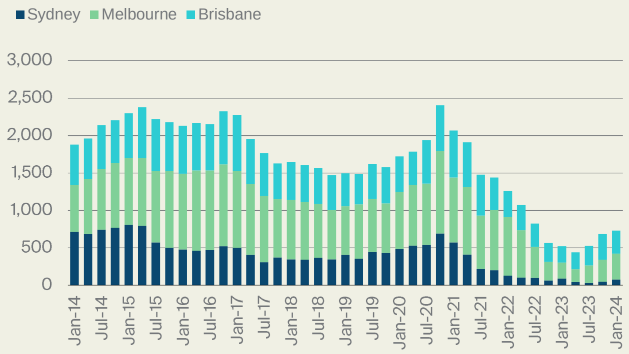
Construction across the East Coast surged by 26% in 2023 to 2.6 million sqm. As the vacancy uplift indicates, this level of construction is beginning to ease undersupply in the market. With more than a million square metres of pre-committed space expected to be delivered in 2024, the supply for 2024 may well be on par with last year. The drive for efficiency and to meet ESG standards will continue to support above-trend demand for new space.

Leasing take-up dropped by 5% in Q4 to 741,530sqm as tenant activity has somewhat defied softening sentiment on rental affordability. Annual take-up across the East Coast was 2.8 million square metres, only 5% below 2022, with Sydney the only city to breach 1 million sqm leased.

RENTAL GROWTH WILL BE SLOWER IN H1 2024

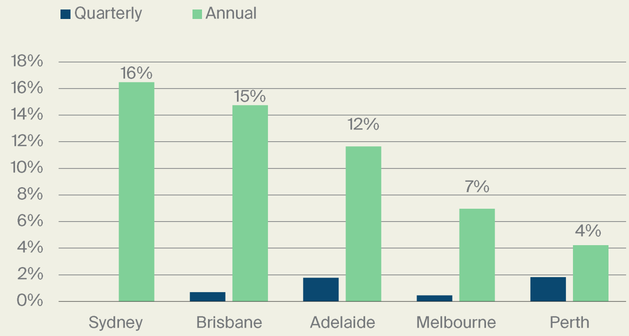
After exceptionally high rental growth of 25-50% over the past two years the market has entered a stabilisation phase for rents. Quarterly prime growth was sub-2% across all capital city markets in Q4 as the expected pause in rental growth eventuated. Annual growth remains led by Sydney at 16% y/y ahead of Brisbane with 15% y/y. The remaining cities range from 4% - 12% annual growth. Incentives have remained mostly stable, with increases across selected Sydney and Melbourne precincts. Rental growth is expected to remain subdued through H1 2024, before prime rents are again drawn upwards by economic rents required to trigger additional development in the second half of the year. Secondary rents may be exposed.

Eastern Seaboard industrial vacancy
'000 sqm, quarterly, 5,000 sqm+



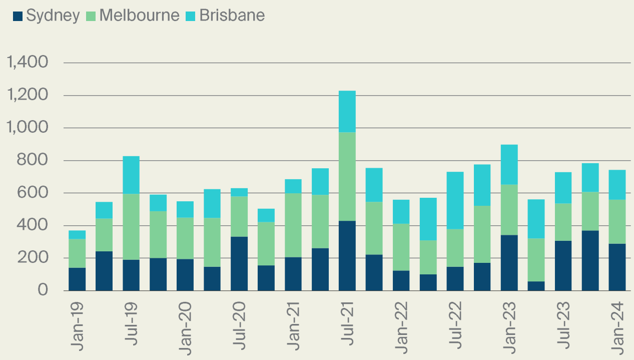
Source: Knight Frank Research

Prime rent growth
Average across major capital cities



Source: Knight Frank Research

Eastern Seaboard industrial take-up
By quarter, '000sqm, (>5,000sqm)*



Source: Knight Frank Research

Investment

Industrial market weathering the storm better than other asset classes with investors poised to return to acquisition mode in 2024

INVESTMENT VOLUMES REVERT TO 2018-20 LEVELS

Industrial investment volumes nationally fell by 26% in 2023, as property markets paused to digest the impact of higher funding costs and an uncertain economic outlook. However, the decline in the industrial market was significantly less that the decline experienced in other sectors, including offices (-65%) and retail (-48%), reflecting that valuations have not been impacted to the same degree, plus greater confidence in the outlook.

Sydney was the most actively traded market among the major cities. Many investors are viewing current conditions as providing an opportunity to bid for Sydney assets with less competition than normal; given that many institutional investors have not been acquisitive.

Reflecting this, private investors – typically HNWIs and syndicates – were the most active buyer type in 2023, accounting for 46% of total volume, compared to a historic average of 30%, with cross-border and listed investors taking a commensurately smaller share.

YIELD SHIFT NEARLY COMPLETE

Yields continued to shift out in most markets in Q4 and have now shifted by 150-200 basis points since mid-2022. The average prime yield in Sydney now stands at 5.46%, with Melbourne at 5.52%, Brisbane at 6.25%, Perth at 6.45% and Adelaide at 6.33%.

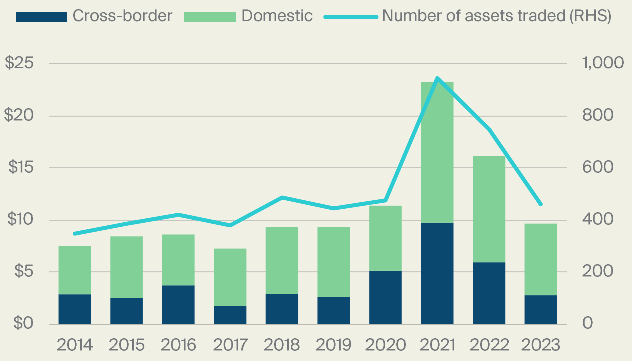
After a significant uplift nationally and internationally, the adjustment is now largely complete. Indeed, yields in Brisbane and Adelaide held firm in Q4 and provide a pointer to the stabilising trend that we expect to see play out in coming quarters.

IMPROVING OUTLOOK FOR INVESTORS AS INFLATION FALLS AND RATES OUTLOOK SHIFTS

As investors look ahead to 2024, sentiment has been buoyed by recent data pointing to declining inflation globally and hence an improving outlook for interest rates, with markets factoring in the potential for rate cuts later this year. It remains to be see whether these expectations will be met, but the debate provides a much more supportive backdrop for property than a year ago. With yields having substantially reset and the macro picture more encouraging, deal flow is likely to pick up as more investors return to acquisition mode.

Australian industrial investment volumes

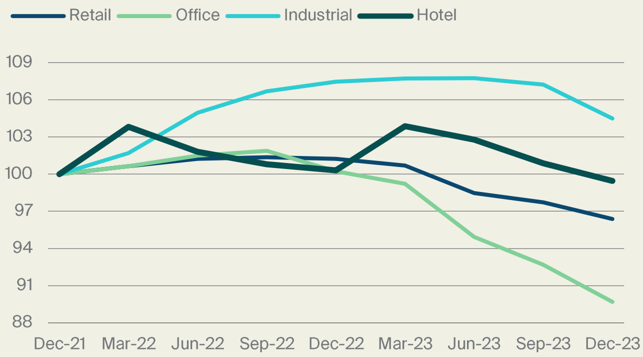
A$ billion, number of transactions



Source: Knight Frank Research, RCA

Industrial values holding up

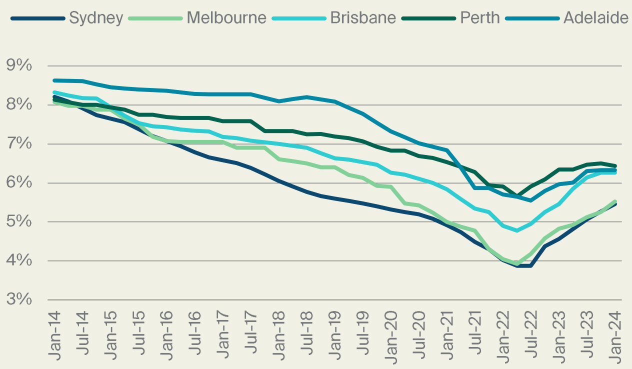
Capital value index by sector, December 2021 = 100



Source: Knight Frank Research, MSCI

Industrial prime yields

Average across precincts (5,000 sqm assets, 5 yr WALE)



Source: Knight Frank Research

Recent Sales

Recent significant sales

City	Property	Price $M	Size sqm	$/sqm	Purchaser	Vendor	Yield %[1]	WALE
Melbourne	2-30 Saintly Drive, Turganina	94.00	46,932	2,005	Barings & Rest Industry Super	Charter Hall	4.70	2.4
Melbourne	125-175 Patullos Lane, Somerton	48.25	32,922	1,466	Cadence Property Group	Acure	-	6.8
Melbourne	1, 8-9 / 13 Downward Street, Braeside	23.00	16,520	1,392	Avari Capital Partners	S.J.C Contractors	6.30	3.7
Sydney	51 Eastern Creek Dr, Eastern Creek	87.00	26,247	3,315	Pittwater Industrial	Dexus	5.25	3.5
Sydney	19-21 Loyalty Road, North Rocks	70.60	19,187	3,680	Centuria Capital	Leda Holdings	6.00	2.5
Sydney	338 Woodpark Road, Smithfield	57.25	17,746	3,222	Phoenix Propety Jv Burstone Group	EK Nominees	6.00	1.7
Brisbane	62 & 92 Sandstone Place, Parkinson & 77 Logistics Pl Larapinta^	73.00	36,884	1,979	Ashe Morgan	CapitaLand	6.35	2.4
Brisbane	131 Beenleigh Rd, Acacia Ridge	55.00	27,253	2,018	Private Investor	Centennial Property	5.81	6.9
Brisbane	47 Trade St, Lytton	14.50	5,005	2,897	Private Investor	Charter Hall	6.02	3.3
Adelaide	1-3 Pope Court, Beverley	35.00	14,402	2,430	AS Group	Growthpoint	5.15	1.4
Adelaide	53-73 Churchill Road North, Dry Creek	13.75	11,693	1,176	Leyton Funds	Flight Plastics	6.97	3.1
Adelaide	5-8 Acorn Court & 17-19 Duncan Road, Dry Creek	6.71	6,717	2,047	Accord Funds	Local Private	6.69	3.2
Perth	40-44 Railway Parade, Welshpool	4.80	4,594	1,045	u/d	u/d	7.03	0.2
Perth	14 Rothschild Place & 3-7 Muros Place, Midvale	5.70	1,023	5,572	VPL Transport	St Property Management PT	6.86	4.66
Perth	279 Bannister Road, Canning Vale	16.00	2,662	6,011	Jamieson Australia	St Property Management PT	7.34	1.45

[1] Core Market Yield ^part of a larger portfolio offering

Sydney

Healthy development pipeline for 2024 and slowing rental growth likely to provide relief for occupiers seeking space

LEASING DEMAND CONCENTRATED IN OUTER & SOUTH WEST PRECINCTS

Leasing activity in Q4 recorded 289,245 sqm, taking the 2023 total to over one million sqm. Take-up was highest in the Outer West with 62% contributed in 2023, followed by South West (20%). More specifically, take-up in the Outer West concentrated in Eastern Creek, Horsley Park and Kemps Creek, which recorded over half of the leasing volumes in the precinct.

By sector, occupier demand in Q4 was dominated by retailers, accounting for 46% of take-up. Notable transactions include e-commerce giant Amazon pre-committing c. 57,000 sqm in Oakdale East and securing c. 33,000 sqm in ESR Horsley Logistics Park to expand its fulfilment capacity. Transport/logistics operators saw take up of 83,000sqm across the Outer West and South West precincts. Interestingly, transport/logistics secured space 6-12 months ahead of the space being physically vacated, including DHL committing c. 33,700 sqm in Greystanes Park West Estate 10 months before the outgoing tenant lease expiry, furthermore Brandlink renewed its place in Arndell Park 8 months prior to expiry.

VACANCY MARGINALLY INCREASED IN Q4, BUT REMAINS AT NEAR-RECORD LOWS

Vacancy rose marginally to 76,175 sqm across Sydney in Q4, this still sits at near record lows and was down by 15% over the year. New vacancy appeared in the Inner West and Outer West precincts, with the newly constructed facilities improving space available on the market.

By precinct, the South remains the tightest market with only two buildings combining for 12,000 sqm of vacant space at the end of Q4. Whilst Inner West reported 28,000 sqm available space, accounting for 37% of the vacancy on the market.

DOUBLE-DIGIT RENTAL GROWTH IN 2023, ALTHOUGH PACE IS SET TO SLOW IN 2024

All precincts achieved double-digit rental growth on prime facilities in 2023. The average prime net face rent increased by 16.5% y/y to $245/sqm.

“**Retailers** accounted for **46% of take-up** in Q4”

“**Spec developments** accounted for **48%** of new supply in 2023”

The Outer West outperformed other precincts with 22.3% annual growth to average $203/sqm. South Sydney has the highest average rent of $328/sqm. In the secondary market net face rents averaged $200/sqm as at Q4, which is annual growth of 16.4%.

Incentives climbed slightly at the back end of the year to range 9-12% after holding firm at decade lows since the beginning of 2023. Further modest increases in incentives are expected in 2024 considering the increasing supply to relieve the tight market.

RECORD DEVELOPMENT IN 2023

2023 finished with a record 895,048 sqm of new supply being delivered to the market. Developer confidence in the market is highlighted by speculative development accounting for 48% of new stock, well up on the 5 year average of 31%. Major completions in 2023 include Lot 3&4 at Altitude Estate (c. 78,000 sqm), WH 5 at The Yards (c. 74,000 sqm) and WH 5&7 at Ingleburn Logistics Park (c. 30,000 sqm).

Looking ahead, the market is expected to continue with a similar level of development with c. 867,000sqm forecast for delivery in 2024, underpinned by 52% pre-commitments. The multi-level warehousing momentum will see the delivery of Charter Hall’s Ascent on Bourke (86% committed) and Cabot Properties’ Portal in the second half of 2024.

YIELDS LIKELY TO STABILISE IN 2024

Prime yields have expanded by 20 bps over Q4 to 5.46%, whilst there was further expansion in the secondary market of 37 bps to average 6.4%. The yield softening trend started in mid-2022 and has moved average yields out over 160 bps for prime and 200 bps for secondary.

Investment activity through the quarter focused on Inner and Outer Western regions. Notable transactions include Dexus selling 51 Eastern Creek Drive to Pittwater Industrial for $87 million; Leda Holdings sold 19-21 Loyalty Road in North Rocks to Centuria for $70.6 million after owning the asset for only two years.

289K

Take-up (sqm)

Q4-23 | -22% Q/Q

76K

Vacancy (sqm)

Q4-23 | +56% Q/Q

46%

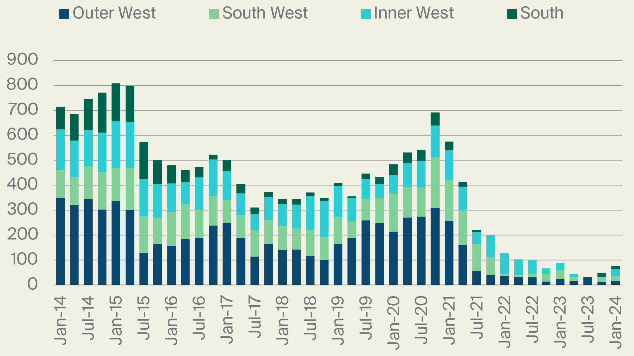
Most active sector Q4-23- Retail trade

895K

New development (sqm) - Completed 2023

Sydney industrial vacancy

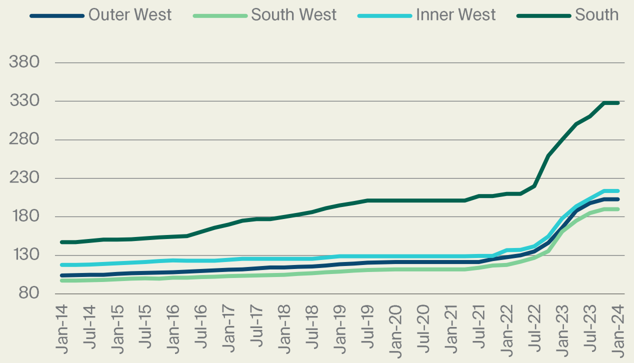
By precincts, floorspace in '000sqm, 5,000sqm+



Source: Knight Frank Research

Sydney prime industrial net face rents

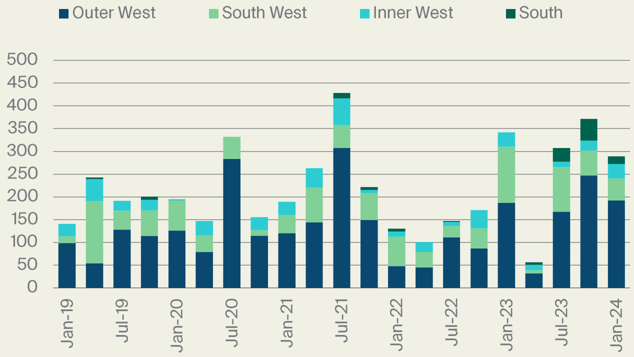
By precinct, $/sqm



Source: Knight Frank Research

Sydney industrial take-up by precincts

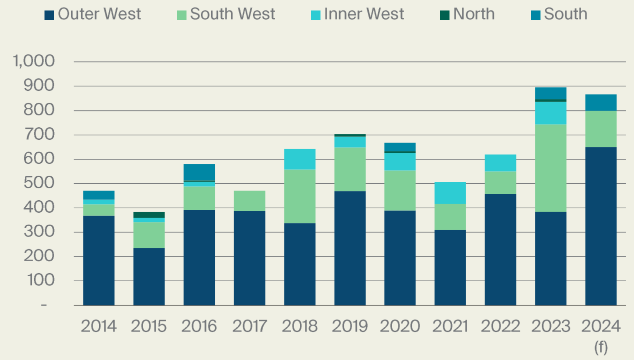
Take-up per quarter, '000sqm



Source: Knight Frank Research

Sydney industrial supply

By precincts, '000sqm, completed 2014-2024(f)



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Amazon#	224 Burley Street, Horsley Park	Outer West	57,378	244	10
DHL~	8-16 Picrite Close, Pemulwuy	Outer West	33,741	225	5
Sydney Tools#	400 Moorebank Ave, Moorebank	South West	22,726	192	10
Next Logistics~	34 Stennett Road, Ingleburn	South West	15,687	180	7

Pre-commitment ~Existing space

Melbourne

Leasing volumes increase, but supply increases faster, as vacancy levels continue their rise to normality

A YEAR OF RISING VACANT SPACE WITH MORE TO COME

The amount of vacant space rose 18% by end of Q4 and 63% y/y as Melbourne experienced its fourth quarter of increased vacancy. The figure, 348,035 sqm, remains at around half its 10-year average. Available space more than doubled (up 109%) in the South East to 129,685 sqm, whilst it fell slightly in the West to 133,978 sqm (-25,118 sqm).

The final figure for new supply in 2023 fell sharply to 761,245 sqm as several schemes failed to complete in Q4. This has led to a spill over into a larger expectation for 2024 with new supply now forecast at 1,063,409 sqm, however 40% of this is already pre-committed or owner-occupied build. Over half the new supply (54.7%) is being built in the West with the rest being split between the North (32.5%) and the South East (12.8%). New supply for 2025 is currently set at 768,244 sqm, though this could change dependent on how conditions in the economy pan out.

TAKE-UP CONTINUES TO RISE

Take-up rose 14.8% in Q4 to 270,713 sqm, with the 2023 total just shy of 1 million (998,897 sqm). The West led the way in Q4 with 129,469 sqm (up 29.3%) helped by a 65,700 sqm pre-commitment at the RBR hub in Truganina by the Super Retail Group. All precincts (with the exception of the Fringe) saw take-up activity increase.

Transport, postal and warehousing returned to prominence again taking up 56% of identified sectors in leasing take-up in Q4. Over 2023 as a whole it formed 49% of take-up, with retail trade (16%), other industries (14%) and manufacturing (13%) making up most of the rest of the activity.

RENTS FLAT IN Q4, BUT END THE YEAR UP

Prime rents remained flat in Q4, with the exception of a 2.4% tick up in the North (to $126/sqm). Through 2023 however rents grew by 8.8% with the North (17.8%) and the West (13.8%) standing out. Incentives remained flat at around 13% which is 100bps up from the start of the year. Secondary rents end the year up 4.9% y/y with incentives up 100bps to 12%. In the quarter there was little movement however, with secondary rents rising $1/sqm in the West and $3/sqm in the North and East.

LAND VALUES EDGE DOWN SLIGHTLY

Land values across Melbourne dropped 1% in Q4 for small and medium sized lots whilst large lots (10 ha+) edged up 1% to $345/sqm. Over the year small lots (<5,000sqm) are flat, with medium size lots down 3% and large size lots down 8%. However, this is more a stabilisation following the rapid rise in values in 2021 and 2022. At one extreme, the City Fringe and the East has seen no change in land values throughout the year, across all lot sizes. Meanwhile the fast-growing West has seen values coming off their highs with small lot sizes down 1.7% this quarter (3.3% y/y), medium lots down 3.7% on the quarter (-10.9% y/y) and large lot sizes actually up 2.7% this quarter, but down 7.4% y/y. Demand is still strong in the West, but developers have moderated price expectations.

YIELDS CONTINUE THEIR STEADY RISE

Yields continued to soften from their low in Q1 2022. Across Melbourne prime yields rose 25bps to 5.57% excl. the Fringe (5.52% incl.) and secondary rose to 6.16% (6.10% incl.) The outward movement was mostly concentrated in the growth areas of the North and West, where median yields edged out to 5.63%, up 38bps in both precincts. The East precinct softened by 25bps to 5.50%, while the South East remained steady at 5.50%.

Interest from investors still remains. The notable deal of the quarter was 2-30 Saintly Drive, Truganina in the West, sold for $94.1 million at a yield of 4.7% by Charter Hall. Overall, total sales exceeded $366 million with deals across all precincts, showing continued activity.

Whilst the market is somewhat subdued compared to previous years, and investment volumes for 2023 are down on 2022, investors are still seeing value and security in the industrial market. Some semblance of normality is thus returning to the sector.

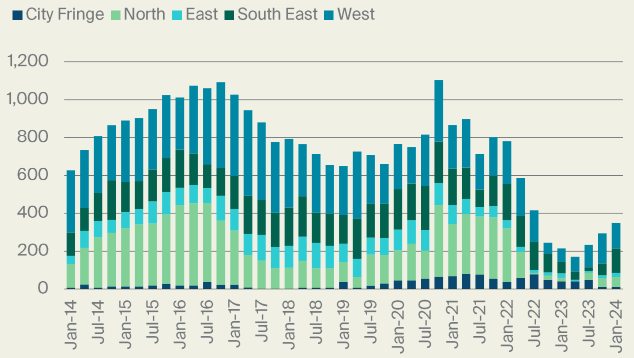
270K
Take-up (sqm) Q4-23 | +15% Q/Q

294K
Vacancy (sqm) Q4-23 | +18% Q/Q

56%
Most active sector Q4-23 - Transport, Postal, Warehousing

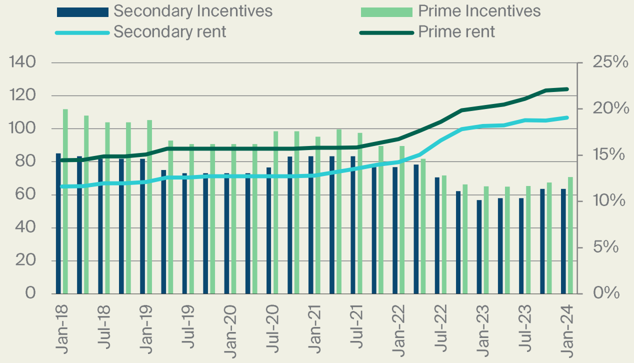
1.06M
New development (sqm) - Estimated 2024 (F)

Melbourne industrial vacancy
By precincts, floorspace in '000sqm, 5,000sqm+



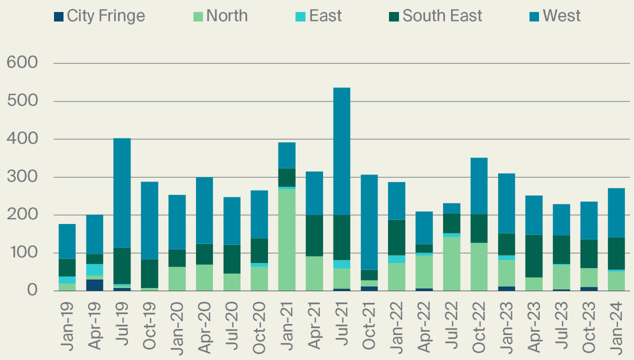
Source: Knight Frank Research

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



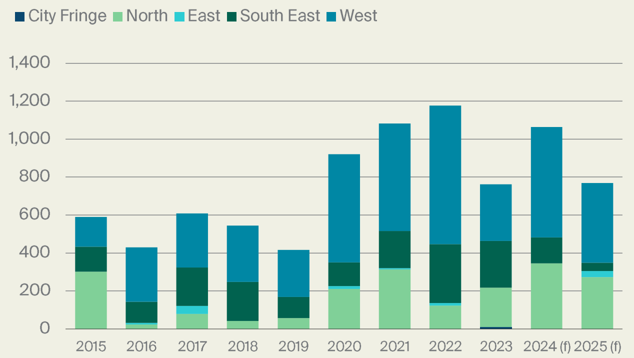
Source: Knight Frank Research

Melbourne industrial take up
'000sqm by precinct



Source: Knight Frank Research

Melbourne Industrial Supply
By precincts, '000sqm, completed 2015-2025(f)



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Eurocold ^	50B Cherry Lane, Laverton	West	21,933	140	5.0
Broers Group ~	Building A, 99 Olympia Street, Tottenham	West	14,263	105	7.0
Zipform Packagaing ^	4A / 10-36 Abbots Road, Dandenong South	South East	11,736	116	8.0

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

Brisbane

Supply in 2023 was a record high and double the 2022 level; despite this, vacancy has only increased slightly even as tenants are taking a more measured approach.

STEADY LEASING TAKE-UP IN Q4, TENANT DEMAND STABILISING FROM RECENT HIGHS

Leasing activity in Q4 was in line with the quantum of the previous quarter at 181,570sqm with the more moderate take-up levels of 2023 holding through to the end of the year. Annual take-up sits at 793,000sqm, still 5% above the five-year average but down from the 1 million + of a year ago. Greater availability in the secondary market has been matched by accelerated take-up with 42,895sqm in Q4. Prime existing take-up is limited by availability with only 6,322sqm, with speculative a more robust 34,044sqm. Pre-commitment take-up remained healthy at 98,000sqm in the quarter.

ALMOST HALF OF TAKE-UP WAS FROM TRANSPORT USERS

Transport, postal and warehouse users were clearly the most active tenant type in Q4 with 47% of take-up in Q4 and 40% over the calendar year. In Q4 much of this transport take-up came from pre-commitments including Freight Specialists (12,000sqm), Blue Water Shipping (15,000sqm) and an undisclosed 26,000sqm user.

Manufacturing based tenants were also active with 19% of take-up in Q4, including the pre-commitment of Australian Brushware to 11,200sqm in Carole Park.

VACANCY WAS LOWER IN Q4

Available industrial space decreased by 10% (24,055sqm) to 309,073sqm in Q4. This is 41% higher than a year ago as the vacancy low-point is now in the past for this cycle. Prime vacancy was stable over the quarter at 192,229sqm. There was an increase in existing prime vacancy of 10,000sqm to 41,537sqm. Available speculative space decreased by a similar amount to 150,692sqm. Speculative space accounts for 49% of total vacancy, much of this (90,200sqm, 29% of total vacancy) is still under construction.
Secondary vacancy fell by 22% in Q4 to 116,844sqm as secondary take-up grew in response to greater availability. Secondary vacancy is 29% higher than a year ago as vacancy begins to return to more normal levels.

Vacancy fell by 10% in Q4 as pent up secondary demand reacted to greater levels of activity

Prime yields were stable at the end of 2023 at 6.25%

LIMITED RENTAL GROWTH DURING Q4

Average prime face rents increased by 14.7% y/y to $157/sqm net, with an increase of 0.7% in the past quarter. Average incentives have stabilised at 11-13%. There is isolated upward pressure in incentives, particularly in new buildings with limited negotiation for most existing assets. Secondary net rents increased by 1.0% in the quarter (+13.9% y/y) to $140/sqm as availability starts to lift. Selected secondary assets are still achieving rents very close to prime levels simply due to the lack of competition. Rental growth is expected to remain flat through the first half of 2024 before being drawn upwards by economic rents again in the second half of the year.

RECORD NEW SUPPLY IN 2023 POTENTIALLY TO BE MATCHED IN 2024

Construction completions of 909,000sqm in 2023 were significantly higher than the previous high of c550,000sqm in 2008. The pipeline for 2024 is similarly robust with up to 1 million square metres slated to come on line. At the start of 2024 417,338sqm was under construction for delivery this year. A further 202,000sqm has a pre-commitment in place with completion anticipated in 2024. Feasibility and releasing capital for speculative stock development starts has become more difficult, however additional project starts are expected through 2024.

VENDOR-PURCHASER GAP NARROWING

With private investors still the strongest purchaser class, the assets receiving the most traction continue to be sub-$20 million with access to short term rental reversions. Significant transactions in Q4 included the three-asset partial portfolio sale from CapitaLand to Ashe Morgan for $73 million (6.35% blended CMY) and a refurbished asset in Acacia Ridge purchased by a private investor for $55 million (5.81% CMY).

Super prime yields remain untested for Brisbane, but the lack of capital for long-WALE investment points to additional yield softening to 5.7%. Prime yields have stabilised at 6.25%. Secondary market yields have further softened to a median of 7.20% as the yield band widens.

182K
Take-up (sqm) Q4-23 | 4% below the 5-year average

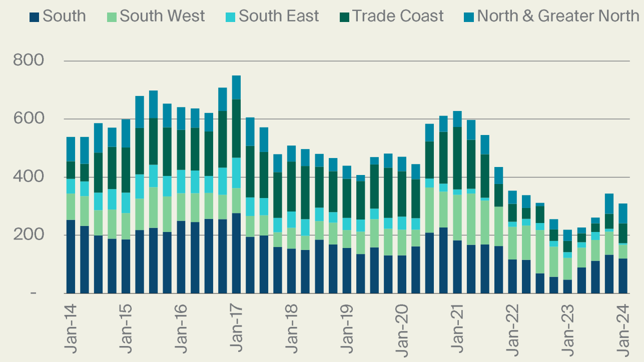
309K
Vacancy (sqm) Q4-23 | -10% Q/Q

47%
Most active sector Q4-23 –

Transport, Postal, Warehousing

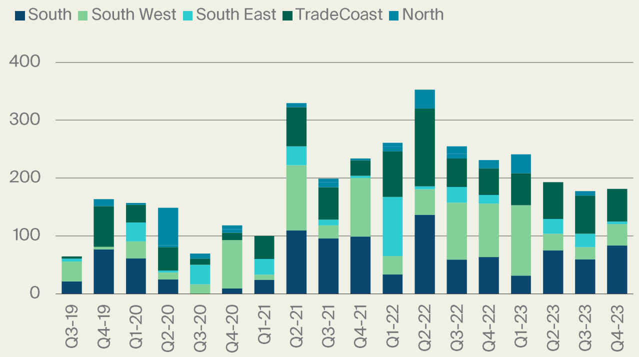
909K
New development (sqm) - 2023

Brisbane Industrial Vacancy
'000sqm by precinct



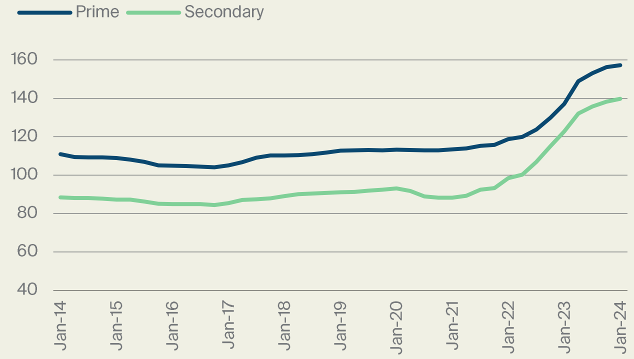
Source: Knight Frank Research

Brisbane industrial take-up
'000sqm by precinct



Source: Knight Frank Research

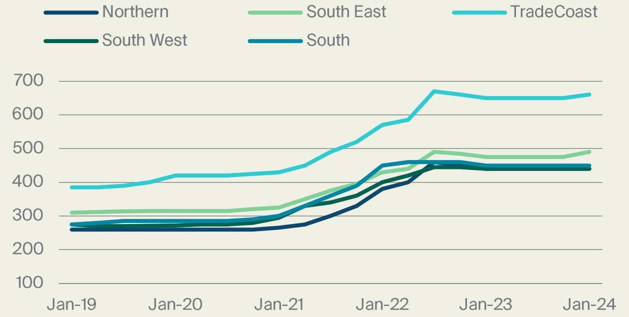
Brisbane Industrial Rents
$/sqm average net face



Source: Knight Frank Research

Brisbane Industrial 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 (years)
Freight Specialists#	Anton Rd, Hemmant	Trade Coast	17,010	165	10
Lawrence & Hanson^	74 Montgomery St, Redbank	South West	11,792	148	10
Culture King~	39 Kerry Rd, Archerfield	South	9,508	135	3
East Coast Freight~	B/103 Wayne Goss Dr, Berrinba	South	6,322	150	5
Suzuki~	24 Westlink Pl, Richlands	South West	5,062	165	5

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

Perth

Continuing interest in the South is driving growth and the beginning of yield tightening, while land prices are showing increases from mid-year lows

RENTAL GROWTH SLOWING ACROSS THE BOARD, BUT REMAINS GENERALLY POSITIVE

The theme of Q4 was stability, with rents moving up only slightly and land prices showing positive signs. Demand has remained, but the market is moving into a new phase of normalisation following a period of exceptionally strong growth. Supply, especially of development land, is restricted, leading to a general market slow down as developers wait for the right scheme at the right price, whilst tight vacancy rates keep tenants in-situ. Of the limited market activity, much is driven by owner occupiers.

From a tenancy perspective the market has continued to present stability, the per annum rental growth remained positive but speaks to the subdued nature of growth for the year across both prime (4.23%) and secondary assets (3.87%). These were notably lower than the previous quarter for both prime (9.55%) and secondary (12.73%). These numbers have been dragged down by very low prime rental growth in the North and East and no rental growth for secondary markets in these regions. Rental uplifts have come from manufacturing-specific assets in preferred areas, while warehousing rents have remained stable.

YIELD STABILITY CONTINUES, WITH THE FIRST SIGNS OF TIGHTENING OCCURRING

The market stability of Q3 continued into Q4, with financial markets largely taking a wait-and-see approach as the year drew to a close. This contributed to a stability in yields broadly, though the Outer-South prime average tightened. This is reflective of the growth in interest and demand for the southern corridor, particularly in areas proximate to the Westport development in Kwinana.

There has been only a slight outward movement (+25bps) in the super prime lower yield, lifting the average super prime yield 12bps to 5.88% but with this trading range narrowing to 5.75-6.0%. The Outer South prime actually moved lower in 25bps to 6.5%, as did the upper, from 7.5% to 7.25%, moving this precinct's average down 25 bps, from 7.13% to 6.88%.

The resistance from investors to deploy capital in the current economic climate continues and investment activity remained supressed with much of the market activity coming from small scale developers and owner occupiers.

LAND VALUES SHOW SIGNS OF GROWTH IN PREFERRED AREAS

Land values for both small and medium-sized lots increased in Q4, although market activity remained limited, so the transactional evidence pool was small. Generally, price increases averaged $10-15/sqm, although there were some higher increases – $25/sqm was achieved in some sub-markets of the East (<5,000 sqm) and Outer South (1-5ha) precincts. Smaller lots in the East experienced more targeted market activity with certain areas clearly in favour. Maddington increased $15/sqm and Forrestdale was up $25/sqm, while the existing high prices in areas like Kewdale and Welshpool were unchanged as developers searched for better value propositions.

In the established North where limited opportunities exist, the strongest growth has again been concentrated in Wangara/Gangara/Landsdale where there was an increase of $15/sqm for <5000sqm lots, with Neerabup increasing $5/sqm in the small lot category, while all other markets in the North, across both small and medium lots remained stable. The strongest land price growth was concentrated in the Outer South, smaller lot averages increased $17/sqm and the larger lot average improved $15/sqm.

THE SOUTH REMAINS IN FOCUS - WESTPORT DEVELOPMENT KEEPS SPOTLIGHT ON THE SOUTH

Land in the South continues to perform well with both inner and outer sub-markets proving to be the strongest among the broader Perth industrial sector. While Inner South showed no movement for smaller lots this quarter larger lots lifted $10/sqm. The Outer South performed even more strongly, the small lot average lifted $17/sqm and the medium lot average increased $15/sqm. Henderson and Naval Base were the standouts for both small and larger lots in Outer South.

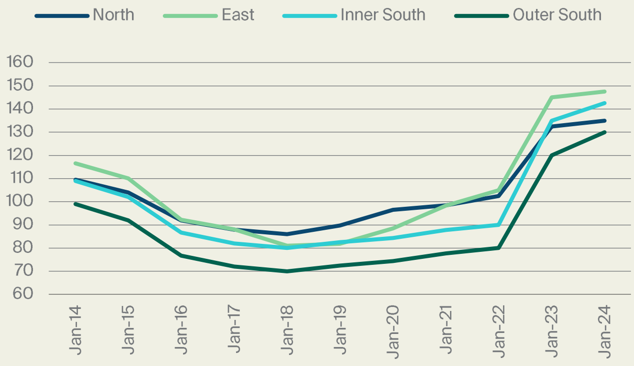
1.8%
Q/Q prime net face rental growth

5.7%
Q/Q land value growth in Outer South precinct

1.8%
Q/Q land value growth Perth average

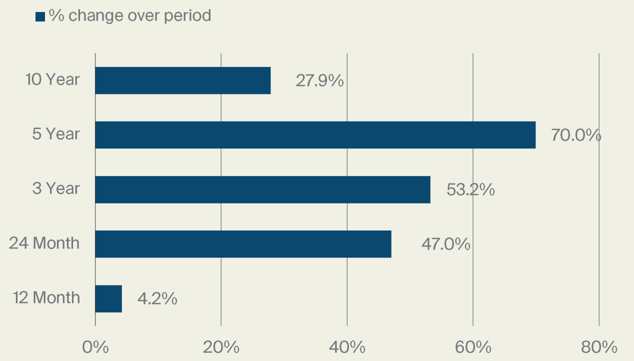
-25bps
Q/Q - Outer South prime yields tighten

Perth prime industrial net face rents
By precinct, $/sqm pa



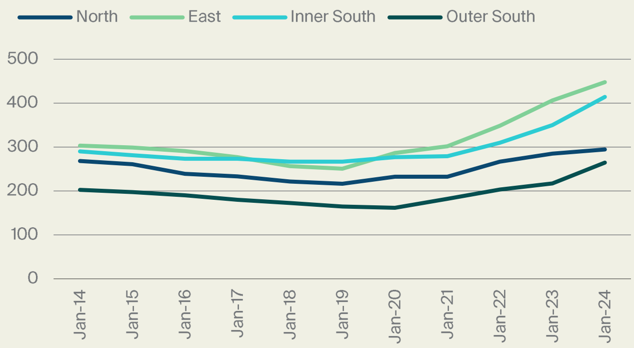
Source: Knight Frank Research

Perth prime industrial net face rent growth
% growth rate of $/sqm pa net face, blended rate



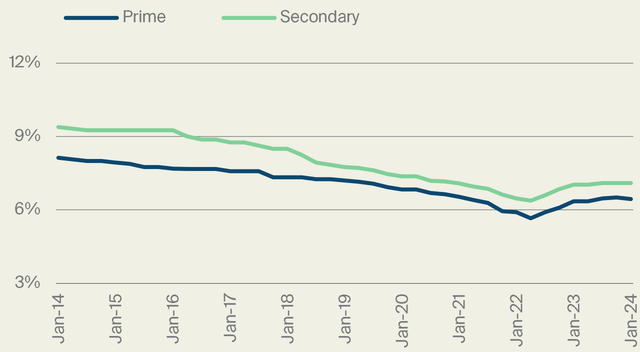
Source: Knight Frank Research

Perth industrial land values
Medium lots 1-5Ha, $/sqm



Source: Knight Frank Research

Perth industrial yields
Prime vs secondary (averages)



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Costa Logistics	83 Hammond Road, Cockburn Central	South	8,991	220	3
u/d	535-537 Abernethy Road, Kewdale	East	6,251	135	7
u/d	46 Jessie Lee Street, Henderson	South	2,345	138	5

Adelaide

Yields stabilise in the quarter as the number of high-value sales increase; land values and rents continue to grow as demand for premium space remains strong.

LAND VALUES RISE, NORTHERN PRECINCTS SHINE

The industrial market in Adelaide continues to experience strong market performance. The rolling 3-year forecasted development supply highlights the dominance of the northern precincts, consistent with previous trends.

Out of the projected 167,882 sqm of development costed at $368,095,000 due by end of 2026, a substantial 60% is concentrated in the northern precincts. Conversely, the southern precincts are expected to receive 34% of the development supply, more than double the Q3 forecasts for the south. This data underscores the enduring attractiveness and investment potential of the northern precincts, affirming their continued importance in shaping the Adelaide industrial market.

Land values for smaller lots (<5,000 sqm) rose across precincts in Q4 except for the Inner West which remained unchanged. The highest increases were seen in the Outer South and Inner North. The Inner North recorded the most significant annual rise at 15.98%. For medium-sized lots (1-5 ha), land values experienced growth across all precincts, notably in the Inner West, and Inner and Outer South.

RENTAL GROWTH CONTINUES AMIDST INCREASED VACANCY

Net face rents have continued their rising trend, with prime rents experiencing growth of 1.69% q/q and 11.65% y/y, while secondary net face rents increased by 0.65% and 7.18% respectively. Factors driving this growth include a limited supply of quality space, prompting tenants to pay premiums for better facilities, alongside a steady rate of tenant movements and flight to quality. Notably, in Q4, the northern precincts witnessed the most significant growth in prime rents, with the Inner North increasing by 2.24% q/q and the Outer North by 2.65% q/q.

Vacancy for properties <5,000 sqm increased from 148,336 sqm in Q3 2023 to 221,451 sqm in Q4. Additional stock has hit the market during the quarter, however, take-up levels remained low, with only 10,278 sqm leased in Q4.

Despite the increased vacancy, there is still a lack of high quality prime industrial space in the market, as this space is absorbed promptly with agents reporting most enquiries are attributable to higher quality space.

YIELDS STABILISE; HIGH VALUE SALES CLIMB

Industrial yields in the quarter remained steady overall, with both average prime and secondary yields seeing no change. On a precinct level, only the northern precincts experienced movement, albeit very minor, with prime yields increasing by 3 bps and 2 bps in the Inner and Outer North precincts, respectively. The Outer North also saw median secondary yields rise by 2bps.

Asset sales above $5 million experienced a significant surge in both transaction volumes and total value in Q4 2023. The number of sales rose from 9 transactions worth $72.82 million in Q3 2023 to 16 transactions worth $217.08 million in Q4 2023. Notably, the northern precincts emerged as the primary driver of this growth, constituting 71.8% of total sales by value, amounting to $155.89 million, and 75% in terms of transaction numbers (12 out of 16).

Year-on-year data shows sales in this category were 2.6% less in the 2023 calendar year ($550.9m) compared to 2022 ($565.7m), with the Inner North precinct peaking at its highest level since 2019. December saw the sale of 10-16 Churchill Road North, Dry Creek, less than two years after it last transacted. After selling for $3.85 million in February 2022 ($431/sqm of site area), the sale in December 2023 for $4.75 million reflected an increase of $100 to the sqm rate ($532/sqm). This aligns with strong land value growth in the region and affirms the trend that owner occupiers are willing to pay a premium.

Overall, 2023 was a year of strong growth and performance for the industrial market in Adelaide, with market conditions indicating a positive outlook for the year ahead.

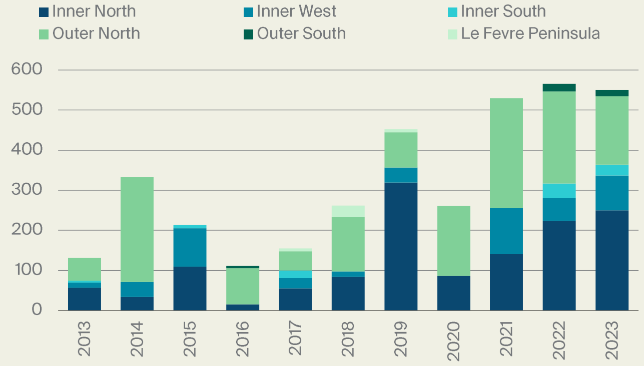
10,278
Take-up (sqm) Q4 (5,000sqm+)

221K
Vacancy (sqm) (5,000sqm+)

365M
New development ($) 3-year rolling forecast

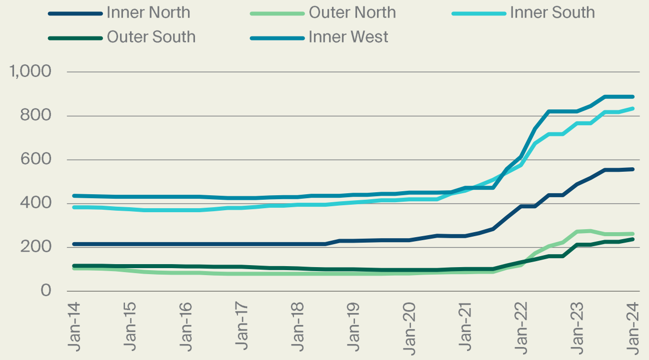
168K
New development (sqm) 3-year rolling forecast

Adelaide industrial sales
$5milsales, 2013-2023



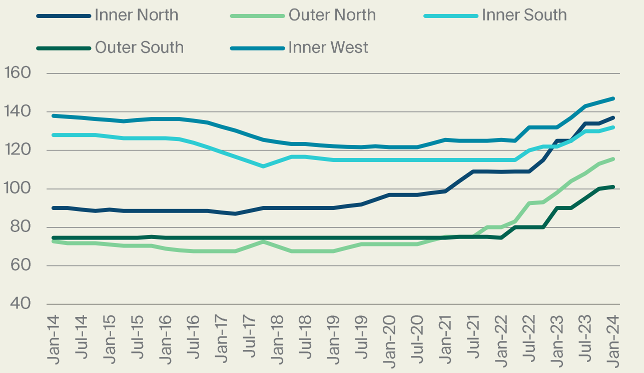
Source: Knight Frank Research,

Adelaide industrial land values
Average $/sqm by precinct for land <5000sqm



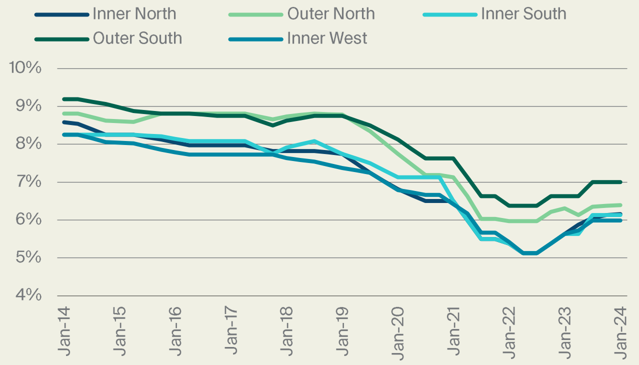
Source: Knight Frank Research

Adelaide industrial prime rents
Average $/sqm p.a. net face by precinct



Source: Knight Frank Research

Adelaide industrial prime yields
% core market avg. yields by precinct



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
EPA	Warehouse O 25091 Bedford St, Pt. Adelaide	Inner West	7,619	143	10
Rohlig Australia	Building 1A, Cheltenham Pde, Woodville	Inner West	2,760	120	7

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) Speculative 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.

Build to Rent Report 2023

Brisbane CBD office Market report 2023

Active Capital 2023

Australia retail report 2023

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