c.$3.7bn
Investment volumes YTD ($10m+)

c.541,995 sqm
Leasing take-up on the east coast in Q1

c.956,004 sqm
Spec developments on the east coast in 2022

knightfrank.com/research

Australian Industrial Review

Rents and land values jump as demand outpaces supply

Q1-2022

KEY INSIGHTS

Growth in demand for the industrial and logistics real estate sector has been substantial. With occupancy rates at near record highs, most markets are now facing critical supply shortages, strengthening the rental growth outlook alongside investor appetite for acquisition and development opportunities.

$3.7b
investment sales volume est.
Q1-22

2.7
SQM
new supply
2022
East Coast

543k
SQM
take-up of vacant stock
East Coast
Q1-22

15%
Q/Q decrease in vacant space
East Coast
Q1-22

67%
Share of cross border investment
Q1-22

5.5%
Q/Q increase in 1-5ha land values
Q1-22

Tenants have been quick to lock down warehouse space, resulting in a **15% contraction of existing vacant space on the east coast** and stronger than expected rental growth rates Q/Q (*+2.5% blended aggregate based on capital city average*).

In Sydney, vacancy has declined a further 20% and is now at a record low, driving strong growth in rents in the Outer West and South West Q/Q, with 2.1% and 3.8% respectively, while the appetite to scale through development drives up land values for 1-5Ha lots in Western Sydney by 20%.

Nearly all spec buildings due to be completed in 2022 are leased as **Melbourne industrial land values continue to skyrocket.** In aggregate, the value of <5,000 sqm lots have risen by 14.5% Q/Q, and 1-5 hectare lots are up 7.7%.

In Brisbane, vacant space has fallen a further 5% in Q1 to be 43% lower than a year ago. Land value growth continues to accelerate, with prices of 1-5ha sites now 35% above the levels of a year ago, with all precincts recording strong growth.

In Adelaide, land constraints amid a sustained upswing in demand levels is driving up land value and rental growth rates in the Outer South, with 1-5 hectare lots rising 16.1% Q/Q and prime net rents rising 6.7% Q/Q.

In Perth, the blended rate for 1-5 hectare lots is up 8.8% over the quarter and average prime net face rents are up 5.1%, as the scarcity of land for development and sustained high tenant demand increases the competition for product.

Key Indicators Q1 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 #	164	140	3.25 – 3.75	1,855	1,575
Brisbane	120	99	3.75 – 4.40	491	457
Melbourne *	111	93	3.25 – 3.75	1,154	907
Adelaide	102	78	4.00 – 4.50	366	274
Perth	104	82	4.00 – 4.50	417	275

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: $1,118/sqm, 1-5ha lots: $1,033/sqm.*
**Melbourne (excluding the Fringe) prime net face rents average $99/sqm, secondary: $84/sqm; small lots: $893/sqm, 1-5ha lots: $709/sqm.*

ECONOMY

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

Sustained growth momentum led by the consumer

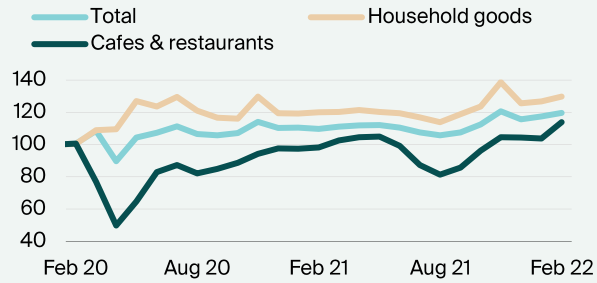
The sustained appetite of Australian households for retail spending continues to power economic growth nationwide. The latest data confirmed a further 1.6% growth during March, to be 9.4% higher Y/Y. The long-awaited rebalancing of spending back to services instead of goods is now occurring but demand for household goods, clothing and footwear remains very high and will continue to support demand for industrial space. Households are responding to conflicting forces, with robust demand supported by a buoyant labour market and high levels of savings, but rising inflation is starting to weigh on sentiment. The global experience points to the risk that this could become a more substantial headwind for households in the coming months and slow the pace of spending and hence economic growth in the second half of the year.

Surging inflation and construction costs

The confluence of large-scale policy stimulus, supply chain disruption, energy cost escalation and a switch in preferences to goods have driven a global surge in inflation, with the Australian experience echoing that of the US and Europe. Headline CPI rose by 2.1% in the March quarter taking the annual rate to 5.1%, while underlying inflation now up to 3.7%. At this level, inflationary pressures are at the highest level since 2009. Higher fuel prices are a key driver alongside higher construction costs, with widespread reports of material and labour shortages in commercial and residential construction.

Retail sales

Index, Jan 2020 =100



Source: Knight Frank Research, Macrobond

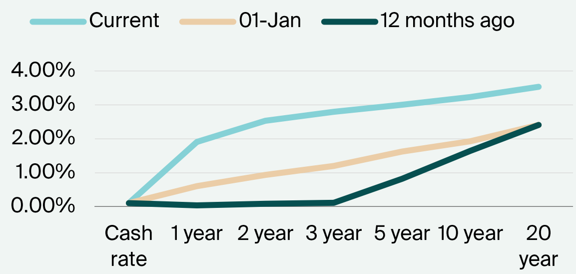
Funding costs on the rise

The escalation in inflation has caused the RBA to change its narrative around the durability of cost pressures and the timing of the withdrawal of monetary supports, and it has now begun the process of raising the cash rate. Markets are anticipating a succession of cash rate hikes and this has already resulted in substantial increases in bond yields right along the maturity spectrum, with two year government yields up by around 250 basis points to 2.9% since January and ten year yields up by 190 basis points to 3.6%.

Rising bond yields are being reflected in rising funding costs for investors in industrial property and will act to slow the rapid pace of value growth, especially in markets not benefitting from strong rental growth.

Yield curve: Australian government bonds

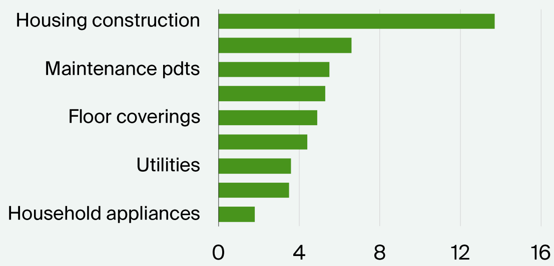
% by term



Source: Knight Frank Research, Macrobond

Annual inflation - selected items

Year on year price growth (%)



Source: Knight Frank Research, ABS

LEASING MARKET

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

Pent-up demand intensifies competition and pushes rents to new highs

Leasing volumes have grown significantly, and vacancy is at a record low in most markets. Supply chain disruptions have hampered shipping lines, material and product availability, and now prices, compounding the level of demand in the sector. 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. Over the year, this has led to a rise in prime net face rents (blended average) of 6.6% in Sydney, 5.3% in Brisbane, 10.1% in Melbourne, 9.4% in Perth and 3.0% Adelaide, with select individual precincts recording much higher growth rates. With low supply adding to competition, rental growth will continue through 2022.

Demand outpacing supply as vacancy reaches lowest point since 2011

The volume of available vacant space (+5,000 sqm) on the east coast has declined 15% Q/Q to reach c.1,073,925 sqm in April 2022. This is 44% less than the same time last year and the sixth consecutive quarterly decline for the east coast markets. Annual take-up of space (including pre-commitments) is running at about 20% above its five-year average, as businesses continue to build resilience into their supply chains.

Spec completions to reach new high

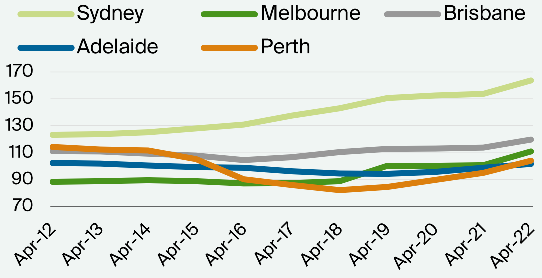
Despite shortages, price rises and construction delays, completions remain at a record high, with c. 2.7 million sqm planned for 2022. Spec completions are expected to reach a new high in 2022, with c.956,004 sqm planned for the east coast. This is the largest volume of speculative (spec) projects since the series began. Brisbane and Melbourne will account for around 88% of this during 2022, with both cities seeing an almost doubling of spec completions since 2021.

Land values spike, as some markets experience their fastest growth

Tenants are acting quickly to lock down new space, particularly in Melbourne, where almost all spec in 2022 has been leased. Alongside elevated demand from supply chains, e-commerce tailwinds and escalating building costs, this is adding significant pressure to land value rates in most markets. While the average aggregate price of small lots increased 6.9% and 1-5 hectare lots increased 5.5% Q/Q, some individual markets are seeing much stronger growth rates, including small lots in Sydney South West (+19.5%) and North (27.2%), Melbourne's South East (+21.4%), West (+26.7%) and East (+7.1%), along with medium lots in Sydney's South West (+29%), Melbourne's South East (+23.4%) and West (+14.2%) and Adelaide's Outer South (+16.1%). Increasing competition for space, amid low vacancy and constrained supplies of serviced and zoned supplies could see land values rise further in 2022.

Average Prime Net Face Rents

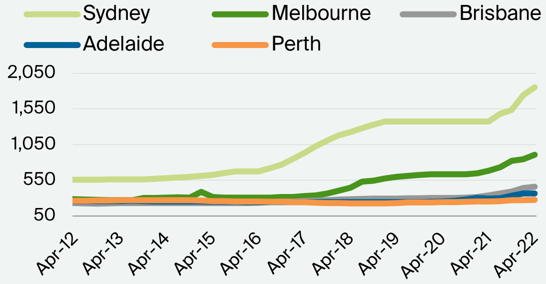
By Capital City, Blended average# rate $/sqm pa



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

Average Land Values

By Market, average# $/sqm for medium lots



Source: Knight Frank Research #Blended average rate across all precincts iwithin each capital city

INVESTMENT

Investors continue their rally on industrial real estate through development and acquisition activity as they look to capitalise on the rental growth outlook amid a rise in inflation and interest rates.

Investment activity continues its upward momentum

Investor demand for industrial and logistics real estate continues at scale, with preliminary estimates for first part of the year (to April 2022) already sitting at c.$3.7 billion nationally. 2021 transaction volumes tipped over $19.0 billion, by far the highest on record for the sector.

Investment activity from the small end to mega trade continues unabated

Investment volumes show that investor appetite for the sector remains firmly in place. While last year set new records for yields as landmark portfolios changed hands, individual assets also traded strongly and continue to do so, with the number of properties being exchanged in Q1-22 running at about 60% above the first quarter trend seen during the last two years. Examples include, Pittwater Industrial's, a newly formed development and investment manager, acquisition of 5 Yarrawa Street, Prestons in Sydney for $58.3m on a yield of 3.35%, Charter Hall buying 88 Moreton Street, Heathwood in Brisbane from a private investor for $75m on a yield of 3.81% and Aliro picking up 175 McKellar Way, Epping in Melbourne for $44m on a yield of 3.6%.

At the other end, Hines Global has acquired its first portfolio of logistics properties in Australia under its flagship fund, Hines Asia Property Partners, picking up the Pipeclay Lawson portfolio, which included three assets in Sydney and one in Brisbane for $210 million, reportedly on passing yield of 3.4%.

Further overseas capital ready to deploy as investment outlook remains positive

There has been a rise in new entrants, particularly local whom had traditionally invested in commercial and residential. Some have increased their exposure through joint venture capital partnerships, by mixing offshore capital with local expertise, while others are targeting management rights.

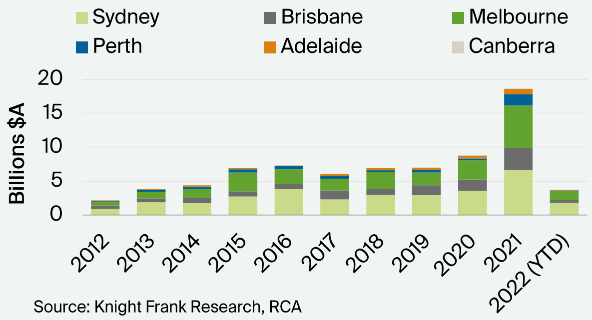
Investors are increasingly targeting safe-haven markets such as Australia, with the share of cross border investment rising from 46% in 2021 to 67% during Q1-22. Up until recently, cross border investors have not been able to travel for inspections so this could be a sign that these investors are taking a longer-term view of the market, particularly if they have recently set up local capabilities.

Yields compress but pace has slowed

Sydney super prime yields# compressed 25bps in Q1 and are now in line with Melbourne at 3.50%, which has been stable since Q3-21. Perth and Adelaide yields compressed a further 25bps in Q1 to 4.25%, while Brisbane compressed 5bps to average 4.10%. The strength of demand has seen yield compress upwards of 80bps on average over the last 12 months, but the pace of compression has slowed in recent months. Rental growth and ongoing supply shortages will continue to drive returns, but higher inflation and a rise in interest rates in the coming months will likely keep yields within the current band in 2022 until future land is released and turbulence in the supply chain eases off.

Industrial Sales by Major City Market

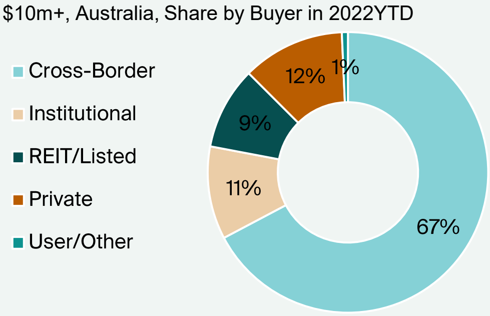
In billions, sales $10m+ by calendar year



Source: Knight Frank Research, RCA

Industrial Sales by Buyer Type

$10m+, Australia, Share by Buyer in 2022YTD



Source: Knight Frank Research, RCA

*Hines Asia Property Partners

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 Marco Mascitelli | Associate Director

Retail trade and logistic operators at forefront of demand

The positive momentum in the industrial and logistics market at the end of last year has continued into Q1 with strong enquiry and lease deals being recorded. With global supply chains still struggling to keep pace with demand, transport and logistic operators have been at the forefront of tenant demand.

Take up in Q1 totalled 173,808 sqm, which was underpinned by IFC Global Logistics Post pre-committing to c.26,679 sqm and Nisbets taking 13,692 sqm at Stockland's Leppington Business Park. Transport/ logistics and retail trade operators, accounted for 77% of activity in Q1, slightly above the same period in 2021.

Demand will remain elevated given the ongoing need to improve supply chain efficiencies and the structural changes in retail and logistics due to technology and customer expectations. Most retailers are holding excess inventory as a buffer as they manage the risks in supply chains and this has increased demand for swing space. However, low vacancy may impact on short-term deal flows until some of supply chain pressures begin to ease.

Vacancy reaches its lowest on record

Vacancy continues to decline to record low levels. Strong tenant demand in Q1 resulted in a 20% decline Q/Q in vacancy to measure 103,339 sqm. On Y/Y basis this is a 75% decline.

Stock levels are so tight that between the Outer West and South West there is only 38,984 sqm available. In comparison with the same time last year there was 299,428 sqm of vacant space across the two regions. Many warehouses with upcoming vacancies are being renewed or even leased well ahead of lease expiries or being marketed for lease.

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

Unprecedented rental growth driven by elevated occupier activity and limited stock

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. With inflationary pressures and land value prices surging, landlords have continued to push rents and drop incentives.

On a blended basis, prime net face rents are up 1.0% Q/Q, with incentives averaging 12.5%, resulting in net effective rental growth of 1.6%. In Y/Y terms, average prime net face rents have risen 6.6%, well above yearly growth rates of the past decade, which averaged no more than 2-2.50%. The Outer West and South West experienced the strongest growth over the quarter with 2.1% and 3.8% respectively. Further rental growth is expected throughout 2022.

Surging land values as institutions continue to increase exposure to the sector

With supply chain challenges and rising material costs pushing out completion dates in 2021, a record year is now anticipated for 2022, with over 712,000 sqm of new stock set to be delivered. Over 95% of the development activity is in the Outer West and South West precincts.

The strong appetite from institutions to increase their exposure to the industrial sector over the last two years continues to drive significant uplift in land values. Over Q1-22 land values increased by 20% in Western Sydney for 1-5 hectare lots to average between $1,000-$1,200/sqm, whilst on a Y/Y basis growth in values has averaged over 60%.

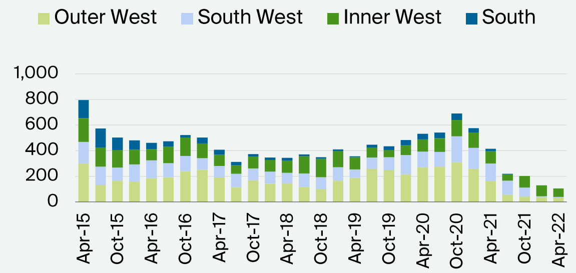
Competition for assets reaffirms tight yield metrics

Coming off a year of unprecedented capital entering the sector, there is still a number of mandates seeking to deploy capital. The competition for assets has reaffirmed the tight yield metrics and in Q1, prime yields tightened on average 15bps across all precincts. With inflationary pressures and the cost of debt increasing this will likely see limited compression for yields in the short term.

TAKE-UP (SQM) Q1	MOST ACTIVE SECTOR Q1	VACANCY (SQM) Q1	NEW DEVELOPMENT (SQM)
173,808	**77%**	**103,339**	**712,000**
+5% QoQ	TRANSPORT, POSTAL, WAREHOUSING	-20% Q/Q	Estimated 2022 (f)

Sydney Vacancy

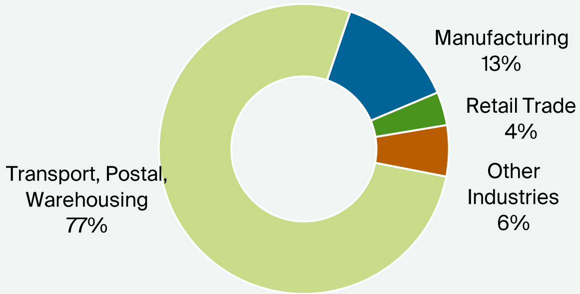
'000sqm by precinct



Source: Knight Frank Research

Sydney Leasing Take up by Industry

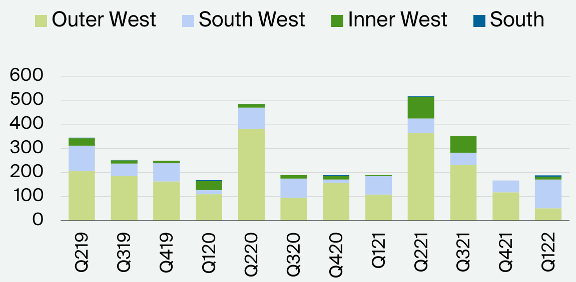
2022YTD, % Share by sqm leased



Source: Knight Frank Research

Sydney Leasing Take-up by Precinct

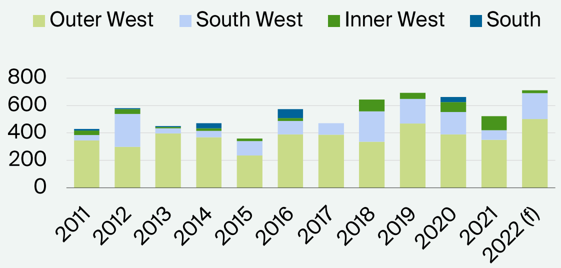
'000sqm by precinct, by quarter



Source: Knight Frank Research

Sydney Industrial Development

'000sq m by Precinct



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Kumho Tyres~	Sydney Business Park	Outer West	11,366	135	10
Tradezone~	Huntingwood East Distribution Centre	Outer West	10,196	123	7
Wellman Packaging~	7 Williamson Road, Ingleburn	South West	7,339	125	10
InterCentral Logistics^	WHB, Kookuburra Logistics Estate	South West	11,590	127	7
ACFS Port Logistics^	5 Yarrawara Street, Prestons	South West	15,028	130	7

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

MELBOURNE

Competition for space is increasing as vacancy drops to a record low and developers face spike in construction costs and rise in land prices.

Pre-lease and spec deals dominate leasing volumes

Leasing volumes are sitting at around 425,000 sqm after the first quarter, and follow a record 12 month period in Melbourne where more than 2 million square metres of industrial space was leased. Pre-commitment activity and take-up on spec builds is dominating leasing volumes in the first part of the year, accounting for nearly 60% of leasing deal volumes. While it is still early in the year, the trend is well above the five year historical average of 37%. Low vacancy in existing space is limiting churn in that segment and increasing competition for newly built options either through pre-lease or spec availability.

Secondary vacancy just keeps declining, at lowest since 2012

The volume of vacant space declined 19% Q/Q to measure 632,878 sqm 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. Further compounding this pressure is the near non-existent availability of newly built spec space, with almost all the spec builds due to be completed in 2022 already leased. Notably, some occupiers have opted to take secondary space in those markets where it has been difficult to get prime space in the short-term. But secondary vacancy is now declining as well, falling 1% between January and April to measure c222,204 sqm. This is the fifth consecutive quarterly decline in secondary vacancy, representing a 45% fall Y/Y.

Shifting gear to rental growth as competition for space intensifies

On a blended basis, prime net face rents are up 4.7% Q/Q, underpinned by a faster rate of growth in the north and east, where rents grew 7.2% on average over the quarter. In Y/Y terms, average prime net face rents have risen 10.1%. Secondary net face rents are up 4.0% Q/Q and 9.9% Y/Y, due to strong growth in the East and South East. The East has very little stock available, with secondary now holding its lowest vacancy level since 2014 and tenants are now paying a much higher rent here. A similar trend is noted for the South East secondary stock. Despite a record level of construction, demand is outpacing the supply with pre-leases at a near record high and nearly all the new spec builds due in 2022 now leased. Intense competition for the few availabilities is driving rents higher, with further growth expected in the short-term.

Almost all spec due in 2022 is pre-committed as land values skyrocket

New development remains elevated, with c.1.35 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 600,000 sqm, 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 value growth intensity could continue to surprise

Land values are rising rapidly, with the availability of serviced and zoned options adding pressure amid elevated demand for industrial space. In aggregate, the value of small lots (<5,000sqm) have risen by 38.5% Y/Y (+14.5% Q/Q), and 1-5 hectare lots are up 33% Y/Y (+7.7% Q/Q). However, by precinct, small lots in the West are up 26.7% Q/Q and in the South East 21.7%, with medium lots showing a 14.2% and 23.4% respective increase.

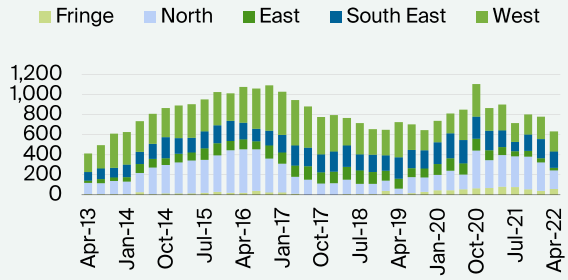
Yields fall further but pace of compression slows

Average prime yields have compressed by 12bps Q/Q, and 95bps Y/Y, with prime assets now regularly trading below 4.0%. Similarly, increased competition has seen secondary yield compression accelerate, with the average tightening 13bps Q/Q and 92bps over the year. The sizable yield compression in recent months reflects the strong underlying land value and future income returns.

TAKE-UP (SQM) Q1	MOST ACTIVE SECTOR Q1	VACANCY (SQM) Q1	NEW DEVELOPMENT (SQM)
365,020	**46%**	**632,878**	**1,356,082**
28% lower than same period last year	MANUFACTURING	-19% Q/Q	Estimated 2022 (f)

Melbourne Industrial Vacancy

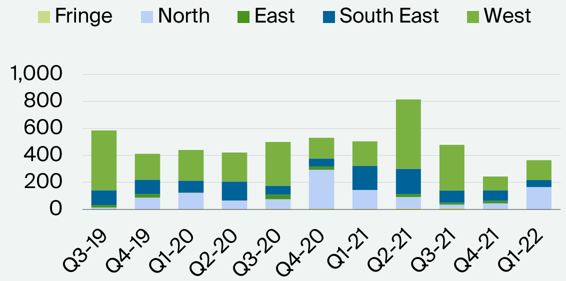
'000sqm by precinct



Source: Knight Frank Research

Melbourne Industrial Take-up

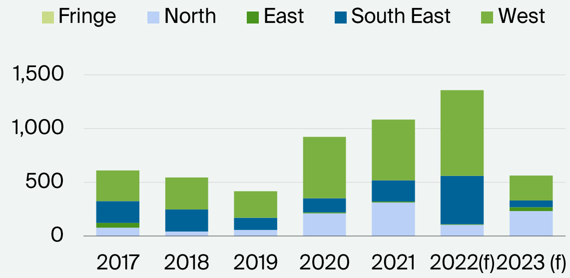
'000 by precinct excl. Design and Construct



Source: Knight Frank Research

Melbourne Industrial Supply

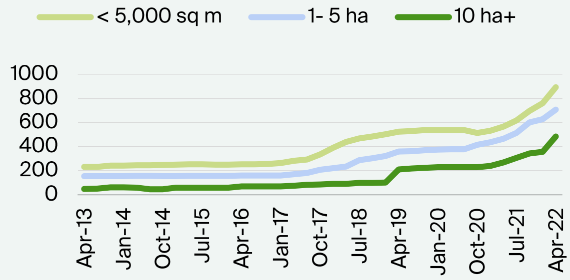
'000sqm by precinct



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)
RMA Automotive ^	19 Innovation Drive, Mickleham	North	21,385	U/D	U/D
Tennis Australia ^	15 Citiwest Court, Altona North	West	7,619	90	5
Jotun~	59 Calarco Drive, Derrimut	West	6,358	93	7
Ceva Logistics #	590/620 Western Port Highway, Cranbourne West	South East	37,000	U/D	10
AMA Group Ltd ^	880 Cooper Street, Somerton	North	19,612	85	7
Shaw Fabrics ^	61 Sunline Drive, Truganina	West	15,125	85	5

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

BRISBANE

Higher pre-commitment activity in Q1 as tenant demand continues to be strong; rental increases expected for both the diminishing existing stock and also pre-commitments as costs rise

By Jennelle Wilson | Partner | Research & Consultancy

Almost a million square metres taken-up across the past 12 months

Leasing take up in Q1 was in line with the previous three quarters with 236,479 sqm of take-up across existing, speculative and pre-commitment assets. The exceptional acceleration of tenant demand over the past four quarters has taken the rolling 12 month total to just under a million square metres, a record level of take-up. Boosted by pre-commitment activity the South East had the highest Q1 take-up, with 43% of activity. On an annual basis the South remains the strongest with 30% of the market with sustained demand.

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

Resilient retail has continued to be the dominant sector into 2022 with 31% of take-up in Q1 from tenants such as National Tiles and JBHiFi pre-committing to major new developments. Pre-commitment activity, accounted for 65% of take-up in Q1, well up from 34% in 2021. Outside of retail, pre-commitments came from a diverse range of tenants including Bunzl, CTI Logistics and three tyre brands/distributers. This strong pre-commitment activity is set to continue with a number of additional deals close to completion.

Vacancy fell by a further 5% in Q1 to a new nine-year low

Vacant space fell a further 5% in Q1 to be 43% lower than a year ago. Absorption of vacant space was down compared to previous quarters, but remains in line with long term average levels. With only 337,708 sqm of vacant space available, options for tenants have considerably narrowed in the past 18 months.

The amount of secondary vacant space has increased by 6% to 119,844sqm over Q1, but remains 56% lower than a year ago. Prime available space has contracted by 9% over the quarter and is 32% down yoy. Of the 217,864sqm of prime vacancy, 65% is speculative space as opposed to existing stock. Over the past year vacancy in existing assets has fallen by 57%, with the amount of speculative stock available only falling 3%. Further speculative construction starts are expected.

Rental growth is entrenched with decreasing vacancy and higher costs boosting economic rents

Average prime face rents increased by 5.3% Y/Y to $120/sqm net, average incentives have ticked down across existing stock to 15.5%. The secondary market has jumped by 11.2% Y/Y to $99/sqm net, its highest since early 2009. Secondary incentives were stable over the quarter at 14.4%, on average. Sustained construction costs and land value appreciation have continued to place pressure on rents for new product.

Supply for 2022 and 2023 growing with both high pre-commitments and speculative starts

New supply was lower than initially expected in 2021 at 267,485 sqm as a number of projects were delayed due to wet weather. More than 76,000 sqm of space has been completed in Q1 with a further 161,000 sqm currently under construction. A total of 671,650 sqm is expected to be completed during 2022 and a further 634,000 sqm expected in 2023 with recent strong pre-commitment activity fuelling the pipeline.

Land value growth remains strong while investment sales and yields stabilise

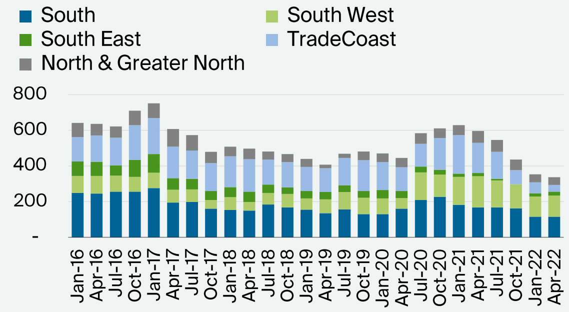
Land values have continued to grow strongly into 2022 with greater focus on smaller and medium size lots with a dearth of available 5ha + sites. Prices for blocks 1-5ha are now 35% above the levels of a year ago at $457/sqm on average, with all precincts recording strong growth. Institutional focus has continued to extend beyond traditional suburbs with Pinkenba, Crestmead and Brendale & further north, all on the radar. The discount for larger land parcels of 25ha+ continues to erode, with values up by 45% over the past year.

The significant industrial sale for Q1 was 88 Moreton St, Heathwood, purchased off-market by Charter Hall for $75 million. Leased to CUB for a further 9.1 years the sale reflected a core market yield of 3.8%. Outside of portfolio sales, many recent transactions have been smaller, $10-20million, sales. Yields have begun to stabilise. Prime yields contracted by 12bps in Q1 to 4.75%, Secondary assets contracted by 13bps in the quarter to 5.45%.

TAKE-UP (SQM) Q1	MOST ACTIVE SECTOR RTM	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
236,479	**36%**	**337,708**	**671,650**
51% ABOVE THE 5Y-AVG	RETAIL TRADE	-5% Q/Q	Estimated 2022 (f)

Brisbane Industrial Vacancy

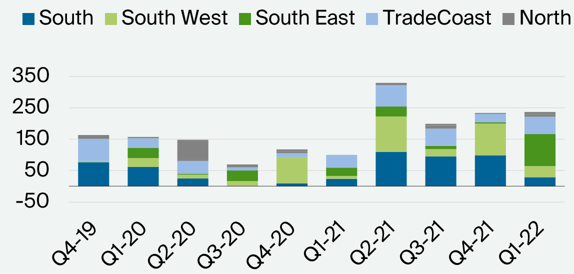
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane Leasing Take-up

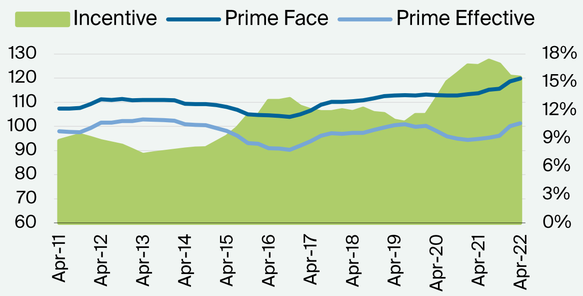
'000sqm by precinct



Source: Knight Frank Research

Brisbane Prime Rents

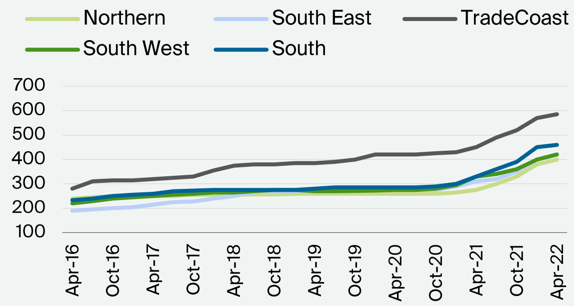
Prime Face & Effective $/sqm (LHS), Av Incentive % (RHS)



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
Goodyear#	Vantage Estate, Yatala	South East	25,000	U/D	U/D
CTI Logistics#	Arthur Dixon Ct, Yatala	South East	23,000	U/D	U/D
National Tiles#	Vantage Estate, Yatala	South East	18,077	105	5
PFD Foods~	1, 37 Freight St, Lytton	TradeCoast	9,036	125	10
DB Schenker~	62 Monash St, Redbank	South West	8,997	110	3

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

ADELAIDE

Low vacancy and sustained tenant demand is fuelling investor and developer appetite to expand their footprint through acquisition and landbank opportunities.

By Tristan Mellett | Research Analyst| Valuation & Advisory

Low vacancy fuelling developer appetite and a new growth cycle

There has been uptick in leasing activity in recent months with pent-up demand from the easing of restrictions and reopening of the state providing a significant boost to confidence levels allowing businesses re-engage with plans for expansion, relocation or upgrading now on the cards.

The sub-1,000sqm market has continued to receive strong enquiry to lease, with recent take-up trends, contributing to low vacancy rates in inner west and inner southern precincts. The outer areas, specifically the outer south and outer north are fielding enquiry for larger product. Low vacancy in these areas, along with the traditional core, the inner north, is putting pressure on deal flow and adding to developer appetite to build new product to fulfil demand. As a result, there has been some rental and land value growth in recent quarters.

Leasing demand adds to rental uplift, especially in the Outer South

On a blended basis, prime net face rents are up 1.0% Q/Q, led by a faster rate of growth in the outer south, where rents grew 6.7% on average Q/Q. In Y/Y terms, average prime net face rents have risen 3.0%. On a blended basis, secondary net face rents are up 2.7% over the quarter.

The uptick in rental growth in secondary is due to the outer south, where secondary rents are up 18.2% Q/Q. Product that has been hard to move in recent years is now seeing the benefits from the duplicated expressway. Demand from manufacturing, transport, logistics, distribution, and warehousing, along with pharma, is contributing to this upswing, with occupiers seeking larger facilities or swing space to manage the increase in demand.

Land values on the rise as developers face a shortage of development-ready site

The availability of serviced and zoned land is becoming limited, and prices are starting to lift. Vacancy rates for existing buildings have been declining and some precincts are facing a critical shortage. While demand stems from the rise of e-commerce, as well as supply chains, the reopening of the borders, travel, and the increasing importance of modern building features to factor in greater resilience and efficiencies is also adding to the equation.

Evidence shows that owner occupiers have been purchasing properties in the Northern precincts, with the intention to construct purpose-built facilities in Direk and Edinburgh. There has also been an uptick in institutional demand for sites and an increase in spec development plans on the back of success in the east coast markets, particularly Melbourne, and this is contributing to competition on sites in the outer north, outer south, inner west and inner north. While there is still interest in small business hub development, demand for large-scale product is expected to be the primary type of development in the coming year, underpinned by pre-commitment demand and growing confidence in spec product, albeit with cautiousness due to the spike in construction costs.

In aggregate, the value of <5,000sqm lots have risen by 25.8% Y/Y (+0.1% Q/Q), and 1-5 hectare lots are up 54.7% Y/Y (+4.3% Q/Q). By precinct, the price of small lots has mostly stabilised following an increase in Q3-21, with only the Outer South showing an uptick of 1.9% Q/Q. In contrast, the average price of 1-5 hectare lots has risen in all precincts except for the Inner South. In Q/Q terms, 1-5ha lots in the inner west are up 3.8%, +7.7% in the inner north and +7.9% in the outer north. Reflecting the rise in demand for the outer south, 1-5ha lot prices have risen 16.1% on average over the quarter.

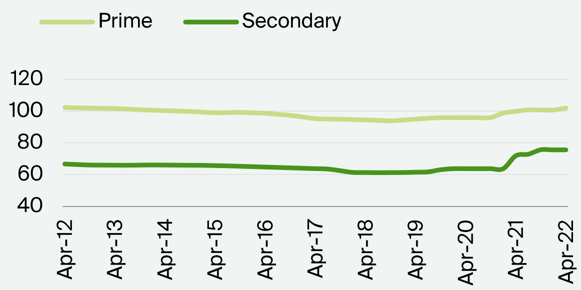
Yields sharpen as investors target infill locations but pace of compression slows

Average prime yields have compressed by 29bps Q/Q, and 73bps Y/Y, underpinned by investor appetite for urban infill locations. Secondary yields have compressed on average 2bps Q/Q and 92bps over the year. The shift in leasing demand for infill industrial areas within the inner west, inner north and inner south has buoyed the rental growth outlook for the for investors and resulted in increased competition for assets, putting downward pressure on yields in those markets in the last six months.

TAKE-UP (SQM) YTD	TAKE-UP REGION (%)	VACANCY (SQM)	NEW DEVELOPMENT SQM
30,714	**53.4%**	**364,943**	**182,327**
(5,000SQM +)	OUTER NORTH (5,000SQM +)	(5,000SQM +)	Forecast completion by 2023

Adelaide Industrial Rents

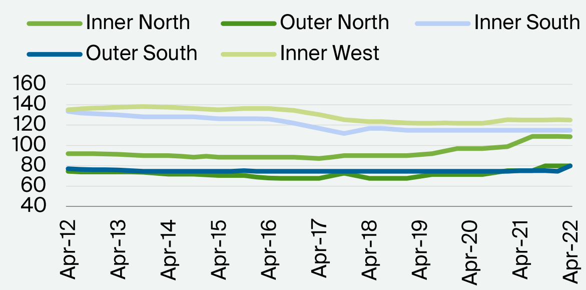
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide Industrial Rents

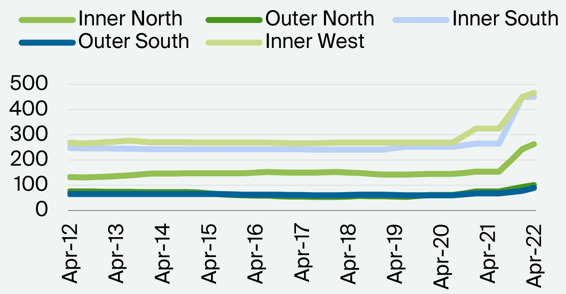
Average $/sqm p.a. net face by precincts



Source: Knight Frank Research

Adelaide Industrial Land Values

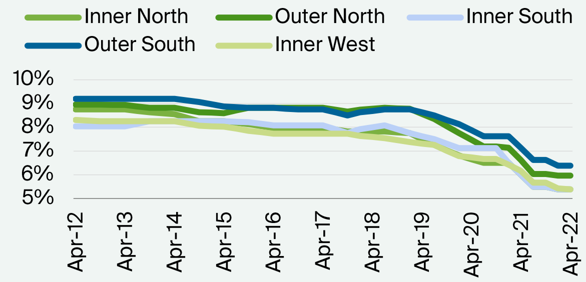
Medium Lots (1-5ha), Average $/sqm by precinct



Source: Knight Frank Research

Adelaide Industrial Yields

% Core market average prime yield by precinct



Source: Knight Frank Research

Recent significant tenant commitments

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

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

PERTH

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.

Leasing demand adds to rental uplift

Demand continues to be supported by the uptick in e-commerce growth, strong local occupier activity and business looking to scale as a result of congestion/disruption in supply chains. This demand, particularly for the east and southern precincts, has increased the pressure on existing stock and vacancy has declined, which coupled with the spike in construction costs is pushing rental rates upwards.

On a blended basis, prime net face rents are up 5.1% Q/Q, led by a much faster rates of growth in the south and east, where rents grew 6.6% on average Q/Q. In Y/Y terms, average prime net face rents have risen 9.4%. Low vacancy in the prime segment has started to spill over to secondary, where rents are up 5.6% Q/Q.

While escalating building material and construction costs is causing challenges for developers, there's seems to be an increasing disconnect between pre-lease and spec build rents and existing prime stock. This is putting upward pressure on rents in areas with new development. Coupled with lack of available supply, and a view that tenant demand will remain at similar strong levels in the short term, further rental growth is likely in the coming months.

Pent-up demand faces new challenges with low vacancy and limited new stock

Demand for modern, well located assets, remains largely unfulfilled given the land shortages in some areas and low vacancy in prime stock. This pent-up demand has meant that new space has been being quickly absorbed and the land market in the traditional areas has become increasingly competitive. Additionally, supply chains that had been affected by the border closures, particularly access to labour, are now adding to this demand, and this will keep downward pressure on vacancy through the next two quarters, further buoying developers interest to build. Although, it is worth noting that developers are now facing some challenges with rising construction costs.

There are several institutional owners and some tenant representatives looking at vacant land opportunities but with land values starting to rise and the cost of construction escalating rapidly, land sales haven't gained any significant momentum. This is expected to pick up once the inflationary pressures ease slightly. In the short-term, these pressures will continue to contribute to growth in pre-lease rents.

Developers shifting focus to value-add but privates still active with spec

The current cost to build is a critical focus for developers and while some projects have proceeded, some developers are holding back short-term plans until pricing shows signs of tapering off. Developers are becoming competitive on value-add and opportunistic assets and sites for land banking and/or repositioning for the reversionary upside.

The private development market remains 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, the spike in construction costs and uptick in land rates has meant developers have had to increase rents on some projects.

Land values could rise further

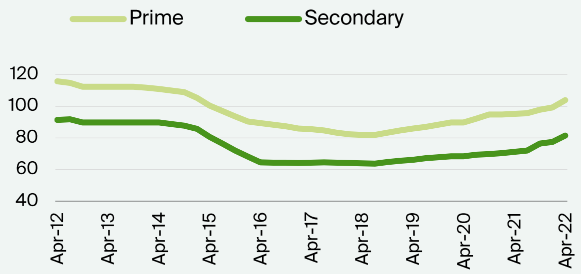
Serviced and zoned land in the south and east is becoming limited. The scarcity of land for development, coupled with sustained high tenant demand, is increasing the competition and prices are rising. Land values started to rise late last year, and there are further signs of this continuing in Q1-22. In Y/Y terms the blended rate for small lots has risen 9.9% and 1-5ha lots are up 8.8%. Further growth is expected in land values in the second half of the year, following an uptick in land sales.

Strong leasing market supports recent yield compression

The blended average for prime yields compressed 24bps Q/Q, and shows 86bps Y/Y. 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.

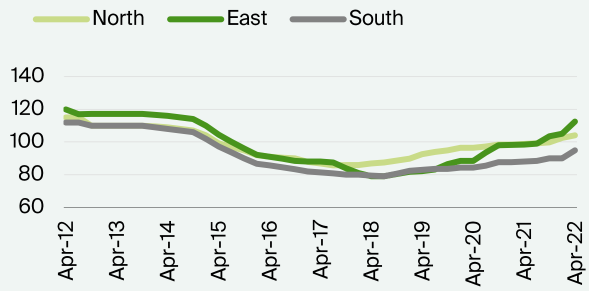
PRIME NET FACE RENT $/SQM Q1	LAND VALUES (<5,000SQM) $/SQM Q1	LAND VALUES (1-5HA) $/SQM Q1	NEW INFRASTRUCTURE (A$)
$104	**$417**	**$275**	**$30.7BN**
+5.1% Q/Q BLENDED AVG	+0.5% Q/Q BLENDED AVG	+1.1% Q/Q BLENDED AVG	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

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



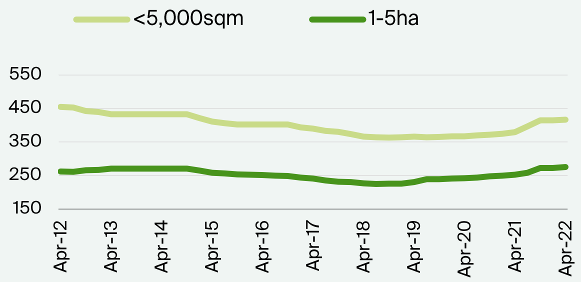
Source: Knight Frank Research

Prime Average Rents by Precinct
$/sqm net face



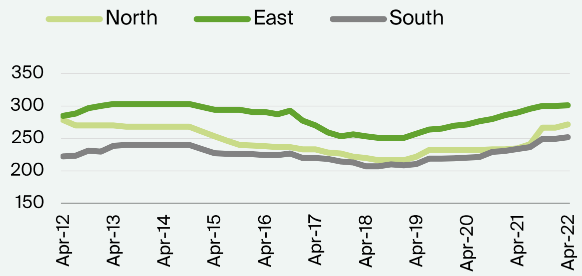
Source: Knight Frank Research

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)
Star Metals~	51 Charles Street, Bentley	East	1,800	U/D	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	Andrew Fairley Avenue, Greater Shepparton #	66.0	126,000	522	Charter Hall (Direct Industrial Fund 4)	SPC	6.06	30.0
Melbourne	28 Jones Road, Brooklyn [4]	46.0	4,431	10,381 [4]	Dexus	Argus Property Investments	3.75	11.1
Melbourne	9-13 Annick Crescent, Truganina #	16.2	7,341	2,207	ESR	Forever New Clothing Pty Ltd	4.47	10
Melbourne	269-271 Frankston-Dandenong Road, Dandenong South	19.2	8,229	2,331	Aliro Group	Kras Levy Super Custodian Pty Ltd	4.17	8.5
Melbourne	175 McKellar Way, Epping	44.0	16,137	2,696	Aliro Group	151 Property	3.64	9.8
Sydney	1 Augusta Street, Huntingwood	201.0	215,000	935	Logos backed by KKR and Mubadala investment	China Lesso	Land	-
Sydney	373 Horsley Road, Mlperra	34.2	9,314	3,672	Pittwater Industrial	GDI Property Group	Holding income	
Sydney	82 Rodeo Road, Greggory Hills	70.0	22,481	3,114	Centuria Industrial REIT	Private Investor	3.70	5.13
Sydney	12 Church Street, Moorebank	44.0	34,500	1,275	Dexus/Industria REIT (formerly APN Industria REIT)	Private Investor	Development site	-
Brisbane	88 Moreton Street, Heathwood	75.0	21,982	3,412	Charter Hall	Private Investor	3.81	9.14
Brisbane	98 Montpellier Road, Bowen Hills	60.0	9,534	6,293	Charter Hall PGGM Industrial Partnership	OPD Lennon	4.40	4.4
Brisbane ^	55 Brownlee Street, Pinkenba	18.0	5,699	3,158	Hines Global	Pipeclay Lawson	4.05	3.8
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
Adelaide	12 Kaurna Avenue, Edinburgh	15.7	11,986	1,310	Local Private	Local Private	-	-
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] Specialised, purpose built shipping container storage yard with substantial concrete container rated hardstand [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.

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