$13.9bn
Investment volumes YTD ($10m+)

c.736,596sqm
Leasing take-up on the east coast in Q3

c.650,000sqm
Spec developments on the east coast in 2021

knightfrank.com/research

Australian Industrial Review

Powerful demand drivers trigger new rent and land value growth cycle

Q3-2021

KEY INSIGHTS

Record volumes of investment capital continues to flow into the sector. While investors bid up prices through acquisition or development activity, the unstoppable rise of e-commerce and juxtaposition of ongoing supply chain disruptions and inflationary pressures feeds into demand across the country, kick-starting a strong new growth cycle for the sector.

$13.9b
investment sales volume 2021YTD

2.0m
SQM new supply 2021 East Coast

495k
SQM take-up of vacant stock East Coast Q3-21

8%
Q/Q decrease in vacant space East Coast Q3-21

50
bps compression of super prime yields in Melbourne Q3-21

5.8%
Q/Q increase in 1-5ha land values Q3-21

An unprecedented volume of investment capital is chasing Australian assets, **as take-up of existing stock on the east coast in Q3 rises 25% above its average and a new rental and land value growth cycle emerges across the nation.**

In Sydney, leasing activity is surging, as pent-up demand lifts take-up rates in Q3 to 81% above the same period last year, triggering rental growth of 0.9% and an 8.0% rise in land values on 1-5ha parcels q/q.

As leasing demand reaches unprecedented levels, Melbourne industrial land values skyrocket, driven by developer appetite for the west and north regions, where the value of 1-5 hectare lots have risen by 67% and 54% since the start of the year.

In Brisbane, vacancy is now 29% below the levels of a year ago despite significant speculative projects, which are expected to account for more than a third of the pipeline in 2022 starting development.

Prime yields reach a new benchmark in Adelaide, as land constraints amid a sustained upswing in demand levels drives land value growth, with small lots in the inner north and outer north rising 6.8% q/q and in the inner south 3.3%.

As leasing demand gains momentum in Perth and a new rental growth cycle emerges, growing confidence in the occupational demand profile triggers sizeable yield compression and pushes up land rates for small lots by 4.7% in Q3.

Key Indicators Q3 2021

MARKET	PRIME NET FACE RENT $/SQM	SECONDARY NET FACE RENT $/SQM	SUPER* PRIME MARKET YIELD RANGE %	LAND 5,000sqm $/SQM	LAND 1-5 ha $/SQM
Sydney	124#	106#	3.50 – 4.00	821^	713^
Brisbane	115	92	3.90 – 4.40	437	372
Melbourne#	91	74	3.25 – 3.75	698	603
Adelaide	101	76	4.50 – 5.00	302 ~	177 ~
Perth	97	73	4.50 – 5.00	415 ~	272 ~

Source: Knight Frank Research *Yield range assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0 years +
#Excludes South Sydney, North Sydney and Melbourne Fringe ~Blended ^Blended Outer West / South West

ECONOMY

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

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

Domino effect of e-commerce tailwinds driving structural changes

Online retail has continued to diversify, driving demand for warehouse and distribution space across the country from a broadening range of industries. Despite a drop in overall in retail spending during Q3, online retail share of total retail spend climbed to a record high of 15.3% (ABS, September 2021), up from c.6.4% prior to the pandemic, with growth in online spending assisted by the protracted lockdown conditions on the east coast. E-commerce adoption has been rapid and continues to grow but it has driven some significant structural changes, including the supply chain disruptions that are affecting almost all businesses.

Inventory patterns forced to change amid supply chain disruption and e-commerce growth

The increased need for companies to mitigate future capacity pressures to account for growth in consumer spending has been compounded by a number of other challenges in the sector, including tremendous volatility in the supply chain. Wide-spread shipping container shortages, port congestion and delays, alongside a global pallet supply shortage due to timber shortages, are all disrupting the flow of goods and driving up freight and material costs. The Baltic Exchange Dry Index, which benchmarks the price of moving major raw materials by sea, highlights the issue. The daily index rose to its highest level in 13 years in October 2021, showing a rise of 314% since the start of the year.

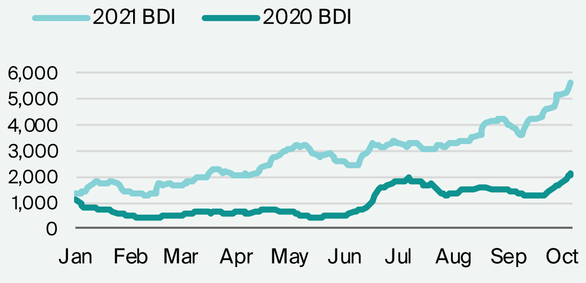
Supply chain disruptions are pushing up inflation

Economic recovery in the northern hemisphere has resulted in strong consumer spending at the same time that global supply chain problems are escalating. There has also been a ramp up in commodities demand, while a shortage of some critical manufacturing components and raw materials is causing prices to surge. In Australia, there has been a huge surge in demand for building materials due to the government stimulus schemes at the same time the government was fast-tracking major infrastructure and building projects, further escalating the pressure on prices. Meanwhile, shipping lines have been overwhelmed, increasing transportation and logistics costs.

In the September quarter, CPI rose 0.8% and 3.0% y/y, according to the ABS, with construction input costs such as timber, increasing due to supply disruptions and shortages. This, combined with the high level of building activity, saw price increases pass through to consumers. Supply chain problems are not expected to ease in the near term and this will drive a further increase in prices as businesses manage their current inventory to meet demand. As a result, the RBA is forecasting underlying inflation of around 2.25% over 2021 and 2022, with wages growth expected rise gradually as the labour market tightens.

Escalation of Shipping costs

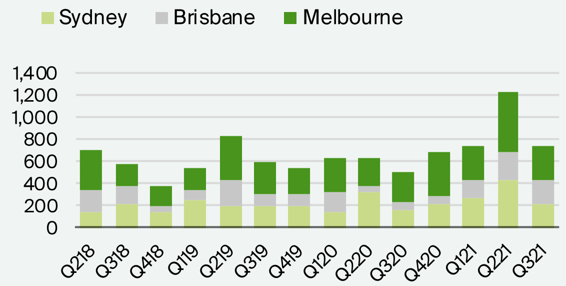
Baltic Exchange Dry Index (BDI)



Source: Knight Frank Research, Macrobond

Eastern Seaboard Industrial Take-Up

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



Source: Knight Frank Research

LEASING MARKET

Tailwinds from e-commerce continue to strengthen demand, as sustained strong online retail sales growth and current supply chain disruptions start to add urgency to leasing decision making plans.

Supply chain disruption adds pressure to the already high demand levels

Throughout Q3, leasing activity remained above pre-pandemic levels as the need for increased warehouse space to mitigate disruptions in the supply chain and sustained strong online retail sales have heightened take-up rates. eStore Logistics, one of Australia's largest e-fulfilment providers, has increased their national footprint from c.40,000sqm to c.120,000sqm over the last 14 months, while Australia Post will invest $400 million into new facilities and tech upgrades to add extra processing capacity. This type of demand has created powerful tailwinds during Q3, resulting in a further contraction of vacant space and the return of rental growth rates of 1.0-2.0% over the quarter in most markets. Further rental growth is expected in 2022, underpinned by low vacancy, supply constraints and intensifying competition for space.

Competition intensifies, as take-up of existing stock rises 25% above its average

Commodity and shipping price shocks, alongside logjams in shipping traffic, have forced many businesses to scale-up operations quickly to factor in a greater level of resilience in their stockpiles. This has directly impacted take-up trends, with data showing the take-up of existing stock on the east coast was almost 500,000sqm in Q3, 25% above its five year average. But the impact is two-fold. With the competition for warehouse space so widespread, some markets are now facing a critical shortage of prime existing stock, including Sydney's Outer and South West, Melbourne's South East and Perth's East. This is putting pressure on secondary space. On the east coast, the volume of available secondary supply (+5,000sqm) has now dropped to its lowest level since 2011 after declining almost 45% over the last 12 months.

Reacceleration of land value growth rates across most precincts to remain in the short term

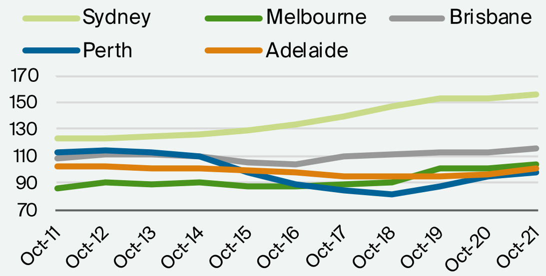
Against the backdrop of low vacancy and inflationary pressures, a shortage of zoned and serviced land has led to strong land value growth in Q3, with the average aggregate price of small lots increasing 4.1% and 1-5ha lots increasing 5.8%. This growth trajectory will continue, with higher rates of growth expected in those precincts facing critical land shortages in the short-term.

Vacancy declines to lowest level since 2013

Q3 pre-commitment leasing take-up on the east coast was c.240,759sqm, down from an extraordinary high of 551,497sqm in Q2. More than 650,000sqm of speculative product is forecast to be completed on the east coast in 2021. This may have subdued short-term needs, given competition for land is intensifying. Demand for space is flowing into future supply plans, with the forecast development pipeline in 2022 set to reach a new historical high, with c.2.6 million sqm planned, pending commitments and approvals. The volume of available vacant supply (+5,000sqm) on the east coast declined for the fourth consecutive quarter, dropping 2.8% in aggregate to its lowest level since January 2013. Brisbane recorded the largest decline, falling 20% Q/Q, from c.545,435sqm to 435,305sqm, followed by Sydney with an 8.3% decline to 201,248sqm.

Average Prime Net Face Rents

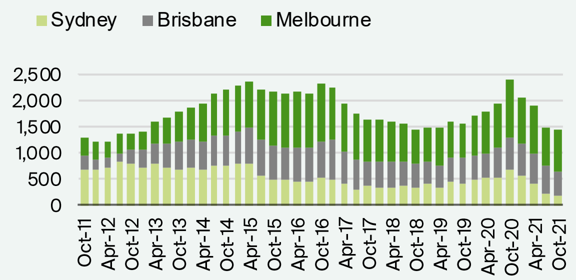
By Capital City, Blended average# rate $/sqm pa



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

Eastern Seaboard Industrial Vacancy

'000sqm, Quarterly, 5,000sqm+



Source: Knight Frank Research

INVESTMENT

Record low vacancy amid the compelling growth trajectory of e-commerce usage and subsequent rise in warehouse demand is seeing investors favour industrial real estate.

Investment volumes surge, as an unprecedented volume of capital chases Australian assets

Investor demand for industrial and logistics real estate continues at scale, with an unprecedented amount of capital in the sector driving up investment volumes for the year to in excess of $13.9 billion, with another $800 million still to add following settlement later this year of the Qantas headquarters site in Sydney to LOGOS Property Group. The current investment volume YTD is already 35% above 2020 full year volumes and 72% the pre-pandemic high of c.$8.0 billion in 2019. The eastern seaboard markets have benefited from the lion's share of capital, accounting for more than 82% of transactions by volume but capital inflows into Perth and Adelaide has grown substantially during Q3 thanks to some landmark deals.

Landmark portfolio deals demonstrate appetite for industrial is spreading beyond the east coast

Dexus and APN Industria REIT have partnered to spend $1.5 billion on a portfolio of industrial properties, including $1.3 billion for the acquisition of Jandakot industrial estate in Perth, which includes 49 properties plus surplus development land, reflecting a cap rate of 4.7% on the properties. Under the agreement, Dexus will own two-thirds of the airport with ADI holding the remaining stake, while ownership will be split 50-50 on the $125.4 million purchase of a fund-through development in the Western Sydney Mamre Road precinct. ADI will own a 100% stake of a logistics facility leased to Australia Post in Truganina, Vic, for $69 million.

GPT has just announced the acquisition of a 23 property portfolio from Ascot Capital (due to settle in November) for $681.7 million, on an initial yield of 4.3%. The geographic split of the portfolio by NOI shows that 19% of the properties are located in SA and 8% in WA, compared to 8% in NSW and 14% in Vic. The acquisition increases GPT's weighting to logistics sector to 26% and further supports the trend that more capital is starting to flow to other markets besides Sydney and Melbourne.

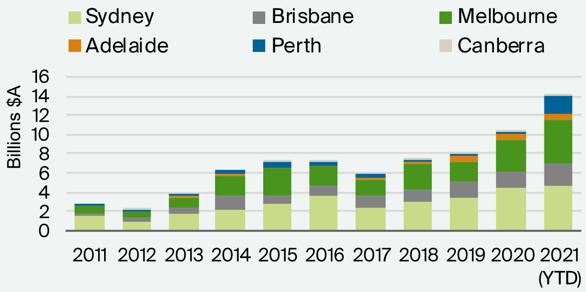
Major transactions remain market defining as yields continue to compress

The sector is growing increasingly competitive reflecting a sentiment of continued growth in both leasing take-up and future demand for development stock that is showing no signs of abating in the near-term. The rate of compression of super prime yields#, has begun to slow but on a Y/Y basis are showing an average 116bps compression since Q3 last year. Melbourne super prime yields have compressed 50bps, while Perth and Adelaide have compressed 25bps to average 4.75%. Brisbane has compressed 5bps to 4.20%, and Sydney is holding at 3.75%.

While yields in major international gateway markets are as low as 3%, there remains a question mark on how low yields can go in Australia. The market will retain its strong momentum but with yields at these low levels there may be limited scope for further downward movement in 2022, particularly in Sydney and Melbourne.

Industrial Sales by Major City Market

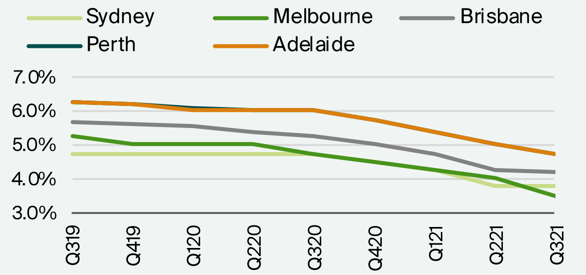
$10m+, Calendar Year



Source: Knight Frank Research, RCA

Average Super Prime Yields

By Major Capital City, Average %, quarterly, 2019-2021 (to Oct)



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

SYDNEY

E-commerce tailwinds continue to bolster demand for space, pushing vacancy to its lowest level on record as it increases the competition for space and outlook for income growth.

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

Logistics and retail operators driving demand as take-up volumes surpass 2020's high

Leasing volumes have eclipsed 1.05 million sqm thus far in 2021, already above total volumes for 2020. Leasing take-up in Q3 2021 was 342,701sqm, an increase of 81% on the same period last year. Underpinned by the McPhee Distribution Services (72,000sqm) pre-commitment at Dexus' 30ha development site in Kemps Creek, take-up has been dominated by Transport/ Logistics and Retail/Wholesale Trade operators, accounting for 81% of activity. Heightened demand from these sectors highlights the strong link between e-commerce growth and increased demand for more warehouse space.

Vacancy remains at historical low

Strong tenant demand in Q3 has resulted in an 8% decline Q/Q in the volume of vacant supply to measure 201,248sqm, a new record low for Sydney. This is the fourth consecutive quarterly decline in vacancy, representing a 71% fall Y/Y. This result follows extraordinary robust demand levels in Q2 on the back of the e-commerce tailwinds. The bulk of activity remains in the Outer West and South West, with vacancy declining 28% and 34% respectively Q/Q. This reflects strong leasing demand as result of the ramp up in e-commerce utilisation rates and rising inventories due to supply chain volatility. Many occupiers have opted for short term leases to cope with the surging demand. This has contributed to the decline in existing available stock levels, as they await completion or seek opportunities for purpose built facilities.

Increased demand provides rental uplift

With limited existing stock available to lease and strong demand for space, in conjunction with higher quality warehouses being developed, landlords continue to push rents and drop incentives in Q3. Across all Sydney sub-markets average rents have grown by 0.9% over the quarter, with a fall in incentives to average between 12-17%, resulting in net effective growth of 1.5%. Occupiers are pivoting quickly, in some cases taking swing space to manage surge capacity, and this is generating strong demand for space. Given low vacancy, alongside record take-up levels, rental growth rates are expected to accelerate in Q4, into 2022.

Pre-commitments driving new development, but some start dates have been pushed out

Given the supply chain disruptions and capacity constraints on construction sites, alongside limited existing good quality, institutional grade warehouses, tenants have been in a bidding war for space, pushing out some project start dates to mid-late 2022, despite current needs. This has resulted in lower than expected completions for the year, with 559,439sqm forecast to be delivered by year end. Recent evidence suggests Australia Post have stepped in to take up significant amounts of lower grade, development site stock for Christmas overflow.

Nonetheless, pre-commitments remain the driving force behind development activity as occupiers seek facilities that incorporate high tech automation and provide scope for future expansion space. Pre-commitments account for over 55% of stock being delivered in 2021, with Q3 reporting 80,000sqm of pre-commits signed. This will bolster development for 2022, which is forecast for a record year of over 750,000sqm.

Development activity driving land value growth

The strong appetite from institutions to increase exposure has seen an uplift in land values in Q3. Over the quarter, land values in Western Sydney have increased by 8% for 1-5Ha lots to average between $775-$850 per sqm. However, zoned and serviced land is in short supply and this is seeing some sites sell for in excess of $1,000/sqm. This trend, combined with the incredibly strong occupational demand profile of the sector and the abundance of capital seeking to grow portfolio exposure to the sector through acquisitions and development, will see further significant growth in land values in Q4, into 2022.

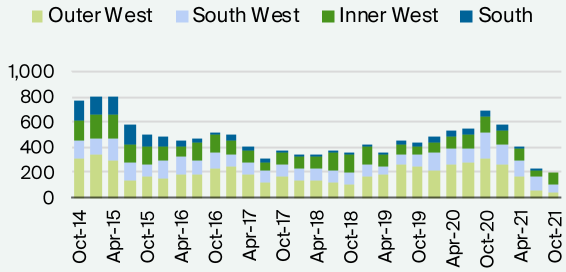
Appetite for industrial reaffirms tight yield metrics

The significant shift in yield metrics since the beginning of the year is showing no signs of abating. Major transactions over the quarter, including 52 Lisbon Street, Fairfield and 884–928 Mamre Road, Kemps Creek, indicate that some prime assets are now trading below 4%. Prime yields across the Western precincts have compressed on average by 25bps Q/Q to average 4.1%. Further yield compression is likely to given the large amount of capital still seeking industrial assets.

TAKE-UP (SQM) Q3	MOST ACTIVE SECTOR Q3	VACANCY (SQM) Q3	NEW DEVELOPMENT (SQM)
342,701	**60%**	**201,248**	**559,439**
+81% higher than same period last year	TRANSPORT, POSTAL, WAREHOUSING	-8% Q/Q	Estimated 2021 (f)

Sydney Vacancy

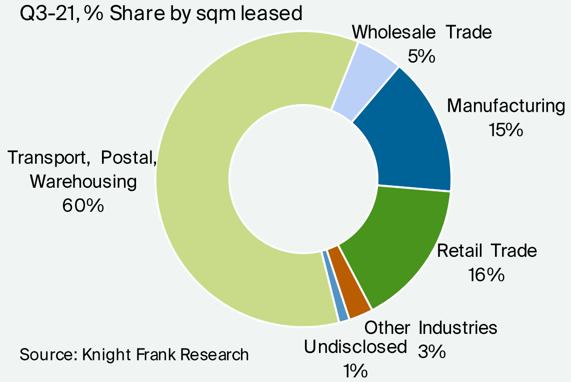
'000sqm by precinct



Source: Knight Frank Research

Sydney Take up by Industry

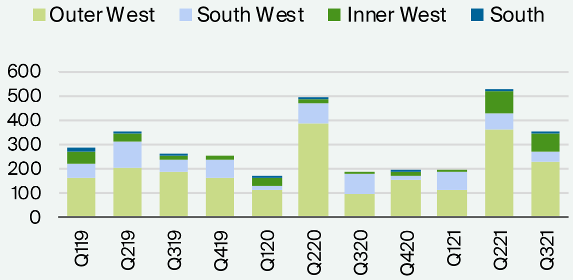
Q3-21, % Share by sqm leased



Source: Knight Frank Research

Sydney Leasing Take-up by Precinct

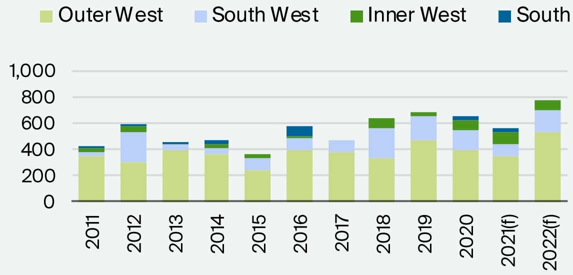
'000sqm by precinct, by quarter



Source: Knight Frank Research

Sydney Industrial Development

'000sq m by Precinct



Source: Knight Frank Research, Cordells

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Yusen Logistics#	Wh2a, Oakdale South Industrial Estate	Outer West	8,460	140	5
GMP Pharmaceuticals~	15 Long Street, Smithfield	Outer West	16,516	128	7
QLS Logistics#	Huntingwood East Logistics Estate	Outer West	21,810	U/D	10
Bryopin~	1b Coronation Avenue, Kings Park	Outer West	5,952	135	12
Booktopia~	34-38 Cosgrove Road, Enfield	Inner West	13,251	145	11

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

MELBOURNE

Sustained demand for logistics and fulfilment continues to drive the growth in Melbourne's industrial sector.

By Finn Trembath | Associate Director | Research & Consultancy

Recent trend of strong take-up continues in Melbourne's industrial market

Demand for industrial space in Melbourne shows no sign of slowing down. Driven by transport and warehousing sectors, leasing volumes for the Q3-21 period totalled 487,545sqm, representing a 9% increase on what was recorded at the same time in 2020. The take-up of vacant space has risen notably, with the 270,822sqm recorded in Q3-21 representing a 61% increase on what was recorded in Q3-20.

Similar to last quarter, take-up has been driven by the growing industrial west region. 347,715sqm of industrial space was leased in the west in Q3-21, which represents 71% of all take-up in Melbourne over the period.

In response to the unprecedented rise in demand for warehouse and logistics space, Melbourne is witnessing a surge in new development. 1,172,297sqm of new industrial space is set to be delivered this calendar year, and the pipeline is forecast to rise further in 2022 to 1,319,855sqm. Incentives have started to significantly reduce for existing stock and tighten for pre-lease options. Mirroring the take-up story, the majority of the new supply in 2021 (56%) and 2022 (54%) is set to be delivered in the west.

Confidence in the industrial sector is being reflected in a continued rise in speculative developments. In 2021, 440,762sqm of the city's new supply is expected to emanate from spec developments, which are up on the 343,648sqm recorded in 2020 and the 386,447sqm recorded in 2019 (pre-COVID). And based off current forecasts the amount of spec development in 2022 (748,552sqm) could be as much as double the 2021 level.

Melbourne industrial land values continue to skyrocket

Melbourne industrial land values continue their record climb. The value of <5,000sqm and 1-5 hectare lots have risen by 31% and 38% respectively since the start of the year. The growth in land values has been driven by Melbourne's west and north regions, where the value of 1-5 hectare lots have risen by 67% and 54% since January.

Land values have taken off over the last three years. Since October 2018, the value of 1-5 hectare lots in the west and north have risen by 133% and 87%, and even in the established markets of the east and south east increases of 55% and 39% have been recorded for 1-5 hectare lots.

Supply and demand dynamics have driven the continued recent rise in Melbourne's industrial land values. While Melbourne's industrial market is currently witnessing a record increase in its supply pipeline, there is nonetheless a shortage of industrial zoned land for new development in the city. At the same time, institutional investors are increasingly being drawn to the industrial market given the continued rise in tenant demand for warehouses and distribution centers spurred by the booming e-commerce sector.

Charter Hall's purchase of an infill site at 1,110 Dohertys Road in Tarneit for $199 million and Goodman's site purchase at Troups Road in Truganina for $125 million are recent examples of the prices currently being paid for industrial land in Melbourne.

Rents begin to climb off the back of strong increases in the south east and west

Melbourne industrial rental growth has started to increase after lying dormant for the better part of two years. The increase in rents has been driven by the south east and west regions, with average prime rents in these markets increasing by 5.4% and 4.8% respectively since the start of the year. Rents are forecast to rise further as landlords meet the cost of new developments.

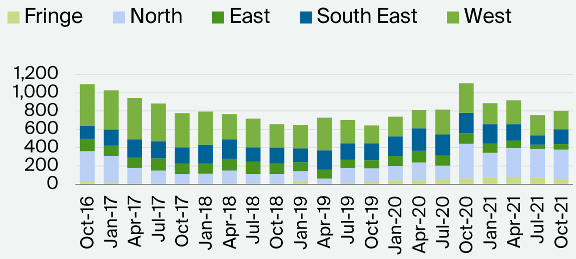
Yields continue to compress

Heightened investor interest in the industrial sector has seen yields continue to harden. Average prime yields have compressed by 48 basis points in the last three months, and by 94 basis points over the last 12 months. Institutional Investment Group's purchase of 262 Lorimer Street in Port Melbourne at a yield of 3.68%, and GPT's acquisition of 235-239 Boundary Road in Laverton North at a yield of 3.80% are testament to the strong demand for industrial property currently being witnessed in Melbourne.

TAKE-UP (SQM) Q3	MOST ACTIVE SECTOR Q3	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
487,545	**45%**	**801,784**	**1,319,855**
+9% higher than same period last year	TRANSPORT & WAREHOUSING	+6% Q/Q	Estimated 2022 (f)

Melbourne Industrial Vacancy

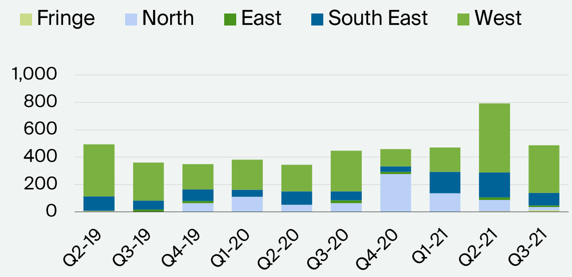
'000sqm by precinct



Source: Knight Frank Research

Melbourne Leasing Take-up

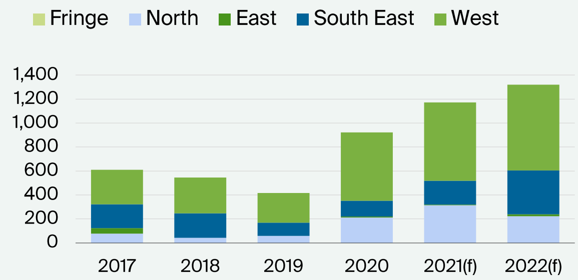
'000sqm by precinct



Source: Knight Frank Research

Melbourne Industrial Supply

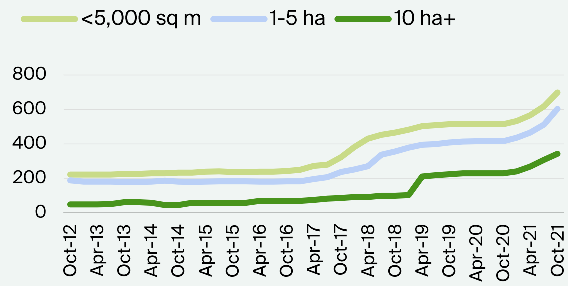
'000sqm by precinct



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)
Cameron Transport^	2-10 Prosperity St, Truganina	West	23,720	82	5
Ligentia^	250 Palmers Rd, Truganina	West	13,000	82	5
Nu-Pure#	391 Boundary Rd, Truganina	West	8,970	88	10
Autopacific~	78-88 Atlantic Dr, Keysborough	South East	6,679	95	7
Direct Mail Corp~	24 Jersey Dr, Epping	North	5,267	85	5

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

BRISBANE

Significant vacancy reduction has placed effective rental growth back into focus, but speculative stock will continue to shape the occupier market

By Jennelle Wilson | Partner | Research & Consultancy

Leasing activity remains high with rolling 12 month take-up 58% higher than a year ago

Leasing take-up in Q3 2021 was 224,031sqm, 67% above the five year average and slightly lower than the record-high of 309,000sqm in Q2. Activity has continued to be strongest in the two largest southern precincts of South (37%) and South West (30%) which are clearly dominating the current market.

The take up of vacant space across the first three quarters of 2021 is already above the long term annual average. Take-up of 127,171sqm in Q3 2021 was slightly lower than the previous two quarters, but remains well above long term average. Take-up of prime space lifted in Q3 with 71,780sqm, 56% of the total space absorbed. Speculative space was 45,735sqm of the prime take-up, roughly two-thirds of the prime space absorbed. Secondary space had 55,391sqm of Q3 take-up, lower than Q1 and Q2, but remaining at elevated levels. No single tenant leased more than 10,000sqm of existing or spec space in Q3.

Pre-commitment activity for Q3 was 33,120sqm, lower than the 107,947sqm seen in Q2, but including tenants such as Daikin (13,500sqm) and Total Logistics Solutions (13,392sqm). Negotiations are advanced which will see the level of pre-commitment tick higher again in Q4.

Vacancy is now 29% below the levels of a year ago despite further significant speculative starts

Total vacancy decreased by –110,130sqm (-20%) during Q3 2021. This has brought vacancy to 29% below the levels of a year ago, and the lowest levels seen since early 2019. Secondary vacancy has continued to fall, down by 23% over the past quarter (30% on the year) now at lows not seen since mid-2012. In contrast, available prime space increased by 4% in Q3 and is up by 18% over the past year. This is driven by speculative space which currently accounts for 45% of the total vacancy available in the Brisbane market.

The sustained increase in tenant demand has seen choice for some size ranges become thin and while prime face rents were stable in the past quarter at $115/sqm net, average incentives have ticked down slightly across existing stock to 16.9%.

Land values converging in southern precincts as institutions continue to chase future stock

Land ready for immediate development continues to be highly sought with prices up by 22% in the past year for blocks 1-5ha, the highest gains of +25% in the South West. Institutional investors continue to dominate transactions for larger tranches of land and have also increasingly purchased brownfield sites for 3-5 year development horizons. Land values across the three southern precincts are converging as proximity and ease of access to arterial roads is the major determinant. Driven by owner occupier and developer competition, lots sub-5,000sqm have increased by 12% over the year with the South West (+19%) again the highest.

Construction completions for 2021 is expected to total just under 300,000sqm as wet weather and delays to speculative stock starts have pushed completions into next year. 2022 has the potential to see more than 500,000sqm of new space delivered with 145,000sqm already under construction. Speculative space is expected to account for 44% of total supply for 2021 and more than a third for 2022.

Yield contraction continues as investor demand has remained high

After the exceptional transaction levels of Q2, the pace of transactions did lessen slightly but are now surging again toward year end with competition strong and yields maintaining a firming trend. Prime yields have contracted by 10bps Q/Q to 5.25% and are down by 76bps over the past year.

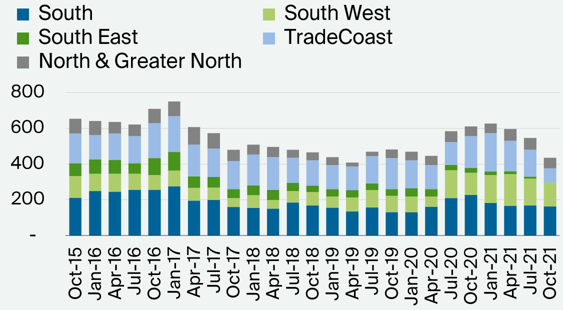
The contraction for secondary assets has been greater at 20bps in the quarter and 98bps over the year as buyers, facing a lack of opportunities in the prime market and buoyed by the stronger leasing activity, have turned their attention to secondary acquisitions. These values for secondary assets are also increasingly supported by the underlying land value.

Charter Hall and Dexus were active buyers in Q3 feeding both listed and wholesale funds with acquisitions. ESR has continued to ramp up its development pipeline with three significant acquisitions in the South, South West and Trade Coast markets.

TAKE-UP (SQM) Q3	MOST ACTIVE SECTOR RTM	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
224,031	**29%**	**435,305**	**293,432**
67% ABOVE THE 5Y-AVG	RETAIL TRADE	-20% Q/Q	Estimated 2021 (f)

Brisbane Industrial Vacancy

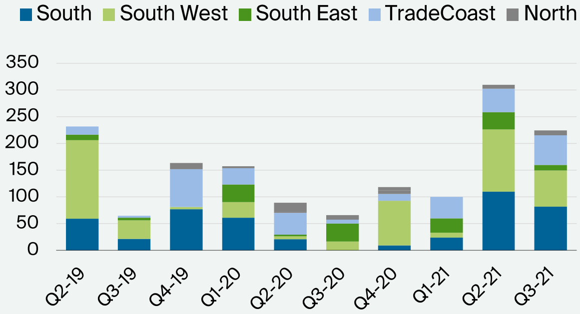
'000sqm available space by precinct



Source: Knight Frank Research

Brisbane Leasing Take-up

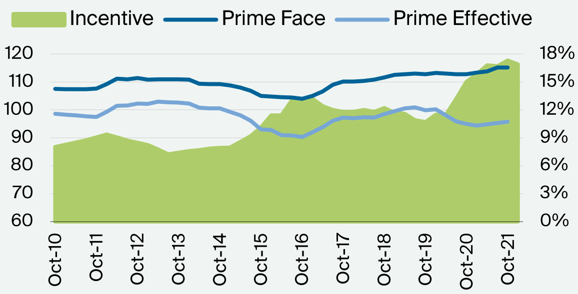
'000sqm by precinct



Source: Knight Frank Research

Brisbane Prime Rents

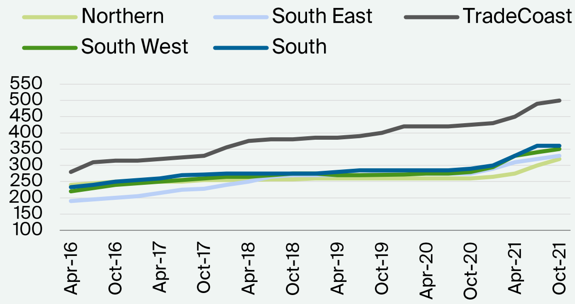
Prime Face & Effective $/sqm (LHS), Av Incentive % (RHS)



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 (yrs)
Winning Appliances #	3746 Ipswich Rd, Wacol	South West	45,740	U/D	U/D
Youfoodz#	Berrinba Logistics Estate, Berrinba	South	13,700	U/D	U/D
Daikin Australia#	33 Goodman Pl, Murarrie	TradeCoast	13,500	115	10
Total Logistics Solutions#	130 Gilmore Rd, Berrinba	South	13,392	113	10
Hyne Timber ~	Osprey Drive, Lytton	TradeCoast	12,608	110	U/D

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

ADELAIDE

Further yield compression is expected in the final quarter of 2021 on the back of lag in forecasted supply and rising demand for industrial stock.

By Tristan Mellett | Research Analyst | Valuation & Advisory SA

Strengthening business confidence creates rising demand for new development

On the back of the growth seen within the investment market, developers are seeking to capitalise on the rise in demand for industrial stock. Access to land has become critical with both developers and owner occupiers increasingly on the hunt for brownfield sites.

The decrease in the unemployment rate and rise in business confidence is resulting in an increasing number of new small businesses. Business confidence surged by 19 points leading into October 2021 ,with manufacturing, agriculture and community services among the most confident sectors.

“Small business hubs” are the primary type of asset entering the development market, such as the development of 36-44 Port Road Alberton, which is a proposed to comprise 2,041sqm (GLA) with 41 car parking bays situated on a 4,749sqm site. Upon competition the development will include eight office/ warehouses and a two storey retail and gymnasium building. The site offers extensive frontage to Port Road, Earle Avenue and Fourth Avenue. Other developments include 360-364 Richmond Road, Netley, 126-132 Frederick Street, Welland and 347 Main South Road, Morphett Vale.

Land constraints amid sustained upswing in demand is driving land value growth

Land supply remains constrained, with increases in values in some precincts being recorded over the last 12 months. Over the last quarter the Inner West and Outer North observed an increase of 6.8% to stand at $504/sqm and $94/sqm respectively. Similarly, the Inner South observed an increase of 3.3% to stand at $525/sqm.

Limited supply is expected to drive rents higher into 2021

Demand is expected to increase as the eastern states open up and emerge from lockdowns. This will add pressure to rents given current demand levels are beginning to outstrip forecasted supply levels. Notably, leasing demand for the smaller market (sub 1,000sqm) has continued to receive strong level of enquiry, especially from the local market.

Further rental growth anticipated in 2022

The current prime rental market has remained relatively steady leading into October 2021, with the blended net face rent at $101/sqm. The secondary blended net face rent however, observed an increase of 12.4% to end the quarter at $75/sqm. The rise in the secondary market rent is attributable to the level of interest shown within the Inner North, Outer North, and Inner South precincts. With low levels of vacancy and delay in forecasted supply, further rental growth is anticipated.

Industrial assets continue to be the preferred asset class, as yields reach new benchmark low

The market continues to witness unprecedented strength amongst its demand indicators, reflecting Adelaide’s resilience to the pandemic. This is driving demand for industrial holdings from a range of institutional investors and large privates, particularly for long WALE assets with strong lease covenants. Indeed, a number of prime assets are now beginning to trade at yields well into the 4% range, reflecting the upswing in buyer appetite.

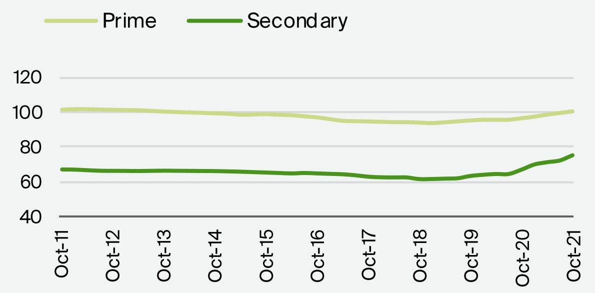
1052 Port Road, Albert Park and 18-24 Kesters Road, Para Hills sold recently, achieving record low market yields of 3.59% and 3.57% respectively. Port Road comprises a large sawtooth designed office and warehouse, utilised as a industrial equipment storage facility, currently leased to Coates Hire with a lease term certain of 4.5 years. Kesters Road comprises a modern office/warehouse utilised as an automotive mechanic shop currently leased to ASX listed RPM, with a lease term certain of 7.4 years.

On the back of the recent Government confirmation relating to defence related employment opportunities and investment within South Australia, a further firming of yields, combined with a rise in land values and leasing activity, is expected over the coming months.

TAKE-UP (SQM) YTD	NEW DEVELOPMENT FACILITIES	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
47,474	**60%**	**218,434**	**44,069**
(5,000SQM +)	SMALL BUSINESS HUBS	(5,000SQM +)	Estimated in 2021

Adelaide Industrial Rents

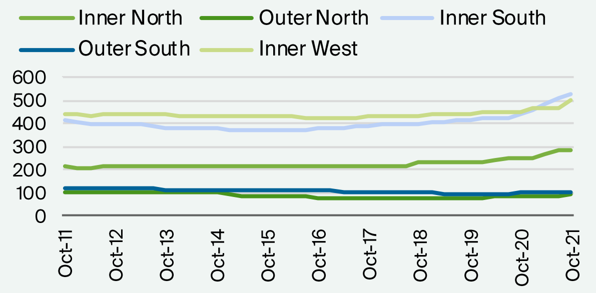
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide Industrial Land Values

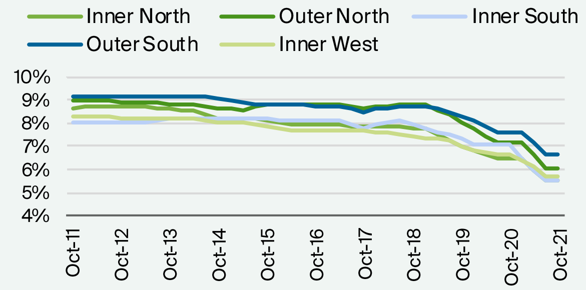
Average $/sqm by precincts for land <5,000 m^2



Source: Knight Frank Research

Adelaide Industrial Yields

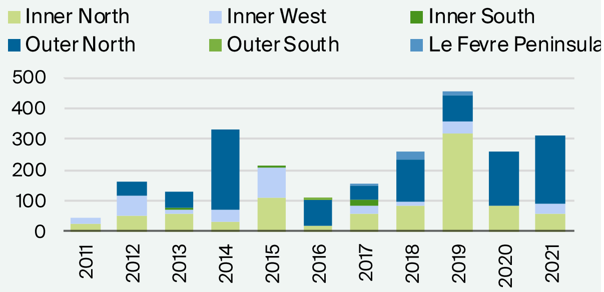
% core market average yields by precinct



Source: Knight Frank Research

Adelaide Industrial Sales

$Millions by precincts;+$5mil sales, 201 to 2021YTD



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Wine Storage Logistics	60-70 Purling Avenue, Edinburgh	Outer north	17,890	60	3
A.S. Marshall Holdings	33-44 Starr Avenue, North Plympton	Inner West	8,225	77	5
M3 Logistics	63-75 Kaurna Avenue, Edinburgh	Outer North	6,732	83	7
BR International	72-78 Purling Avenue, Edinburgh	Outer North	19,561	80	5
CTI Logisitcs	122-132 Purling Avenue, Edinburgh	Outer North	17,493	85	5

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

PERTH

Industrial leasing demand continues to surge, propelled by e-commerce growth and supply chain disruption, as weight of capital pushes investment yields to new territory.

By Katy Dean | Director | Head of Industrial Research

Positive growth momentum in economic recovery fuelling demand

The WA economy continues to outperform other states and territories, reaffirming its resilience to the impacts of the pandemic as it sustains a positive growth rate momentum across a number of macro-economic indicators. However, there remains some uncertainty regarding the long term impact of extended border closures. Even so, the unemployment rate (4.1%) is the lowest since 2013 and the participation rate has rebound from the lows experienced at the start of the pandemic and continues to climb.

As a high-income, export orientated economy, WA has benefited from growth in the demand for commodities, producing 56% of Australia's merchandise exports over the last financial year. Retail sales growth has generated strong demand for industrial and logistics leasing space. For example, Australia Post is upgrading its parcel facilities and plans to develop an e-commerce hub in Perth, alongside additional pop-up facilities across its network to add 30% extra processing capacity over the coming months.

Leasing demand gains momentum as rental growth cycle emerges

Increased demand from consumers has put pressure on logistics operators, with 3PL demand gaining significant momentum as demand for short-term contract space to manage the surge capacity through the Christmas period mounts. The sub 10,000sqm warehouse is the most active, however faces some challenges with limited stock available.

This has had a direct effect on rental growth rates during Q3. On a blended basis, prime net face rents are up 1.9%, led by a much faster rate of growth in the east, where rents grew 3.5% on average q/q. In the south, prime rents rose 1.7% and in the north 0.5% q/q.

The surge in demand, particularly for the east and southern precincts, is increasing the pressure on existing stock and vacancy is declining. This feeds into the wider growth trend being seen nationally, with further strong rental growth now anticipated in Q4 and into 2022.

The pre-commitment market remains very competitive. Businesses are looking to scale and increase storage space to manage inventories. This is intensifying the demand for modern, well located assets, particularly near or around major transport links such as Perth Airport, which remains largely unfulfilled given the land shortages in some areas.

Growing confidence in the occupational demand profile pushes up land rates

The market faces a low level of available high-quality product to meet demand and the increase in enquiry for pre-lease space is providing developers the confidence to pursue opportunities in Perth. This has caused a sharp uplift in land values, with the blended rate for small lots rising 4.7% and 1-5ha lots rising 5.5% q/q. This pressure will remain in the short-term, with further growth in land values expected in Q4.

The recent acquisition by Dexus and its partner, APN Industria REIT, of Jandakot Airport, its logistics estate and surplus surrounding land on a tight initial yield of c.4.4% is very telling example of institutional confidence in the occupational demand profile of the sector and the performance of Perth's industrial market over the long term. This acquisition has brought Perth additional attention, with the underbidders likely to be circling for opportunities over the coming months. This will keep pressure on land values as they look to increase exposure through the acquisition of development sites but also sustain the tight yield metrics that have emerged on the back of the large pool of capital waiting to be deployed.

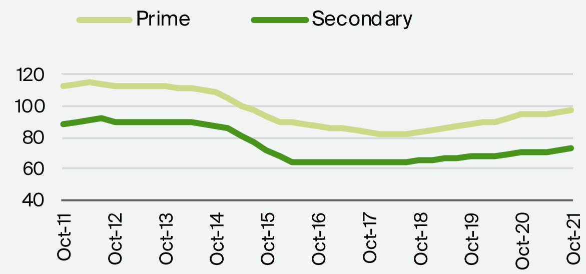
Yields are expected to continue to compress through to 2022

Investors are looking at markets with solid underlying drivers that will support demand from tenants over the long-term and Perth remains very compelling on that front. On average, prime yields have compressed between 12 and 50bps across all precincts over the quarter. The yield premium remains a substantial drawcard for investors seeking to deploy capital outside the traditional Sydney and Melbourne markets but that arbitrage is beginning to narrow. Yields are expected to continue to compress through to 2022.

PRIME NET FACE RENT $/SQM Q3	LAND VALUES (<5,000SQM) $/SQM Q3	LAND VALUES (1-5HA) $/SQM Q3	NEW INFRASTRUCTURE (A$)
$97	**$415**	**$272**	**$30.7BN**
+2.7% Q/Q BLENDED AVG	+4.7% Q/Q BLENDED AVG	+5.5% Q/Q BLENDED AVG	RECORD INFRASTRUCTURE INVESTMENT NEXT 4YRS

Perth Rents by Grade

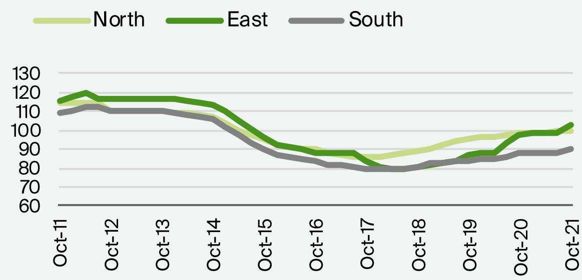
$/sqm net face pa, blended average



Source: Knight Frank Research

Prime Average Rents by Precinct

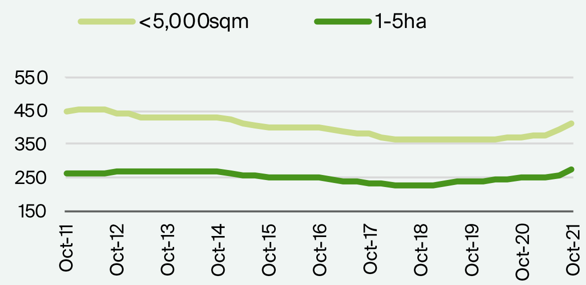
$/sqm net face



Source: Knight Frank Research

Perth Land Values

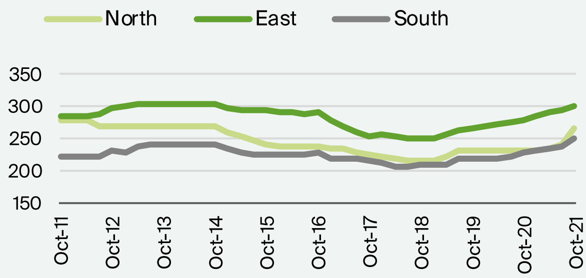
Small vs Medium Lots, Blended $/sqm



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)
Get A Grip Tyres ~	Unit 2, 525 Great Eastern Highway, Redcliffe	East	5,150	80	6
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	262 Lorimer Street, Port Melbourne	81.6	15,246	5,352	Institutional Investor Group	Jreissati Family	3.68	13.0
Melbourne	235-239 Boundary Road. Laverton North	72.5	33,360	2,173	GPT Group	Private Investor	3.80	4.8
Melbourne	2 Maker Place, Truganina^	69.0	30,364	2,272	Dexus	McPhee Distribution Services	4.00	4.3
Melbourne	26-38 Harcourt Road, Altona^	63.3	32,712	1,933	Lendlease[4]	Mirvac/ Morgan Stanley	4.35	U/D
Melbourne	47-67 Westgate Drive, Altona North^	53.8	26,911	2,000	Lendlease[4]	Mirvac/ Morgan Stanley	4.25	2.0
Sydney	1 Johnson Road, Campbelltown	43.5	16,642	2,614	Mirvac Industrial Logistics Partnership	Lendlease[4]	4.17	5.8
Sydney	164-166 Newton Road, Wetherill Park	36.8	11,883	3,093	Centuria Industrial REIT	ESR REIT	4.01	3.5
Sydney	52 Lisbon Street, Fairfield	200.2	60,223	3,324	Centuria Industrial REIT	AMP Capital Investors	3.75	4.2
Sydney	884-928 Mamre Road, Kemps Creek	125.4	42,515	2,950	Dexus	Altis	3.96	-
Sydney	81-87 Beauchamp Road, Matraville	33.0	6,319	5,222	EG Australian Core Enhanced Fund	Maralex Pty Ltd	3.77	3.2
Brisbane	2580 & 2596-2602 Ipswich Road, Darra [6]	60.2	12,743	4,720	Fife Capital	Denmac	3.77	9.4
Brisbane	509 Boundary Road, Darra	36.5	16,724	2,182	Fife Capital	One Funds Management	4.98	4.1
Brisbane	51 Depot Street, Banyo ~	20.3	4,137	4,895	Centuria Industrial REIT	Private	4.72	7.3
Adelaide	300 Richmond Road, Netley	71.3	42,112	1,693	Charter Hall	MRS Property	4.42	5.2
Adelaide	Lot 41 Caribou Drive, Direk	38.2	21,780	1,757	Centuria	Private	5.25	15
Adelaide	1052 Port Road, Albert Park	16.1	6,781	2,397	Private	Private	3.59	4.5
Perth	22 & 72 Hyne Road, South Guildford [5]	50.8	19,174	2,516	Charter Hall (DIF4)	Private	8.58	4.4
Perth	48-54 Kewdale Road, Welshpool	35.1	20,349	1,724	Centuria Industrial REIT	Private	2.9	6.3 [2]

[1] Core Market Yield [2] Passing Yield [3] Land/Development Site [4] Australian Prime Property Fund (APPF) [5] includes c8,354sqm development site
[6] includes a service station component #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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