1
Quarterly rental growth slows

2
Portfolios & large scale assets trading again

3
Record new supply for East Coast in 2023

Knight Frank

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Australian Industrial Review

Q2-2023

KEY INSIGHTS

25 bps
yield softening in Sydney

2.6
Million Sq m new supply Forecast 2023

$1.9b
Investment volumes Q2-23

2.8%
Q/Q increase in prime rents in Brisbane

5%
Q/Q increase in prime rents in Adelaide

4.4%
Q/Q increase in prime rents in Sydney

Vacancy across the Eastern Seaboard remain constrained measuring 526,806sqm, 36% below the same time last year.

Investment activity increased in Q2 with $1.9 billion in transactions and the return of large-scale and portfolio assets bodes well for the liquidity in the industrial market.

2023 is forecast for a record year of new developments across the East Coast with over 2.6m sqm expected to be delivered, with Sydney forecast for a record year of completions.

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

Rental growth was recorded across all capital cities albeit at a much slower pace to previous quarters, Adelaide recorded the strongest growth over the quarter of 5% followed by Sydney at 4.4%.

Yield softening continued in Q2 albeit with greater variance between cities emerging. Prime yields rose on average by 23bps across all capital cities, led by Brisbane softening 29bps, Sydney by 25bps and Melbourne 20bps.

Key Indicators Q2 2023

MARKET	PRIME NET FACE RENT $/SQM	SECONDARY NET FACE RENT $/SQM	SUPER* PRIME MARKET YIELD RANGE %	LAND <5,000sqm $/SQM	LAND 1-5 ha $/SQM
Sydney #	237	197	4.50-5.00	2,005	1,716
Brisbane	153	136	5.25-5.75	523	487
Melbourne *	131	112	4.50-5.00	1,139	902
Adelaide	122	90	5.50-6.00	549	387
Perth	136	114	5.25-5.75	468	348

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 $192/sqm, secondary: $156/sqm; small lots: $1,269/sqm, 1-5ha lots: $1,180/sqm.*
**Melbourne (excluding the Fringe) prime net face rents average $118/sqm, secondary: $105/sqm; small lots: $874/sqm, 1-5ha lots: $678/sqm.*

ECONOMY

The anticipated economic slowdown is underway, which may impact tenant demand, but investors will welcome signals of declining inflation globally

Multiple indicators pointing to slower economic growth

The Australian economy has been resilient over the past year as growth in consumer spending held firm for a long period in the face of growing pressures on households in the form of higher inflation and rising interest rates. However, the cumulative impact of these pressures is now taking a toll, with multiple indicators confirming a slowdown is underway. Retail sales volumes are contracting, having fallen in both Q4 and Q1, off the back of a concerted slowing in discretionary spending. Forward orders for businesses are also declining, while the number of job vacancies is finally receding from record levels.

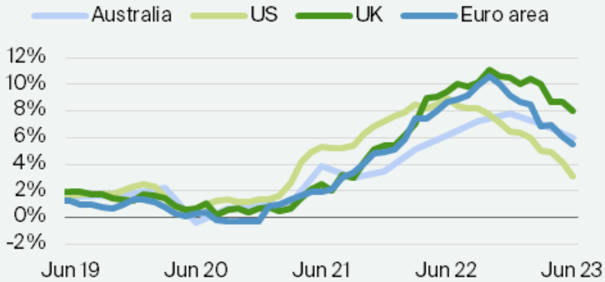
On balance, the subdued economic outlook over the next 12 months is likely to flow through to a moderation in the strength of demand for industrial space after the significant expansion from many operators in 2021-22.

Encouraging signs of declining inflation as supply chains normalise

While slower growth would typically not be welcomed by the market, the silver lining is that is indicates that higher interest rates are having the desired effect in cooling demand and inflationary pressures. Headline indicators of inflation are now in decline, with June quarter data revealing a decline to 6.0%, with prices now falling in several categories. Data from overseas is also encouraging, with US inflation down to 3.0% and the Euro area down to 5.5%.

Headline inflation

Per cent change year on year



Source: Knight Frank Research, Macrobond

There remains concern about the risk of persistent inflation in service industries, but the US experience has provided encouragement to financial markets globally that the desired moderation in inflation is occurring, as supply chains heal and the balance between demand and supply for most goods is normalised.

Interest rates close to the peak

Having lagged the upswing in inflation, Australia is likely to be slower than other countries to see inflation return to the target band, but with growth now moderating, the peak of the interest rate cycle appears close at hand, with the RBA now having paused rates in July and August. While the peak cash rate remains uncertain, looking further ahead most forecasts anticipate a reduction in interest rates during 2024-25, so the outlook for investors is starting to look more favourable after an extended period of uncertainty.

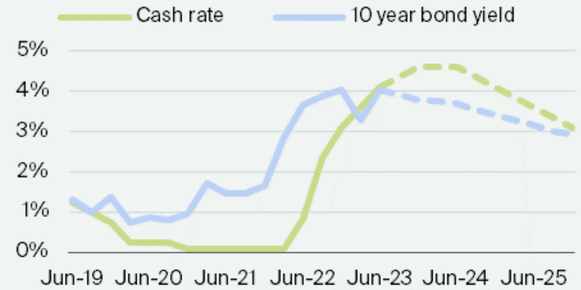
Global supply chain pressure

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

Source: Knight Frank Research, Macrobond

Interest rate outlook

Cash rate and 10 year bond outlook



Source: Knight Frank Research, Oxford Economics

LEASING MARKET

The quarterly pace of rent growth slowed in most markets Q2, but annual increases remain high and expectation of further growth remains

Limited availability underpinning the sustained rental growth

Available industrial space increased by 19.5% in Q2 with an uptick in Melbourne and Brisbane while Sydney tightened further. Overall, however, vacancy remains 36% below the level of a year ago. Increases were largely due to new speculative construction with available speculative space now accounting for 48% of total East Coast vacancy, 42% of this is still under construction and unavailable for immediate occupation.

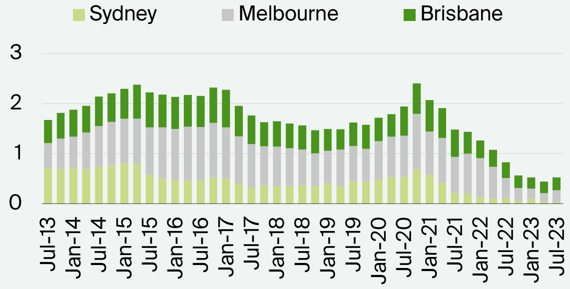
Sydney remains deeply in gridlock with a further 27% fall over the quarter to 32,175sqm (12,756sqm of this is completed speculative space). Brisbane availability increased by 15% to 261,166sqm with 54% of this speculative development. The Melbourne market now accounts for 44% of total East Coast vacancy with a 37% increase in the quarter to 233,465sqm. Uplift in Melbourne came from both existing prime space speculative development starts.

Leasing take-up increased by 27% in Q2 after a relatively quiet Q1, but remains lower than the frenetic levels of 2022. This is still impacted by the lack of opportunities available. Pre-commitments were 32% of the total lease deals this quarter, slightly lower than the 5-year average proportion of 38% as the complex and changing construction landscape has vastly extended pre-lease negotiation timeframes.

The strong supply pipeline for 2023 will help to ease the tight vacancy, particularly for the East Coast with 2.6 million sqm on track to be delivered, but not completely satisfy demand for modern industrial space.

Eastern Seaboard industrial vacancy

million sqm, quarterly, 5,000sqm+



Source: Knight Frank Research

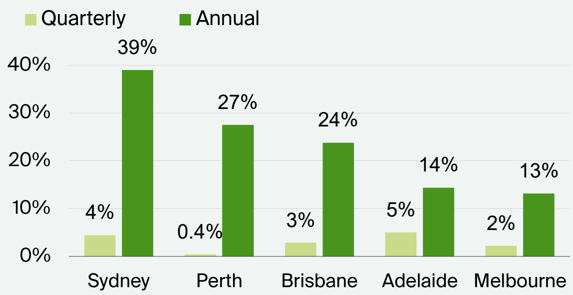
Rental growth continues, testing occupier ability to continually absorb higher fixed costs

The pace of quarterly rental growth slowed in all markets except Adelaide for the quarter, with this market entering a catch-up phase. Despite this, annual growth remains substantial with Sydney, Perth and Brisbane all above 20%.

Delays in tenants receiving head-office approval and the relatively lower volume of deals does indicate that tenants are taking a more critical look at their rental impost, with rising outgoings also pushing up total occupancy costs. However, sustained demand for new space and ongoing tight supply will continue to put upward pressure on rents, albeit at a slower pace, with growth expected to revert to an annual pace in the range of 5-8% over the next 12 months.

Prime rent growth

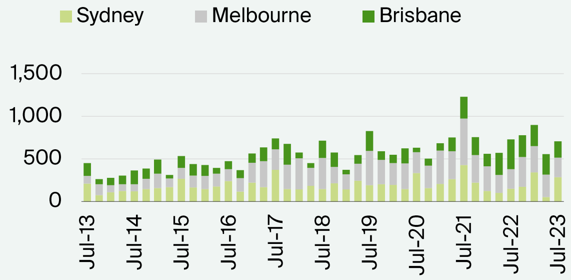
Average across major capital cities



Source: Knight Frank Research

Eastern Seaboard industrial take-up

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



Source: Knight Frank Research

INVESTMENT

Renewed investment demand, particularly for large-scale assets and portfolios is returning liquidity and confidence to the investment market

Signs of renewed investment volumes emerging with more high value transactions in Q2

Investment volumes rebounded slightly in Q2 after falling to a six-year low in Q1. The quarterly volume of $1.9 billion was focussed on the Sydney market ($1.3b) with a mixture of high value portfolio, prime and vendor leaseback sales. While there were a similar number of recorded sales in Q2 v Q1 the turnover was $600m+ higher, reflective of significant sales of $100m+. Perceived resilient tenant demand and ongoing rental growth has ensured an engaged, if discerning, buyer pool for Australian industrial assets.

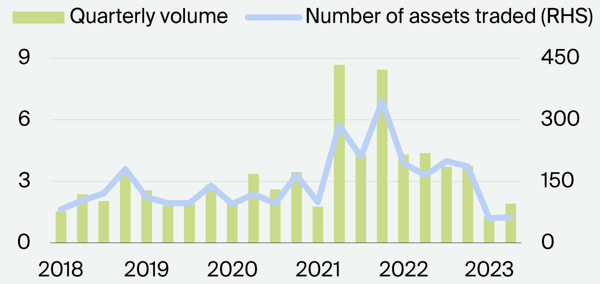
Yield softening has continued as vendors show more urgency to complete transactions

Across Australia prime yields are considered to have softened further in Q2 but with the quantum now diverging to between 12.5—30bps across the cities. Average prime yields are 5.07% in Sydney (+25bps) and 5.13% for Melbourne (+20bps) as despite the differing rental growth profiles these markets are back to trading closely together. Brisbane at 6.15% and Adelaide 6.30% moved a similar +29bps in the quarter with Perth relatively more stable at 6.47% (+12.5bps).

In H1 2023 offshore capital has been the most acquisitive with $1.3billion. This has included NashCap/Blackstone's acquisition of GPT's portfolio and large-scale acquisitions by Mapletree and ESR/GIC. REITS have remained net sellers in 2023. The strong rental growth has cushioned the yield impact for all but long-WALE, no-reset assets and this has resulted in less defensive vendor behaviour than the office market.

Industrial investment volume

AUD billion



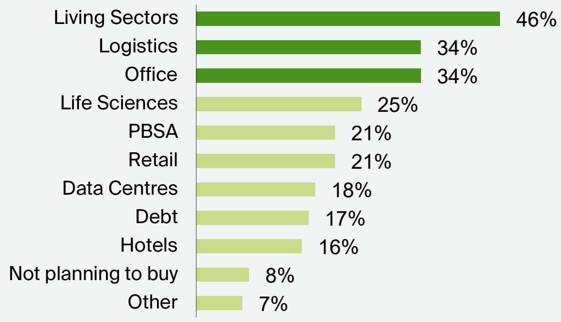
Source: Knight Frank Research, RCA

Some vendors driven by redemptions but buyers are still increasing their industrial exposure

As the inflation and cost of funds landscape is appearing more settled, major investors have been quick to return to the industrial market. The recent portfolio sales negotiated will greatly increase the market's perception of liquidity in the investment market.

UniSuper has recently agreed to purchase a stake in the Australian Industrial Partnership, while the Queensland/Perth portfolio being offered by CapitaLand Ascendas REIT and the Arion portfolio being marketed by Logos will provide greater insight as to the market depth. In the second half of the year the pace of activity is likely to pick up further as a more settled macroeconomic backdrop helps to narrow bid-ask spreads.

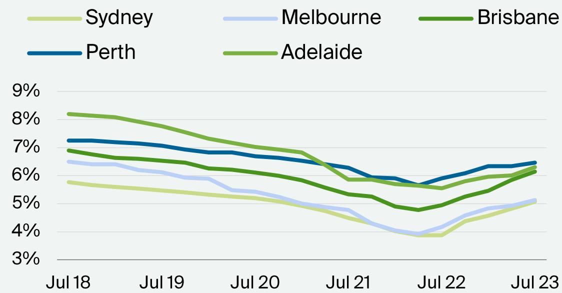
Which sectors are investors targetting next 18 months



Source: Knight Frank Research, Active Capital webinar poll

Average prime yields - major cities

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



Source: Knight Frank Research

SYDNEY

Ever-tightening market with decade low vacancy and sustained rental growth; With a development pipeline having little impact on addressing pent-up demand

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

Take-up dominated by transport/logistics occupiers expanding footprints

Reflecting the acute availability constraint across all precincts in Sydney, leasing volumes in Q2 were 9% below the 5-year average totalling 286,220 sqm. Outer West was the most active precinct over the quarter accounting for 57% of take-up activity, followed by the South West (31%).

Transport/logistics occupiers have remained active in the market, contributing 55% of deals in Q2. Around half of the take-up over the quarter was pre-commit led and 25% was from existing facilities. Take-up in Q2 was supported by logistics providers expanding their footprints. Toll pre-committed c.68,000 sqm at ESR Westlink Industrial Park, whilst DHL leased a c.14,000 sqm existing warehouse in Eastern Creek to increase their fulfilment capacities.

Notably, the multi-level development by Charter Hall 'Ascent on Bourke' in Alexandria has achieved an 80% commitment rate (c. 22,000 sqm) anchored by Coles and Schindler. The development was approved in Q1 2023 and is due for completion in 2024, demonstrating the potential way to satisfy the pent-up demand with land constraints in last mile logistic locations.

Vacancy sits at historical lows with the South West and Inner West recording no vacancy

The tightening vacancy trend continued in Q2, with vacant space dropping 26% over the quarter to 32,175 sqm. Strong competition among tenants continues to drive vacancy down. Notably, there is currently no 5,000sqm+ vacancies within the South West and Inner West precincts.

In this case, spec-built facilities are increasingly gaining institutional traction. Qube Logistics secured a large formatted facility six months ahead of its practical completion in Moorebank Intermodal Precinct. It's important to note that since 2022, spec developments have leased on average six months prior to completion with an average size of c. 19,000 sqm. Looking forward, vacancy is likely to remain at historical lows for the foreseeable future as new supply remains constrained and demand is strong.

Rental growth continues buoyed by supply constraints and increasing demand

The ever-tightening market encourages sustained rental growth across all precincts. The average prime and secondary net face rents increased by 4.4% q/q (39.0% y/y) to $237/sqm and 5.4% q/q (33.9% y/y) to $197/sqm, respectively.

Incentives have stayed at decades lows currently averaging 8-10%, whilst submarkets with better connectivity to the city are lower at 5%. In line with this, the net effective rents jumped 45.3% y/y for prime and 39.5% y/y for secondary over the quarter. Considering the economic and demand pressure, further rental growth at a more moderate pace is expected over the second half of the year.

New supply to bring little relief to the tight market

The new supply in 2023 is anticipated to reach 806,702 sqm, among which 21% is completed in the first half of 2023 and 79% is under construction. Around 82% of the development activity this year is in the Outer West and South West.

The annual development pipeline for 2023 is forecast to reach a decade high, although only 20% of this new supply remains available to the market. This would bring little relief to the acute supply shortage. Major developments this year include the Moorebank Intermodal Precinct (c. 160,000 sqm), Altitude Estate (c. 78,000 sqm), and Switchyard Industrial Estate (c.65,000 sqm).

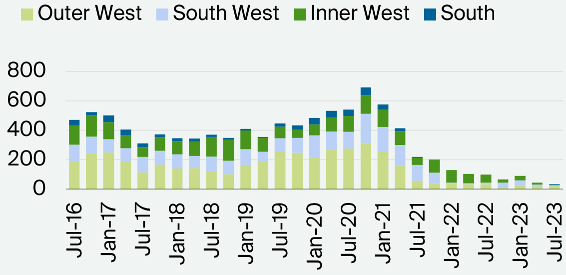
Yields have softened over 100 bps since mid-2022

The average yields have softened by 25 bps to 5.1% for prime facilities in Q2 and 50 bps to 5.8% for secondary assets. This is now over 100bps yields expanding in a year's time in Sydney.

Significant investment activities in the first half of 2023 include NashCap partners BlackRock purchasing 11 Grand Avenue, Camellia, offloaded by GPT Group for $138.1 million; Mapletree Logistics Trust (MLT) acquiring 8 Williamson Road, Ingleburn from Fife Capital for $125.7 million.

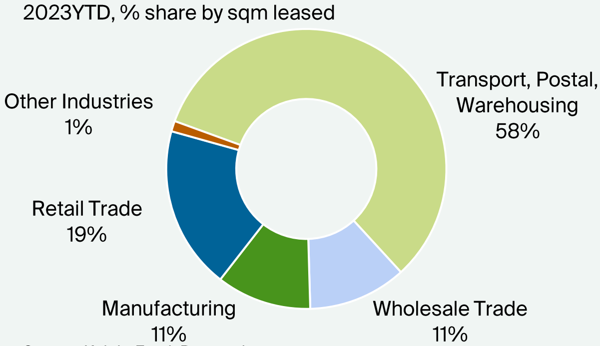
TAKE-UP (SQM) Q2-23	MOST ACTIVE SECTOR Q2-23	VACANCY (SQM) Q2-23	NEW DEVELOPMENT (SQM)
286,220	**55%**	**32,175**	**806,702**
9% BELOW THE 5Y-AVG	TRANSPORT, POSTAL AND WAREHOUSING	-26% Q/Q	Estimated 2023 (f)

Sydney vacancy
By precinct, '000sqm



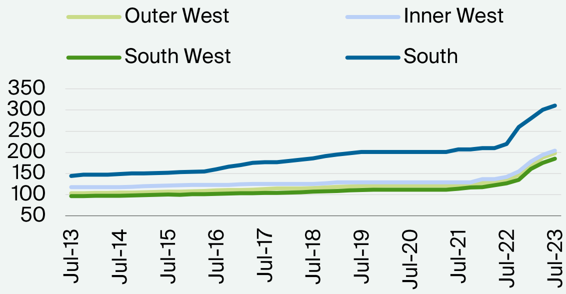
Source: Knight Frank Research

Sydney leasing take up by industry
2023YTD, % share by sqm leased



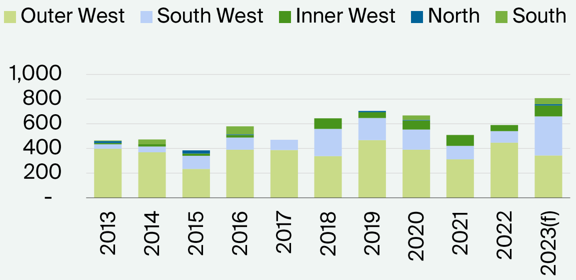
Source: Knight Frank Research

Sydney industrial rents by precinct
Average prime net face rent, $/sqm



Source: Knight Frank Research

Sydney industrial supply
By precincts, '000sqm, completed 2013-2023(f)



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
DHL~	51 Eastern Creek Drive, Eastern Creek	Outer West	14,355	200	2
NSE Logistics~	6 Harvey Road, Kings Park	Outer West	9,348	175	5
Unilever~	4 Inglis Road, Ingleburn	South West	8,878	169	4.8
Zenith Interiors~	105 Vanessa St, Kingsgrove	South West	5,315	290	3

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

MELBOURNE

The market stabilises, but take-up is still limited by availability and yields continue to rise

By Tony McGough

Following last year's hectic market, calm returns

Markets are stabilising as the global slowdown and increased supply start to relieve some of the pressure seen in the sector in the last 18 months. Vacancy rates rose over the quarter to stand at 233,465 sqm (up 37%), though this is still near our record low seen in Q1. The majority of extra available space was added in the West (an extra 40,643 sqm with vacancy now up to 118,402 sqm) and new space appearing in the North (one site due in Q4 with 39,524 sqm). There was also a slight increase in the Fringe. The East only has a single 7,242 sqm building available, and the South East saw a marked fall in availability (down 22,960 sqm to 20,918 sqm), mainly around Dandenong South. Vacant space remains super tight; the number of free buildings in Melbourne can be counted on your hands.

Supply is being delivered, and taken up

Supply continues to arrive on the market with a total of 919,126 sqm expected this year. Much of this is in the North and West, with just over 24% in the South East and nothing coming through in the East. The limited new supply and limited vacancy levels is unsurprisingly putting a restriction on take-up. Take-up has fallen 13% in Q2 to only 228,699 sqm, the lowest level since Q1 2019. Take-up is more than was vacant last quarter, which clearly shows how new supply continues to be taken-up before it gets into the figures. In the East, take-up was down to 3,013 sqm, as lack of vacancy and no new supply hampered deals. Transport and warehousing has regained its dominance in the market with well over 50% of leasing agreements in this sector, as manufacturing demand slows.

Rental growth slows

Rental growth has slowed across Melbourne with prime rents (excluding the Fringe) rising only 2.6% in Q2 to $118/sqm (though still up 13.5% y/y). Secondary rents rose 2.9% (12.9% y/y) to stand at $105/sqm. Rents continued to rise in all precincts but prime rents grew fastest in the East (up $5 to $120/sqm or 4.3%) and the South East (up $5 to $125/sqm or 3.3%). Meanwhile in the North prime rents rose just $1 or 0.9% to $109/sqm. Incentives have generally remained flat standing at around 10-12%. However, some locations in the West saw incentives, which were around 7.5%, move out slightly to 10%. This was not due to lack of demand for space, but to ensure the best tenant is obtained. This is as landlords sure up their covenant quality as the economy slows. Outgoings have also risen this quarter on the back of higher land taxes.

Land values flat as market calms with some developers' pausing their acquisitions

Land values were flat across all precincts and site sizes in Q2, with the exception of a slight upward correction in the South East. In the South East, small sites (<5000sqm) rose just 1% or $10 to $1,025/sqm though this is still down 1.4% y/y. Following on from the large increases in 2020-22 the market has now calmed. The FOMO moment seems to have passed for many developers and investors. Active players now have their land to develop, and for perspective developers the cost of development capital on top of higher construction costs are causing them to pause, particularly as rental growth slows with a weakening economy, showing a clear limit to what tenants can pay. Consequently, pressure on pricing is off.

Yields move out as global financial pressures impact investment markets

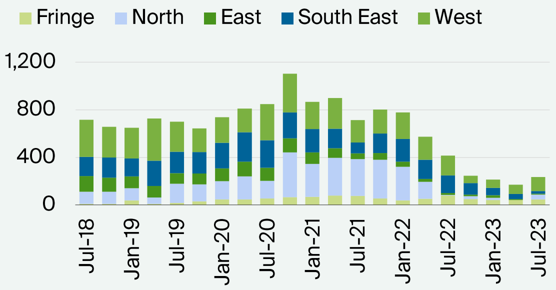
With the continued uncertainty in financial markets and ongoing increase in capital costs, there has also been a marked slowdown in investment market. Across Australia RCA reported only 123 sales in H1 (with 62 in the last quarter), the lowest 6 monthly figure in a decade. The story was similar in Melbourne with 27 transactions in H1 (17 in Q2) and again the lowest 6 months since 2013.

Unsurprisingly with the lack of activity adding to interest rates continuing to rise, yields have continued to drift out adding 20bps to prime yields in Q2. Prime yields now stand at 5.19% (exc. the Fringe), which is 122bps higher than at its low in April last year. Secondary values suffered slightly more this quarter, moving out 22bps to 5.88%. Yields have responded rapidly to the change in capital markets, and, given the cost of finance is hopefully stabilising now, pricing in the industrial sector has corrected to this higher cost of debt environment.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR Q2	VACANCY (SQM) Q2	NEW DEVELOPMENT (SQM)
228,699	**52%**	**233,465**	**919,126**
-13% Q/Q	TRANSPORT, POSTAL, WAREHOUSING	37% Q/Q	Estimated 2023 (f)

Melbourne industrial vacancy

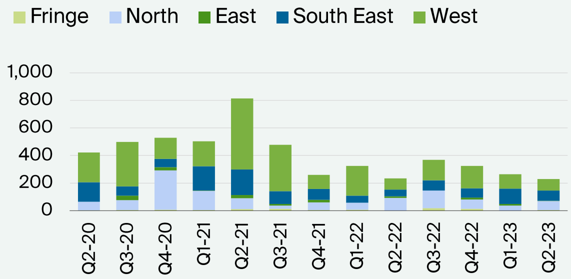
'000sqm by precinct



Source: Knight Frank Research

Melbourne industrial take-up

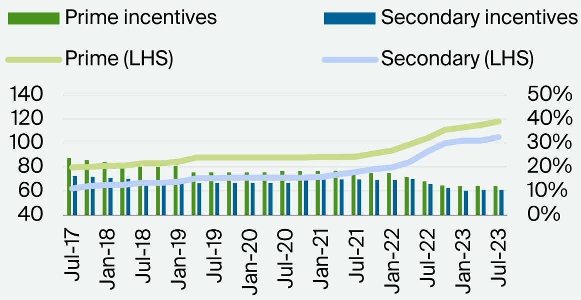
'000 by precinct



Source: Knight Frank Research

Melbourne industrial rents

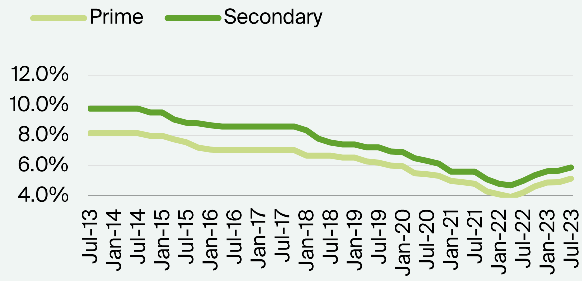
$/sqm net rents, % incentives; exc fringe



Source: Knight Frank Research

Melbourne industrial yields

% median core market yields



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
GMK Logistics#	W-2, 410 Cooper Street, Epping	North	27,417	U/D	10.0
Saint Gobain Abrasives#	7 Callister Place, Craigeburn	North	6,736	120	5.0
Assa Abloy~	43-55 Letcon Drive, Dandenong South	South East	8,000	120	7.0
Couriers Please^	41-59 Colemans Road, Dandenong	South East	15,500	115	U/D
Austrans^	60 Modal Place, Altona	West	20,000	120	5.0

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

BRISBANE

Take-up eased slightly as occupiers took stock, but rental growth will continue particularly for space to be occupied in the short term

By Jennelle Wilson | Partner | Research & Consultancy

Take-up has moderated slightly with few options and deals taking longer to complete

Leasing activity in Q2 was 15% lower than for the previous quarter at 192,846sqm as deals took noticeably longer to conclude. Annual take-up was just under 1 million square metres, still well above the average annual levels. The ongoing lack of vacant stock has limited secondary leasing with only 11,300sqm of secondary space leased in the quarter. Leases are still commonly finalised 6-9 months prior to existing stock becoming vacant, as is the sustained pent up demand. Despite a lower volume this quarter underlying demand remains.

The drive for efficiency continues to boost demand, particularly from 3PL users

Transport, postal and warehouse users were most active tenant type with 31% of take-up over the rolling 12 months with 3PL users still demonstrating strong demand. As occupancy costs have grown users have become more analytical in determining their space requirements with the frenetic “grab what space is available” of late 2022 and into 2023 moderating to a more measured process. Major leases in Q2 included reported pre-commitments for Australia Post (c35,000sqm) and Laminex (25,000sqm).

Increased speculative construction starts behind a 15% lift in available space during the quarter

Vacant space increased 15% to be 261,166sqm in the quarter but remains 16% below that of a year ago. Existing prime vacancy increased slightly, up 7,876sqm to 49,319sqm. Much of the increase in vacancy is due to further new speculative construction starts with 140,843sqm of space available across projects completed and under construction. This is a 25% uplift in the quarter. Speculative space now accounts for 54% of total vacancy, with the majority of this (42%) coming from speculative space still under construction.

Secondary vacancy fell a further 2% in the quarter to new record lows of 71,004sqm. This constraint of existing affordable space will continue to mute leasing volumes.

Rental growth continues as demand for immediately available remains high

Average prime face rents increased by 23.8% y/y to $153/sqm net, with an increase of 2.8% in the past quarter. Incentives have stabilised at 11-13% on average, as more tenants are accepting a higher face rent but demanding more incentives with greater financial engineering emerging in larger tenant negotiations. Depending on when negotiations commenced and how quickly occupancy is required, there is a wider range of incentives and face rents being reported. Secondary net rents increased by 2.7% in the quarter (27% y/y) to $136/sqm.

Market on track for record new supply delivery of 868,530sqm in 2023

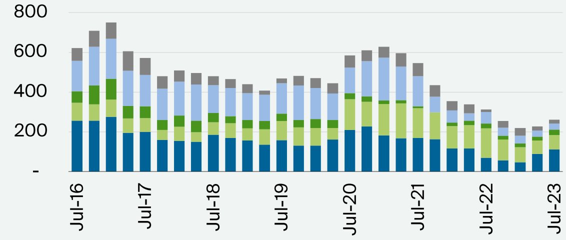
With 394,344sqm of new supply completed in the first half of 2023 the market is well on track to deliver a record level of supply in Brisbane. This new supply has not delivered any material easing in the market to date with backfill space spoken for. Labor shortages and costs remain the largest hurdle to supply completions, keeping pressure on economic rents. The 2024 pipeline is growing, now above 900,000sqm.

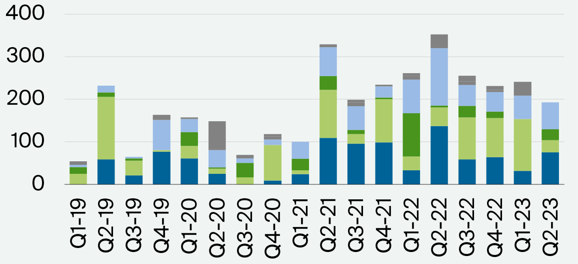
Sales volume lifts slightly in Q2 as the vendor/ purchaser divide begins to narrow

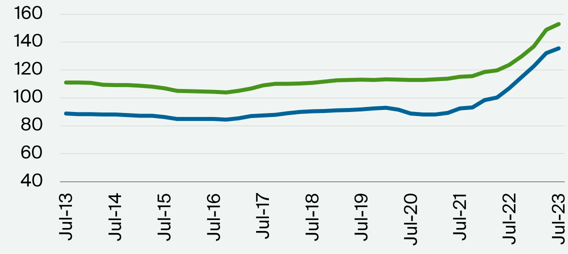
Land values were stable over the quarter with no clear direction from the market. Development feasibility remains a challenge with additional rental growth required to trigger speculative or pre-lease projects. Timeframe risk is now significant for developers given debt and holding costs. Owner occupiers have continued to buy, particularly smaller lots but are more price sensitive.

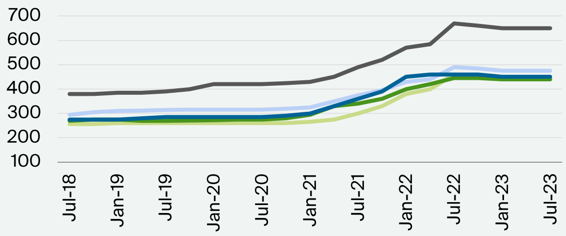
Investment sales of scale have begun to trickle through, however volumes remain low in comparison to recent years. Yields continue to soften, now sitting at 6.12% (+136bps from nadir) for prime and 7.25% (+140bps from nadir) for secondary. Vendors are becoming more inclined to meet the market as the timeframes for disposal become firmer. The largest recent sale is $67.8 million at 16-28 Quarry Rd, Stapylton a two building complex with impending vacancy sold for a CMY of 6.29%.

TAKE-UP (SQM) Q2	MOST ACTIVE SECTOR RTM	VACANCY (SQM)	NEW DEVELOPMENT (SQM)
192,846	**31%**	**261,166**	**868,530**
5% ABOVE THE 5Y-AVG	TRANSPORT, POSTAL & WAREHOUSING	+15% Q/Q	Estimated 2023 (f)









Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM
Fab Logistics~	77 Logistics Place, Larapinta	South	13,886	128	5
Personalised Freight Management ~	29-51 Wayne Goss Dr, Berrinba	South	10,455	128	7
PFG^	108 Homestead Dr, Yatala	South East	8,728	137	10
Kuehne + Nagel ^	151 Rudd St, Richlands	South West	7,848	130	5
Plungie Pools #	140 Viking Dr, Bld 2 , Wacol	South West	6,194	145	10

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

ADELAIDE

The Adelaide industrial market remains strong, buoyed by rising land values and consistent rental demand, particularly within sub-5,000sqm properties

By Bradley Tobiassen

Land values rise, development remains steady

The main storyline of Adelaide's industrial market of late, has been the emergence of the northern precincts as market heavyweights, particular the Outer North. Despite the macroeconomic challenges the industry has faced in 2023, namely rising costs of debt and construction, Adelaide's industrial assets have continued to draw high demand, especially in the aforementioned northern precincts.

With approximately 80% of expected developments slated for completion by 2025 concentrated in the Inner or Outer North precincts, there is a stark contrast with only 9.9% in the Inner and Outer South precincts, as reported by Cordell Connect. The Outer North's allure for development is primarily driven by its accessibility and cost-effectiveness of land, bolstered by the north/south connector. As a result, the Outer North precinct is expected to see a surge in investment and development activity in the forthcoming years.

In Q2 2023, all precincts experienced land value growth. Values of small allotments (2,000-5,000 sqm) grew by 5.60% in the quarter, while medium (1-5 ha) sized allotments rose 4.81% on average. The Inner North (+7.00%) and Inner South (+6.52%) precincts experienced the largest quarterly rise for small allotments, with the Outer South (+8.33%) and Inner South (+6.25%) precincts leading growth for medium sized allotments.

Demand outweighs supply, particularly in sub-5,000sqm properties

In 2023, development forecasts have shown relative stability, but total projected supply has faced hindrances due to construction costs soaring over 25% in the past five years. This surge is attributed to various factors, including the disruptive impact of the COVID-19 pandemic on supply chains and material demand. Consequently, a supply-demand gap has emerged, resulting in increased rental rates for existing properties. Notably, average prime net face rents rose by 4.99% in Q2 2023 and 7.68% over the six months leading to July 2023. Similarly, secondary net face rents saw a rise of 5.12% and 4.63% during the same periods. Additionally, despite these developments, average incentive rates remained constant at their 10-year low of 7% throughout the quarter, underscoring the continued robust demand for quality assets.

The combination of limited industrial stock in Adelaide and high levels of demand, has seen the rental market continue to grow through 2023, albeit at a slightly slower pace than Q1. There is still caution around cost-control, but overall, rents have risen as tenants are willing to pay more to secure a quality premises and avoid missing out. Vacancy in the 5,000sqm + range rose slightly (9.7%) as occupiers skew toward smaller sites and industrial parks to mitigate risks.

Southern precincts lead the way in softening yields

The softening yield trend has continued through Q2 2023, with average prime yields up 30bps to 6.31% whilst secondary yields rose 20bps to 7.15%. The southern precincts saw the greatest rise in prime yields after a relatively uneventful Q1, with the Inner South precinct rising 50bps to 6.13% and Outer South increasing by 37bps to 7.00%. The Inner West followed with a rise of 26bps in Q2, while the Inner North (18 bps) and Outer North (17bps) saw the least movement.

Q2 2023 saw sales volume for industrial assets above $5m of $168.67mn, a Q/Q increase of nearly 27%. The Outer North dominated sales with $120.60mn, followed by the Inner West ($34.70mn) and Inner North ($13.38mn). Sales were non-existent in the South with zero registered for either southern precinct over the quarter.

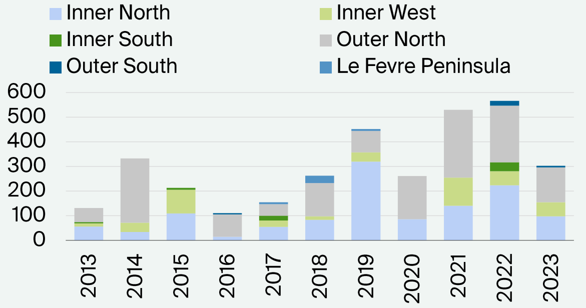
Opportunities on the horizon

As rents continue to rise amidst a tight market, affordability for tenants will likely emerge as a focal talking point in the coming months, which could lead to a cooling of the market in future. Nevertheless, a significant portion of market participants adopting a 'wait-and-see' approach in the current economic climate will lead to opportunities for purchasers to secure quality assets with attractive returns while rents are still high and vacancy remains low. However, those conditions will not remain for an extended period of time, as forecasts show the rate of growth in the market slowing into 2024.

TAKE-UP (SQM) Q2	RENTAL GROWTH	NEW DEVELOPMENT ($)	NEW DEVELOPMENT (SQM)
38,551	**5%**	**232.2M**	**155,287**
(5,000SQM +)	(q/q)	Forecast completion by 2025	Forecast completion by 2025

Adelaide industrial sales

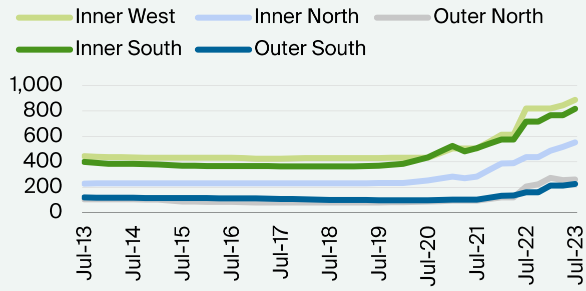
$5milsales, 2013 to 2023YTD



Source: Knight Frank Research

Adelaide industrial land values

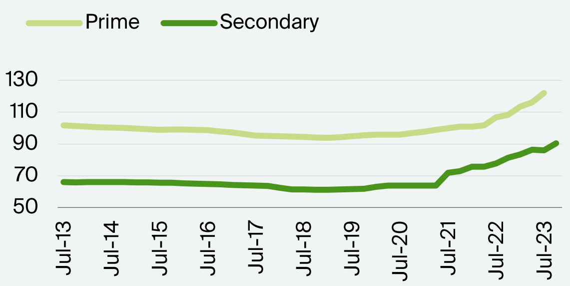
Average $/sqm by precinct for land <5000sqm



Source: Knight Frank Research

Adelaide industrial rents

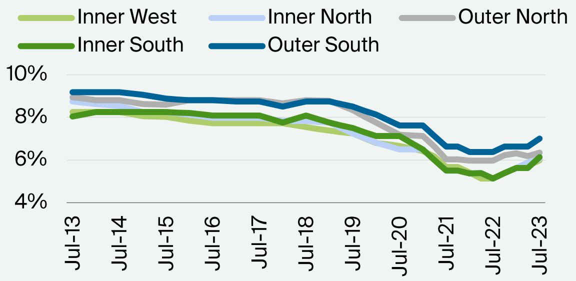
Average $/sqm p.a. net face by grade



Source: Knight Frank Research

Adelaide industrial yields

% core market avg. yields by precinct



Source: Knight Frank Research

Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
Rapid Haulage	153 Francis Road, Wingfield	Inner North	11,745	98	1
Undisclosed Tenant	3/25-37 George Street, Green Fields	Outer North	4,106	122	3
Sunrise Hardware	Unit 4 &5/32-42 Mirage Road, Direk	Outer North	3,540	120	10
Selection Steel Trading	26 Circuit Drive, Hendon	Inner West	7,648	72	5
AMA Group	80-92 Grand Junction Road, Kilburn	Inner North	6,889	135	10

PERTH

Market awaits repricing with activity in growth-pockets underpinned by owner-occupiers

By Theodore Connell-Variy

Rental growth moderates, whilst vacancy remains low

Vacancy remains low with the majority of larger movements happening only as tenants go into newer, pre-committed space. This meant limited vacant space dropped on the market, contributing to the broadly quiet quarter.

Continuing the trend from Q1, rents have risen slightly with demand focused on specific locations. In most cases, growth has been moderate as the market has broadly adopted a subdued air moving into the end of FY 22/23. Prime rents across both manufacturing and warehousing remained stable in Q2, with only a modest increase in Outer South manufacturing (3.8%). The rental growth was similar for secondary markets with Outer South the only market to record rental growth this quarter.

Noting this stability that hallmarked rents this quarter, on an annual basis prime rents have grown by 27.5%, whilst secondary rents have increased 32% over the year.

Growth in land values over the quarter albeit at slower pace to 2022

Per annum growth figures in land values have retreated from their 2021/22 highs but are still broadly positive. In established precincts such as the North and East, a lack of land on the market has meant little evidence of growth. Meanwhile, development in the South and the resurgence in interest more broadly in areas adjacent to the Westport development in Kwinana has driven a sustained uptick for both small and larger lots. We expect the South to show continued strength as developments reach completion and stock is added to the region.

Outer South larger lots have shown strength in the most recent quarter, lifting $10/sqm in Q2 and driving their per annum growth to 17.2%. In the North where sub-markets were generally quiet, Wangara/Gnangara/Landsdale lifted the broader regional averages; for small lots the price improved $25/sqm while larger lots increased $10/sqm.

There is an expectation that larger development lots will experience renewed interest moving forward, as larger investors are more willing to deploy capital as the market recalibrates and broader economic indicators (as well as construction costs) stabilise.

Owner-occupier purchases dominate in a subdued investment market

With economic headwinds and increased construction costs, land purchases have been subdued over the quarter with larger institutional investors perceived to be waiting for the new financial year before committing to development sites. Owner occupiers have dominated the purchaser group for existing assets with specific, targeted acquisitions. Resource companies remain a major player in the market, buoyed by strong sector performance and underpinned by foreign demand.

Recent data shows that another major space user in the industrial segment, online retailing, has begun to feel the impacts of increasing interest rates and high inflation – with online purchases falling 3.1% in the first five months of this year. This has undoubtedly influenced the 'wait and see' attitude of both tenants looking to upgrade or increase space, as well as investors looking to enter the market.

Yields edge out in a cautious market

This pensive tone, combined with the more challenging financial environment, drove a continued shift out in yields. The average prime yields, in part by virtue of limited transactions, softened by 12.5bps to average 6.47%. By precinct, the Inner and Outer South yields remained stable at 6.25% and 7.1% respectively.

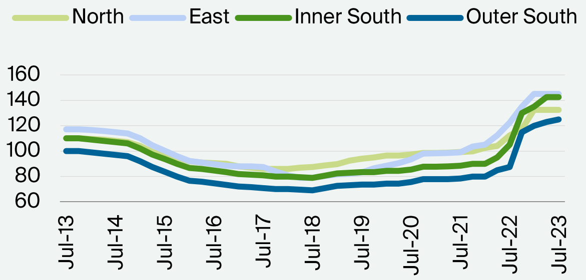
Secondary yields softened by 6bps to measure 7.1%. Inner South secondary yields moved out marginally to reach 7% while Outer South yield stock also went out 12bps to reach 7.50%.

Investment activity remained directed away from prime or super-prime stock as markets continue to resist deployment of large sums of capital in the short-term.

PRIME RENTAL GROWTH	LAND VALUE GROWTH (<5,000SQM)	LAND VALUE GROWTH (1-5HA)	PRIME YIELD SHIFT
27.5%	**9%**	**10.6%**	**+12 BPS**
Y/Y AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	Y/Y AVERAGE ACROSS ALL PRECINCTS	YIELDS MOVE OUT IN Q2

Perth industrial rents by precinct

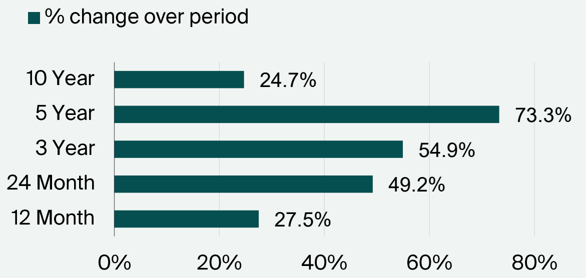
Average prime net face rent, $/sqm



Source: Knight Frank Research

Perth % growth net face rent

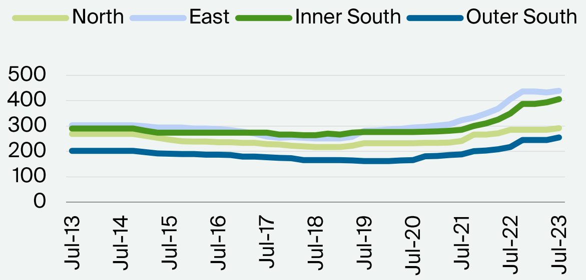
% Growth rate of $/sqm pa net face, blended rate



Source: Knight Frank Research

Perth land values by precinct

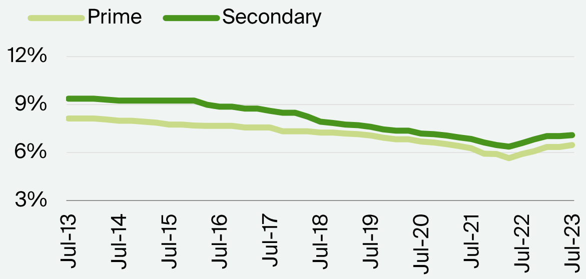
average $/sqm, medium lots 1-5 ha



Source: Knight Frank Research

Perth industrial market yields

Prime vs secondary (averages)



Source: Knight Frank Research

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	NET RENT $/SQM	TERM (yrs)
AEC (Government)	1 Railway Parade, Bibra Lake	East	3,139	126	10
Not disclosed	Marriot Road, Jandakot	East	2,825	170	10
Caddys#	Jandakot Airport	South	6,698	140	5
Metso Outotech	247 Berkshire Road, Forrestfield	East	2,864	$183 inc hardstand	5
Not disclosed	50 Kewdale Road, Welshpool	East	3,381	$160	5

- Precommitment

RECENT SALES

Recent significant sales

CITY	PROPERTY	PRICE $M	SIZE SQM	$/SQM	PURCHASER	VENDOR	YIELD %[1]	WALE
Melbourne	3 & 4 Forbes Close, Knoxfield	22.95	12,674	1,809	Arrow Capital partners	Dexus	4.81	2.5
Melbourne	8 Northpoint Drive, Epping	12.0	4,172	2,876	Private	Impact Designer Homes	5.74	3.0
Melbourne	48-54 Burns road, Altona	14.6	6,773	2,316	Private	Private	4.84	5.0
Sydney	8 Williamson Road, Ingleburn	125.7	45,484	2,764	Mapletree Logistics Trust	Fife Capital	5.12	8.2
Sydney	8 Kellaway Place, Wetherill Park	16.2	3,642	4,434	United Blossom Pty Ltd	James Monton Pty Ltd	4.75	0.6
Sydney	145-151 Arthur Street, Homebush West	73.3	19,214	3,812	Hale Capital	Dexus	4.68	1.9
Brisbane	16-28 Quarry Rd, Stapylton	67.81	40,983	1,655	Hines Global	Dexus (Industria)	6.29	1.8
Brisbane	164 Stradbroke St, Heathwood	26.50	13,375	1,981	ESR	Australia Post	5.91	VP
Brisbane	2& 12 Arthur Dixon Ct, Yatala	56.63	27,246	2,042	Private Investor	Fife Capital	6.16	4.9
Adelaide	6 Heuritsch Lane, Angaston	6.0	8,781	683	Private	Hahn Corporation	7.71	2.8
Adelaide	69-75 Plymouth Road, Wingfield	10.0	6,189	1,16	Access Hire	Private	5.49	2.4
Adelaide	25 Naweena Road, Regency Park	9.8	6,223	1,575	Mainfreight Logistics	Private	-	-
Perth	2-10 Kewdale Road, Welshpool	20.0	11,449	1,747	U/D	Bend-tech Group	6.10	10.0
Perth	198-202 Bannister Road, Canning Vale	14.7	7,808	1,883	Harmony	Gianni Redolatti	5.94	10.8
Perth	64 Great Eastern Highway, South Guildford	16.0	4,593	3,484	Westbridge	Acure Asset Management	5.36	6.1

[1] Core Market Yield [2] Passing Yield [3] Land/Development Site [4]Specialised, purpose built shipping container storage yard with substantial concrete container rated hardstand [6] includes a service station component [7] reported #Sale & Leaseback ^Part of Portfolio +Fund Through ~includes cold Store/ambient temperature areas

DATA DIGEST

Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
WALE: Weighted Average Lease Expiry
Vacancy Methodology:
This analysis collects and tabulates data detailing vacancies (5,000m^2+) within industrial properties across all of the Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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