Australian Industrial Review

Q3 2023

Availability across all East coast capital cities has increased, coinciding with a slow down in quarterly rental growth.

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Key Insights

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

BEN BURSTON
CHIEF ECONOMIST, RESEARCH & CONSULTING

30%

Vacancy increase across the Eastern Seaboard

Although vacancy increased over the quarter it is still 52% below the level two years ago. An increase in secondary stock was the main contributing factor to the rise.

$2.2b

Investment volume Q3-2023

Underlying investor appetite for industrial assets has remained steady, with sustained tenant demand and rental growth adding to the sector's appeal.

2.9m

Sqm of new supply forecast 2023

By year end a record 2.9m sqm is forecast for delivery across the eastern Seaboard, with Sydney and Brisbane set for record years of development completions.

3.2%

Q/Q prime rental growth in Sydney

The average prime net face rent increased by 3.2% q/q (30.5% y/y) to $245/sqm over Q3.

3.1%

Q/Q prime rental growth in Melbourne

Average net face rent increased 3.1% q/q to measure $135/sqm. On an annual basis rents have increased 11.2%.

20bps

Prime yield softening in Sydney

Key Indicators Q3 2023

Market	Prime Net Face Rent $/sqm	Secondary Net Face Rent $/Sqm	Super*Prime Market Yield Range %	Land <5,000sqm $/sqm	Land 1-5 ha $/sqm
Sydney*	245	200	4.75-5.25	2,005	1,716
Brisbane	156	138	5.25-5.75	523	487
Melbourne**	135	112	4.75-5.25	1,149	901
Adelaide	124	92	5.50-6.00	549	387
Perth	136	116	5.25-5.75	479	356

Source: Knight Frank Research *Yield range assumes a near new 10,000sqm+, non-specialised, institutional high-grade industrial asset with a of WALE 7.0 years+ Indicators are based on a blended average of the city precincts. **Western Sydney prime net face rents average $202/sqm, secondary: $166/sqm; small lots: $1,269/sqm, 1-5ha lots: $1,180/sqm. *Melbourne (excluding the Fringe) prime net face rents average $123/sqm, secondary: $105/sqm; small lots: $887/sqm, 1-5ha lots: $676/sqm.

Economy

With the economic slowdown well underway and inflation remaining elevated, investor capital is being deployed selectively as the market navigates challenges

STRONG SEPTEMBER RETAIL SALES A SIGN OF CONSUMER RESILIENCE

After a sustained period of monetary tightening in 2022 and the first half of 2023, markets have been watching for signals of economic slowdown as higher rates feed through and cool consumer spending. The headline growth rate has clearly slowed, with the annual pace of GDP growth slowing to 2.1% in Q2 from 3.1% in mid-2022 and the quarterly pace of growth suggesting a further slowing is imminent.

However, recent data suggest that the economy may be more resilient to higher rates than previously expected. Retail sales have been an obvious weak point over the past year, but the latest data for September were more positive, showing an increase of 0.9% m/m, the highest jump since January and higher than forecasts expected. The labour market also remains very tight, with the unemployment rate still close to record lows and job vacancies still at very high levels across most industries and well above the pre-pandemic trend.

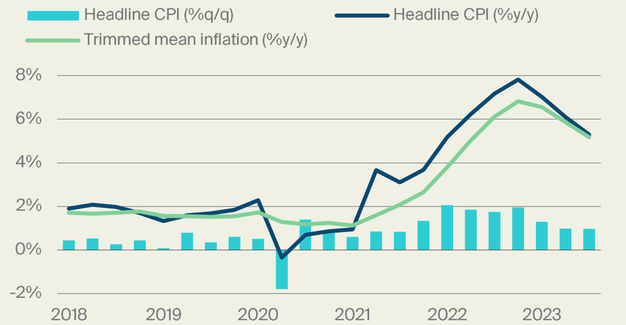
This resilience augurs well for industrial demand as we head into 2024. A large segment of consumers remain under pressure, but other drivers of growth remain intact and will continue to drive demand from a broad base of occupiers, as reflected in improving business sentiment readings.

INFLATION REMAINS STUBBORNLY HIGH, MAINTAINING PRESSURE ON INTEREST RATES

Just as growth remains resilient, inflationary pressures remain persistent with the latest Q3 data showing a jump in the quarterly rate of inflation (1.2% in Q3 up from 0.8% in Q2), notwithstanding that the annual rate dropped to 5.4%. This prompted the RBA to proceed with a further 25bps rise in November taking the official cash rate to 4.35%. Inflation is forecast to continue easing, but it is apparent that the process will take time given ongoing price pressures in key components such as rents and utilities.

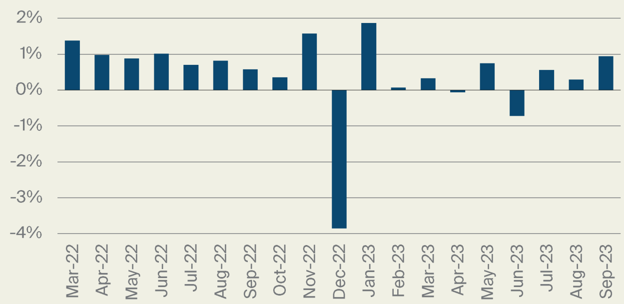
Globally, recent data has been more encouraging, with inflation dropping back to 3.7% in the United States and 2.9% in the Eurozone, indicating that Australia will also follow this path with a lag. With inflation data more encouraging in several countries, markets are starting to look ahead to possible rate cuts later in 2024-25.

CPI - headline and core measures
% annual and quarterly (seasonally adjusted)



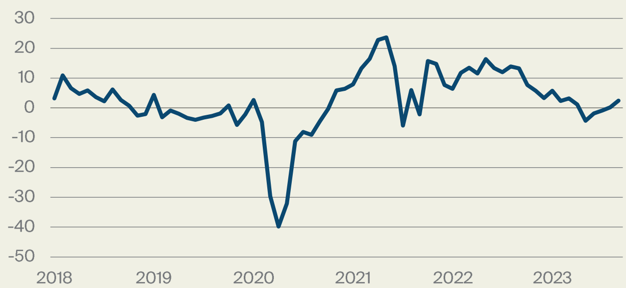
Source: Knight Frank Research, ABS

Australian total retail turnover
Monthly growth rate v YoY (%)



Source: Knight Frank Research, Macrobond

NAB Business survey - forward orders
Net balance of positive and negative responses



Source: Knight Frank Research, NAB

Leasing Market

Availability across all East coast capital cities increased over the quarter however still not satisfying the level of occupier demand

AVAILABILITY UP TO ITS HIGHEST LEVEL IN A YEAR

Available industrial space increased by 30% in Q3 across the eastern seaboard, however, vacancy remains 52% below the level two years ago. An increase in secondary stock was the main contributing more than doubling to 225,445sqm. Available speculative space accounts for 42% of total East Coast vacancy, this is more than double the 10-year average, which highlights developer confidence in the market to push ahead with spec developments.

Sydney remains the tightest market with 48,716sqm available, albeit an increase over Q3 from 32,175sqm, these levels are still 75% down from two years ago. Brisbane availability increased by 31% to 343,128sqm with 47% of this being speculative development. The Melbourne market accounts for 43% of total East Coast vacancy with a 26% increase in the quarter to 294,238sqm. Notably, Melbourne has 115,072sqm of prime space available, considerably more than the 31,000sqm vacant in both Sydney and Brisbane.

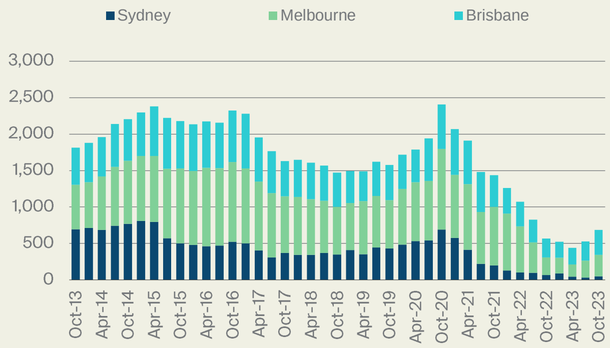
Leasing take-up dropped slightly over Q3 by 2% to measure 692,000sqm across the East Coast and 10% down on take up levels a year ago. This does suggest that demand has tapered off somewhat however must be noted that demand levels had been running at record highs. There are some cases of tenants seeking space but being impacted by the lack of quality opportunities. Pre-commitments accounted for 27% of the total lease deals this quarter. With a strong pipeline forecast in 2024 of approx. c3 million sqm to be delivered across the east coast this will help further ease the vacancy pressures and rental pressures for occupiers.

RENTAL GROWTH TO CONTINUE AT MODERATE PACE

The pace of quarterly rental growth has slowed across all markets with Sydney and Melbourne recording the strongest growth of 3.2% and 3.1% respectively. Perth was the only market with rents remaining unchanged over the quarter. Despite this, annual growth remains high with Sydney and Brisbane at 30% and 20% respectively. Incentives remain at historical lows across all capital cities. With available supply still set to remain tight for the foreseeable future, rental growth is expected to continue albeit at a slow pace, with growth expected to revert to an annual pace in the range of 4-8% over the next 12 months.

Eastern Seaboard industrial vacancy

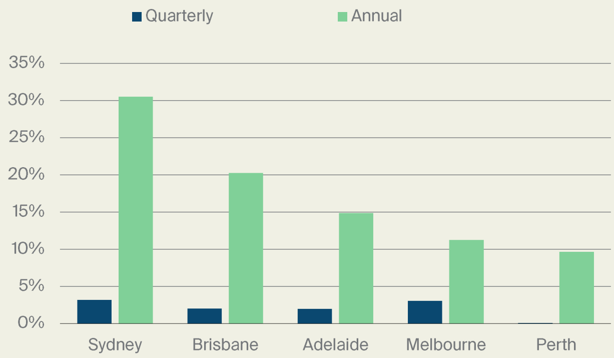
'000 sqm, quarterly, 5,000 sqm+



Source: Knight Frank Research

Prime rent growth

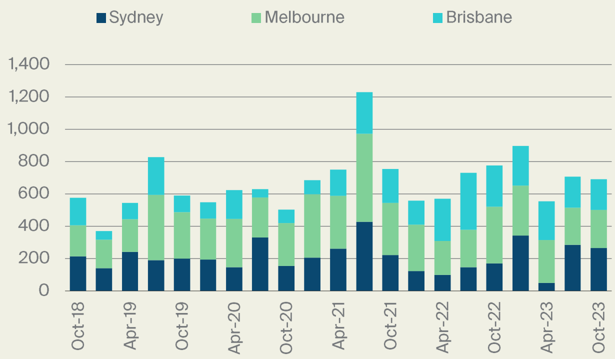
Average across major capital cities



Source: Knight Frank Research

Eastern Seaboard industrial take-up

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



Source: Knight Frank Research

Investment

Difficult capital market conditions have seen the quantum of sales fall in industrial, mirroring the wider investment market

MORE ASSETS OF SCALE ARE TRANSACTING BUT OVERALL INVESTMENT VOLUMES ARE MUTED

Investment volumes have improved from the extreme lows of Q1, but remain subdued at $2.2 billion in Q3 after $2.5 billion in Q2. The Sydney market accounts for 50% of investment turnover in 2023 ytd, however in Q3 there was an uplift in volume in the Melbourne market, underpinned by the UniSuper portfolio acquisition and the mixed use Axxess Business Park. Underlying investor appetite for industrial assets has remained steady, with sustained tenant demand and rental growth adding to the sector's appeal.

YIELD SOFTENING IS SLOWING, BUT FURTHER ADJUSTMENT REQUIRED

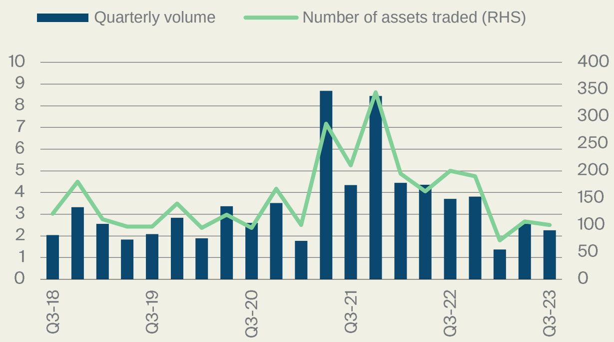
During Q3 prime yields across Sydney, Melbourne and Brisbane softened by a further 12 – 25 bps with greater stability emerging in the Adelaide and Perth markets. Average prime yields are 5.27% in Sydney (+20bps) and 5.26% for Melbourne (+13bps) as despite the differing rental growth profiles these markets currently appear to be perceived similarly. Brisbane at 6.26% moved by 12bps in the quarter. Adelaide at 6.33% and Perth at 6.5% were largely stable in the quarter, moving 2.0bps and 3.1 bps respectively off very limited investment activity.

The portfolio drift in allocations towards retail and more recently the office sector has continued to benefit industrial investment demand. This, plus the strong rental growth profile, has kept yields tighter than they otherwise may have been. Buyer profiles remained in line with the previous quarter with offshore wholesale investors the most active, domestic unlisted or super funds increasing (ie UniSuper). Listed entities remain net sellers but have largely been able to selectively divest assets where the price is in line, or only a small discount, to book value.

INCREASING HURDLE RATES ARE HAMPERING CAPITAL RAISING AND DEVELOPMENT FEASIBILITY

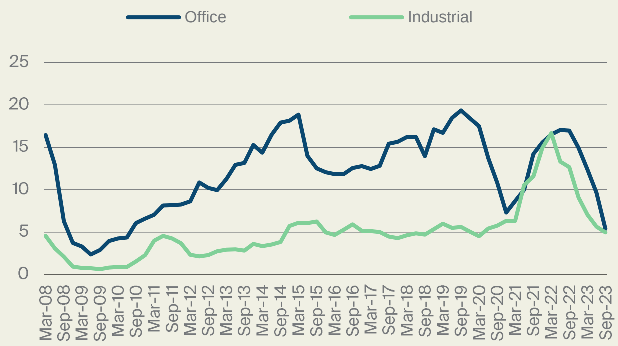
Sticky services inflation and a break-out in US bond yields has changed the investment landscape over the past quarter. Investment and development hurdle rates have increased with both debt costs and equity return hurdles higher, resulting in longer DD periods and overall fewer completed sales. Despite the underlying re-weighting of portfolios towards the industrial sector, these difficult capital market conditions has seen the quantum of sales fall in industrial, mirroring the wider investment market.

Industrial investment volume
AUD billion & number of transactions



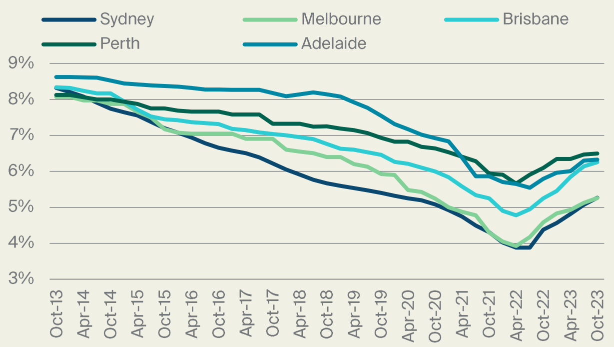
Source: Knight Frank Research, RCA

Australian Investment Volumes
$US billion rolling annual



Source: Knight Frank Research, RCA

Industrial prime yields
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

TRANSPORT/LOGISTIC OCCUPIERS COMPETED FOR LARGE-SCALE FACILITIES

Take-up volumes in Q3 totalled 266,549 sqm, 7% lower than the previous quarter, however 23% above the 3-year average. Leasing volumes were concentrated in the Outer West and South West accounting for 96% of activity. More specifically, the Outer West reached a record high for quarterly take-up. In the South West, take up was driven by speculative development which account for 78% of the take up volumes.

Lease deals were dominated by transport/logistics (65%) and manufacturing (25%) occupiers in Q3, notable transactions include DP World securing c.44,000 sqm at Yennora Distribution Centre, Northline Transport leasing c.36,000 sqm at Forrester Distribution Centre, and SEKO Logistics pre-committing c.30,600 sqm at The Yards estate. Also of note is the average take-up size for transport/logistics tenants so far in 2023 is 26,025 sqm compared to 9,783 sqm before the pandemic (2019).

DESPITE THE OPPORTUNITIES OFFERED BY SPECULATIVE DEVELOPMENTS, VACANCY REMAINS NEAR RECORD LOWS

Vacant space was up by 51% over the quarter to measure 48,716 sqm, this still sits at near record lows and is 77% below the 3-year average. South West vacancy totalled to 21,106 sqm and accounted for 43% of total market vacancy. In South Sydney where vacancy is historically not existent for 5,000sqm plus facilities has seen two warehouses come to market totalling 16,010 sqm. Available space in Outer West tightened by 57% over the quarter to hit historical lows. Whilst in the Inner West precinct vacancy remained non-existent for 5,000sqm+ warehouses.

RENTAL GROWTH CONTINUES ALBEIT AT A MORE MODERATE PACE

The average prime net face rent increased by 3.2% q/q (30.5% y/y) to $245/sqm over Q3.South Sydney led the quarterly prime rental growth with a 5.6% q/q rise reported, followed by Inner West (4.6%), as fierce competition always among tenants for limited options in the last mile precincts.

"multi-level pipeline is forecast to deliver c.**412,000 sqm by 2026"**

"**Vacancy** 77% below 3-year average"

Prime rents in the South West increased by 2.7% q/q (40.2% y/y) to $190/sqm in Q3, resulting from the new developments repricing the market. Incentives continue to sit at decade lows since early this year currently averaging 8-10%, whilst South Sydney is the lowest averaging 5%.

MULTI-LEVEL WAREHOUSING MOMENTUM CONTINUES WITH STRONG PIPELINE

The market is expected to see c. 850,000 sqm new industrial supply be delivered by the end of 2023, among which 30% was completed in Q3 and 49% is under construction. Despite the decade-high development activity, less than 10% of new supply in Q4 would be available to the market to relieve the chronic supply shortage. Looking ahead there is over 975,000sqm forecast for delivery in 2024, whilst it will not completely satisfy the strong demand it will provide some relief for occupiers and place less pressure on rents.

Notably, multi-level warehousing continues to gain interest from developers, particularly in land constrained areas such as South Sydney. The current multi-level industrial pipeline between 2023-2026 is forecast to deliver c.412,000 sqm, with all schemes under construction and DA approved concentrated in South Sydney and the South West, notable projects include Goodman's Axis Alexandria, Charter Hall's Ascent on Bourke at Alexandria and Cabot Properties' Portal in Matraville.

YIELD SOFTENING CONTINUES

Prime and secondary yields continued to soften in Q3, with the prime average yield expanding 20bps to 5.3% and the secondary yields also softening 25bps to average 6.0%.

Latest transactions include Charter Hall Group's Direct Industrial Fund No.4 (DIF4) divested 115-121 Jedda Road, Prestons to Centennial for $79 million on a 5.3% market yield; US-based private equity firm Cabot Properties purchased Hale Capital's first multi-level warehouse project at 42-52 Raymond Ave, Matraville for $137 million on a 4.8% market yield.

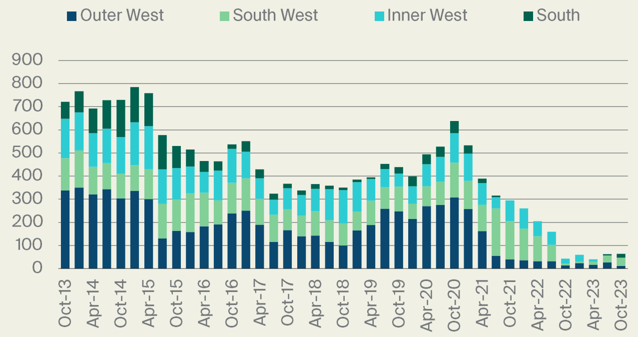
266K
Take-up (sqm)
Q3-23 | -7% Q/Q

49K
Vacancy (sqm)
Q3-23 | -27% Y/Y

65%
Most active sector Q3-23
Transport, Postal, Warehousing

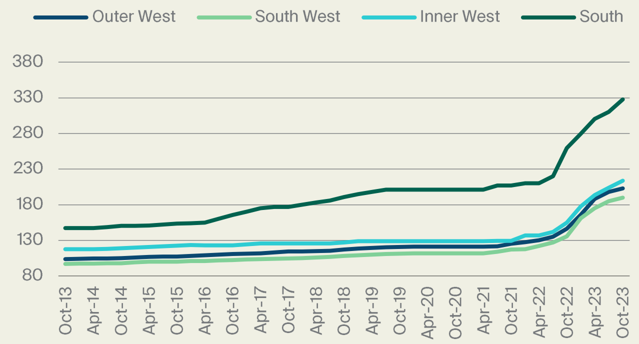
850K
New development (sqm) - Estimated 2023 (F)

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



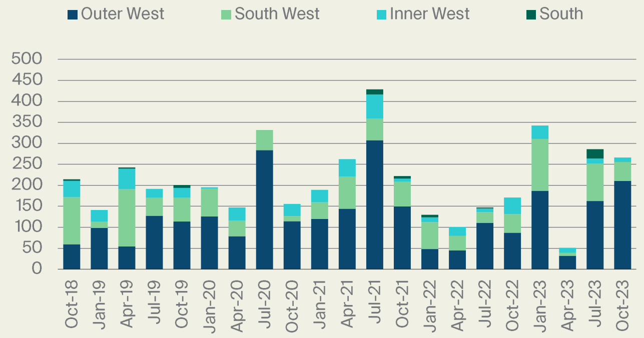
Source: Knight Frank Research

Sydney prime industrial net face rents
By precinct, $/sqm



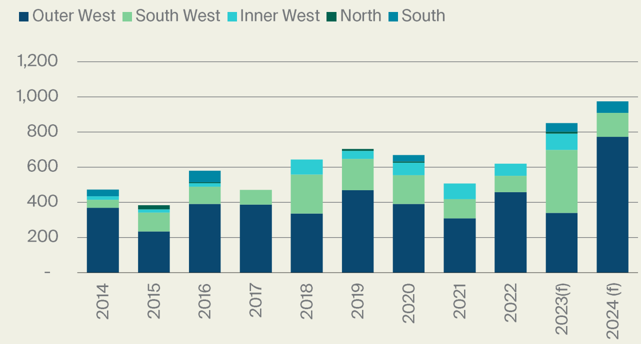
Source: Knight Frank Research

Sydney industrial take-up by precincts
Take-up per quarter, '000sqm



Source: Knight Frank Research

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



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Vindex Pharmaceuticals~	2 Wonderland Drive, Eastern Creek	Outer West	24,189	185	15
ACFS Port Logistics~	4 Kangaroo Avenue, Eastern Creek	Outer West	15,918	190	3
Austrans^	1 Kirby Place, Bankstown	South West	14,615	280	7
MHA Industries#	23 Hawthorne Ave, Marsden Park	Outer West	11,412	220	10

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

Melbourne

Vacancy rates rise again as some semblance of liquidity returns to the leasing market; whilst yields and land values show signs of stability

NORMAL SERVICE STARTS TO RESUME AS VACANCIES RISE ACROSS MELBOURNE

A slowing economy and continued delivery of high levels of supply saw vacancy rise for a second quarter for the first time in three years. Vacant space rose to 294,238 sqm across Melbourne. However, to put this in context, the 10-year average (up to 2022) was 768,989 sqm so we have 38% of average spare space. Space remains particularly tight in the Fringe (10,000 sqm) and the East (15,382 sqm). Over half of the available space (54% or 159,096 sqm) is concentrated in the fast-expanding West precinct.

TAKE-UP REMAINS STEADY AS ECONOMY QUIETENS

Take-up remained stable (+3%) in the quarter though less hampered by lack of space now. Having been a major source of extra space requirement in 2022, manufacturing which was 37% of requirements was down to 14% in line with last quarter's 11%. Transport retains top spot with 47% of all requirements.

Tenants are still looking to pre-commit to get the right space and Fraser's 38,225 sqm deal with Penguin Random House at the Rubix Connect Estate was the standout deal of Q3. This is the largest pre-commit in the South East since 2012, due for completion in 2025. It was quickly followed by 11,425 sqm on the same estate to Sello. New supply does keep coming on, but vacant space is expected to only increase slowly. 43% of this year's new supply is pre-committed or owner occupied, and 40% of next year's forecast 991,114 sqm is already taken as well.

SELECTIVE RENTAL GROWTH IN EXPANDING MARKETS

Overall prime rents rose 3.1% q/q accelerating the annual rate to 11.2%. However, this was in selective areas. The West saw growth of 4.2% q/q (+$5 to $124/sqm), and 15.8% y/y. The star was in the North, having lacked space in recent quarters, as space came on deals for new sites were averaging $123/sqm (+$14), up 12.8% q/q and 20.6% y/y. Elsewhere in the East(0.0%), South East (+$1, +0.8%) and the Fringe (0.0%) prime rents barely moved.

Vacant space rises again, and across all precincts except the Fringe

Selective rental increases as space becomes available

Perhaps due to their being a bit more space available, the pressure on secondary rents was not there. There was no rises across the board in Melbourne, and the one area showing a decline was, ironically, the North, with a slight slip -$1 to $106/sqm. This shows the point, record growth in prime rents as new space comes on, also eases demand for secondary space slightly.

LAND VALUES REMAIN FLAT AS PREVIOUSLY ACQUIRED LAND IS DEVELOPED

Land values have almost stalled across Melbourne. Those who wanted land have it and are developing it (another bumper year for new supply forecast for 2024, much pre-committed). Those who haven't are being cautious weighing up the high costs of construction and concerns of backfill and sub-leasing possibilities going forward impacting on tightness of supply. There were a few slight increases in price in the smaller lot sizes, sub 5,000 sqm, with the West up 5% to $890/sqm and the South East up a touch to $1030/sqm (from $1025). There were downward tweaks in the large 10ha+ sizes as demand for big developments, and availability, weaken; with the North down $50 to $250/sqm and the West down $10 to $365/sqm.

YIELDS STABILISE

Following a year of weakening prices on the back of capital market pressures, prime and secondary yields were more stable this quarter. Yields didn't move in the North and West precincts, but were out 25bps in the East (to 5.25% prime and 6.0% secondary) and the South East (to 5.50% for prime and 5.88% for secondary). Overall prime yields stood at 5.31% (5.26% incl. the Fringe) and secondary at 6.00%.

Transactions continued through the quarter. 12-18 Distribution Drive in the West was sold by a Korean pension fund (NPS) to UniSuper for $114.754 million, with Coles as the tenant, and a biodiversity business park in Litoria Court in the North sold for $37.691 million.

Investors can see that in an uncertain world good quality industrials with strong tenants are a safer investment and are now reasonably priced.

235K

Take-up (sqm) Q3-23 | +3% Q/Q

294K

Vacancy (sqm) Q3-23 | +26% Q/Q

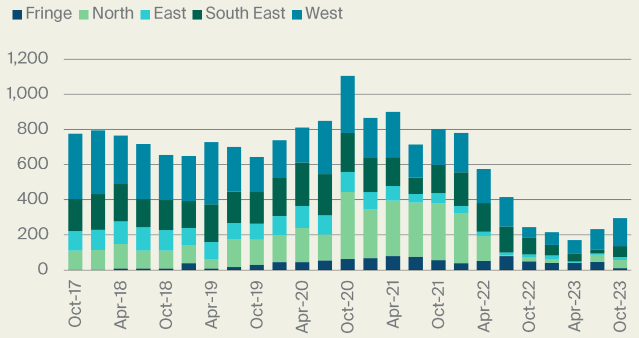
47%

Most active sector Q3-23 - Transport, Postal, Warehousing

902K

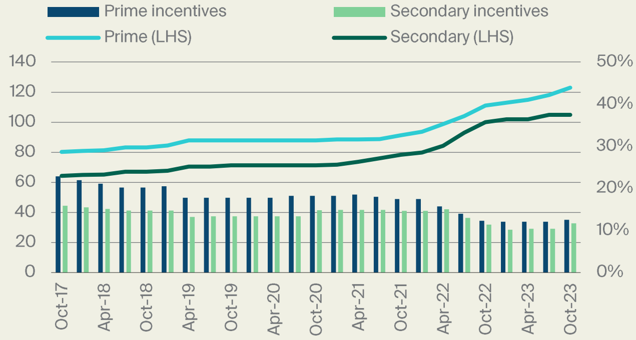
New development (sqm) - Estimated 2023 (F)

Melbourne industrial vacancy
'000 sqm by precinct



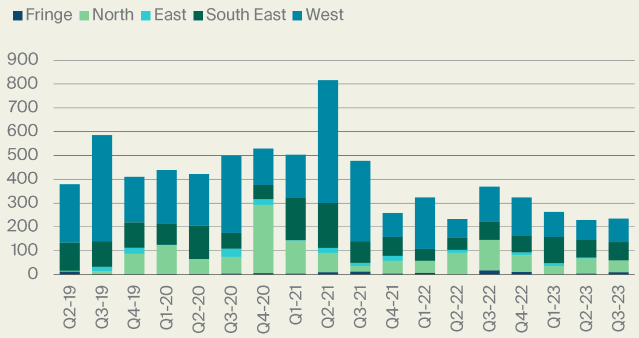
Source: Knight Frank Research

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



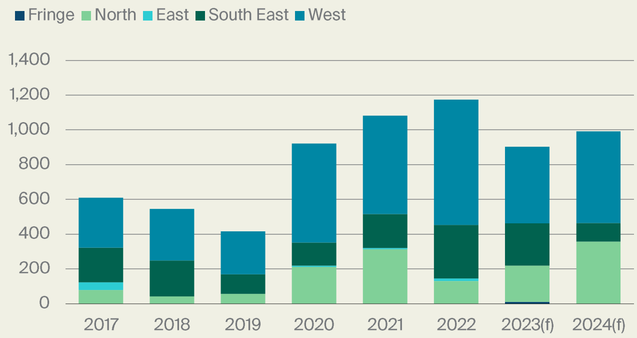
Source: Knight Frank Research

Melbourne industrial take-up
'000 by precinct



Source: Knight Frank Research

Melbourne industrial supply
'000 sqm by precinct



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Penguin Random House#	Rubix Connect, Dandenong South	South East	38,225	140	10.0
Navia Freight~	28-32 Sky Road, Tullamarine	North	12,086	120	10.0
Provincial Home Living #	303B, Lot 7 Evolution Road, Truganina	West	22,320	105-125	10.0
Central Steel^	80 Stanley Drive, Somerton	North	10,301	110	10.0

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

Brisbane

Record supply in 2023 has begun to ease the lack of options for tenants, while tenants are taking a more measured view to lease commitments. Investment activity remains low

STEADY LEASING TAKE-UP IN Q3, DOWN FROM RECENT FRENETIC LEVELS

Leasing activity in Q3 was in line with the quantum of the previous quarter at 190,170sqm with sentiment in the market largely unchanged. Annual take-up sits at 855,000sqm, still 16% above the five-year average. Greater availability has translated into increased secondary leasing with 31,368sqm leased in Q3. Prime existing take-up is limited by the lack of availability with 40,510sqm, in line with the speculative activity. Pre-commitment activity has remained steady with additional requirements currently in the market.

A BROAD RANGE OF USERS ARE ACTIVE

Transport, postal and warehouse remain the most active tenant type with 34% of take-up over the rolling 12 months ongoing expansion and upgrades. Demand remains steady from wholesale and manufacturing tenants (each accounting for 24% of take-up) with retail at 16%.

Tenants are taking a more measured approach to determining their space needs as higher rents are one of many cost pressures impacting corporates. Major leases in Q2 included pre-commitments to Powerlink (45,259sqm), Gilmore Space Technology (10,000sqm) and EFM (18,500sqm) and leases over existing space by CEVA (10,240sqm) and Grays Online (14,171sqm).

VACANCY IS LIFTING FROM RECENT EXTREME LOWS

Vacant space increased 31% to be 343,128sqm in the quarter but remains 45% below the recent early 2021 peak. Existing prime vacancy fell by 26% to a tight 31,436sqm. Speculative space available increased by 14% with new construction starts of 64,883sqm. Much of the vacancy increase came from secondary space with vacancy more than doubling to a, still tight, 150,752sqm. This is almost exclusively backfill space for tenants who have upgraded to prime or newly built space. Speculative space now accounts for 47% of total vacancy, with 12% in completed speculative projects and 35% under construction.

The pace of rental growth is easing but still recorded 20% y/y uplift

47% of total vacancy is within speculative space

PACE OF RENTAL GROWTH IS EASING

Average prime face rents increased by 20.3% y/y to $156/sqm net, with an increase of 2.0% in the past quarter. Average incentives have stabilised at 11-13%. In the short term, incentives on new product may increase as owners seek to stretch or maintain elevated face rents. A wider range of reported incentives is expected as tenants face strong competition on some assets, while income security is sought on others. Secondary net rents increased by 1.9% in the quarter (+20.2% y/y) to $138/sqm as availability starts to lift.

RECORD NEW SUPPLY IN 2023 TO BE FOLLOWED BY A STRONG 2024

2023 is expected to be a record year of construction completions in Brisbane with 865,000sqm to be delivered, this is well ahead of the previous high of c550,000sqm in 2008. At the start of Q4 567,995sqm has been completed with a further 297,000sqm under construction and targeting completion before year end. With almost 400,000sqm of pre-commitments in place for delivery in 2024 and continued appetite for speculative development, 2024 is also expected to see a high level of completions in line with, or potentially higher, than the 2023 new supply.

SALES LIMITED TO SMALLER ASSETS

Significant investment sales remain scarce with most activity sub$20 million with a private investor focus. Two portfolios with significant Brisbane assets have been marketed with mixed results and the portfolios split. The largest Q3 transaction was 2 & 12 Arthur Dixon Ct, Yatala, purchased for $55.62 million by a high net worth investor. The buildings were brand new but potentially under-rented and reflected a 6.2% core market yield with a 4.9 year WALE.

Yields have continued to soften, now sitting at 6.25% (+148bps from nadir) for prime and 7.05% (+160bps from nadir) for secondary. Super-prime yields have been untested but are expected to sit at an average of 5.6%. Land values are stable despite ongoing softening in yields and higher construction costs with mostly owner occupier buyers

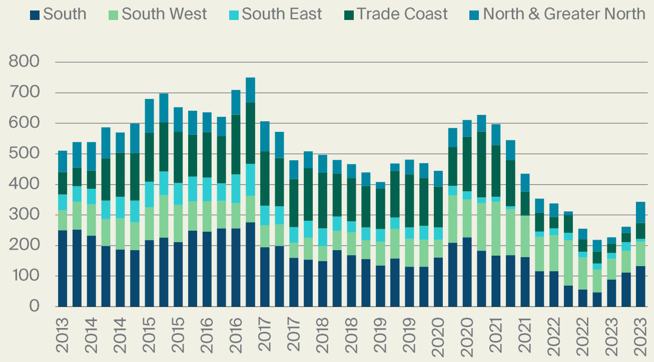
190K
Take-up (sqm) Q3-23 | 3% above the 5 year average

343K
Vacancy (sqm) Q3-23 | +31% Q/Q

34%
Most active sector Q3-23 - Transport, Postal, Warehousing

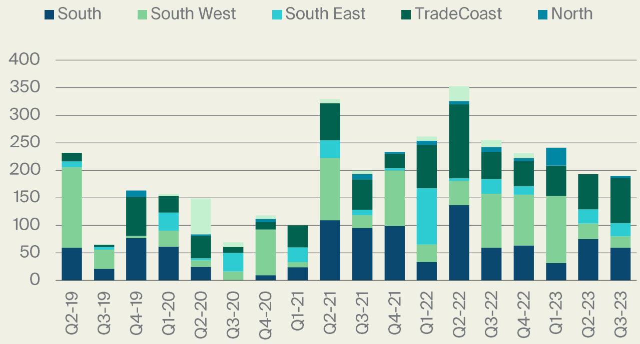
865K
New development (sqm) - Estimated 2023 (F)

Brisbane Industrial Vacancy
'000sqm available space by precinct



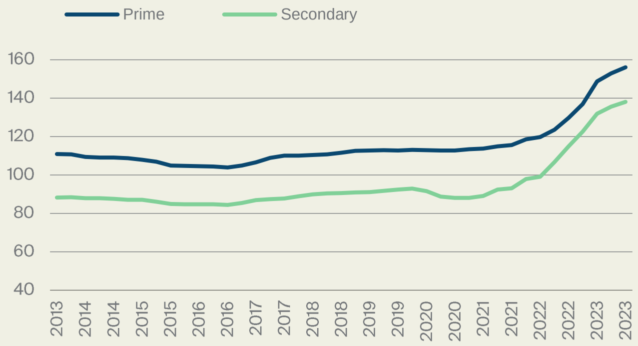
Source: Knight Frank Research

Brisbane leasing take-up
'000sqm by precinct



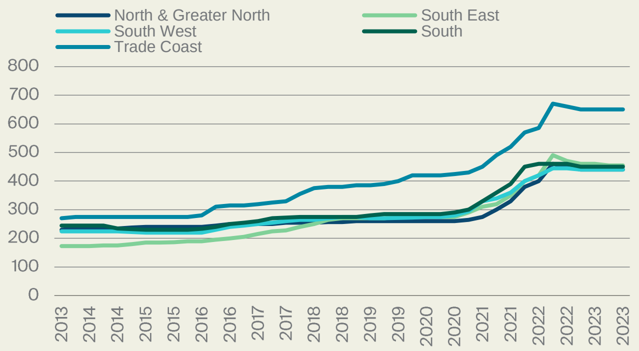
Source: Knight Frank Research

Brisbane industrial average net face rents
Prime vs secondary, $/sqm pa



Source: Knight Frank Research

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



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
Powerlink#	57 Culya St, Pinkenba	Trade Coast	45,259	176	7
Grays Online~	616 Boundary Rd, Richlands	South West	14,171	125	5
Auscool Logistics^	31 Lahrs Rd, Ormeau (cold store)	South East	11,175	321	5
CEVA~	29 Forest Way, Berrinba	South	10,240	135	10
Carrol Transport~	11-19 Kellar St, Berrinba	South	7,412	135	10

Perth

Sustained demand driving land price increases as rents and yields steady in a market punctuated by questions on construction costs and achievable rent

TRANSPORT/LOGISTIC OCCUPIERS COMPETED FOR LARGE-SCALE FACILITIES

Continuing the trend from Q2, 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 following 18 months of strong growth. Prime rents across both manufacturing and warehousing were characterised by stability in Q3. In secondary markets the North and East markets – both manufacturing and warehousing – held firm. Small increases in secondary rents in the Inner South were recorded: warehousing (4.5%) and manufacturing (4.3%), while rental growth was similarly restrained in the Outer South with growth this quarter across both types of property equating to an average uptick per sqm from $105 to $110. With another quarter of rent stabilisation growth figures for the last 12 months are subdued. However, growth remains positive across both prime (9.55%) and secondary (12.73%) assets.

Moderate rental growth following rapid rises last year

YIELDS LARGELY STABLE IN PERIOD OF LIMITED ACTIVITY

General conservativism in the market, combined with a challenging financial environment, contributed to a relative flat-line in yields. There has been only a slight outward movement (+25bps) in the prime lower yield, lifting the average prime yield 12bps to 6.5% with this trading range narrowing to 6.25-6.75%. Whilst in sub-markets in Q3 there was only one other movement, with the Inner South prime lower moving out 25bps to 6%, pushing this precinct's average up 12.5 bps to 6.37%. Average super prime yields, due predominantly to limited transactions, remained stable at 5.75%.

12bps yield softening as market stabilises

The resistance from investors to deploy capital in the current economic climate continues and investment activity remained supressed. Larger developers are continuing their wait-and-see approach from Q2 as the market continues to even out in Q3. Consequently, much of the market activity is coming from small scale developers and owner occupiers.

DEVELOPERS FUEL SUSTAINED LAND DEMAND; PRICING REMAINS

Per annum growth in land values have continued to decline from the strong, double-digit growth recorded through 2021 and into 2022; however, they remain positive. A lack of land supply has meant limited transactions and land shortages have resulted in developers shifting their focus to the South; both Inner and Outer precincts. This renewed interest is buoyed by the presence of rare earths and new metals operations driving activity and increasing demand for development land in areas like Hope Valley and Kwinana with Naval Base continuing its strong growth; small lots increased $25 while 1-5ha land parcels increased from $230 to $250. Smaller lots in Outer South have been the strongest performer with averages increasing $18/sqm and per annum growth moving from 12.56% last quarter to 14.22% this. The North remained quiet this quarter, Wangara/Gnangara/Landsdale again lifted the broader regional averages; for small lots the price improved $10/sqm. Malaga improved the same amount in both small and large lot sizes

The East performed similarly with limited supply and low transactional activity. Both small and larger lots in Forrestdale stood out, increasing $25/sqm and $15/sqm respectively. This kept the per annum growth rates in the East in positive territory (2.9% and 2.6%). For larger lots too Forrestfield (+$15/sqm) and Kenwick and Maddington (+$25/sqm) performed strongly and cemented the market. It is likely that the continuing disposal of land by Development WA in Forrestdale will help drive demand and encourage development; adding to much needed rental stock.

SOUTH TO THE FORE

Outer South remains the strongest performing region for land values in aggregate and showed improvement across most sub-markets, with only Hope Valley remaining stable at $310/sqm. The Outer South showed the strongest per annum growth of any Perth land market still recording double digit growth of 14.2%.

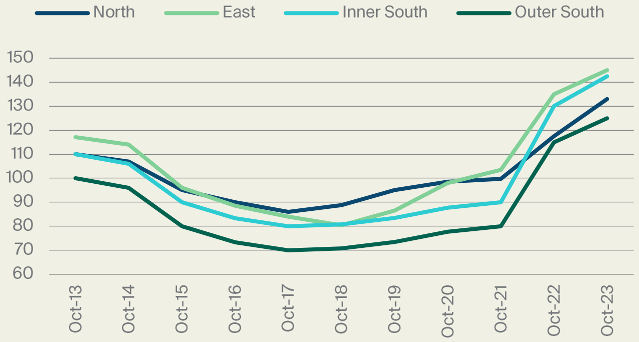
9.6%
Y/Y prime net face rental growth

12%
Y/Y secondary net face rental growth

14%
Y/Y land value growth in Outer South precinct

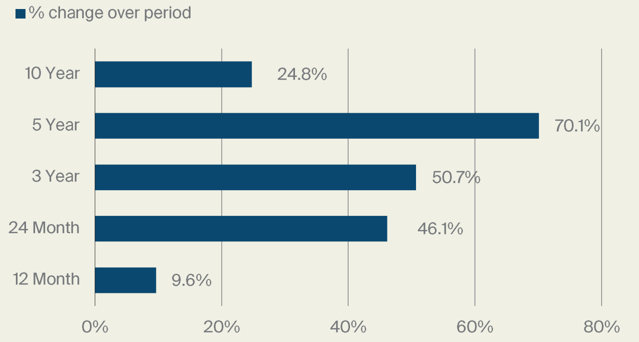
+12bps
Prime yield softening

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



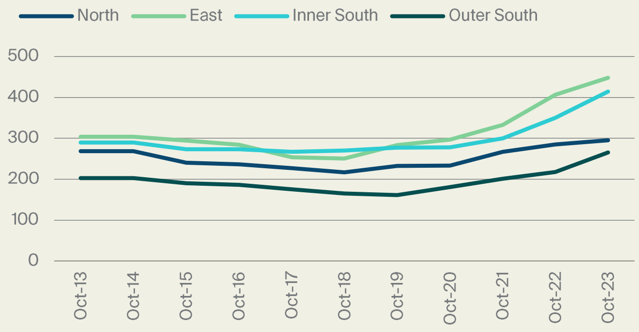
Source: Knight Frank Research

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



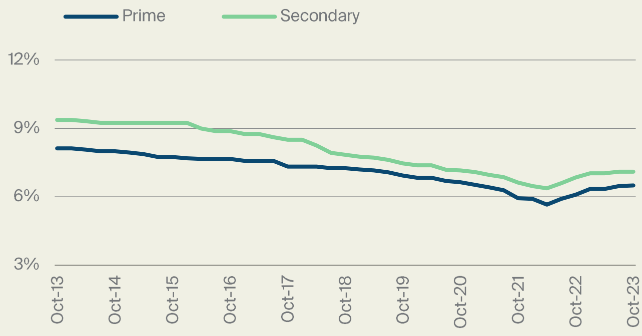
Source: Knight Frank Research

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



Source: Knight Frank Research

Perth industrial yields
Prime vs secondary (averages)



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent $/sqm	Term (years)
MCM Logistics	11-15 Fargo Way, Welshpool	East	4,100	146	5
Fortescue	841 Abernethy Road, Forrestfield	East	14,379	129	5
AAA Trailers	7-11 Gauge Circuit, Canning Vale	Inner South	8,419	143	6

Adelaide

Strong and consistent demand in the Adelaide industrial market has led to tight vacancy and rental growth, while yields saw stabilisation

NORTHERN PRECINCTS MAINTAIN DOMINANCE

Adelaide's industrial market performance for Q3 2023 has been notable, headlined by markedly low vacancy and strong demand, particularly in the northern precincts.

Both the Inner and Outer North precincts have been standouts in 2023, with their emergence coming as no surprise. With an expected 170,140 sqm of developments forecasted to be completed by 2025, an impressive 70.6% is concentrated in the northern precincts. In stark contrast, only 11.8% is projected for the southern precincts, according to Cordell Connect. The Outer North's appeal for development is owed to its accessibility to major transport routes and shipping ports, whilst maintaining cost-effectiveness of land. This is further enhanced by the north/south connector. This sets the stage for a continued influx of investment and developmental activity in the years ahead.

SUPPLY CHALLENGES PERSIST; RENTAL RATES CLIMB

Despite a steady outlook in development forecasts, the total projected supply has been somewhat constrained compared with the 10-year average. This can be partly attributed to the residual effects of the pandemic and broader economic conditions raising restraint amongst market participants.

These conditions have led to a supply-demand gap, translating in to increased rental rates for existing properties. Average prime net face rents experienced an uptick of 1.97% in Q3 2023 and a considerable 7.06% over the preceding six months. Secondary net face rents increased by 1.77% in Q3 and 6.98% over the same half-year period. The South led the way in prime net face rental growth q/q, with the Inner and Outer precincts up 5.26% and 4.63% respectively. But the Inner West and Inner North experienced the most growth in secondary net face rents q/q, recording 5.43% and 3.03% respectively. In line with these developments, average incentive rates held their ground, reflecting the sustained demand for quality assets.

The North appeals to developers with 70.6% of future projects

Yields stabilise after softening over the last 12 months

The industrial market in Adelaide has continued to experience a surge in demand, with an uptick in movements within the market thanks to major road infrastructure projects leading to many businesses being supplanted. This, coupled with a vacancy rate that remains below 1%, has led to a continued rise in rents throughout 2023 as tenants are willing to pay more to secure a quality premises. Vacancy in the 5,000sqm+ range has fallen in Q3 to 148,366 sqm. There were no development completions in Q3 and take-up of ESR Group's 2-10 Kaurna Avenue (5,989sqm) and 153 Francis Road, Wingfield (11,745sqm).

YIELD MOVEMENTS STABILISE; SALES VOLUME DECLINES

Yields have been steadily softening for the past 12 months, though this appears to have plateaued in Q3. On a q/q basis, average prime yields softened by only 2 bps to 6.33% and secondary yields by just 1 bps to 7.16%. The northern precincts saw the greatest shift in prime yields, albeit marginally, with the Inner North softening 7 bps to 6.13% and Outer North by 3 bps to 6.38%.

Sales volumes for assets above $5 million have seen a near 50% reduction in Q3 compared with Q2 from $168.67 to $87.63 million. The northern precincts dominated sales, capturing just shy of 65% of all transactions (in value terms), recording $28.28 million (Inner North) and $28.40 million (Outer North). The Inner West wasn't far behind with $23.95 million (27.33%). The only sale in the southern precincts for Q3 was in the Inner South, 846 South Road in Edwardstown, which sold for $7.00 million. The FYTD sales volume total as at 30 September 2023 is $396.84 million.

EVOLVING MARKET DYNAMICS

As we look ahead, the existing supply-demand dynamics suggests a robust and active market, with potential challenges arising from broader economic conditions and a smaller-than-average development pipeline. There is still an element of cautiousness in the market, with affordability concerns for tenants and cash rate movements for investors. Further market stabilisation is likely with rental growth potentially decelerating as we move into 2024.

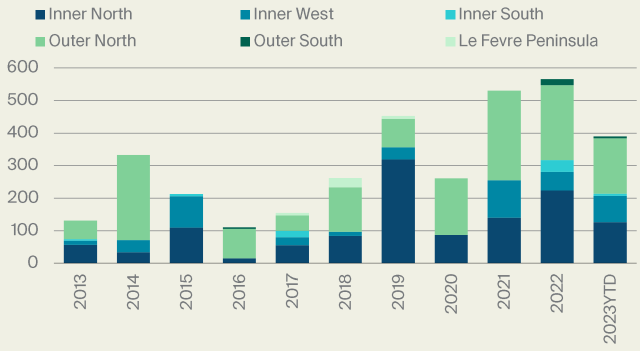
6.33
Yield (%) | +2bps on Q2

148K
Vacancy (sqm) | (5000sqm+)

341M
New development ($) - Forecast completion by 2025

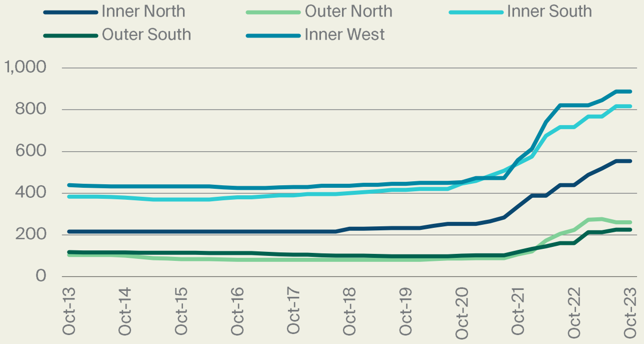
170K
New development (sqm) - Forecast completion by 2025

Adelaide industrial sales
$5milsales, 2013-2023YTD



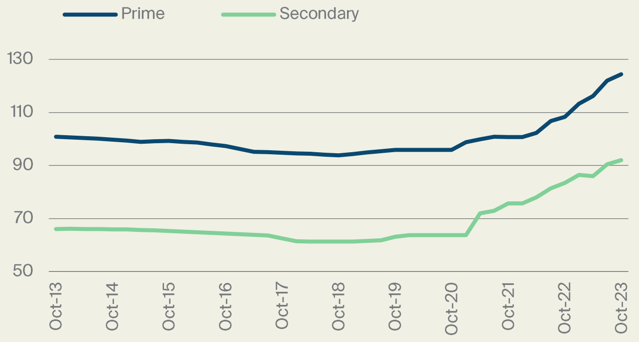
Source: Knight Frank Research

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



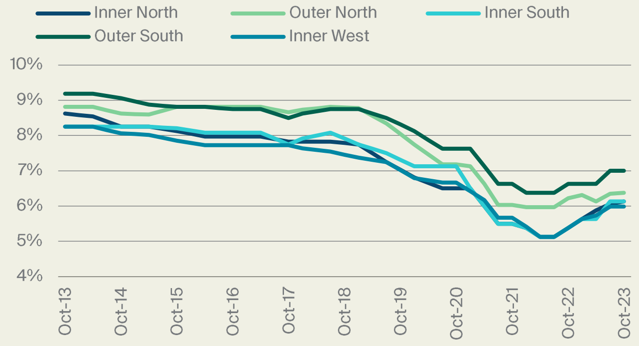
Source: Knight Frank Research

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 (years)
Austrack Campers	113-119 Morphett Road, Camden Park	Inner West	2,990	120	5
Titan Group	73-75 Cormack Road, Wingfield	Inner North	1,793	170	7
Genera Warehousing	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	3,450	120	10

Recent Sales

Recent significant sales

City	Property	Price $M	Size sqm	$/sqm	Purchaser	Vendor	Yield %[1]	WALE
Melbourne	25 Tullamarine Park Road, Tullamarine	14.3	6,285	2,275	APS	TK Corp	3.4	-
Melbourne	18 Litoria Court, Epping	37.69	16,117	2,339	Cabot Properties	Pedal Group	5.50	5.0
Melbourne	25 Glasscocks Road, Dandenong South	31.50	23,476	2,395	Private	Glasscocks 25	-	-
Sydney	115-121 Jedda Road, Prestons	79.00	15,030	5,256	Centennial	Charter Hall	5.28	5.7
Sydney	42-52 Raymond Ave, Matraville	137.20	19,757	6,944	Cabot Properties	Hale Capital	4.76	2.0
Sydney	11 Grand Avenue, Camellia	138.07	41,899	3,295	NashCap JV BlackRock	GPT Group	u/d	1.3
Brisbane	725 Boundary Road, Darra	11.80	7,198	1,639	Private	Private	5.95	5.9
Brisbane	280 Cullen Avenue East, Eagle Farm	16.60	5,644	2,941	u/d	Private	6.36	2.6
Brisbane	57 Trade Street, Lytton	13.65	5,993	2,278	Fife Capital	Private	6.06	5.8
Adelaide	50-54 & 50-60 Millers Road and Allotment 33 Tolley Street, Wingfield	14.7	2,246	6,545	RF Coral Property Fund	VSA Roads	6.21	10.0
Adelaide	69-75 Plymouth Road, Wingfield	10.0	6,189	116	Access Hire	Private	5.49	2.4
Adelaide	846 South Road, Edwardstown	7.0	2,687	2,605	850 South	Parkstone Funds Management	5.59	-
Perth	2-10 Kewdale Road, Welshpool	20.0	11,449	1,747	U/D	Bend-Tech Group	6.10	10.0
Perth	42-44 Wittenberg Drive, Canning vale	4.1	1,614	2,540	Private	Private	6.05	2.8
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
[5] Includes a service station component [6] 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) Speculative Under Construction - buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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

Recent Research

Build to Rent Report 2023

Brisbane CBD office Market report 2023

Active Capital 2023

Australia retail report 2023

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