

Australian Industrial Review



Q1 2024

Investment liquidity is returning as the tenant market moderates with vacancy back to early 2021 levels from the recent extreme lows

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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

 **x 2**

Vacancy doubled across the Eastern Seaboard q/q

Vacancy has continued to normalise across the East Coast, doubling to 1.49 square metres in Q1, now sitting 9% below the 10-year average.

 **\$1.05b**

Investment volume Q1-2024

Investment volume was low in Q1 with Sydney noticeably quiet. However, Q2 began strongly confirming the expected lift in liquidity and stability in yields.

 **2.9m**

Sqm of new supply in 2024

With 422,000sqm already completed in Q1, supply for 2024 appears on track to exceed the record levels of 2023 (2.6m sqm). A further 1.87 million is under construction for a 2024 completion.

 **+3.3%**

Q/Q prime rental growth in Melbourne

Melbourne had the highest quarterly and annual (+9.2%) prime rental growth, taking average prime net face rent up to \$140/sqm.

 **Stable**

Prime yields across major markets

Investor appetite resulted in prime yield stabilisation across major markets, the exception was Perth which tightened slightly (6 bps).

 **4.4%**

Q/Q growth in Perth land values 1-5ha

Annual growth of 9.5% across the Perth land market has been largely driven by owner occupier activity, particularly in the Outer South.

Key Indicators Q1 2024

Market	Prime Net Face Rent \$/sqm	Secondary Net Face Rent \$/Sqm	Super*Prime Market Yield Range %	Land <5,000sqm \$/sqm	Land 1-5 ha \$/sqm
Sydney**	245	200	5.00-5.50	2,005	1,716
Brisbane	158	139	5.50-6.15	534	490
Melbourne***	140	118	5.00-5.50	1,148	903
Adelaide	127	94	5.75-6.25	592	482
Perth	141	117	5.75-6.00	509	378

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 \$130/sqm, secondary: \$112/sqm; small lots: \$885/sqm, 1-5ha lots: \$679/sqm.

Leasing Market

Strong supply additions and easing demand has re-set vacancy across the East Coast, increasing options for tenants

VACANCY BACK TO MID-2021 LEVELS

Eastern Seaboard industrial vacancy doubled in Q1, returning to a more normalised level at just 9% below the 10-year average. Each city increased with Melbourne (+454,513sqm) ahead of Brisbane (+153,906sqm) and Sydney (+151,703sqm). This increase was mostly due to prime availability lifting from 439,091sqm in Q4 to 1,017,274sqm in Q1 – a 2.3 times increase. Sydney and Brisbane saw significant growth in existing prime vacancy, while the Melbourne increase was driven by speculative construction starts. This has assisted to bring speculative space back up to 40% of total vacancy, against a long-term average of 20%. Secondary vacancy, expected to be exposed as tenants upgrade in a strong supply environment, did increase by 62% in the quarter but was not the major driver of vacancy uplift.

Q1 TAKE-UP LOWER IN SYDNEY & MELBOURNE

Leasing take-up was 38% lower in Q1 at 507,000sqm, the lowest since October 2020. Q1 leasing take-up was stable q/q in Brisbane (+6.2%) but dropped by 43% in Melbourne and 60% in Sydney, largely due to the lack of pre-commitment deals. Annual take-up across the East Coast was 2.8 million square metres, still 24% above the 10-year average but a slowdown compared to the recent past reflecting a scaling back of expansionary intent after the recent efficiency-driven surge in demand.

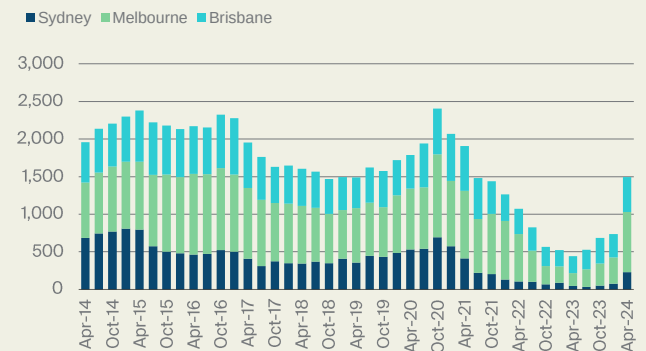
New supply will remain high during 2024 with just under 3 million square metres currently anticipated. This will build on the 2.6 million square metres delivered in 2023. With 1.2 million square metres of pre-committed space to be delivered in 2024, this will underpin supply even if speculative development eases. The drive for efficiency and ESG standards will continue to support above-trend demand for new space.

RENTAL GROWTH SLOWING AS ANTICIPATED

Rents were stable in Q1 in Sydney and Brisbane, but saw further growth in Melbourne where growth of 5%+ across three precincts pushed Melbourne to the highest annual growth rate of 9.2%. This is just ahead of Adelaide (8.9% y/y) which surged strongly through mid-2023. The Perth market has continued to record steady growth, although some precincts have now stabilised. To balance the stronger face rental growth, incentives have increased 160bps on average in Melbourne, with upward pressure on incentives in Sydney also.

Eastern Seaboard industrial vacancy

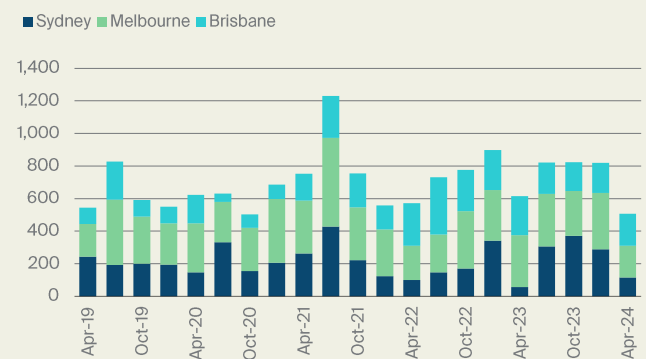
'000 sqm, quarterly, 5,000 sqm+



Source: Knight Frank Research

Eastern Seaboard industrial take-up

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

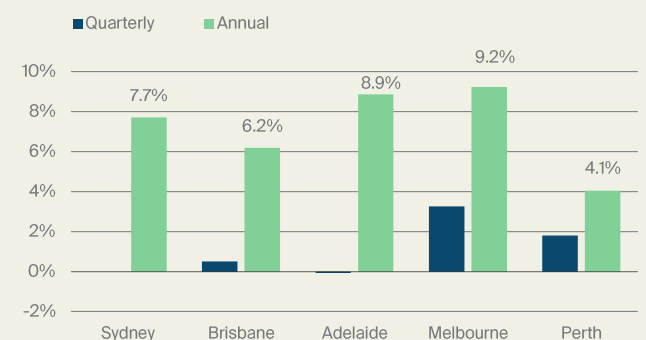


* Brisbane is 3,000sqm+

Source: Knight Frank Research

Prime rent growth

Average across major capital cities



Source: Knight Frank Research

Investment

Institutional investor activity is building as prime yields have stabilised

STUBBORN INFLATION IMPACTING SENTIMENT ON THE SPEED OF MONETARY POLICY EASING

Australian inflation was 3.6% to Q1-24 continuing progress towards the target range of 2.5-3.0%. However, the combination of stalling services inflation falls (4.3%) and higher quarterly inflation of 1.0% (against consensus forecasts of 0.8%) has dented confidence in the speed of inflation reduction and associated easing in monetary policy. Australian cash rate reduction is not expected until Q4-24, with limited falls expected prior to the start of 2025. The 10-year bond rate is forecast to return to the neutral long-term expectation of c3.5% during 2026 but has been volatile in 2024 ranging between 3.95% and 4.52%. This continues to put pressure on the investment hurdle rates for property to attract investment.

DESPITE A QUIET Q1, LIQUIDITY IS RETURNING

The calendar year began slowly for the capital market with just over \$1 billion traded in Q1, with a noticeable lack of transactions in Sydney. However, Q2 has already exceeded this level, underscored by the \$780 million portfolio purchased by the Rest Super/Barings JV from Goodman Group. This transaction, along with other high value transactions, has provided confidence that institutional funds are returning to the industrial market.

PRIME YIELDS HAVE STABILISED

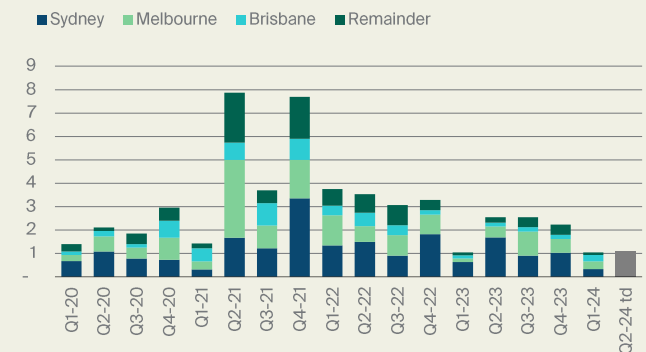
Prime yields held firm across all markets in Q1, except for Perth which contracted by 6bps. Major markets have softened 150-175bps since the recent low, with the smaller impact in Adelaide and Perth. The average prime yield in Sydney now stands at 5.46%, with Melbourne at 5.50%, Brisbane at 6.25%, Perth at 6.38% and Adelaide at 6.33%.

INDUSTRIAL REMAINS THE MOST HIGHLY SOUGHT STABILISED ASSET CLASS IN AUSTRALIA

Investor sentiment remains weak for both office and discretionary retail assets, leaving industrial one of the few Australian asset classes with deep availability of stabilised assets. The 2024 ANREV survey of investor intentions showed that 93% of investors into the APAC region would be targeting industrial, ahead of BTR. While significant capital is entering Australia for the living sector, much of this is for development, with few stabilised living sector assets available. This will continue to funnel funds towards the industrial sector.

Australian Industrial Investment Volumes

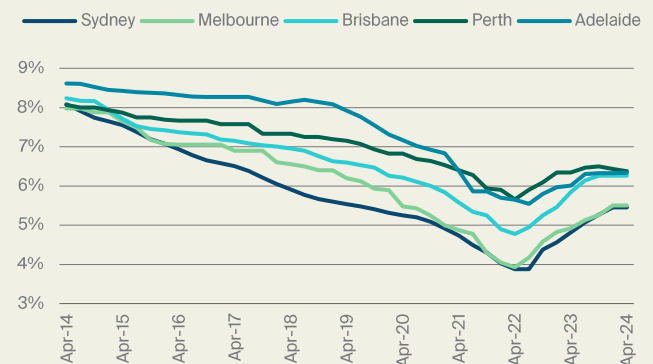
A\$ billion, transactions \$10m+



Source: Knight Frank Research, RCA

Industrial prime yields

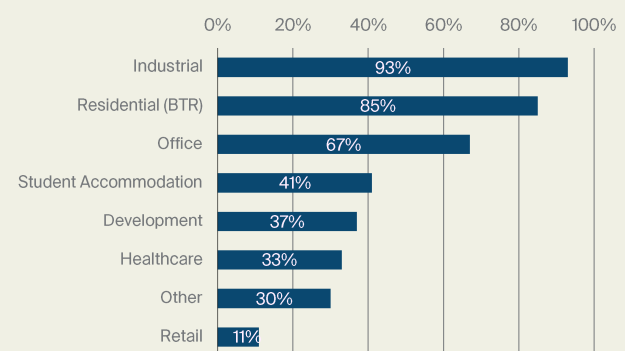
Average across precincts (5,000 sqm assets, 5 yr WALE)



Source: Knight Frank Research

Preferred sectors for investment in 2024

ANREV survey of global investors in the APAC region - proportion



Source: Knight Frank Research, ANREV

Recent Sales

Recent significant sales

City	Property	Price \$M	Size sqm	\$/sqm	Purchaser	Vendor	Yield % ¹	WALE
Melbourne	635 Hall Road, Cranbourne	200.00	644,000	311	Frasers & ESR	Salta Properties	n/a	n/a
Melbourne	Ballarat Road, Deer Park	260.00	659,978	394	UniSuper	Orica	n/a	n/a
Melbourne	Eumemmerring Business Park., Dandenong South	78.99	30,021	2,631	Aware Super	Goodman	5.57	6.4
Sydney	500 South Street, Marsden Park	100.00	25,933	3,856	EQT	Loftex Property	5.51	VP
Sydney	25 Williamson Road, Ingleburn	39.40	10,733	3,671	Pittwater Industrial	Pax Australia	5.69	10.0
Sydney	25-27 Richland Street, Kingsgrove	39.30	6,784	5,786	Pittwater Industrial	Charter Hall	5.22	2.6
Brisbane	53-61 Raubers Road, Northgate	28.75	12,781	2,249	Cornerstone Properties	Charter Hall	6.25	3.9
Brisbane	37-45 Mudgee Street, Kingston	39.80	5.5ha useable site	725 (site)	City of Brisbane Investment Commission	Charter Hall	5.99	9.3
Brisbane	45 South Pine Road, Brendale	29.00	18,255	1,586	Trilogy Funds Mgt	Charter Hall Long WALE REIT	7.34	5.4
Adelaide	26-34 Caribou Drive, Direk	55.50	11,221	4,946	Owner Occupier	MA Financial	VP	VP
Adelaide	1122-1146 Port Wakefield Road, Burton	76.00	20,475	3,712	Inghams Enterprises	Blackstone	6.34	10.9
Adelaide	33 Papagni Avenue & 4 Virginia Road, Newton	15.20	2,280	6,667	Kelsian Group	Private Syndicate	5.46	4.3
Perth	105 Kelvin Road, Maddington	11.35	3,745	3,031	Birchmead	BN Investments	5.50	1.2
Perth	7 Thorpe Way, Kwinana Beach	4.95	2,750	1,800	Carriage Driver Pty Ltd	Private	5.86	4.4
Perth	216-218 Welshpool Road, Welshpool	4.50	2,300	1,957	Private	Private	5.33	2.6

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

Sydney

Rising supply providing tenants with more options as the market starts to normalise.

TRANSPORT / LOGISTICS OCCUPIERS DRIVING DEMAND

Demand was relatively subdued in Q1 with take-up totalling 115,537 sqm, concentrated in Outer West, which accounted for 96% of total deal volumes. Within the Outer West, pre-commitments accounted for 42% of take-up whilst spec-built facilities contributed 37%.

Transport, postal and warehousing occupiers returned to the dominance this quarter, taking up 74% of leasing volumes. Significant transactions include BevChain securing 31,200sqm spec space in Goodman's Oakdale West Industrial Estate and B Dynamic Logistics pre-committing c.21,000 sqm in Mirvac's Aspect North Industrial Estate.

It is worth noting that transport/logistics users are securing increasingly large format warehouses with an average take-up size of c.17,000 sqm in Q1 as they seek to maximise efficiency and handle high volumes.

VACANCY NORMALISING

Vacancy in Sydney rose to 227,878 sqm in Q1 2024, driven by the lift in prime availability, which was up from 50,956 sqm to 192,846 sqm over the quarter. Now back to mid-2021 levels, as greater supply has entered the market as tenants have become more restrained for expansion space.

By precinct, available space in Outer West jumped to 100,922 sqm in Q1 2024 and accounted for 44% of total vacancy, including sublease availability of 50,000 sqm. Vacancy in the South West has also risen sharply to 84,919 sqm in Q1. However, the Inner West remains very tight with only 14,577 sqm of available space.

RENTAL GROWTH HAS RUN ITS COURSE FOR NOW

With the rental hike cycle easing in Q3 2023, net face rents have held flat over the past six months. The blended average prime net face rent has still increased by 7.7% y/y to \$245/sqm, with South Sydney reporting the highest average rent of \$328/sqm.

"Vacancy has normalised to mid-2021 level"

"Supply in 2024 is 69% pre-committed"

Secondary net face rents average \$200/sqm as at Q1 2024, representing annual growth of 7.0%. Incentives now range between 9-12% for both prime and secondary markets, having edged up slightly over the past six months.

Looking ahead, rents are likely to remain on hold for the remainder of 2024 with supply expected to rise further back towards average levels.

PRE-COMMITTED DEVELOPMENTS TO LEAD SUPPLY IN 2024

Q1 experienced solid level of development completions with 160,870 sqm of new supply delivered to the market. The new supply was predominantly located in the Outer West (79%), with major completions including pre-committed WH 2 (29,220 sqm) at The Yards Industrial Precinct, and preleased WH 8 (28,895 sqm) at Moorebank Intermodal Precinct West.

Underpinned by 69% precommitments, 2024 is expected to be a strong year for new supply, with the annual forecast to reach 850,000 sqm, with 689,498 sqm currently under construction. The high pre-commitment proportion is centered in the Outer West, where 76% of incoming supply is located. Construction is well underway at WH 3 & WH 9 at Aspect Industrial Estate (c.86,000 sqm), WH 4 at Light Horse Interchange Warehouse (c.38,000 sqm) and WH 13 at The Yards Industrial Precinct, for estimated delivery in Q2 2024.

YIELDS ARE UNCHANGED FOR THE FIRST TIME SINCE MID-2022

Prime and secondary yields have stabilised at 5.46% and 6.38% respectively. The yield softening trend that started in mid-2022 now appears to have abated with capital values expected to stabilise in coming quarters.

Notable investment activity through the quarter included EQT acquiring Loftex's development site at 500 South St, Marsden Park, reflecting a 5.51% yield and Pax Australia divesting 25 Williamson Road, Ingleburn to Pittwater Industrial for \$39.4 million with a 10-year WALE on a 5.72% market yield.

116K

Take-up (sqm)

Q1-24 | -47% Q/Q

228K

Vacancy (sqm)

Q1-24 | 18% below
the 5-year average

74%

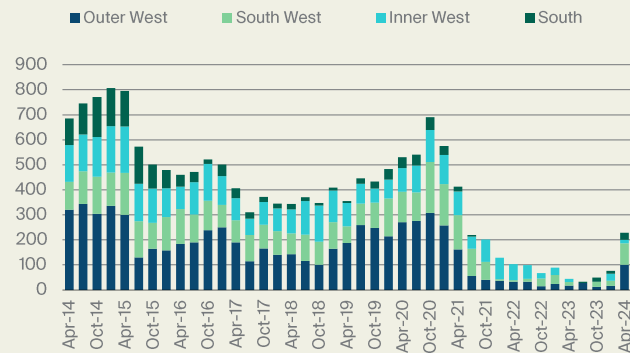
Most active sector
Q1-24 | Transport,
Postal and
Warehouse

161K

New development
(sqm) - Completed
Q1-24

Sydney industrial vacancy

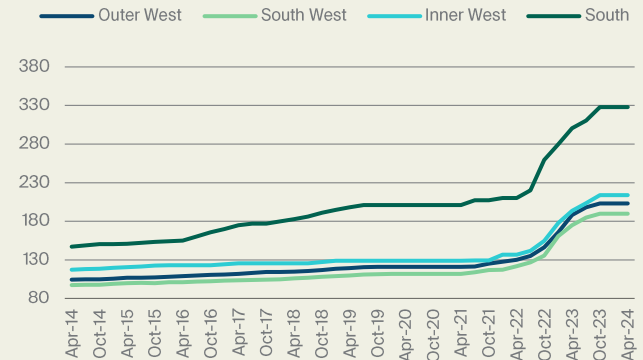
By precincts, floorspace in '000sqm, 5,000sqm+



Source: Knight Frank Research

Sydney prime industrial net face rents

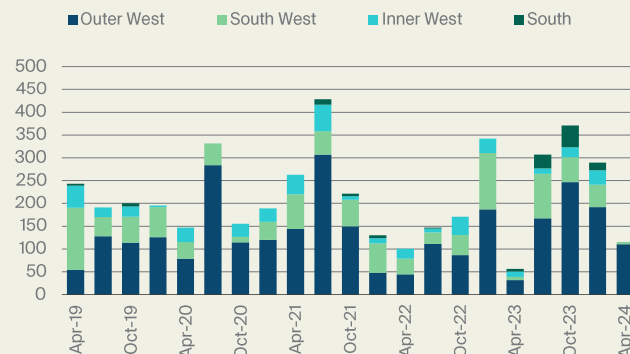
By precinct, \$/sqm



Source: Knight Frank Research

Sydney industrial take-up by precincts

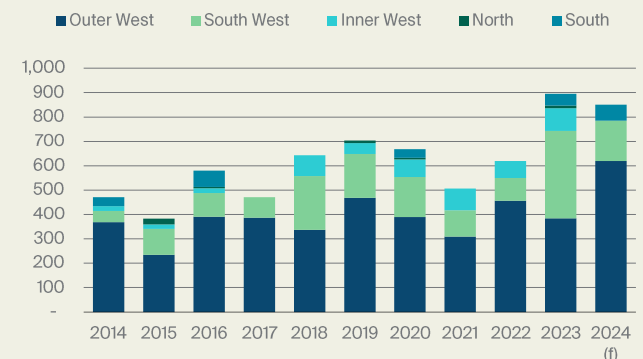
Take-up per quarter, '000sqm



Source: Knight Frank Research

Sydney industrial supply

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



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent \$/sqm	Term (years)
BevChain ^	Oakdale West Industrial Estate (19 Emporium Avenue, Kemps Creek)	Outer West	31,200	215	5
B Dynamic Logistics #	Aspect Industrial Estate (Lots 54-58 Mamre Road, Kemps Creek)	Outer West	21,435	220	7
Silk Contract Logistics ~	Interlink Distribution Centre (45-59 Sarah Andrews Close, Erskine Park)	Outer West	12,375	230	5
Allmach Pneumatic & Piping System	1 Secombe Place, Moorebank	South West	4,968	260	7

Pre-commitment ~Existing space ^ Spec space

Melbourne

Vacant space jumps as delayed supply comes online, and take-up slows.

131% INCREASE RETURNS TOTAL VACANCY TO PRE-COVID LEVELS

The main headline in Q1 was the increase in availability across Melbourne. Vacant space rose 454,513 sqm in Q1-24 to 802,548 sqm with availability increasing in all precincts bar the East (-4,081 sqm to only 16,639 sqm). Over half the additional vacancy (64.5%) came from the West, where delayed completions from 2023, combined with a wave of new construction starts means space available for occupation now, or being completed this year is up 219% to 427,097 sqm. An extra 84,907 sqm (158% increase) is available in the North. The Southeast remains a tighter market with an increase of only 16,772 sqm (up 13%).

This growth in vacancy was expected in 2024, given the above-mentioned delay in 2023 completions (creating backfill space) and the prospective development pipeline given recent land sales. Strong new development starts in Q1 boosted the vacancy jump. There is additional potential supply has DA approval/planning status for 2024, but this is more likely to await pre-commitment in the current environment.

TAKE-UP PAUSES AS DEALS TAKE LONGER

Exacerbating the impact of the new supply surge, take-up fell 43.5% in Q1 to 195,573 sqm, the lowest figure in five years. All precincts saw falls but the largest (in volume and percentage wise) was the West down 68.7% to only 57,225 sqm. Elsewhere the falls were less dramatic with the Southeast down 21.2% to 75,670 sqm (making it the most active market), and the North down just 2.8% to 60,583 sqm.

This sharp downturn in take-up is expected to be short lived. Increased availability has meant that prospective tenants now have options to choose from, so are taking longer to make decisions. They no longer need to quickly sign the first thing offered. This moderation, some would say normalising, of market urgency has caused a one-off impact on numbers which is expected to unwind going forward. Indeed, Q2 has begun strongly with the first month's take up more than half of the total figure posted in Q1.

"Vacant space jumps 131% as increased supply meets slowing take-up"

"Face rents up 9.2% y/y, fastest of the major cities"

RENTAL GROWTH STRONGEST IN THE COUNTRY

As if to highlight the underlying tenant strength, face rents still grew in Q1, posting the best highest quarterly growth across Australia's major cities. Prime face rents are now \$140/sqm up 3.3% q/q and 9.2% y/y. Excluding the Fringe they are up 4.4% (12.9% y/y) to \$130/sqm. The fastest growing precinct this quarter was the Southeast (up 6.3% q/q to \$134/sqm). This was followed by the West (5.6% to \$131/sqm) and the North (5.6% to \$133/sqm). The ongoing rental strength highlights the continued demand for new prime stock even as the speed of deals slows somewhat. At the same time incentives have ticked up and Melbourne-wide stand at 14.25% up from 12.65% as landlords make improved offers to get the right tenant in the right timeframe. This means net effective rents are up only 1.3% q/q and 5.8% y/y.

LAND VALUES REMAIN SUBDUED

Land values across Melbourne were largely stable in Q1. Excluding the Fringe small lot sizes were up 0.7% q/q (1.5% y/y), medium lots were up 1.7% (0.2% y/y) and large lots flat (-4.6% y/y). Having come off a high in 2022, values have generally been treading water in the last year. Buyer interest remains as indicated from two recent major land deals. Fraser & ESR bought 644,000sqm at Cranbourne for \$200 million, whilst Unisuper bought 659,978 sqm at Deer Park for \$260 million. Both these deals contained some undevelopable land but helped confirm the price of large lots and indicated ongoing appetite.

YIELDS FINALLY STABILISE

Yields across Melbourne were flat in Q1-24 with prime at 5.57% excl. the Fringe (5.50% incl.) and secondary remaining at 6.16% (6.10% incl.) All precincts remained stable with steady activity across the sector overall. Besides the land sales outlined above there were four other land sales and twelve sales greater than \$10million in the quarter. The largest being Eumemmerring Business Park in Dandenong South bought for \$79 million by Aware Super from Goodman. There were also a large number of sub-\$10 million deals, highlighting continued appeal for the sector.

196K

Take-up (sqm)
Q4-23

-44% Q/Q

802K

Vacancy (sqm)
Q4-23

+131% Q/Q

58%

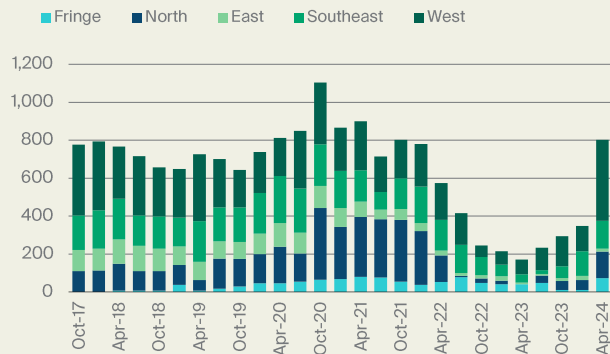
Most active sector
Q4-23

Transport, Postal,
Warehousing

1.21M

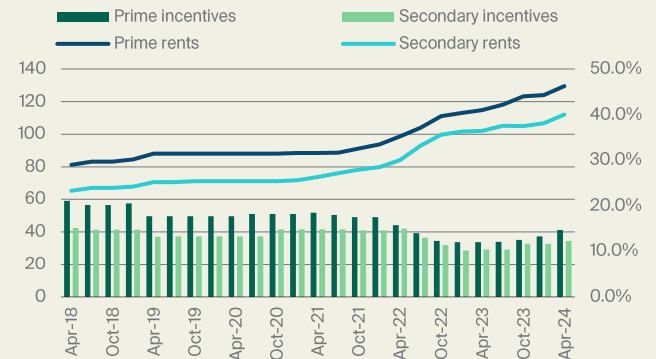
New development
(sqm) - Estimated
2024 (f)

Melbourne industrial vacancy
'000 sqm by precinct



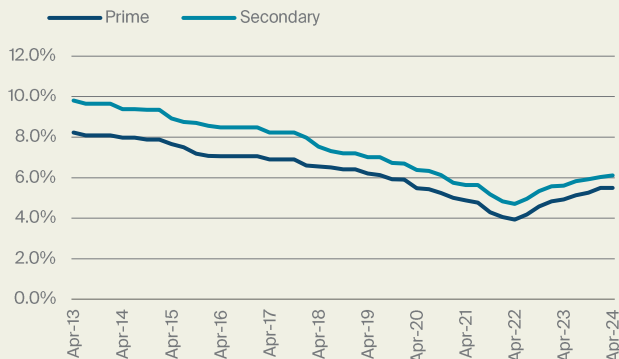
Source: Knight Frank Research

Melbourne industrial rents
by net face \$/sqm (LHS), and % (RHS); excl. fringe



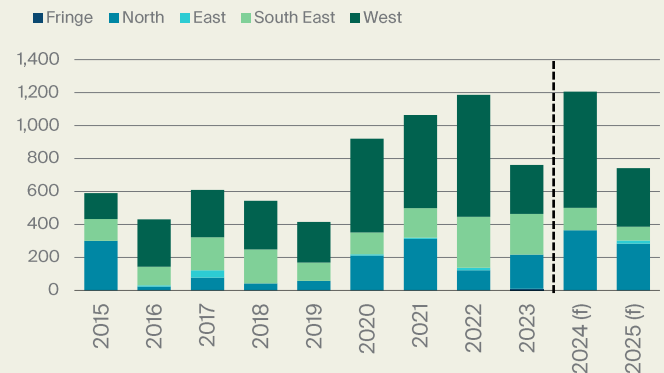
Source: Knight Frank Research

Melbourne industrial yields
by %, median core market yields



Source: Knight Frank Research

Melbourne industrial development
by precinct, 000's sqm



Source: Knight Frank Research

Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent \$/sqm	Term (years)
CTI Logistics^	Oldham Road, Epping	North	27,590	\$118	10.0
3D Printing Group~	Grieve Parade, Altona North	West	6,781	\$115	5.0
ID Design Group~	South Park Drive, Dandenong South	Southeast	28,062	\$120	10.0

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

Brisbane

Tenant activity remained strong in Q1, albeit concentrated in the pre-commitment space. Backfill created by strong supply completions has seen vacancy rise sharply

LEASING TAKE-UP REMAINED SOLID IN Q1, DOMINATED BY PRE-COMMITMENTS

Leasing activity in Q1 was 6% above the level of the previous quarter at 195,849 sqm, maintaining the levels in place during much of 2023. Annual take-up sits at 768,000 sqm, 2% below the five-year average as the peak of activity is now winding down.

More than half of the leasing activity came from pre-commitments (104,290 sqm). Prime existing take-up lifted in line with improved availability to reach 31,032 sqm in the quarter. Speculative take-up was slightly lower at 17,287 sqm. Greater availability in the secondary market has been matched by accelerated take-up with 43,240 sqm in Q1.

ALMOST HALF OF TAKE-UP WAS FROM MANUFACTURING

Manufacturing based users were most active in Q1 with 45% of take-up, including food manufacturers such as Greens Biscuits (11,302 sqm), and equipment manufacturers like PWR (20,000 sqm). Retailers accounted for 25% of take-up with Transport users at 15%. The higher proportion of pre-commitments is aligned with sectors other than pure transport and logistics users dominating activity, given a greater level of specialisation is often required.

VACANCY INCREASED SIGNIFICANTLY IN Q1

Available industrial space increased 50% from 309,073 sqm in Q4-23 to 462,979 sqm in Q1-24. Available space has effectively doubled from the extreme lows of early 2023 and is back in line with the levels of early 2021. In line with this uplift, prime vacancy has grown to 282,332 sqm. The composition of prime vacancy is changing with existing prime vacancy increasing sharply from 41,537 sqm to 114,124 sqm in Q1. Meanwhile, speculative space under construction was steady at 168,208 sqm and completed spec space fell by 29% to 43,205 sqm.

Secondary vacancy increased by 55% in the last quarter to 180,647 sqm. Secondary vacancy is 149% higher compared to last year, as availability begins to return to more normal levels.

Vacancy increased by 50% in Q1 and is now back in line with early 2021 levels.

Prime yields remain stable at the start of 2024 at 6.25%

LIMITED RENTAL GROWTH DURING Q4

Average prime face rents edged up marginally by 0.4% in Q1 to be up by 6% y/y to \$158/sqm net. Average incentives have stabilised at 11-13%. There is isolated upward pressure in incentives, particularly for new builds to maintain elevated face rents. Secondary net rents decreased by 0.3% in the quarter (+5.5% y/y) to \$139/sqm as availability is lifting. Looking ahead, the gap between prime and secondary rents is expected to widen with secondary assets achieving rents very close to prime levels expected to become the exception rather than the norm. Prime rental growth is expected to remain flat through the first half of 2024 before being drawn upwards by economic rents again in the second half of the year.

2024 SUPPLY IS LIKELY TO MATCH THE RECORD 2023 LEVELS

The development pipeline for 2024 is sitting at 936,000 sqm, on-track to match the 909,000 sqm of completions in 2023. At the end of Q1 there is 423,810 sqm under construction and a further 165,000 sqm has a pre-commitment in place with completion anticipated in 2024. Some recent pre-commitments may not reach completion in 2024, but will instead continue to underwrite the flow of new supply into 2025. Releasing capital for speculative stock development starts has become more difficult, but a steady supply of new speculative space is still expected through 2024.

TRANSACTION VOLUME RECOVERING

The breadth of purchasers and the size of industrial deals has begun to increase in Brisbane. While private investors are still active in the sub-\$30 million price bracket, this quarter also saw the participation of syndicated and institutional capital in the market. Significant transactions included the reported fund through purchase of a cold store facility for \$80 million by Hale Capital and a \$39.8 million purchase by CBIC in Kingston. This supports our view that super-prime yields have softened slightly to 5.85%, while prime yields are now stable at 6.25%. Greater secondary yield divergence has seen the median up 15bps to 7.35% in Q1.

196K

Take-up (sqm) Q1-24 | in line with the 5-year average

463K

Vacancy (sqm) Q1-24 | +50% Q/Q

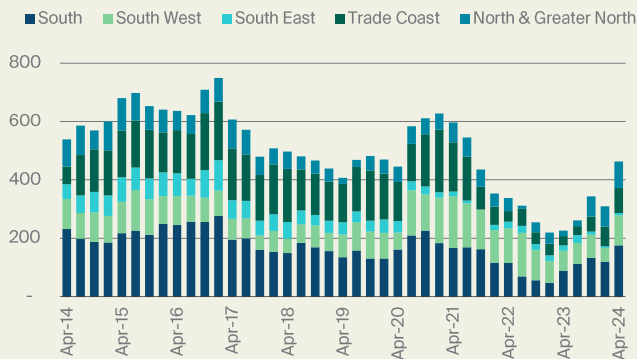
45%

Most active sector Q1-24 – Manufacturing

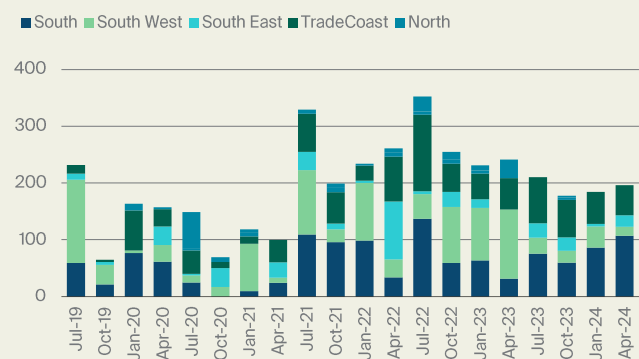
936k

New development (sqm) - 2024

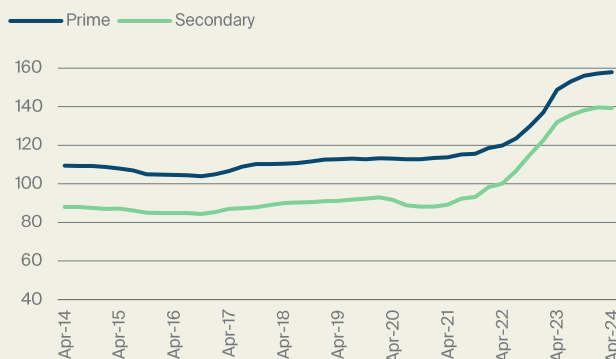
Brisbane Industrial Vacancy
'000sqm by precinct



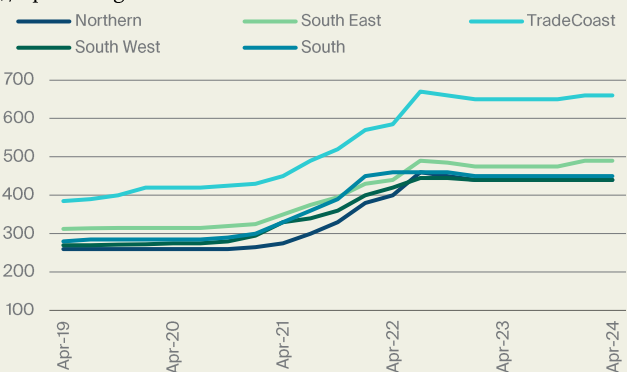
Brisbane leasing take-up
'000sqm by precinct



Brisbane Industrial Rents
\$/sqm average net face



Brisbane Land Values
\$/sqm average for sites 1-5ha



Recent significant tenant commitments

Occupier	Property	Precinct	Size sqm	Net Rent \$/sqm	Term (years)
PWR	16 Quarry St, Stapylton	South East	20,000	135	15
PepsiCo	33 Goodman Place, Murarrie	Trade Coast	13,090	195	5
Penske Australia	183 Viking Dr, Wacol	South West	12,246	138	5
PCFS	160 Paradise Rd, Acacia Ridge	South	7,586	140	6
Prestige Blending	77 Darlington Dr, Yatala	South East	4,601	158	5

Perth

Surging demand for smaller land parcels is driving market growth for a second consecutive period, while the southern precincts remain the ones to watch

LAND VALUES INCREASE MARKEDLY, WITH DOUBLE DIGIT GROWTH APPARENT

The main story this quarter is land values, with Perth recording further growth in Q1, with land values rising by a further 3-5% in most precincts to be up by 11% y/y for both small sub-5,000 sqm lots and medium sized 1-5 ha lots. This growth stands in contrast to the Eastern Seaboard where land values have stabilised and, in some cases, fallen in recent quarters.

Demand for land has accelerated in Perth and this has overwhelmingly been driven by owner-occupiers, with land prices increasing rapidly across all markets as a consequence.

The Outer South has seen particularly strong growth over the past year, with prices for small and medium lots up by 27% and 25% respectively. This reinforces the growth of this region leveraging off the Westport development and its continuing focus as a major growth area. The Inner South is also seeing above average growth with owner occupiers judging the market to offer value and amenity.

Meanwhile, in established areas where land supply is constrained there have been fewer transactions, but we have still seen a willingness to increase rates paid, for instance in Bassendean and Belmont in the East where prices have risen by \$75 and \$100 respectively. On average in the East, small lots have experienced growth of 9.3% y/y, while larger lots are up by a lower 3.8%. In the North, prices for small lots are up by 5.9% y/y while larger lots have increased by 9.4%.

RENTS RISE IN THE EAST AND OUTER SOUTH

Rents saw further upward movement in Q1, with average prime rents rising by 1.8% q/q off the back of increases in the East and Outer South. Annual rental growth remains solid for both prime and secondary markets, at 4.2% and 3.9% y/y respectively.

In the East, growth was underpinned by a \$5/sqm lift in both manufacturing and warehousing stock rents, lifting annual growth to 5.2%. The other prime rental uplifts were recorded for warehousing and manufacturing in the Outer South, both up \$5/sqm, resulting in a 10.2% per annum increase.

YIELDS TIGHTEN IN THE SOUTH

After a period of broad-based yield widening, Perth has seen average prime yields edge inward in Q1 off the back of yields tightening in the Outer South. Following a 25bp tightening in Q4 2023, average prime yields in the Outer South tightened once again in Q1, recording a further 25 bp reduction to stand at 6.63%. This reflects the growing strength of the precinct with investors recognising the long-term growth potential on offer in the southern corridor, and as a result it now trades at a yield level closer to the more established precincts.

Secondary yields also tightened marginally off the back of the Inner South shifting down 25 bps to 6.75%. Average prime yields now stand at 6.38% and average secondary yields at 7.03%.

3.9%

Q/Q prime net face rental growth in the East

9.3%

Q/Q land value growth in Outer South precinct (1-5ha)

4.6%

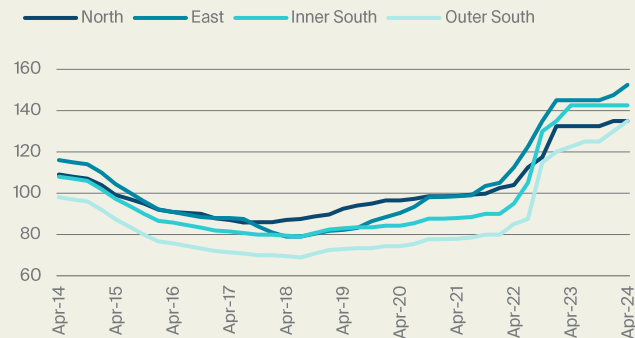
Q/Q land value growth Perth average

-25bps

Q/Q - Outer South prime yields tighten further

Perth prime Industrial net face rents

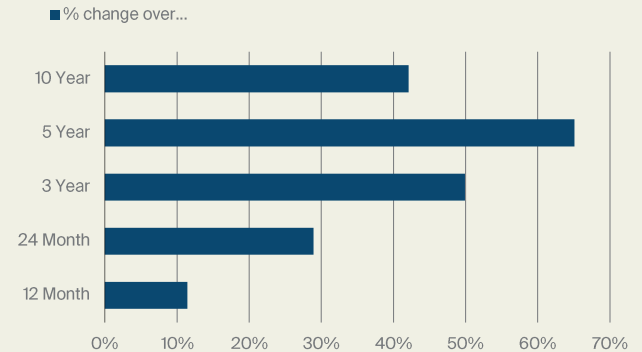
By precinct, \$/sqm pa



Source: Knight Frank Research

Perth industrial land value growth

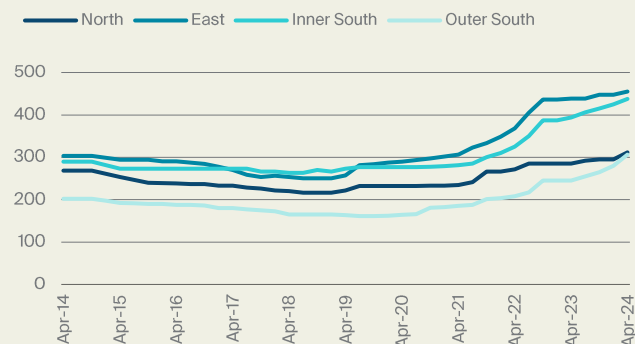
% growth rate of \$/sqm medium land value



Source: Knight Frank Research

Perth industrial land values

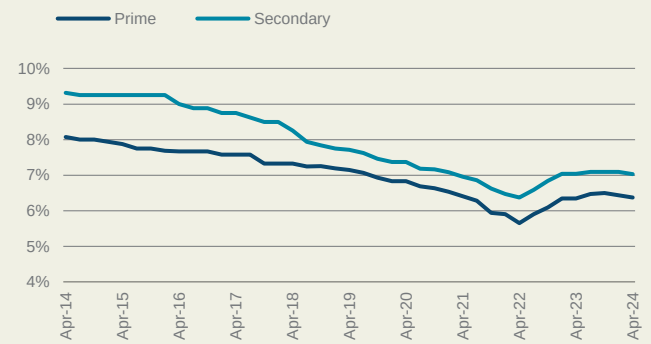
Medium lots 1-5Ha, \$/sqm



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)
Sykes Transport	22 Tomah Road, Welshpool	East	6,043	145	5
Rackman	13 Colin Jamieson Drive, Welshpool	East	3,200	172	10
Programmed Industrial Maintenance	41a Kewdale Road, Welshpool	East	2,345	192	5

Adelaide

Yields remain steady through the quarter with no material change in rents, while land values continue to rise on the back of the supply/demand imbalance

LOW TAKE-UP LEVELS CONTINUE AS VACANCY RISES

Vacancy for properties >5,000 sqm increased 16% in Q1-24 to 256,751 sqm, following a rise of 49% the previous quarter. Additional stock has continued to come to market while take-up levels remained low (< 15,000 sqm) for the third consecutive quarter, with only 13,590 sqm leased in Q1-24. The ratio of take-up to vacant space in Q3-23, Q4-23 and now Q1-24 has been 4.04%, 4.64% and 5.29%, respectively.

On a precinct level, the northern precincts hold 63% of all vacant space. This supports the flight-to-quality trend the market has observed. The northern precincts have the largest proportion of potential new development by 2026, indicating newer and higher-grade space is most desirable while infill of vacancy in older buildings is proving more challenging.

RENTS PLATEAU IN Q1; UP YEAR ON YEAR

Prime rents remained flat in Q1-24, with net face rents experiencing no material rise during the quarter as leasing transactions remained limited. On an annual basis, however, average prime rents are 8.9% higher than 12 months ago, while secondary net face rents are 8.8% higher. Recent growth has been fuelled by a shortage of high-quality space, pushing tenants to pay more for these better facilities, along with a steady flow of tenant relocations seeking improved quality. Reflecting this, in the 12 months to April 2024, the outer precincts had the most significant growth in prime rents, with the North increasing by 11.1% y/y and the South by 12.2% y/y.

NEW SUPPLY FORECASTS TREND UPWARD

Despite limited market activity during the quarter, one indicator that has seen growth is the anticipated pipeline of new development. The northern precincts continue to solidify their position as the dominant development region, solidifying the importance of this region within the Adelaide market. Of the 187,542 sqm of forecasted development (costed at \$403.29 million) due by end of 2026, the northern precincts account for 64% of this space.

Conversely, the southern precinct (largely owner-occupiers) is expected to receive 34% of the development supply, approximately 20% lower than the Q4 2023 forecasts for the south.

LAND VALUES CONTINUE TO RISE

In Q1 2024, land values for lots <5,000 sqm grew in all precincts except the Inner South, with the biggest increases being in the Outer South (10.5% q/q) and Inner North (13.7% q/q). Similarly, values of medium-sized lots (1-5 ha) increased in all precincts except the Inner South, the strongest growth was in the Inner West (18.8% q/q), Outer South (15.4% q/q) and Outer North (11.4% q/q).

YIELDS REMAIN STEADY

Industrial yields in the quarter remained steady, with both average prime (6.33%) and secondary (7.16%) yields seeing no material change. While yields are still softer than 12 months ago, a pause in the softening trend is reflective of the overall investment proposition compared to other asset classes and interstate industrial markets.

SALES ACTIVITY DECLINES

Asset sales above \$5 million experienced a significant decline in Q1-24, with the number of sales falling from 16 transactions (\$217.08 million) in Q4-23 to 9 transactions (\$93.26 million) in Q1-24. Year-on-year data shows sales in this category were 11.15% less in Q1-24 compared to Q1-23 (\$104.96 million).

A significant transaction was the sale of the Torrens Transit bus depot at 33 Papagni Avenue, Newton. The property was sold to Kelsian Group following off-market negotiations with the sitting tenant, Torrens Transit Group (being a wholly owned subsidiary of Kelsian Group), for \$13.4 million excluding GST, at a market yield of 5.46%. The property was sold together with an adjoining lot, 4 Virginia Road (\$1.8 million excl. GST).

Overall, Q1-24 was a low activity start to the year with little change in market dynamics and limited transaction activity. However, market sentiment indicates continued demand for quality space and from owner occupiers.

13.6K

Take-up (sqm)
Q1-24
+32% Q/Q

257K

Vacancy (sqm)
Q1-24
+16% Q/Q

403M

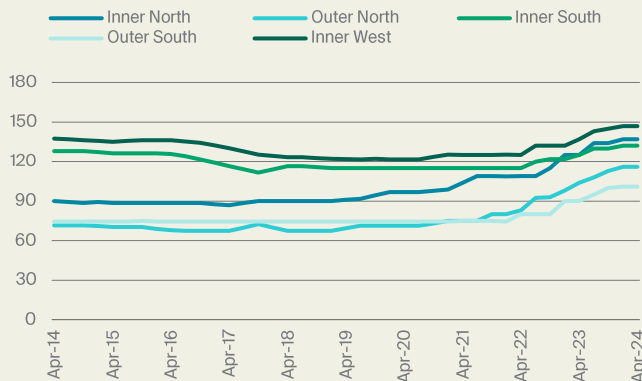
New development
(\$ 3-year rolling
forecast

188K

New development
(sqm) 3-year rolling
forecast

Adelaide industrial rents

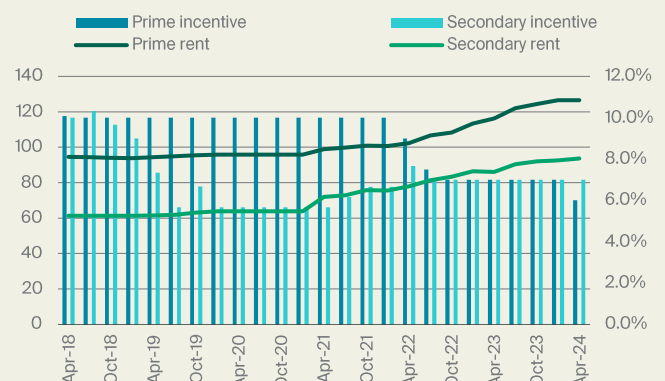
Prime rents by precinct, \$/sqm



Source: Knight Frank Research

Adelaide industrial rents and incentives

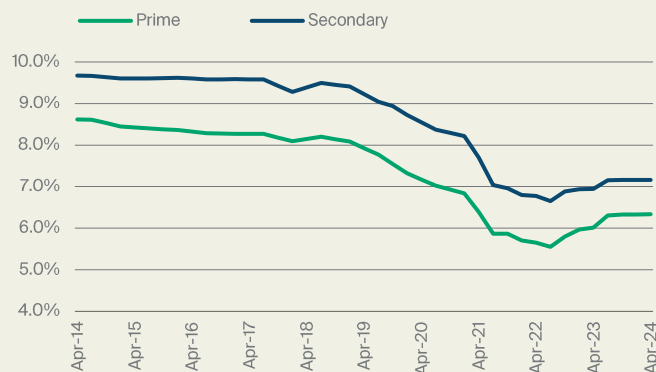
by net face rents \$/sqm (LHS), and incentives % (RHS)



Source: Knight Frank Research

Adelaide industrial yields

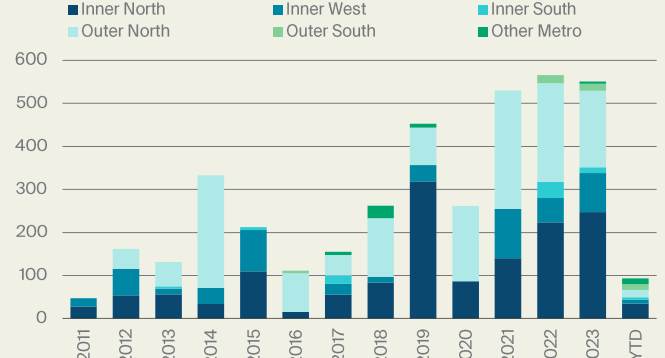
by grade, %



Source: Knight Frank Research

Adelaide industrial sales

by \$M; excl. sales <\$5M



Source: Knight Frank Research

Recent significant tenant commitments

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

Data Digest

Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary Grade: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

WALE: Weighted Average Lease Expiry

Vacancy Methodology: This analysis collects and tabulates data detailing vacancies (5,000m 2+) within industrial properties across all of the Industrial Property Market. The buildings are categorised into

- 1) Existing Buildings - existing buildings for lease.
- 2) Speculative Buildings - buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant.
- 3) Speculative Under Construction - buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

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



Build to Rent Report
2023



Australian Horizon Report
2024



Active Capital 2023



Sydney Office Market Report
March 2024



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