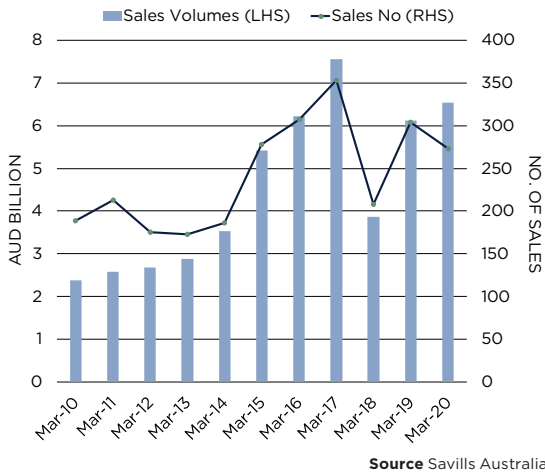


Australia Industrial



Industrial & logistics: A safe haven as e-commerce continues to grow

GRAPH 1: Industrial Sales Volumes (AUD5m+), March 2010 to March 2020



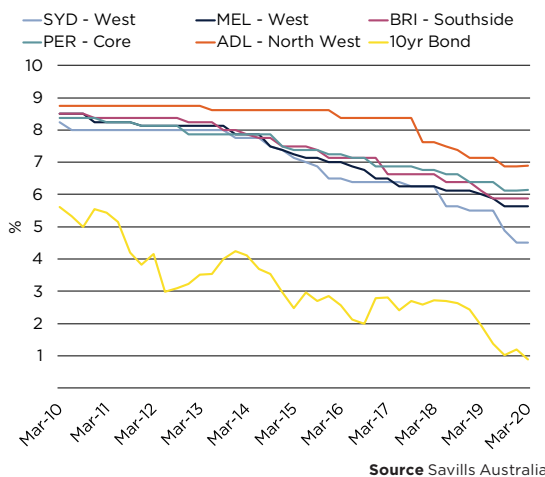
AUSTRALIA'S E-COMMERCE MARKET & TENANT DEMAND

E-commerce in Australia continues to grow at pace with estimates from National Australia Bank (NAB) indicating that online retail trade grew 5.6% month on month in March, and 21.8% year on year, which outpaced the annual total retail trade growth of 4.6%. Australians spent AUD31.9 billion online in the 12 months to March 2020, equating to 9.7% of total retail trade. Although the e-commerce boom in Australia is still in its infancy, COVID-19 has accelerated the growth in online retailing, with many consumers changing the way they shop. This growth has translated into continued tenant demand in the industrial and logistics sector.

Following increased spending on food and consumer goods during the COVID-19 Pandemic industrial tenants who supply fast moving consumer goods are now requiring additional warehouse space on either a temporary or permanent basis, with examples of 'pop up' distribution centres seen across the country to support heightened demand for non-discretionary supplies. As businesses in the industrial & logistics sector are considered essential services, landlords have reported that they haven't been required to provide rental relief to the majority of their tenants, helping to keep cash flows stable. We believe e-commerce growth in Australia will now accelerate as consumers previously reluctant to embrace online shopping have now been forced to and have now become late adopters and will continue to use online as a preferred method of shopping.

“Australia’s e-commerce market continues to expand, accelerated by the COVID-19 pandemic, pushing consumers to change the way they spend.”

GRAPH 2: Industrial Prime Yields vs 10yr Government Bond, March 2010 to March 2020



INVESTMENT APPETITE

Industrial property in Australia has experienced strong capital value growth and yield compression with continued demand from both domestic private and institutional groups and foreign investors. The last 12 months saw over AUD6.5 billion of industrial sales (above AUD5 million) across 273 transactions, many of which consisted of portfolio sales as institutional investors acquired prime industrial facilities to be buried into core portfolios. Institutional Funds & Trusts were the most active purchasers over the 12 months to March 2020, accounting for over 50% of transaction volumes.

Well located warehouse and storage facilities which service densely populated areas are at the forefront of investor attention, particularly within Australia's east coast industrial markets which has attributed to capital value growth and ongoing yield compression over the last two years. Average prime industrial yields in Sydney's West precinct are now at 4.5% with Melbourne's West at 5.6% and Brisbane's Southside precinct at 5.9%.

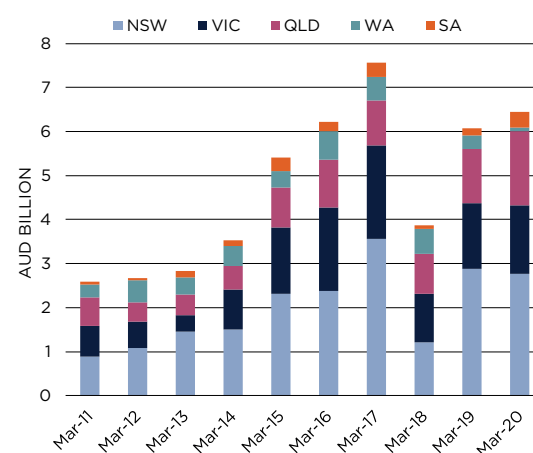
A looming global uncertainty of the impacts of COVID-19 on commercial property is certainly evident, however industrial assets may be the safer play with continued demand from tenants in comparison to other asset classes where activity has slowed or been put on hold. Over the short to medium term we anticipate prime industrial yields in these key markets will remain relatively stable. However, the spread to secondary assets will diverge as purchasers will price tenant credit risk more harshly, particularly those adversely affected by COVID-19.

Latest MSCI data (March 2020) indicates that Industrial property was the best performing asset class, surpassing the office sector last quarter. Total returns were recorded at 11.8% which consisted of income returns of 5.8% and capital returns of 5.7%. These returns were driven by industrial property in Victoria and New South Wales and Queensland, which have historically been the best performers. These states all recorded returns well above long term historical growth rates.

TREND: SALE & LEASEBACK TRANSACTIONS

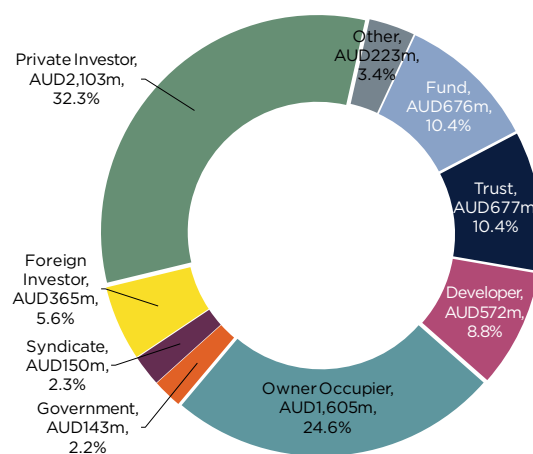
An ongoing thematic within the Australian industrial market is sale & leaseback deals in which owner occupiers are offloading their properties, leasing them back and capitalising on the appreciated capital values and affordable rental rates. These opportunities appeal to investors as they offer a safe investment option, generally with a blue chip industrial tenant with long lease terms and strong covenants. Companies including leading Australian supermarkets Woolworths and Coles have lead this trend, with Aldi also now offering four distribution centres on the east coast in a deal set to be worth around AUD \$700 million. Sigma Healthcare are also looking at cashing in on the strong demand for long WALE logistics assets, offering a portfolio of their new distribution centres on a 15 year leaseback.

GRAPH 3: Sales Volumes By State (AUD5m+), 12 months to March 2020



Source Savills Australia

GRAPH 4: Vendor Composition, 12 months to March 2020



Source Savills Australia

TABLE 1: Major Transactions (last 12 months)

PROPERTY	LOCATION	VENDOR	PURCHASER	PRICE (AUD MILLION)	YIELD
65 Huntingwood Drive	Huntingwood NSW	KKR (Arnotts)	Charter Hall	397.8	5.96% (initial)
46 Robinson Road	Virginia QLD*	KKR (Arnotts)	Charter Hall	211.8	5.76% (initial)
105-139 Magnesium Drive	Crestmead QLD	Blackstone	Charter Hall	183.6	5.09% (initial)
99 Sandstone Place	Parkinson QLD	Frasers Logis	ACREF	134.2	5.62% (initial)
57-89 Lockwood Road	Erskin Park NSW	Private Investor	GPT Group	107.0	5.01% (initial)

Source Savills Australia
Note: *part of portfolio sale

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