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WAREHOUSING SEES \$33.3 BILLION INVESTMENT AS GREEN TRANSITION DRIVES INDUSTRIAL VALUES, SAYS SAVILLS REPORT

Australia's industrial property sector is being propelled into a new era of growth and innovation as business' rapid transition to green initiatives underpins the continued strength of the sector - with a new report released today by leading agency Savills Australia revealing a mammoth \$33.3 billion investment in warehousing in the last five years.

The new Spotlight report, titled 'Is Manufacturing Making a Comeback?' examines how increased adoption of renewable energy, advanced manufacturing, and electric vehicle (EV) technologies is directly bolstering demand for industrial space across Australia, with manufacturing investments providing substantial downstream benefits.

According to Savills, there is already evidence of increased commercial activity in Australia coinciding with a substantial surge in the value of private sector factories and other secondary industry jobs - totalling c.AU\$8.2 billion since 2019. A further AU\$33.3 billion was invested in warehouse properties over the same period - indicating significant flow-on-demand benefits for transport, storage and logistics space.

The Government has made a significant commitment to reduce carbon emissions by 2030, with a broader aim of achieving net-zero by 2050. This largely hinges on the rapid electrification of various sectors and more equipment, and technologies will be needed, the most crucial being renewables, EV batteries and ESS. Although there are challenges in reaching net-zero goals, it also presents opportunities for industrial property, which forms the backbone of the industries needed to make this transition.

"While industrial demand has historically been driven by warehousing and logistics, manufacturing is poised to see a greater focus going forward. With a strong policy framework and increasing investor interest, this rebound is poised to reshape Australia's industrial property market for years to come," said **Katy Dean, Head of Research at Savills Australia**.

Significant flow-on demand for industrial

Although higher interest rates and construction costs curtailed the commencement of some developments in 2024, more than 10,000,000 square metres of new industrial floorspace has been added to East Coast markets since 2019 - further underscoring this ongoing growth trajectory.

Despite these headwinds scaling back investment activity across all sectors in 2023, Australia's industrial sector has shown remarkable resilience compared to international markets.

Globally, industrial investments declined by 39% compared to sharper drops in office (-53%) and residential (-56%) sectors in 2023. In Australia, the industrial sector demonstrated even greater resilience, with investment volumes (\$10M+) down by 35% in 2023 but significantly higher (56%) compared to the pre-pandemic five-year average.

According to Savills, rising domestic manufacturing capability is expected to further buoy demand, driving vacancy rates down and rents skyward. There is considerable influence

from Australia's population growth, supply chain security, and a push toward more onshore manufacturing.

"Following an unprecedented three-year growth period, marked by face rents soaring up to 80% in select markets and vacancy rates at below 1%, there has been a significant surge in capital-seeking investment opportunities in the industrial sector," said **Michael Wall, National Head of Industrial & Logistics at Savills Australia**.

Alongside Australia's rapidly expanding population, infrastructure development, net-zero targets and rising demand for technology such as e-commerce, AI, cyber security and data storage, these trends highlight investors' sustained strong appetite for industrial.

Manufacturing rebound stoked by green transition

Savills report reveals that Government policy is accelerating the manufacturing rebound and numerous new projects indicate that the transition is still in its early stages. Victoria, South Australia and Queensland are the most recent to lead this charge, with 10-year roadmaps to improve their manufacturing capabilities.

Recently the Victorian Government on-sold the bulk of the former CSL manufacturing site to Zoetis for \$350 million, with the deal incorporating sovereign manufacturing capabilities. In South Australia, construction has started on a \$100 million facility for Novum Pharmaceuticals, which will receive up to \$20 million in funding from the Federal Government.

According to Savills, these projects have the potential to transform underutilised and secondary industrial precincts, while expanding industrial use into future growth corridors. It may also shift both occupier and investor perceptions of the location, and redirect demand from traditional core areas with little vacancy.

Current overall market demand is tied to large-scale renewable projects across Australia on the National Electricity Market (NEM). The impact of manufacturing investment on industrial property demand and its pricing can be substantial, given the size of the land parcels required for this development and the increase in demand from local supply chains to support the manufacturing process.

"Private equity has not shied away from manufacturing investment, with data from the AEMO in February 2024 showing that proposed battery storage projects are double the forecast set two years ago," said Ms Dean.

EV manufacturing could send Australian vacancy plummeting

The increasing demand for EVs, ESS, and batteries not only fuels the need for industrial floorspace but also extends to infrastructure development, advanced manufacturing facilities, and renewable energy, creating a ripple effect across multiple sectors and contributing to the strength of Australia's industrial property sector.

Following Tesla's announcement that it would open a \$1 billion Gigafactory in the US city of Reno, Nevada, in 2015, the vacancy rate of the wider market declined from 10.4% to 4.4%, and average rents rose 70% over the next six years.

Similar effects could potentially be seen in Australia as the sale of EVs continues to increase - with the total volume of sales in the first half of 2023 so far exceeding the total for 2022, according to a 2023 report by the Electric Vehicle Council (EVC).

According to Savills, these investments have the potential to catalyse activity across multiple sectors, underpinning the continued resilience and sustained growth of Australia's industrial property market.

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By applying world research data and trends to local and global settings, we're able to empower our clients with insights from the forefront of the industry – bringing their aspirations to life through innovative, tailor-made solutions.

Whether we are working with a global corporate looking to expand, an investor seeking to sustainably optimise their portfolio, or a family trying to find a new home, we help our clients make better property decisions.