Australia Industrial – April 2024

SPOTLIGHT
Savills Research

Shed Briefing

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Rents tick up as vacancy adjusts • Shift in rate cycle will help activity • Buyer pool expands

A gradual recovery

Increasing confidence on a rate pivot is setting the stage for improved market conditions throughout 2024.

The path to recovery
The global economy has faced numerous challenges in recent years, making it increasingly difficult to predict a definitive turnaround. Persistent underlying inflation, geopolitical shocks, and subsequent supply chain disruptions have continually altered the path to recovery.

A faster-than-expected fall in inflation will support a recovery in household incomes, helping to ease cost-of-living pressures and driving a rebound in consumer spending.

RBA to pivot?
Major economy government bond yields have fallen in recent months as financial markets price in some central bank policy easing in 2024.

Market pricing suggests the RBA tightening cycle has ended, with one 25-basis point cut mostly expected by December 2024, compared with previous expectations of a cut in November.

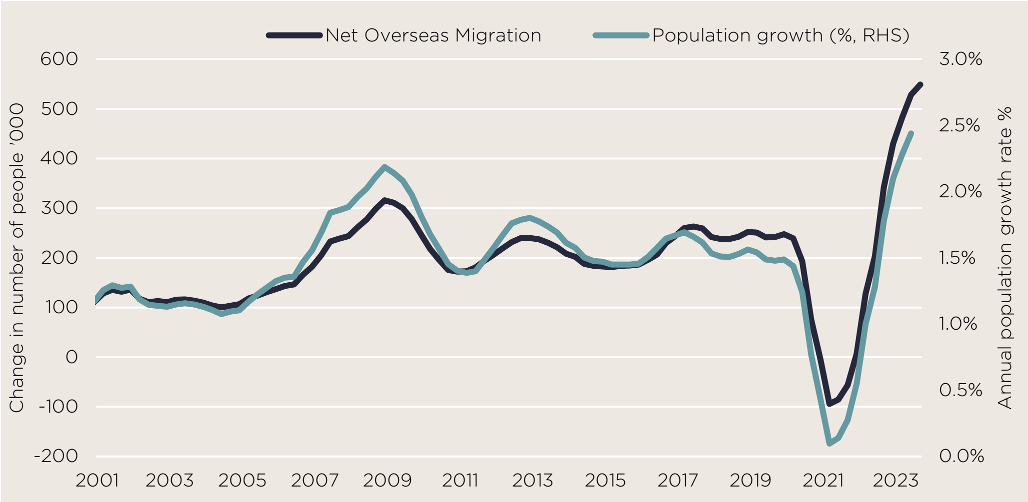
Inflation moderating
Cost of living pressures and higher interest rates weigh on private sector demand, particularly consumer spending. While economic growth is expected to slow in the first half of this year, strong population growth supports economic activity.

Labour market conditions are expected to ease further but remain relatively tight, with only a modest increase in the unemployment rate throughout 2024 and 2025. Inflation pressures are expected to moderate, but services price inflation could remain sticky. Early 2024 indicators suggest easing inflation pressures, with headline CPI at 3.4% Y/Y in the ABS experimental monthly CPI indicator in January, though services price inflation remains high.

A rebound to investment
A pivot to rate cuts later this year will encourage many buyers to return to the market. However, a key to unlocking investment activity is the market adjusting more fully to higher interest rates. This will help reduce the bid-ask-spread and drive the recovery. Early indications are that this adjustment is gathering momentum in Australia after a significant lag compared to major advanced economies.

While there has been some caution, increased competition from opportunistic capital, syndicators, select institutions, and offshore entities will significantly drive the rebound throughout 2024.

Population growth will help fuel demand
Net overseas migration (‘000) and total population growth rate % (Sep-23)



Source Savills Research using Macrobond

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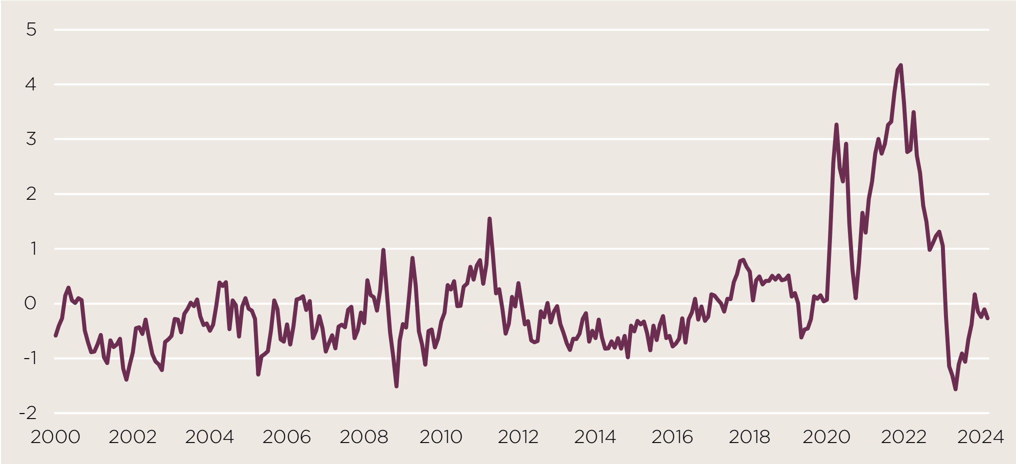
Positive outlook for inflation but still supply chain risks

The New York Fed's Global Supply Chain Pressure Index (GSCPI), on the right, shows the current state of the logistics industry. The index fell to -0.27 in March 2024 from a revised -0.1 in February. While initially, it looked like the shipping disruptions linked to the Red Sea hadn't fully come through, the revision in February, followed by a further dip in the reading in March, indicates ongoing risks to global shipping, exerting pressure on prices. The recent and significant collapse of the Port of Baltimore bridge, one of the busiest harbours in the U.S., has further rattled supply chains.

In Australia, ongoing disruptions will contribute to supply chain complexity and continue to drive demand from occupiers to make their supply chains more resilient to minimise the impacts on business continuity. This is already starting to play out with manufacturing.

In the short term, this uncertainty may be contributing to a rise in sublease availability and delayed decision-making on relocation or expansion plans, particularly as wholesalers de-stock inventory back to a just-in-time strategy.

Modest rise in supply chain pressure in March
Global supply chain pressure index

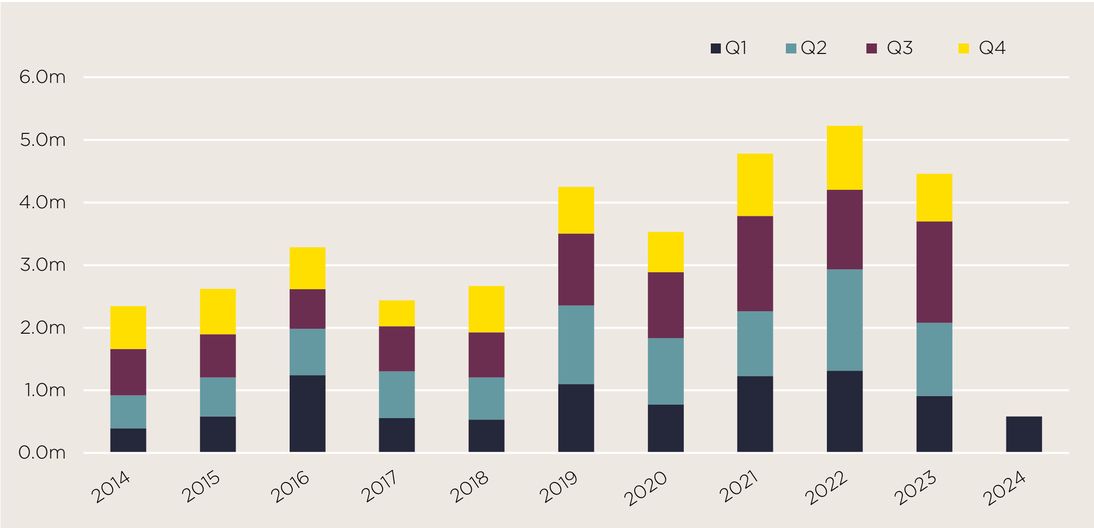


Source Savills Research using Federal Reserve Bank of New York, Global Supply Chain Pressure Index March 2024 https://www.newyorkfed.org/research/gscpi.html.
**index integrates transportation cost data and manufacturing indicators to provide a gauge of global supply chain conditions (includes Baltic Dry Index, Harpex, Airfreight cost indices, PMI surveys)

Rents still climbing

Despite a slight increase in vacancy, rents continue to grow, albeit at a slower pace, driven by demand for prime quality.

Leasing take-up cools as sustained low vacancy of existing stock limits churn
Quarterly east coast leasing volumes (+3,000 sqm) by year for the last decade



Source Savills Research

Nearly half of all precincts nationally post rental growth in Q1
Slight uptick in vacancy but structural tailwinds still driving demand

Another mini-cycle of growth?
After facing the prospect of normalised rental growth rates in 2024, nearly half of all markets tracked nationally (26 precincts) posted rental growth in Q1. Only two of those markets recorded growth of less than 3.0% (Brisbane Southside +1.7% and Perth East +1.8%).

Of the five key core markets nationally, which are the largest, Sydney West showed an increase of 6.5% in Q1, Brisbane Southside +1.7% and Perth Core +8.8%. Since pre-pandemic, prime rents in Melbourne's West and Adelaide's North West have stabilised but are still up 68% and 28%, respectively.

Rental growth performance starts to diverge
The rental growth performance is becoming more nuanced, with growth starting to stabilise in the higher cost markets, e.g. Sydney's Central West, South and North West, Melbourne's Fringe and Brisbane's Trade Coast. In markets where there have been new incoming supply options and increased availability due to backfill, growth has been above average, notably in Sydney's West (+6.5%), Outer South West (+9.0%) and South West (8.2%), Melbourne's South East (+7.2%), Brisbane's Northside (+7.2%) and West (+5.1%), and Perth's Core (+8.8%).

Shifting negotiations as incentives rise
Almost all markets report a gradual increase in incentive levels, even as face rents grow. Alongside some caution due to rising interest rates and inflationary pressures, timelines for decision-making have been extended. This has also contributed to a rise in the availability of sublease space on the market, but this also reflects the cyclical headwinds and changes to supply chain demands. As a result, landlords seek to secure income to underwrite the stability in capital values and to address higher face rents, and higher incentives are on the table.

Rental growth, but pace starts to diverge

Vacancy rises slightly as competition for space starts to normalise.

+3.4%
Prime net face rents increase 3.4% Q/Q across the five key core markets.

+4.4%
Secondary net face rents increase 4.4% Q/Q across the key core markets.

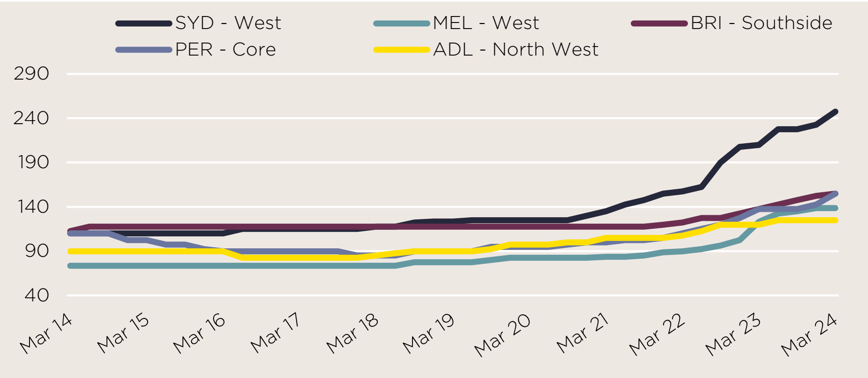
582,000 sqm
Estimated east coast leasing take- up (+3,000 SQM) in Q1, including pre-commitments.

2.72%
Average vacancy on the East Coast is 2.72% March 2024 (Savills & SA1 Property).

Source Savills Research

Key Markets - Prime net face rents

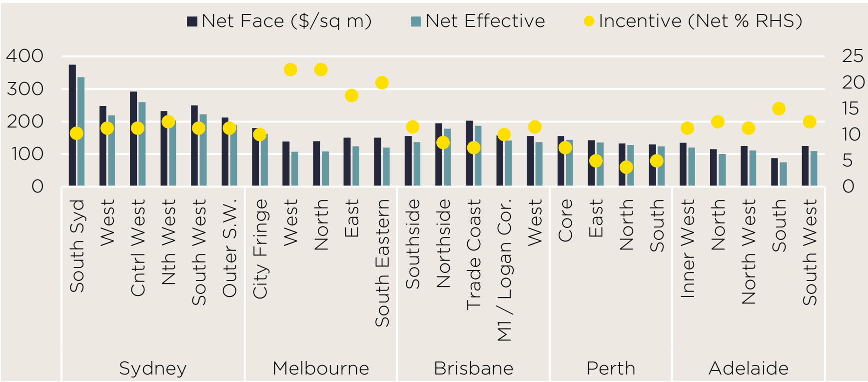
By key core market, $/sqm net face rent average



Source Savills Research

Net face and effective rents v incentives

By submarket, prime average $/sqm and %



Source Savills Research

Transport & logistics, wholesalers dominate take-up

Share of east coast leasing volumes by subsector, % share of leasing in Q1-24

*Other includes undisclosed, health, property & business services, IT, government **Source** Savills Research

QUARTER HIGHLIGHTS

Vacancy adjustment

Vacancy rates have slightly increased on the East Coast, reaching an average of 2.72% as of March 2024, up from 2.43% in January, according to Savills and SA1 Property data. Of the East Coast cities, Sydney's whole building vacancy (over 3,000 sqm) is at 2.2%, up from 1.91% in January. Brisbane's vacancy has risen marginally to 3.47% from 2.97% in the previous quarter, while Melbourne's whole building vacancy now stands at 2.72%, up from 2.4%.

Average vacancy on the East Coast is expected to tick up in line due to a slight moderation in tenant demand in the short term, although it is projected to remain below its equilibrium range of 3-4%. While some development starts have been delayed, limited land supply and ongoing population growth will maintain pressure on availability, particularly for prime options.

Flight to quality

Leasing take-up (+3,000 sqm) reached c.582,000sqm in Q1 on the east coast, reflecting a 36% decrease from Q4. Rising costs in the supply chain, labour, and transportation have heightened scrutiny of the quality of leased space, leading to a 'flight to quality' trend and reducing churn rates in existing stock across most markets. This trend also drives demand for new builds, with pre-commitment and speculative lease deals accounting for nearly 40% of transactions over the last 12 months. Historically, these deals have comprised about a third of transaction volumes.

Big sheds in demand

Limited options remain to fulfil significant tenant mandates (20,000sqm+) on the East Coast. Vacancy for this building size averages 1.42%, down from the January average of 1.5%. While speculative developments have slowed down, reducing the risk of oversupply, they have also increased pressure on existing stock to meet tenant demand.

Elevated pipeline

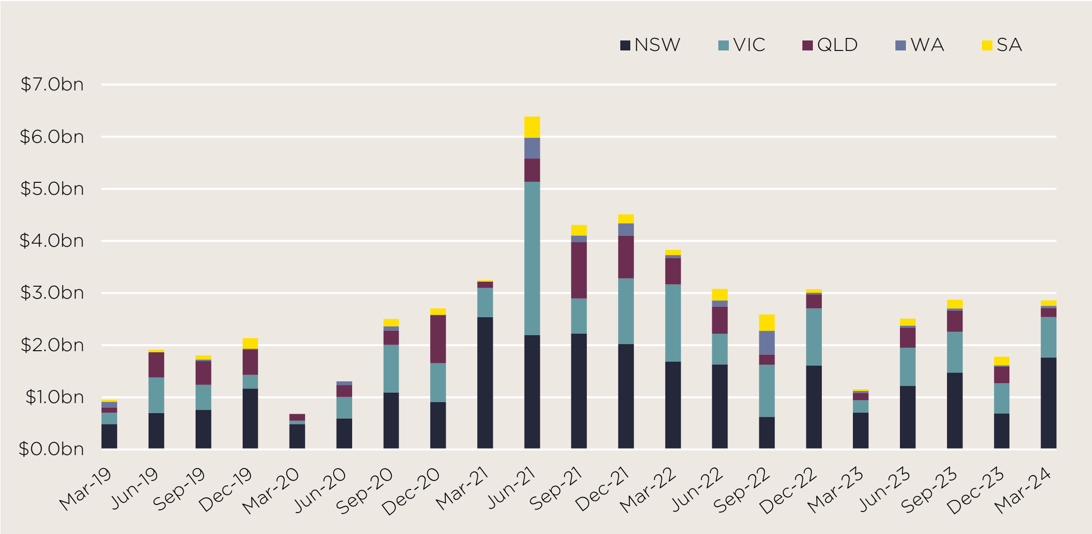
Savills has tracked c.2.23 million sqm of new development underway or due for completion on the East Coast in 2024; of this, c. 324,000 sqm has been tracked as completed in Q1.

While new speculative projects have seen high commitment rates, particularly in Melbourne, demand has shown signs of slight easing, and tenant decision-making may dampen take-up rates for new supply in the short term. Precincts with limited available supply, such as those with vacancy rates near 2.0% like Sydney West, Outer South West, North West and South in Melbourne, and Brisbane's Northside and Trade Coast, will continue to experience competitive tension on new stock.

Improving liquidity

Resilient despite economic headwinds, as demand drivers act as a catalyst for a pick-up in activity during 2024.

Recent activity reaffirms investor preference for industrial
$10m+ industrial investment transactions quarter on quarter since 2019



Source Savills Research using MSCI RCA

Investor preference for industrial remains steadfast as buyer pool expands
Ongoing deals in Q2 suggest improved liquidity

Still resilient
Market activity continues to be influenced by interest rates, and the absence of a strong motivation to sell is extending the price discovery period. As a result, yields have mostly stabilised, but limited transactions are not assisting transparency in the short term. That said, several notable greenfield site sales in Q1 suggest the industrial market remains resilient against the broader economic environment, and its outlook will continue to be the catalyst for a pick-up in market activity during 2024.

In Q1, c.$1.58 billion in development site sales were recorded, which significantly boosted overall investment volumes. These were predominantly large greenfield sites, the most significant being the sale of the Northern Gateway site opposite Western Sydney Airport for $850 million and Stage One of the Orica sale in Deer Park in Melbourne's West for $260 million. These site sales, amongst other smaller-scale land sales, are relevant as this investment suggests embedded confidence from investors that demand drivers are accelerating on the back of sustained population growth and other factors, such as e-commerce and supply-chain resiliency.

Buyer pool is diversifying
Some investors are still opting to wait things out, reducing the buyer pool and resulting in a significant scaling back in activity across all sectors. While overall investment declined, ongoing deals in Q2 suggest improved liquidity for specific buyers. Opportunistic capital, syndicators, select institutions, and offshore entities have remained active. The inclination of global capital to increase exposure to the Australian market is poised to be a significant driver in reinvigorating investment activity throughout 2024.

Notably, super funds are now acting directly or through direct partnerships with developers, which reaffirms investor preference for industrial and the diversifying buyer pool, which has seen reduced competition from REITs over the last 12 months as they have been focused on building out existing development pipelines and rental reversion opportunity in their portfolios.

Shift in rate cycle should favour an increase in market activity

Institutional buyers have make a stronger than expected comeback in Q1

+0bps
Average market yields for prime and secondary have held stable in most markets.

+61%
Transaction volumes have increased 61% between Q4 2023 and Q1 2024.

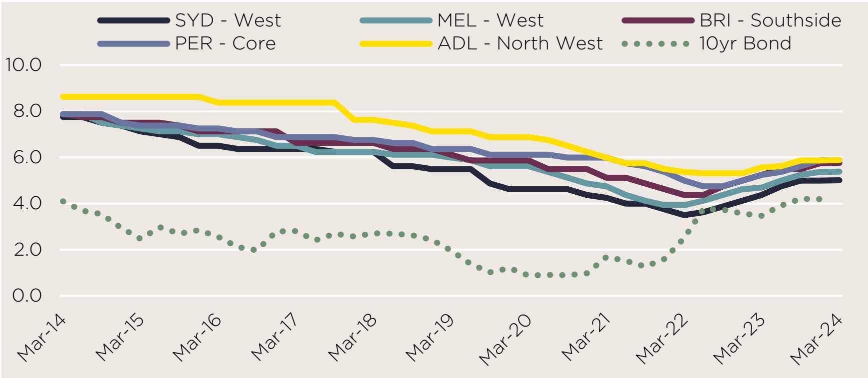
67%
Institutional buyers (funds, trusts) accounted for 67% of total investment volumes in Q1.

$1.58bn
Land sales accounted for $1.58 billion of the $2.92 billion of total industrial transactions (+$10m) tracked in Q1.

Source Savills Research

Key Markets - prime yield & 10yr bond rate

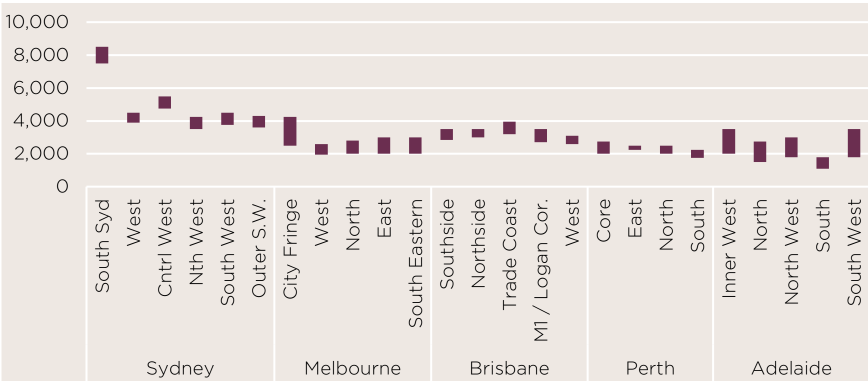
By key core market, average prime yield v 10yr bond rate, %



Source Savills Research / RBA

Typical capital value range

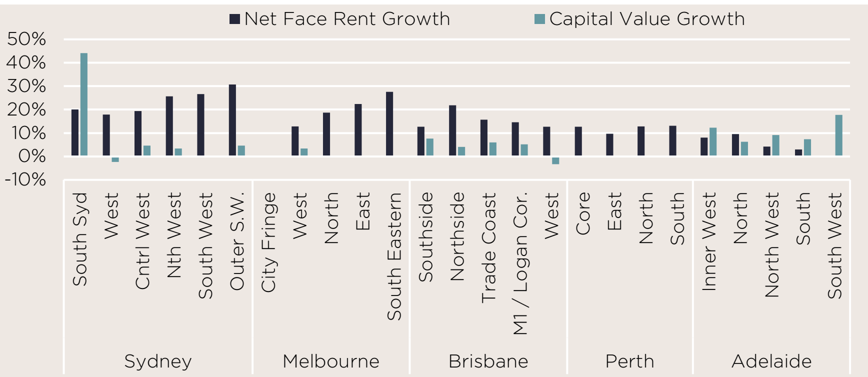
$/sqm prime average by submarket



Source Savills Research

Face rental and capital growth rates

12 month face rental and capital growth rate by submarket, prime averages, %



Source Savills Research

QUARTER HIGHLIGHTS

Greenfield sites boost quarterly volumes

Buoyed by the $1.58 billion greenfield site sales, investment volumes reached $2.82 billion (+$10 million) in Q1, a 57% increase from $1.8 billion recorded in Q4. In annual terms, c$10 billion was recorded in the 12 months to March 2024, on par with the previously corresponding period.

Excluding the recent site sales, investment volumes reached $1.35 billion in Q1, representing a 16% drop from Q4. However, investment volumes are nearly three times higher compared to its five-year pre-pandemic quarterly average.

Institutional comeback?

Excluding the major greenfield sales, private, syndicate, and owner-occupier acquisitions accounted for nearly half (49%) of investment volumes ($10m+) in Q1, after averaging 33% share over the last five years. However, when those land sales are accounted for, institutional buyers dominate 67% of transactions in Q1, suggesting a stronger-than-anticipated comeback relative to the previous two to three quarters. Notable buyers include ISPT, UniSuper, Aware Super, Fife Capital, ESR, Frasers Property and Wentworth Capital through its partnership with BlackRock.

Yields stabilising but a shift in the rate cycle should favour activity

There remains a low level of transactions to benchmark from, reflecting the headwinds facing property more broadly, including high interest rates, elevated inflation, and prolonged decision-making. While the pace of rental growth has eased from the highs seen in 2023, growth rates are still elevated in most markets. This is helping to underwrite stability in capital values. The opportunity for rental reversion to the market also provides significant upside to investors.

Across the key core markets Sydney West, Melbourne West, Brisbane Southside, Perth Core, and Adelaide's North West, average prime and secondary yields remained stable in Q1.

Recovery coming

Several transactions are likely to materialise in Q2, which will assist with pricing certainty in the second half of the year. Interest rate stability will also help reduce the gap between buyer and seller expectations and stimulate further recovery in investment market activity. The rebound will be gradual, with slow activity in H1 2024 but a stronger recovery later, aided by anticipated rate cuts in late 2024.

City Highlights

Face rents are still seeing growth but there are signs this pace is slowing, following a slight uptick in vacancy.

Summary - Key Prime Averages

Q1-2024 indicators by sub-market

	Net Face Rent $/sqm	Market Yield (%)	IRR (%)	Capital Value $/sqm	Land Value $/sqm
SYD - South Syd	375 (n/c)	4.88 (n/c)	6.88 (+25 bps)	8,000 (n/c)	3,500 (n/c)
SYD - West	248 (+6.5%)	5.00 (n/c)	6.88 (n/c)	4,200 (n/c)	1,475 (n/c)
SYD - Cntrl West	293 (n/c)	5.06 (+19 bps)	6.88 (+25 bps)	5,125 (n/c)	2,125 (n/c)
SYD - Nth West	233 (n/c)	5.06 (n/c)	6.88 (n/c)	3,875 (n/c)	1,300 (n/c)
SYD - South West	250 (+8.2%)	5.06 (n/c)	6.88 (+25 bps)	4,125 (n/c)	1,580 (n/c)
SYD - Outer S.W.	213 (+9.0%)	5.25 (n/c)	6.88 (n/c)	3,950 (n/c)	1,260 (n/c)
MEL - City Fringe	180 (n/c)	5.13 (+6 bps)	6.63 (+25 bps)	3,375 (n/c)	2,625 (n/c)
MEL - West	139 (n/c)	5.38 (n/c)	6.88 (+25 bps)	2,275 (n/c)	950 (n/c)
MEL - North	140 (n/c)	5.38 (-13 bps)	6.88 (+38 bps)	2,400 (n/c)	975 (n/c)
MEL - East	150 (+3.4%)	5.38 (n/c)	6.88 (+50 bps)	2,500 (n/c)	1,025 (n/c)
MEL - South Eastern	150 (+7.1%)	5.38 (n/c)	6.88 (+38 bps)	2,500 (n/c)	950 (n/c)
BRI - Southside	155 (+1.6%)	5.75 (n/c)	7.00 (+25 bps)	3,175 (+2.4%)	625 (+13.6%)
BRI - Northside	195 (+8.3%)	5.75 (n/c)	7.00 (+25 bps)	3,250 (+4.0%)	750 (+11.1%)
BRI - Trade Coast	203 (n/c)	5.50 (n/c)	6.38 (n/c)	3,575 (n/c)	850 (+13.3%)
BRI - M1 / Logan Cor.	158 (+3.6%)	5.75 (n/c)	7.00 (+25 bps)	3,100 (+2.5%)	625 (+11.0%)
BRI - West	155 (+5.1%)	5.88 (n/c)	7.13 (+13 bps)	2,850 (n/c)	500 (+11.1%)
PER - Core	155 (+8.8%)	5.88 (n/c)	6.88 (n/c)	2,375 (n/c)	513 (n/c)
PER - East	143 (+1.8%)	5.88 (n/c)	6.88 (n/c)	2,375 (n/c)	513 (n/c)
PER - North	133 (n/c)	6.50 (n/c)	7.25 (n/c)	2,250 (n/c)	463 (n/c)
PER - South	130 (+4.0%)	6.38 (n/c)	7.25 (n/c)	2,000 (n/c)	375 (n/c)
ADL - Inner West	135 (n/c)	5.75 (n/c)	7.00 (n/c)	2,750 (n/c)	850 (n/c)
ADL - North	115 (n/c)	5.88 (n/c)	7.00 (n/c)	2,125 (n/c)	300 (n/c)
ADL - North West	125 (n/c)	5.88 (n/c)	7.00 (n/c)	2,400 (n/c)	500 (n/c)
ADL – South	88 (n/c)	6.75 (n/c)	7.63 (n/c)	1,450 (n/c)	225 (n/c)
ADL - South West	125 (n/c)	5.75 (n/c)	6.88 (n/c)	2,650 (n/c)	800 (n/c)

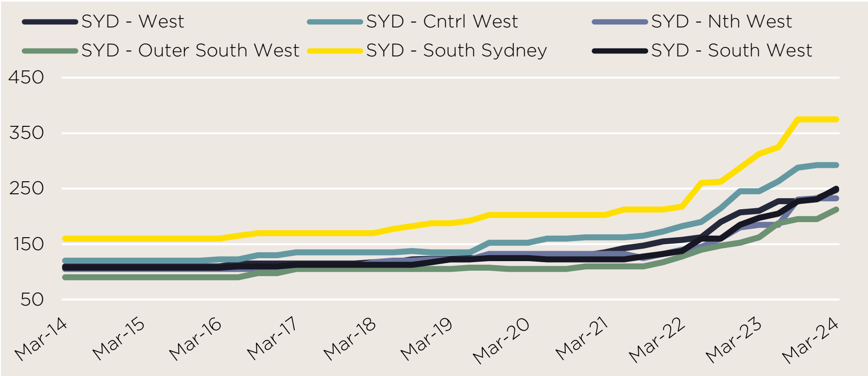
Source Savills Research
3 month change shown in brackets, land values reflect 'serviced & benched' sites (3,000 - 5,000 sqm).

Sydney

Against a backdrop of consistent rental growth and unchanging market yields, investors are poised for acceleration.

Prime net rent growth rates edge up

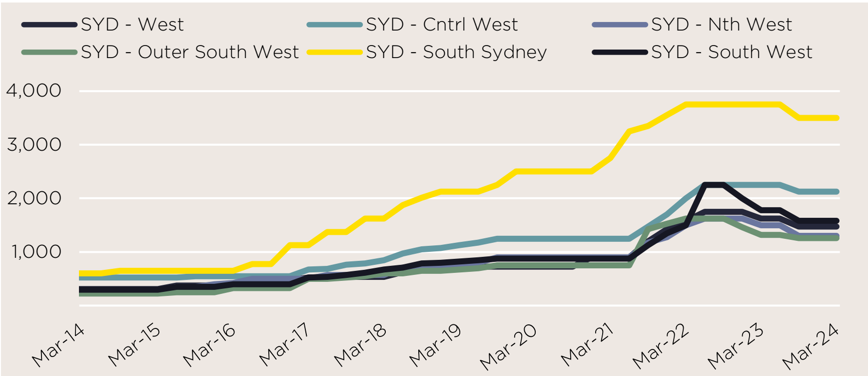
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land prices holding

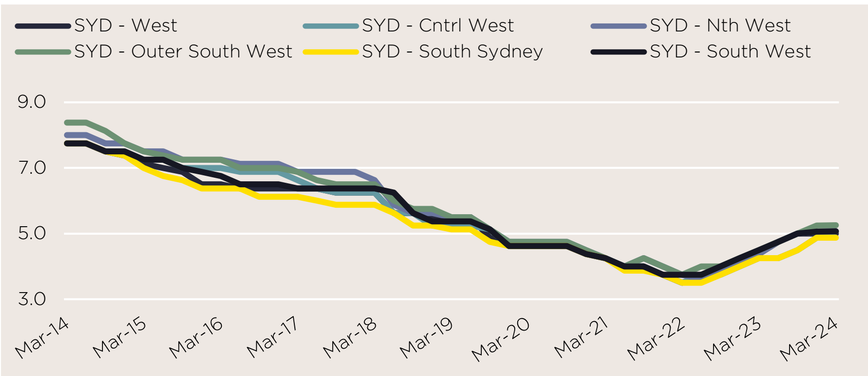
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Prime yields mostly stable

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Superfunds increase investment
Investment volumes surged to approximately $1.8 billion in Q1-24, a significant increase from Q4 figures. However, this surge is partly inflated by a $850 million transaction involving a 280-hectare greenfield land sale next to Western Sydney Airport to UniSuper and ISPT. UniSuper's portion of the investment will be managed by Richmond Bridge, while ISPT's share will be self-managed. This sale represents the largest landholding within the Western Sydney Aerotropolis precinct and contributed to institutional capital, accounting for 69% of deals in Q1.

Despite this major land acquisition in Western Sydney, investors remain focused on capitalising on the growth potential of infill sites, particularly in the Central West, which is crucial for last-mile distribution demand.

Rental growth and vacancy trends
Blended prime net face rents increased 3.3% Q/Q, with significant growth in the South West (9.0%), South (8.2%), and West (6.5%). Meanwhile, rents in the Central West, North West, and South Sydney remained stable.

Driven by new development supply, vacancy rates saw a marginal increase in the March quarter, rising to 2.20% from 1.91% in January, according to SA1 Property and Savills.

Yields mostly stabilising
Prime market yields held steady across all precincts except for the Central West, where they softened by 20bps to an average of 5.06%. Vacancy rates in the Central West were the softest at 3.26% in March, with rental growth stabilising after a 19.4% increase over the last 12 months. In contrast, the outer South West had the tightest vacancy at 1.48% and the strongest rental growth at +9.0%.

Market tension eases
Leasing volumes in Sydney reached c.188,400 sqm (3,000 sqm+) over the March quarter, down 6% compared to the previous quarter. Transport & logistics tenants drove demand, comprising 45% (c.84,756 sqm), followed by wholesale/ retail tenants (34.1%) and manufacturing (10.4%).

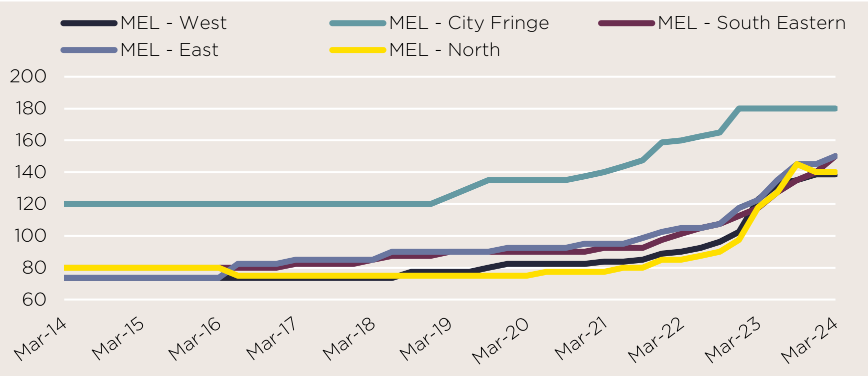
Land values stable
Average land values have held stable for the third consecutive quarter. In annual terms, small lots (< 5,000 sqm) fell by 8.0%, medium lots (1-5Ha) are down 6.6%, and large lots (10ha+) are down 6.5%. Structural demand is expected to continue outpacing supply in the medium term, supporting development and leasing outcomes.

Melbourne

While rental growth has eased slightly, leasing activity has maintained its resilience, which is expected to boost investor sentiment once rates stabilise.

Prime net rent growth rates start to moderate

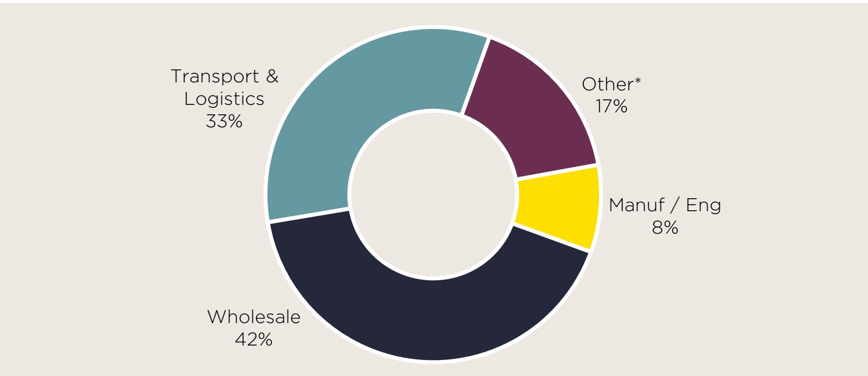
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Wholesalers dominate leasing take-up

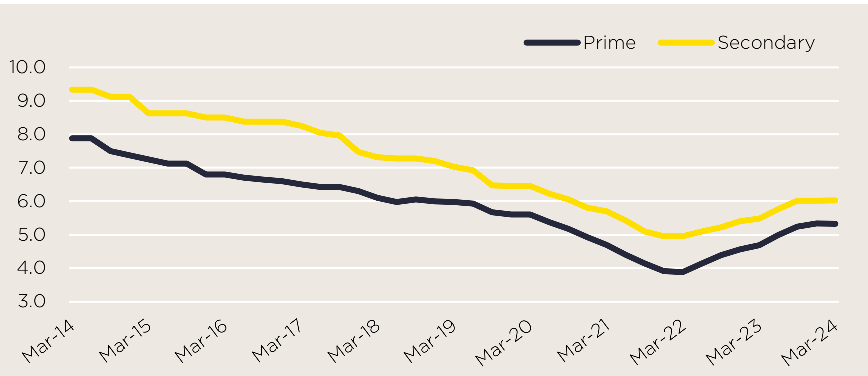
Share of Leasing Volumes by Subsector, % share in Q1



*Other includes undisclosed, property & business services, IT, government **Source** Savills Research

Yields stabilising

Prime vs Secondary Market Yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment rises Q/Q

Investment volumes reached c.$834 million (+$5m) in Q1, reflecting a 13% uplift over the previous quarter and a significant 152% increase compared to Q1-2023. However, two land sales totalling $490 million took place during the quarter, including ESR and Frasers Property's 50:50 JV to purchase land from Salta Properties in the South East for $230 million and UniSuper's acquisition of surplus land from Orica in the West for $260 million. Annual volumes amounted to c.$3.3 billion, reflecting an increase of 5.5% Y/Y and surpassing the 10-year historical average of $2.2 billion.

North and West yields align

Yields have stabilised across most precincts, except the North, which tightened by 10bps to 5.375% to align with the West. However, the shift reflects the evolving buyer profile of institutional versus private investors in the North relative to the West. Overall, market sentiment has improved following recent rate stability and the prospect of a rate cut later this year.

Rental growth eases after surge

Rental growth rates are easing, with rents stabilising in Fringe, West, and Melbourne North. The South East and East saw growth rates of 7.2% and 3.5%, respectively, in Q1.

Vacancy rates remain low in all precincts, with some new spec space entering the market at higher rates. This cycle still has some time to run, particularly for larger mandates where vacancy rates are lowest.

Take-up trends

Despite a 17% year-over-year (Y/Y) decrease, leasing volumes (+3,000 sqm) remain 57% higher than the 10-year average of c.1.2 million sqm. Quarterly volumes eased to approximately c.234,000 sqm, marking a 43% decline Q/Q.

Marginal uptick in vacancy

The average vacancy rate for existing buildings (+3,000 sqm) rose slightly to 2.72% in March 2024 from 2.40% in January, according to SA1 Property and Savills. High commitment rates on incoming new supply have maintained tension on vacancy. Vacancy rates vary by building size and precinct, with Port Melbourne recording the lowest at 2.33% and the North the highest at 3.19% in Q1.

Land lot prices stabilise

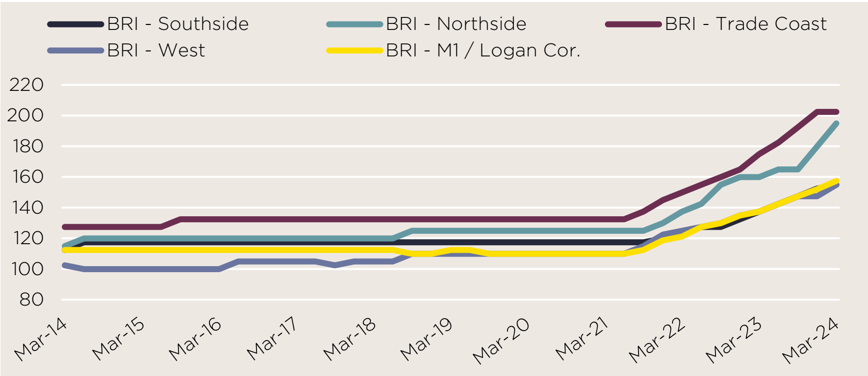
In general, the value of small, medium, and large lots has remained stable during the March quarter. However, over the past three years, there has been notable annual growth in small lots at 20.8%, medium lots at 18.2%, and large lots at 17% per annum.

Brisbane

Rental growth continues even as vacancy trends upward amid historically high levels of supply, helping to sustain investor interest.

Prime net rental growth cycle still runs

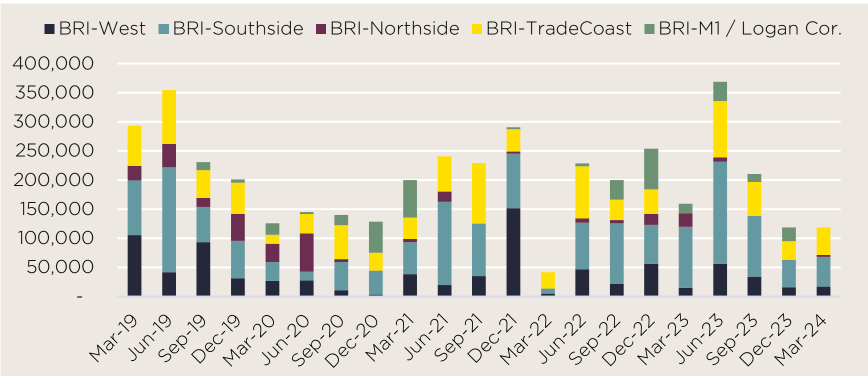
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Leasing volumes remain consistent

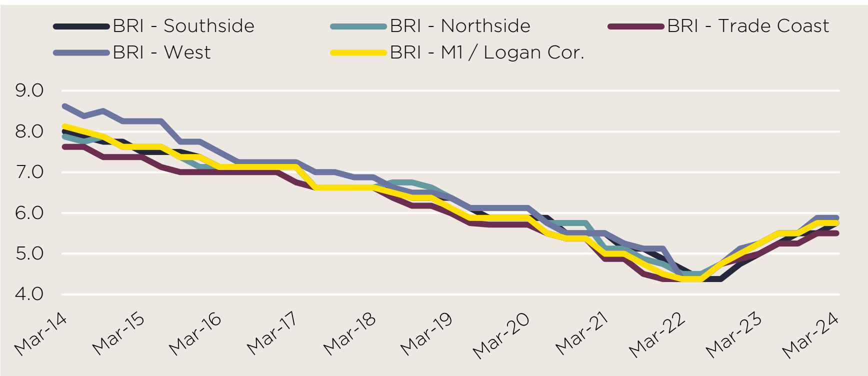
Leasing volumes by precinct, in sqm by quarter (+3,000sqm)



Source Savills Research

Yields holding steady

Prime Market Yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Strong sales volumes
Investment (+$5m) reached c.$327.5 million, marking a modest decline of 8% Q/Q but a notable 27% increase compared to Q1-2023, surpassing the 5-year Q1 average. The Northside was the most active, accounting for 36.6% of transactions. Annual sales volumes amounted to c.$1.75 billion, a 24.6% increase Y/Y; however, most transactions were priced between $5-$15 million. Unsurprisingly, private investors and owner-occupiers led these acquisitions.

Net face rents rise
Prime net face rents increased 3.7% on average in Q1, with the Northside leading at 8.4% Q/Q (+21.9% Y/Y), followed by the West at 5.1% Q/Q (+12.8% Y/Y), M1/Logan Corridor at 3.6% Q/Q (+14.6% Y/Y), and the Southside at 1.7% Q/Q (+12.7% Y/Y). Trade Coast rents remained stable Q/Q but grew +15.7% Y/Y.

Market yields stabilise
Average prime market yields held steady at 5.70% (blended), softening by 50bps since March 2023.

Demand drove capital value growth. The Northside rose 4% Q/Q, followed by M1/ Logan Corridor, which increased by 2.5%, and the Southside, which increased by 2.4% Q/Q. The West and Trade Coast remained stable.

Vacancy uplift
The influx of new supply throughout 2023 has contributed to an uptick in vacancy in March of 3.47%, up from 2.97% in January. Vacancy levels were lowest in the Northside at 2.1%, while the West had the highest vacancy rate at 5.0%. Approximately 146,800 sqm of new industrial supply entered the market during the quarter, with a further c.230,350 sqm under construction and c. 301,400 sqm DA approved or in planning.

Southside takes the lead
Leasing volumes totalled c. 118,619 sqm, which was consistent with the previous quarter but marked a 34% decrease from Q1-23. Annual leasing volumes amounted to c.816,160 sqm, showing a 5% decline Y/Y but a 16% increase compared to the 10-year average. The Southside emerged as the most active over the last year, representing 43% of total deals (by volume), followed by the Trade Coast at 39.8%, the West at 14.5%, and the Northside at 2.8%.

The transport and logistics sector contributed the most to leasing activity, accounting for 33.2% of leasing deals, followed by wholesale and retail tenants at 26.2% and manufacturing/ engineering at 25.6%.

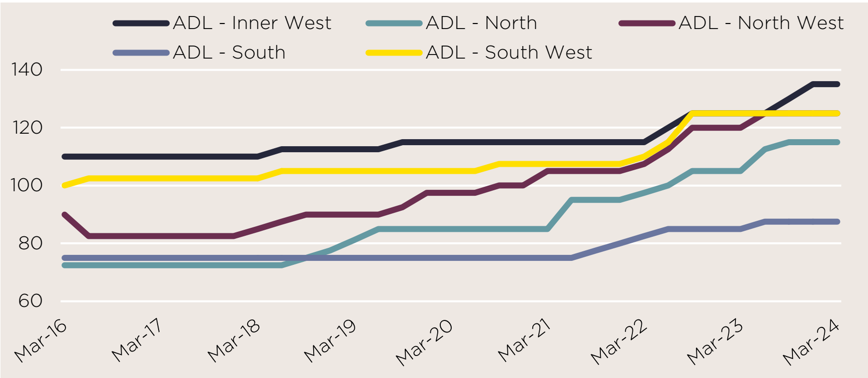
Land values rose in Q1
Small lots increased by 12.1% Q/Q (+19.7% Y/Y) to average $670/sqm, medium lots remained at an average of $530/ sqm, and large lots held steady except for the West, which saw an 11.7% increase to $240/sqm.

Adelaide

Rental growth stabilises, as investment market sentiment improves amid low supply and vacancy.

Rental growth rates slows

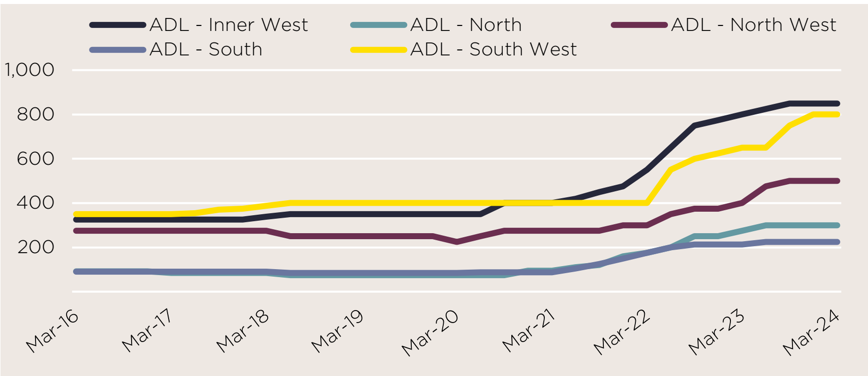
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth stable

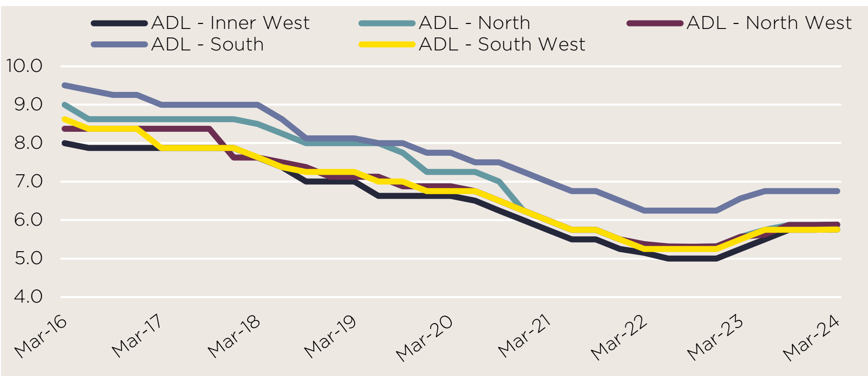
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields hold

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment activity increases

Sales volumes ($5m+) reached c.$144.2 million in Q1, marking a 24% increase from the previous quarter. However, no significant transactions above $50m occurred during the quarter.

In annual terms, sales volumes totalled c.$712.3 million, showing a modest 5.1% increase Y/Y. Private capital was the most active, comprising 63.2% ($450 million) of total transactions over the 12 months to Q1, followed by owner-occupiers at 14.5% (c.$103 million) and government purchases (11.3%).

During the quarter, 129-155 Cross Keys Road, in Salisbury North, traded for $39.85 million. The 5,431 sqm warehouse was sold to a private investor, BTP Income Assets Pty Ltd. The facility, completed during the quarter, was offloaded by Commercial and General, who developed the site.

Rental growth slows

Prime net face rents stabilised in Q1, showing an average 4.9% increase Y/Y. The North saw the strongest growth at 9.6% Y/Y, averaging $115/sqm. Secondary net face rents remained steady across the precincts in Q1, with the South West showing the strongest annual growth at 20.7%, averaging $95/sqm.

Capital values and market yields steady

Capital values have shown no movement over the March quarter across the precincts. In annual terms, the South West experienced the highest growth of 17.8%, averaging $2,650/sqm, followed by the Inner West (+12.3% Y/Y), averaging $2,750/sqm and the North West (+9.1% Y/Y), to average $2,400/sqm.

Market sentiment shows early improvement as interest rates remain stable, a positive sign for capital markets. Coupled with a lack of transactional evidence, this has stabilised market yields across Adelaide, ranging from 5.80% in the Inner West and South West to 5.90% in the North and North West and 6.80% in the South.

Land values remain stable

Land scarcity in key areas drove a significant value uplift over 2023, though growth steadied in Q1. Small lots (< 5,000 sqm) saw 14.5% annual growth, ranging from $225/sqm in the South to a high of $850/sqm in the Inner West.

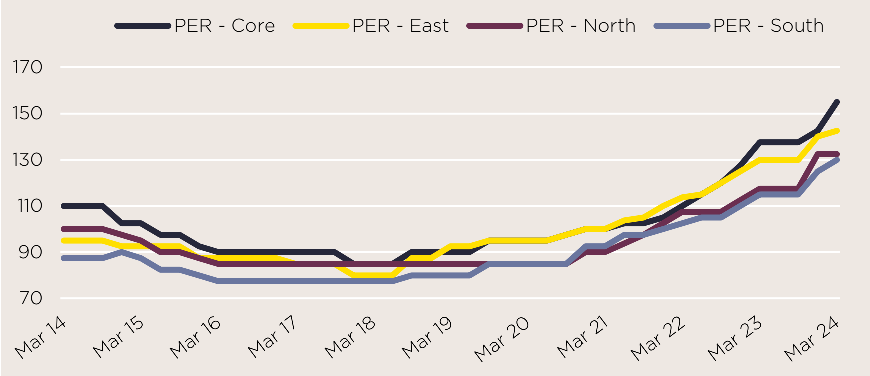
Medium lots (1-5Ha) rose 25% over the year, priced from $150/sqm in the South to $350/sqm in the North West. Large Lots (+10Ha) averaged $110/sqm (blended), up 29.4% annually due to heightened developer competition.

Perth

Limited land supply amid sustained tenant demand is contributing to the supply-demand imbalance and a rise in economic rents.

Prime net rent growth

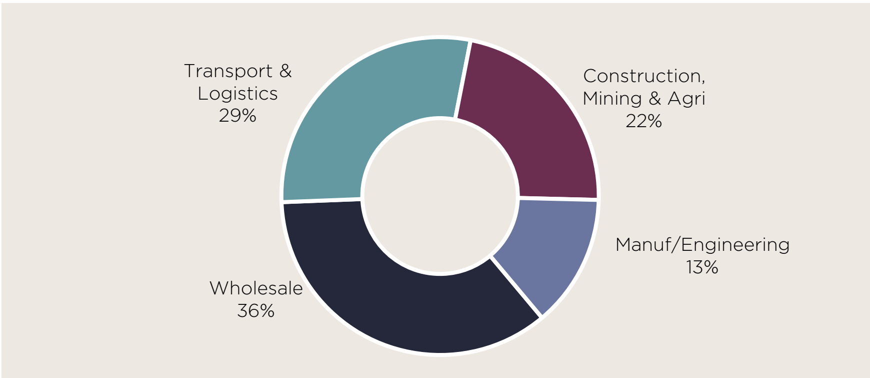
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Wholesalers, transport & logistics most active

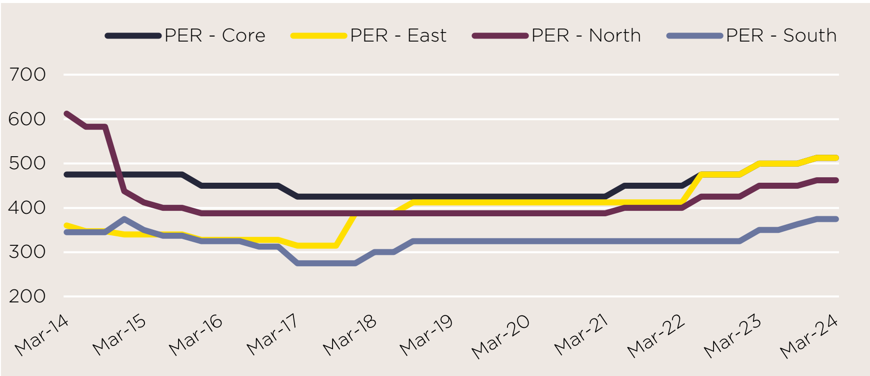
Share of Leasing Volumes by Subsector, % share over the 12 months to March 2024



Source Savills Research

Land values steady

Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

QUARTER HIGHLIGHTS

Subdued investment

Sales volumes (+ $5m) reached c.$61 million, a 42% increase from the previous quarter. However, there has been a significant scaling back in activity compared to previous years, as many investors are waiting on the sidelines for a clearer outlook on interest rates. The low turnover of assets over the last 12 months also reflects the tightly held nature of the Perth market, with a buyer profile leaning towards privates, syndicators, and local developers. In all markets, institutional buyers have been less active, given their preference to finance when transacting, which presents additional challenges to deal metrics given the elevated borrowing costs.

Yields become stable

With limited major transactional evidence, prime market yields have held stable for the second consecutive quarter. Perth core prime market yields average between 5.50% and 6.25%. Interest rate stability is expected to narrow the gap between buyer and seller expectations, stimulating a recovery in activity later in the year.

Rent growth continues

Rental growth has been positive, with prime net face rents increasing across all precincts except the North, which remained stable at an average of $132.50/sqm (+12.8% Y/Y growth). On a blended basis, prime net face rents were up 3.7% Q/Q and 12% Y/Y. Perth Core exhibited the strongest growth at 8.8% Q/Q, averaging $155/sqm.

Wholesale/retail tenants most active

Leasing activity for spaces over 3,000 sqm reached approximately 305,000 sqm over the 12 months to Q1. Leading sectors included wholesale/retail (35.5% of total lease deals), transport and logistics (26.8%), construction, mining, and agriculture (21.3%) and manufacturing (13.5%).

Land values trend sideways

Land prices have remained stable over the March quarter. However, over the last three years, small lots have increased by 20.2%, medium lots by an average of 11.5%, and large lots by 13.2%.

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