Australia Industrial – November 2023

SPOTLIGHT
Savills Research

Shed Briefing

Rental growth rates easing • Take-up starts to normalise • Interest rate cuts pushed out

Rate stability to set tone

Despite global economic uncertainty impacting decision-making, the resilient strength of our labour markets and demographic tailwinds continue to support growth.

Economic challenges

The economic landscape of prolonged interest rate hikes, sticky inflation and elevated global risks continue to be a focus for pundits trying to predict its turnaround. Any rebound to investment activity, particularly large-scale transactions, remains muted on concerns that the market is now in this higher-for-longer interest rate environment.

Resilient economic conditions the contrast

The pass-through of higher energy prices, and the strength in our labour market, are playing a large role in driving core inflation. And while most economists agree we are nearing the end of the tightening cycle, there is still some volatility in the economic data that keeps shifting the outlook. However, strong population growth supports services sector activity despite a slowdown in consumer spending, while tight labour market conditions also support growth.

Higher oil prices and geopolitical risks

Geopolitical risks have increased recently with the breakout of the Israel-Gaza war. An escalation of the conflict could drive oil prices higher and present upside risk to inflation, although higher oil prices will also weigh on global recovery.

Bond yields surge

Bond yields have risen sharply in recent months as market participants push out the timing of interest rate cuts in 2024. The US and Australian 10-year bond yields have risen by around 50 basis points since the end of July. This is contributing to investor demand for more yield and the widening bid-to-ask spread.

Period price discovery

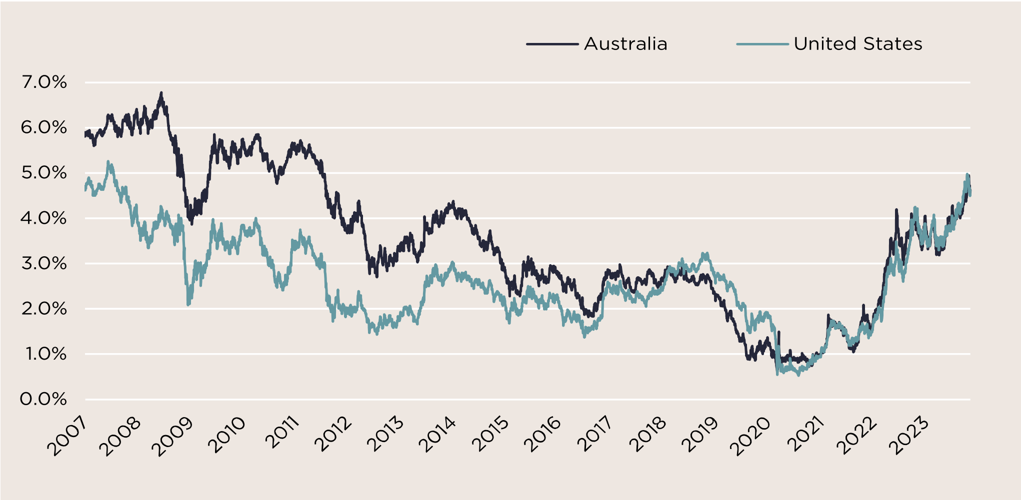
Prices have not yet adjusted enough to restore deal activity to long-term levels, and we are seeing this come through in the return profiles as yields continue to expand. The trend suggests that the period of price discovery still has further to run. Importantly, up to this point in the cycle, rental growth has helped to offset capital value decline. While there has been some capital recycling to allow redeployment, there are no signs of distress in the sector. Of the assets that have traded, prices have been at or near book values.

Rates near peak as timing of cuts pushed out

The RBA raised the official cash rate by 25 basis points to 4.35% at its 7 November 2023 meeting. Although there are very early indications that another hike is being partially priced in for February 2024, the RBA statement signalled hopes this would not be the case. This is echoed in the market pricing, which suggests the official cash rate will remain on hold for most 2024, with most economists still expecting a pivot to cut rates in late 2024. This stability will set the tone for recovery and unlock more investment activity.

Bond yields rise as financial markets adjust interest rate outlook

Daily rate of 10-year bond yields in Australia and the US, %



Source Savills Research / Macrobond (bond price as at 10 November 2023)

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Inventory levels contract

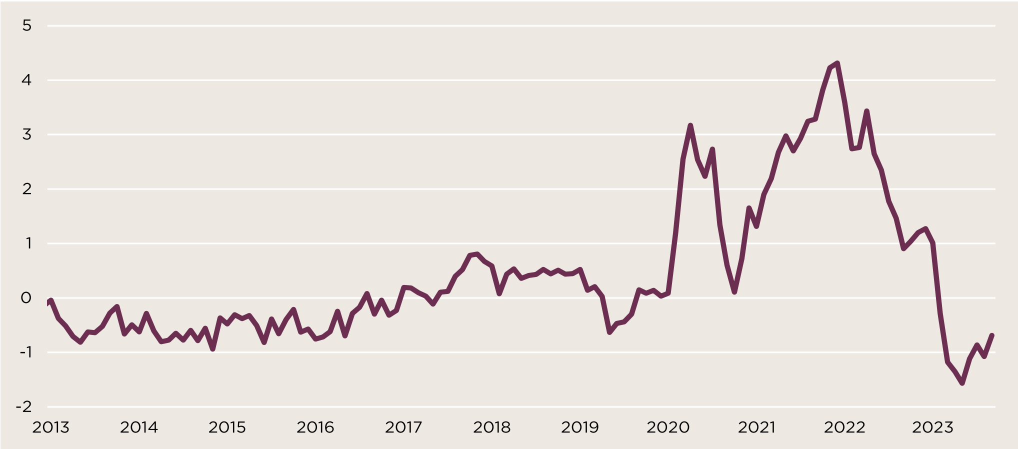
Survey activity, such as the purchasing managers indices (PMIs), which are strongly correlated with GDP growth, are pointing to further contraction in the manufacturing sector. This has resulted in manufacturers reducing their inventory holdings. Labour shortages remain a concern, with some firms reducing their capacity and stock levels as a result. In some cases, staffing constraints have also led to slightly longer lead times.

The New York Fed's Global Supply Chain Pressure Index (GSCPI) on the right shows the current state of the logistics industry and highlights the dramatic change over the last 18 months. Supplier delivery times have shortened, effectively reversing the backlogs across the supply chain seen a year ago.

The index tipped into negative territory in February 2023, in a sign that the supply chain pressures had been largely resolved. It ticked further lower until May but has been gradually climbing since then. While the index remains below the pre-pandemic stress levels, the upward trajectory reflects the supply constraints and transport delays that are lengthening lead times. Additionally, cost pressures have increased further for businesses and in some markets, this has contributed to a rise in sublease availability.

Lead times remain elevated as fuel costs rise and inventory contracts

Global supply chain pressure index

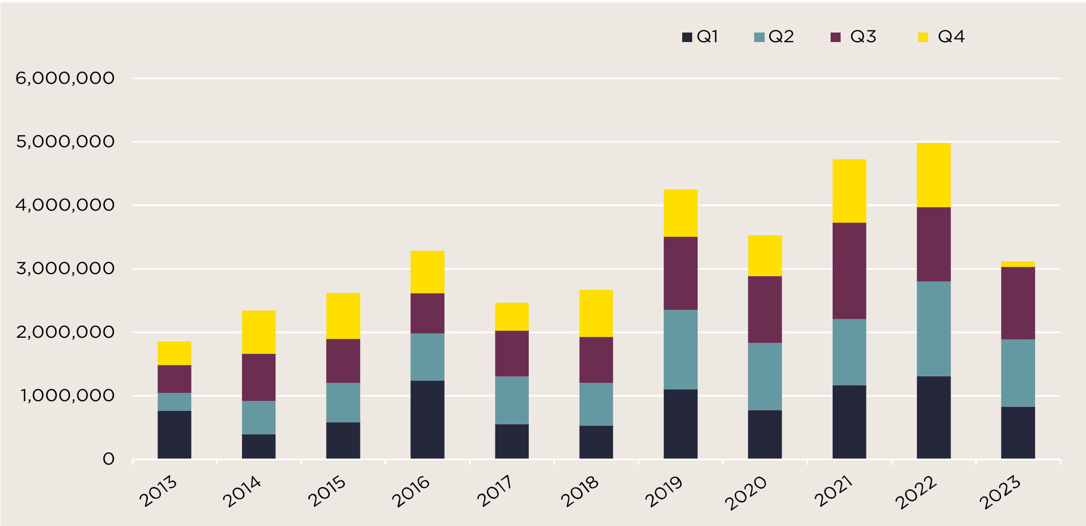


Source Savills Research using Federal Reserve Bank of New York, Global Supply Chain Pressure Index https://www.newyorkfed.org/research/gscpi.html.
**index integrates transportation cost data and manufacturing indicators to provide a gauge of global supply chain conditions (includes Baltic Dry Index,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

Rent growth decelerates

Despite economic headwinds, underlying demand through Q3 has elevated take-up rates even as competition for space normalises.

Persistent low vacancy conditions as take-up starts to normalise?
Quarterly leasing volumes on the east coast by year for the last decade



Source Savills Research

Pace of rental growth looks to be approaching pre-pandemic levels

Slight uptick in vacancy but structural tailwinds still driving demand

After sharp run up, rent growth rates are easing
Across the key core markets nationally, including Sydney West, Melbourne West, Brisbane Southside, Perth Core and Adelaide's Inner West, average prime net face rents are up nearly 50% since pre-pandemic. At its peak in Q2-2022, quarterly growth averaged more than 7.2%. While rent growth remains elevated compared to the historical annual average (+2.7%), quarterly rent growth rates across these key markets have slowed to their lowest level in two years (+1.1% Q/Q).

For Australia's three largest industrial core precincts, Sydney West, Melbourne West and Brisbane Southside, growth has slowed to an average rate of 1.8% in Q3.

Rent growth to normalise?
With the cycle of strong rental growth rates nearing its end, the pace of growth in the next 12 months is likely to align more with pre-pandemic trends.

Moderate uptick in vacancy, but still critically low
Vacancy rates have started to edge up on the East Coast, and as of September 2023 now average 1.7-1.8%, up from 1.6% in July and 1.3% in April 2023, according to Savills and SA1 Property. By location, Sydney's whole building vacancy (+3,000sqm) is 1.43%, up from 1.09% in July. In Brisbane, vacancy has increased marginally, rising to 2.0%, up from 1.9% in the previous quarter. Meanwhile, in Melbourne, whole building vacancy sits at 1.85%, just down from 1.96% in July.

Sublease availability rises but new supply slows
Alongside some caution in the broader economy, the availability of sublease space has increased on the market. Manufacturers are reducing their inventory holdings, and cost pressures remain elevated due to inflation. Industrial job ads peaked in mid-2022, and while ads are still nearly double the pandemic low, they have cooled significantly in recent months as hiring slows down.

This will likely see overall vacancy tick up next year, albeit modestly, given development starts have been pushed out and some markets still face a critical undersupply of land.

Melbourne and Sydney, in particular, have a limited window of available zoned and serviced land over the next few years. Most markets are averaging commitment rates above 30% on new supply, but any delays to spec project starts, and prolonged decision-making will increase competition for space when economic conditions show signs of stabilisation in 2024.

Rent growth rates show early signs of easing

Vacancy rises slightly as competition for space starts to normalise.

-0.2%
Industrial job ads have fallen for the second consecutive quarter (Sep-23) as unemployment starts to creep up.

+1.1%
Prime net face rents increase 1.1% Q/Q across the key core markets.

+1.3%
Secondary net face rents increase 1.3% Q/Q across the key core markets.

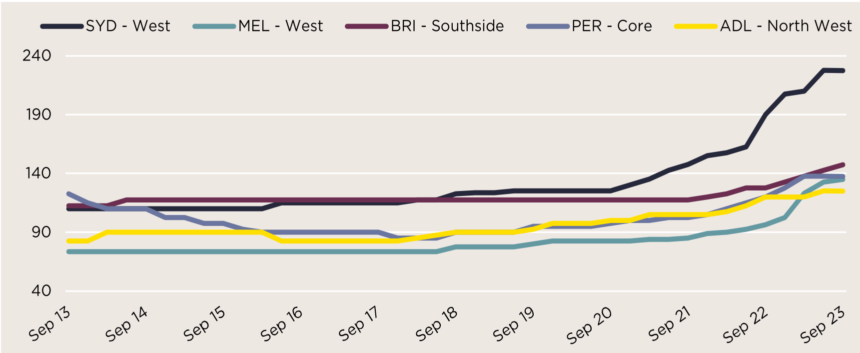
1.22m sqm
Estimated leasing take- up (+3,000 SQM) on the east coast in Q3, including pre-commitments.

1.85%
Average vacancy on the East Coast is 1.85% in Q3 2023 (Savills & SA1 Property).

Source Savills Research / ABS / LMIP

Prime net face rents

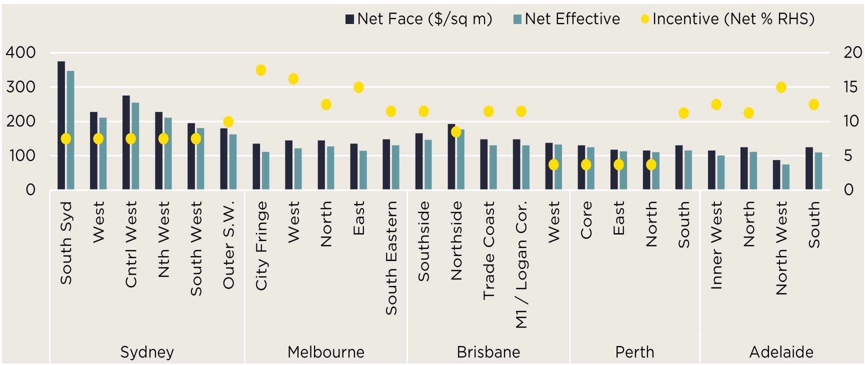
By key core market, $/sqm net face rent average



Source Savills Research

Net face and effective rents v incentives

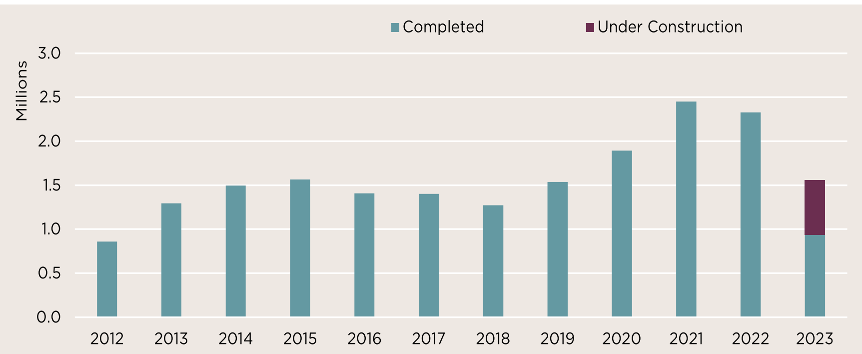
By submarket, prime average $/sqm and %



Source Savills Research

Development pipeline for east coast markets

Estimated sqm by development stage, in millions, sqm (NSW, QLD, VIC)



Source Savills Research

QUARTER HIGHLIGHTS

Inventories and annual take-up normalising

As inventories begin to normalise, occupiers are reassessing space requirements. High interest rates and inflationary pressures have weighed on tenant requirements. These pressures have impacted some firm's ability to support current operations and have seen some reduce their capacity and inventory holdings.

Uptick in pre-lease as tenants future proof

In Q3, 56% of leasing deals tracked were either spec or pre-commitments, above its 30% average rate pre-Covid.

While deal volumes were elevated due to Amazon's 209,000sqm pre-commitment in Craigieburn in Melbourne, they are still trending upwards compared to this time last year.

Total leasing volumes (+3,000sqm) reached c.1.22 million sqm in Q3, up from 1.1 million sqm in Q2. Despite economic uncertainty, the unemployment rate remains historically low. This has assisted leasing demand through the last two quarters, particularly for those focused on supply chain efficiencies.

Some developments pushed into 2024

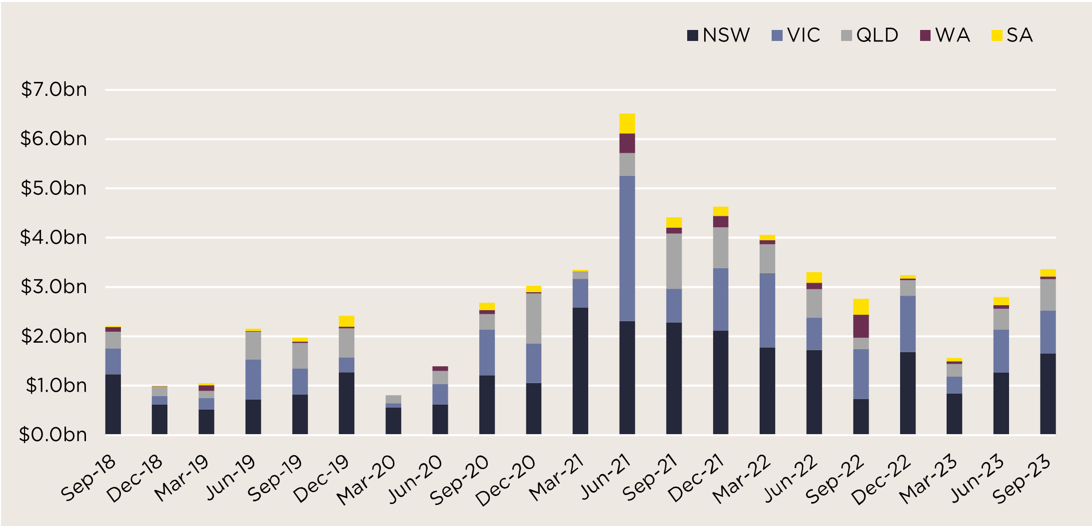
Savills has tracked c.1.5 million sqm of new development earmarked for completion on the East Coast in 2023, with around 60% of this pipeline already completed. c.82,000sqm has been tracked in Adelaide and Perth. Higher construction costs, labour shortages and legislative changes in Vic and NSW are sometimes impacting feasibility.

While new spec has experienced high commitment rates, especially in Melbourne, demand has shown signs of easing slightly and tenant decision making is likely to subdue take-up rates on new supply in the short-term. For those precincts with limited available supply, e.g. vacancy near or below 1.0%, including Sydney West, North West and South, Melbourne West, and City Fringe, and Brisbane's West, Northside and Southside, that competitive tension on new stock will remain.

Price discovery continues

The rising cost of capital has limited capital inflows, amid a widening bid-ask spread, but fundamentals are resilient and investors are waiting.

Signs in liquidity but activity has moderated from 2021-2022 highs
$10m+ industrial investment transactions quarter on quarter since 2018



Source Savills Research using MSCI RCA

Strong fundamentals persist, despite challenging economic backdrop

Some repricing but sector continues to benefit from structural tailwinds

Caution but still some liquidity

Current economic headwinds have meant that some investors are being more cautious. Higher interest rates have pushed up the cost of borrowing, and with the record period of rental growth easing from its high levels, the pressure on capital values is starting to trickle through. This has narrowed the pool of buyers who are able to move ahead with larger acquisitions.

Some investors are still opting to wait out this part of the cycle and this has limited capital inflows into the sector, which is down about 24% on the same time last year.

Bid-to-ask spread widens

The bid-to-ask spread between purchasers and vendors has widened further in recent months, with the cool down in investment volumes limiting sales evidence used to gauge current price levels. Prices have not yet adjusted enough to restore deal activity to long-term levels, and we are seeing this come through in the return profiles as yields continue to expand. Of the assets that have traded, prices have been on or near book values.

Focus on the long-run

Most investors are focused on long-term fundamentals amid the still low vacancy rates and the reversionary upside from market reviews or CPI-linked escalations. Driven by Australia's demographic tailwinds, this is sustaining liquidity levels for smaller scale transactions, while deals at the larger end will likely emerge under more stable interest rate conditions.

Investors still pick industrial

Significant institutional interest and capital demand remains for industrial, particularly from offshore funds. For example, Centuria secured a $500 million industrial investment mandate from a US private equity firm to focus on acquisitions within Australian infill markets. And last quarter, Japan's Government Pension Investment Fund committed $500 million to Blackstone's BREP X fund, which alongside the real estate arm of Ontario Teacher's Pension Plan (through Gateway Capital and Cadillac Fairview) has started to deploy capital into the sector.

Rate stability will set the tone for recovery and growth

Some repricing is unavoidable, but investors with capital, particularly those with little or no need for debt funding, including pension funds, privates and syndicate groups, will use this time to act opportunistically, and those investors sitting on the sidelines will be poised for a resurgence once the interest rate outlook becomes clearer. This will set the tone for recovery and start to unlock activity, as well as facilitate a floor in the pricing.

Gradual recovery in investment expected in 2024

Rate stability will help set the tone for recovery and facilitate a floor in pricing.

+20bps
Average market yields for prime and secondary have expanded by 20bps in most markets.

-24%
Transaction volumes have dropped 24% on the same period last year (Jan to Sep).

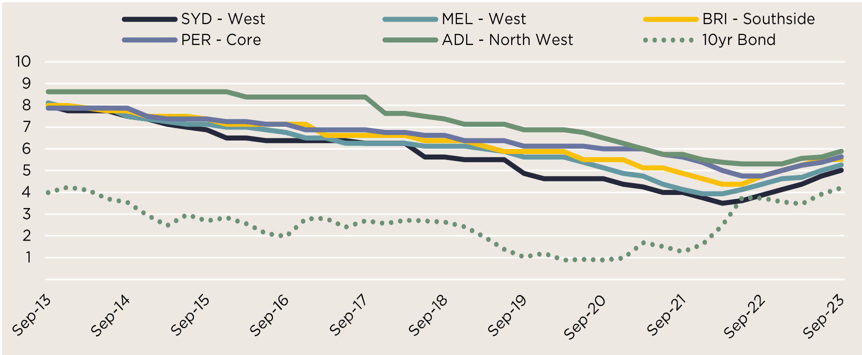
50%
Private, owner occupiers and syndicates accounted for 50% of total investment volumes in Q3, compared to its long run average of 30%.

66%
More than 66% deals tracked during Q3 were priced between $5-$50m.

Source Savills Research / MSCI

Key Markets - prime yield & 10yr bond rate

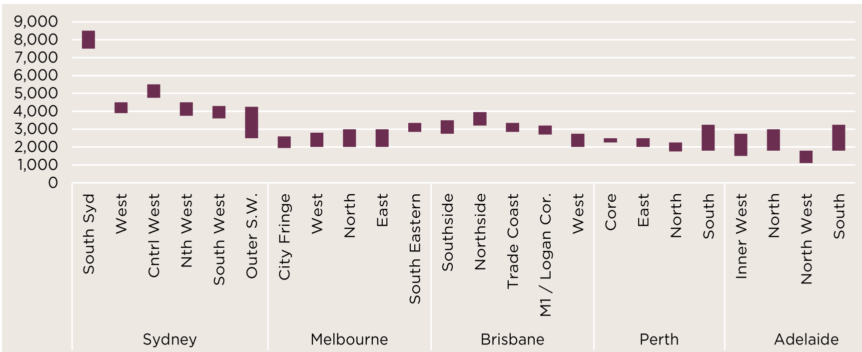
Average prime yield v 10yr bond rate, %



Source Savills Research / RBA

Typical capital value range

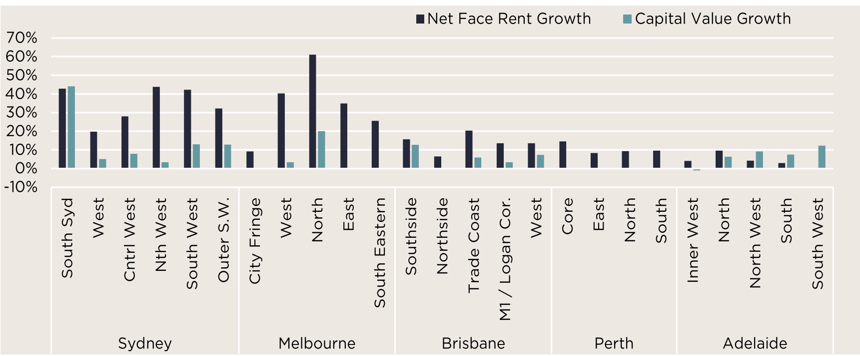
$/sqm prime average by submarket



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

Yields continue to move outwards

To date, repricing in the sector has been quite modest, with the strong rental growth rates helping to protect capital values. However, yields have continued to drift outwards, reflecting the headwinds facing property more broadly, including high interest rates, elevated inflation and prolonged decision making.

Across the east coast markets, prime yields have moved out an average 16bps, while in Adelaide and Perth, they have increased 12.5bps and 25bps, respectively.

Subdued investment

Investment volumes have remained muted, but values are generally holding, primarily due to the rent growth, which has partially offset any yield softening. However, the lack of transactional evidence has also supported the decision to hold values in Q3.

Privates, syndicates active but price point is low

Against this background of diminished investment volumes, there has been a slight uptick in private, syndicate and owner occupier acquisition activity, with this group accounting for around 50% of investment volumes ($5m+) in Q3. While this trend suggests that lower-leveraged investors are acting opportunistically and taking advantage of the lower levels of competition, it also reflects the slowdown in major investment activity. Most deals done during the quarter were in the $5 to $50 million bracket, with around 10% of volumes sitting above $100 million, less than half of its historical average.

Portfolio sale inflates Q3 turnover

In quarterly terms, there has been an uptick in investment volumes to c.$3.3 billion (+$5 million) in Q3, a 15% increase from the c.$2.9 billion recorded in Q2, but are down 20% when compared to the same period last year.

During the quarter, UniSuper announced a $560 million acquisition for a 50% stake in the $1.1 billion Australian Industrial Partnership from South Korea's National Pension Service. This transaction represents the largest portfolio trade since 2021. The portfolio consists of 20 assets located in key industrial markets in Sydney and Melbourne. UniSuper will stand alongside Blackstone and Dexus, who also own a share in the partnership.

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

Q3-2023 indicators by sub-market

	Net Face Rent $/sqm	Market Yield (%)	IRR (%)	Capital Value $/sqm	Land Value $/sqm
SYD - South Syd	375 (+15.4%)	4.50 (+25 bps)	6.38 (+25 bps)	8,000 (+10.0%)	3,500 (-6.7%)
SYD - West	228 (n/c)	5.00 (+25 bps)	6.63 (+25 bps)	4,200 (-2.3%)	1,475 (-9.2%)
SYD - Cntrl West	275 (+5.8%)	4.50 (+25 bps)	6.38 (+25 bps)	5,125 (n/c)	2,125 (-5.6%)
SYD - Nth West	230 (+24.3%)	5.00 (+25 bps)	6.63 (+25 bps)	3,875 (+3.3%)	1,300 (-13.3%)
SYD - South West	228 (+11.0%)	5.00 (+25 bps)	6.38 (+25 bps)	4,125 (n/c)	1,580 (-11.1%)
SYD - Outer S.W.	195 (+4.0%)	5.00 (+25 bps)	6.63 (+25 bps)	3,950 (n/c)	1,260 (-4.4%)
MEL - City Fringe	180 (n/c)	5.06 (+25 bps)	6.38 (+25 bps)	3,375 (n/c)	2,625 (n/c)
MEL - West	135 (+1.9%)	5.25 (+25 bps)	6.38 (+25 bps)	2,275 (+3.4%)	950 (n/c)
MEL - North	145 (+13.7%)	5.38 (+25 bps)	6.50 (+25 bps)	2,400 (n/c)	975 (+8.3%)
MEL - East	145 (+7.4%)	5.25 (+25 bps)	6.38 (+25 bps)	2,500 (n/c)	1,025 (+5.1%)
MEL - South Eastern	135 (+5.9%)	5.25 (+25 bps)	6.38 (+25 bps)	2,500 (n/c)	950 (+11.8%)
BRI - Southside	148 (+3.5%)	5.50 (n/c)	6.25 (n/c)	3,100 (+5.1%)	525 (n/c)
BRI - Northside	165 (n/c)	5.50 (n/c)	6.25 (n/c)	3,125 (n/c)	675 (n/c)
BRI - Trade Coast	193 (+5.5%)	5.25 (n/c)	6.13 (n/c)	3,575 (+5.9%)	750 (n/c)
BRI - M1 / Logan Cor.	148 (+3.5%)	5.50 (n/c)	6.25 (n/c)	3,100 (+5.1%)	450 (n/c)
BRI - West	148 (+3.5%)	5.50 (n/c)	6.38 (n/c)	2,950 (n/c)	400 (n/c)
PER - Core	138 (n/c)	5.63 (+25 bps)	6.88 (+25 bps)	2,375 (n/c)	500 (n/c)
PER - East	130 (n/c)	5.63 (+25 bps)	6.88 (+25 bps)	2,375 (n/c)	500 (n/c)
PER - North	118 (n/c)	6.25 (+25 bps)	7.25 (+25 bps)	2,250 (n/c)	450 (n/c)
PER - South	115 (n/c)	6.13 (+25 bps)	7.25 (+25 bps)	2,000 (n/c)	350 (n/c)
ADL - Inner West	130 (+4.0%)	5.75 (+25 bps)	7.00 (+25 bps)	2,525 (+5.2%)	850 (+3.0%)
ADL - North	115 (+2.2%)	5.88 (+13 bps)	7.00 (+25 bps)	2,125 (+6.3%)	300 (n/c)
ADL - North West	125 (n/c)	5.88 (+25 bps)	7.00 (+25 bps)	2,400 (+9.1%)	500 (+5.3%)
ADL – South	88 (n/c)	6.75 (n/c)	7.63 (n/c)	1,450 (+7.4%)	225 (n/c)
ADL - South West	125 (n/c)	5.75 (n/c)	6.88 (n/c)	2,525 (+12.2%)	650 (n/c)

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

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Research Analyst

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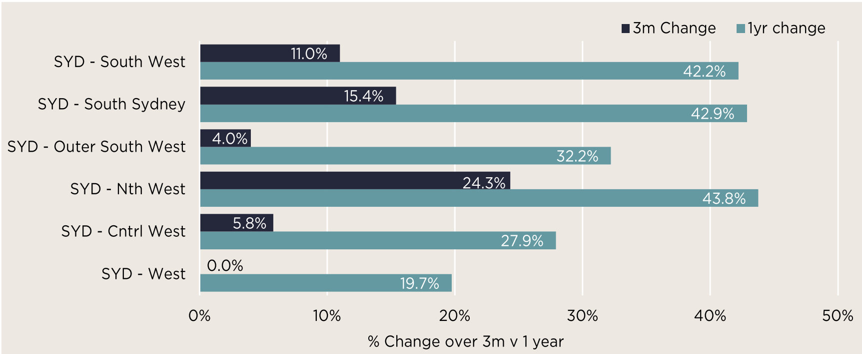
Sydney

Sustained low vacancy and a limited pipeline of new supply amid ongoing structural tailwinds continue to support investor preference for Sydney industrial.

Prime net rent growth rates are easing

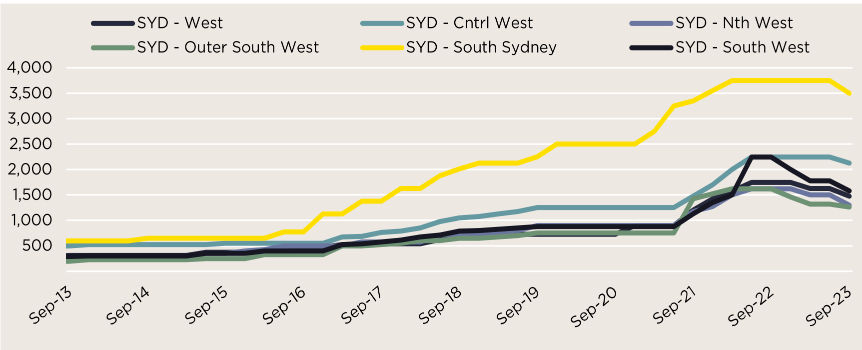
Prime Net Face Rent, % change, 3 months vs 1 year



Source Savills Research

Land prices start to fall

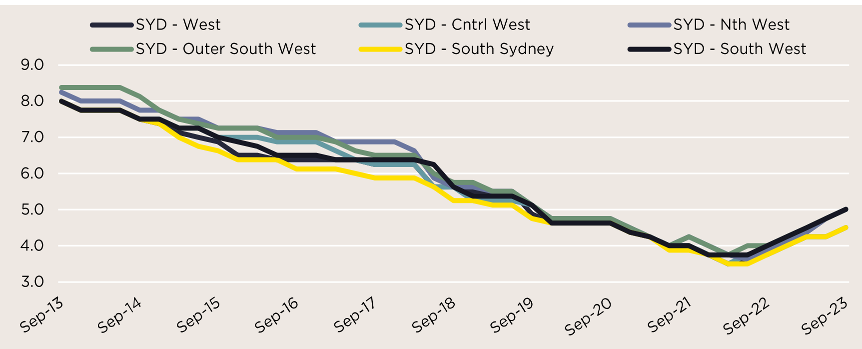
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Prime yields continue to reprice

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Sub $50m+ investment
Investment volumes reached c.$1.65 billion (+$5m) in Q3, up from c.$1.26bn in Q2, representing a 31% increase Q/Q, but decline of 11% on the same period last year. While there were several sales +$50m, including UniSuper's acquisition of Korea's National Pension Service 50% portfolio stake for $560m and Centennial's acquisition of two adjoining sites in Brookvale for $83.6m, most of the transactional activity occurred in the sub $50m price bracket. As a share of total sales, this activity is trending above its average, 69% share vs its 3-year average 41% share, suggesting that there is greater liquidity for smaller scale transactions.

Yield reprice
Prime and secondary market yields have expanded further in Q3, moving on average 25bps Q/Q to average 4.8% in Prime and 5.4% in Secondary. Capital values are reacting less quickly, with rental growth still helping to offset this rise.

Rental growth slowing
On a blended basis, prime net face rents are up 10.1% Q/Q (+34.8% Y/Y), underpinned by growth in South Sydney (+15.4%) and the South West (+11%), where vacancy rates remain at record low levels. All other precincts saw the pace of growth slow as signs emerged that enquiry levels have started to moderate. This is more starkly reflected in the secondary segment, with its growth rate slowing to 1.3% Q/Q, compared to a peak of 12% during Q1. In annual terms, secondary rents are up 25%.

Leasing take-up dips
It is estimated that c.200,000sqm has been leased (+3,000m^2) in Q3, with spec and pre-commitment leasing activity accounting for c.30% of total lease deals by volume. Activity has declined from the previous quarter. While the historically low vacancy rate is still impacting the churn of stock, it is understood that some occupiers are rationalising space requirements or pushing out decision making on expansion plans due to economic headwinds.

Vacancy ticks up slightly
Vacancy averages 1.43% (+3,000sqm), according to SA1 Property and Savills, which is marginally ahead of the 1.1% in the June quarter. However, vacancy for 10,000sqm+ buildings remains the most competitive band for occupiers in Q3, averaging closer to 1.0%.

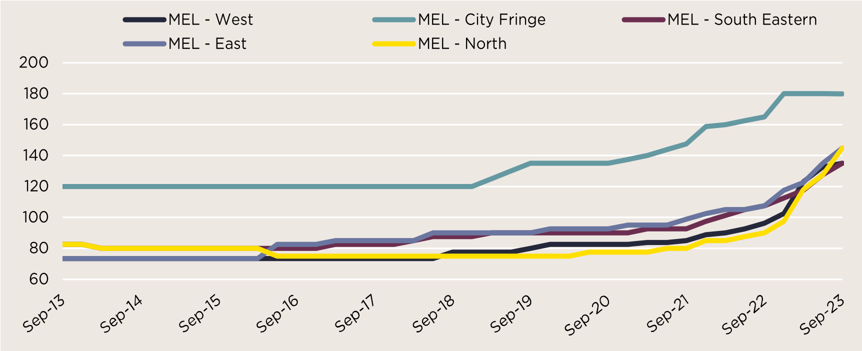
Feasibility focus
Land values across all precincts declined in Q3, with the largest falls occurring in the North West (-13.3%), South West (-11.1%) and the West (-9.2%). Policy changes relating to the recent Sydney Water Development Servicing Plan have increased development costs and impacted feasibility and economic rents.

Melbourne

Even as low vacancy persists, rental growth rates have started to moderate as leasing take-up rises to its highest level in a year.

Prime net rents have increased on average 6.3% Q/Q

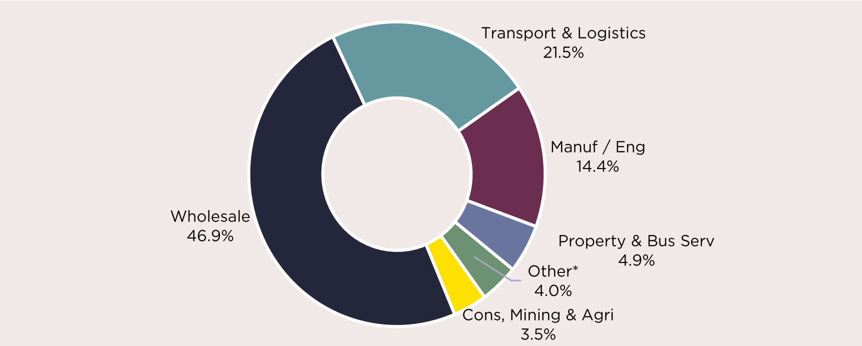
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Wholesale, transport and manufacturing dominates leasing

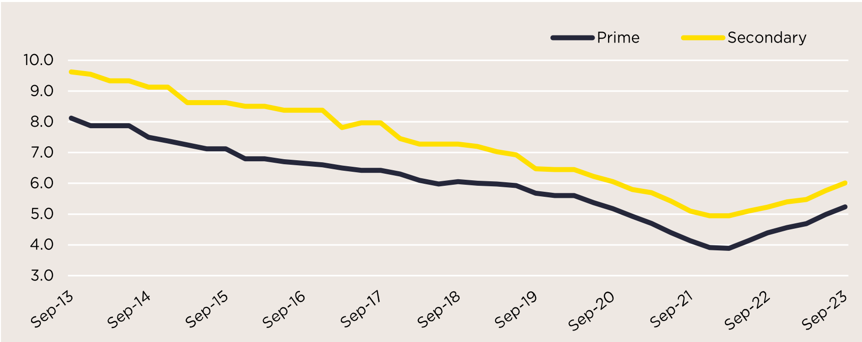
Share of Leasing Volumes by Subsector, % share in Q3



*Other includes undisclosed, government **Source** Savills Research

Yields expand across prime and secondary

Prime vs Secondary Market Yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Portfolio boosts Q3 volumes
Transaction volumes (+$5M) in Q3 reached c.$874m, buoyed by UniSuper's acquisition of a 50% stake in a portfolio of 20 assets in Sydney and Melbourne in a deal worth around A$560 million to become a co-investor with Blackstone and Dexus. In annual terms, volumes are down 27%, reflecting the broader narrative seen nationally due to higher interest rates.

Yields expand
Average market yields increased 25bps in Q3. Capital values have increased marginally on a blended basis, with rental growth helping to offset any significant yield movement.

Rental growth easing
On a blended basis, prime net face rents are up 5.4% Q/Q (+30.7% Y/Y). Secondary rents are still experiencing growth, up 2.8% Q/Q (+29.7% Y/Y), underpinned by low vacancy, especially in the West and Northern precincts. However, across the board, rental growth rates have started moderate as more space becomes available and rental affordability becomes a concern in some markets.

Leasing take-up at highest level in a year
c.770,000sqm has been leased in Q3, the highest quarterly volume since Q2 2022. This represents a 16% increase when compared to same time last year. This follows Amazon's pre-commitment to a 209,000sqm robotics fulfilment centre in Craigieburn, which Australian Super will develop in partnership with LOGOS.

There continues to be a sustained demand for well-located core assets after a period of prolonged low vacancy, and pre-commitment leasing has increased. Outside of Amazon, several other commitments have occurred during the quarter, including Super Retail Group, CTI Logistics, T2, Toll and Border Express.

Low vacancy sustains
Vacancy is averages 1.85% (+3,000sqm), according to SA1 Property and Savills, broadly in line with the June quarter. However, by building size, vacancy dips to 1.6% for buildings sized between 5,000 and 10,000sqm, indicating it remains the most competitive band for occupiers in Q3.

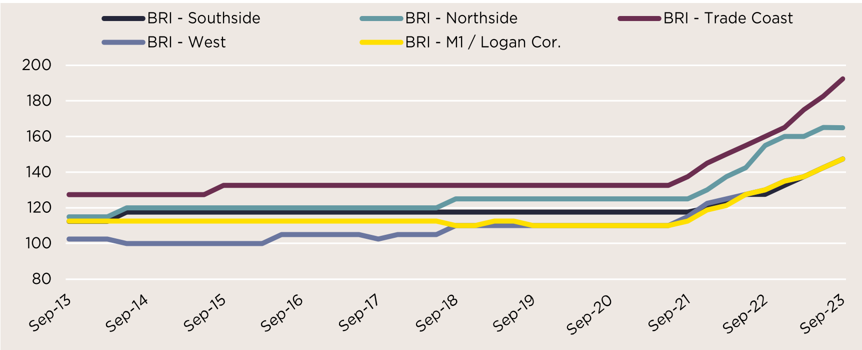
Land sales decelerate
Low supply and high occupier demand has been a tailwind for land value growth over the last three years, with the price of small lots (<5,000sqm) rising by 85% and 1-5ha sites by nearly 70%. While overall land sale activity has decelerated, there has been a small number of >5,000sqm lot sales in East, North and South East to justify a slight uptick in land rates (+3.6%) over the quarter. In annual terms, small lots are showing an increase 10.4% and 1-5ha sites 9.1%.

Brisbane

Market yields show signs of stabilising as the pace of rental growth eases, despite an uptick in leasing activity.

Prime net rents have increased on average 3.2% Q/Q

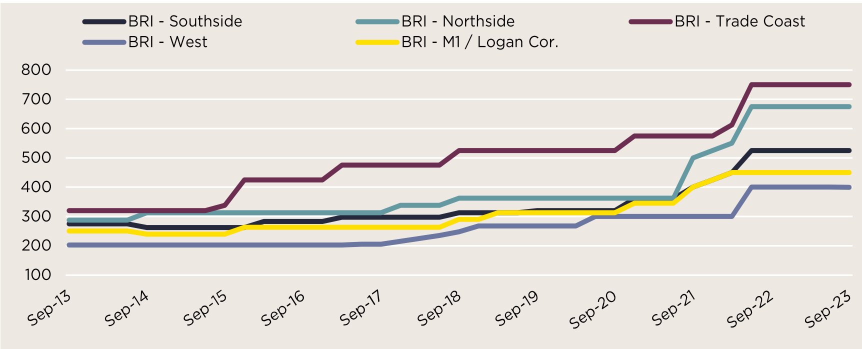
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth stabilising

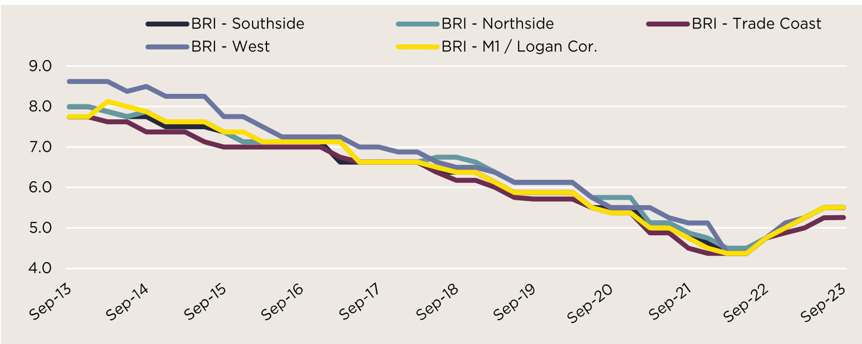
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Pace of yield expansion slows

Prime Market Yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Sub $50m active
Sales volumes ($5m+) reached c.$564 million in Q3, reflecting a 14% increase Q/Q, led by the $5 to $50 million bracket. Activity was concentrated in the South East, accounting for 27% of total volumes, followed by the Trade Coast, Southside and West. Private capital, including owner occupiers, syndicates, dominated transactions, accounting c.70%.

Market yields hold
Average prime market yields were unchanged in Q3 after moving outwards 25bps in Q2. Yield stabilisation amid ongoing, albeit low rental growth rates, has resulted in capital value growth across some precincts during Q3, including the Trade Coast (+5.9%), Southside (+5.1%) and M1/ Logan Corridor (+5.1%).

Rental growth eases
Prime net face rents grew 3.2% Q/Q (13.9% Y/Y), slightly less than the peak of 3.7% in Q2. Low vacancy in some pockets still produces growth rates above the Brisbane average, with the Trade Coast registering growth of +5.5% Q/Q. The Trade Coast also has the lowest vacancy rate in Brisbane at 1.03% (3,000sqm+).

Vacancy was higher in Southside at 2.99%, however, the region still experienced 3.5% growth in prime net face rents, while rents in Northside held. Rental growth in pockets of the secondary market outperformed prime, highlighting the undersupply in some areas. Secondary net face rents grew on average 4.3% Q/Q (14.8% Y/Y).

Critical undersupply of big sheds
While the overall vacancy rate has risen slightly over the quarter from 1.9% to 2.2%, vacancy in buildings 10,000sqm+ is sitting around 1.2%, according to SA1 and Savills, highlighting the undersupply of larger facilities.

Leasing take-up
c.196,000sqm has been leased (+3,000m²)in Q3, driven by take-up of existing facilities. The Southside was the most active, accounting for 48% of total deals, followed by the Trade Coast (31%) and the West (14%). The uptick in speculative development may lift vacancy rates later in the year. However, limited new supply in the more constrained markets will help to offset this as demand levels start to normalise from their recent robust pace.

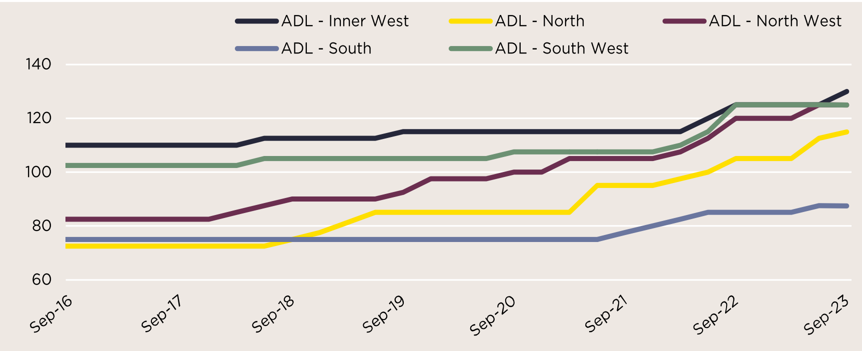
Land values holding
Small lot (<5,000sqm) land values have increased on average 55% Y/Y, however they remain stable over Q3. Medium lots (1-5Ha) and large lots (10Ha+) showed 2% growth Q/Q, reflecting 88% growth over the last three years. There have been few transactions compared to the previous two year period, with developers focused on building out existing pipeline.

Adelaide

Investment activity remains subdued but low vacancy sustains investor optimism for the outlook.

Rental growth rates start to ease in some markets

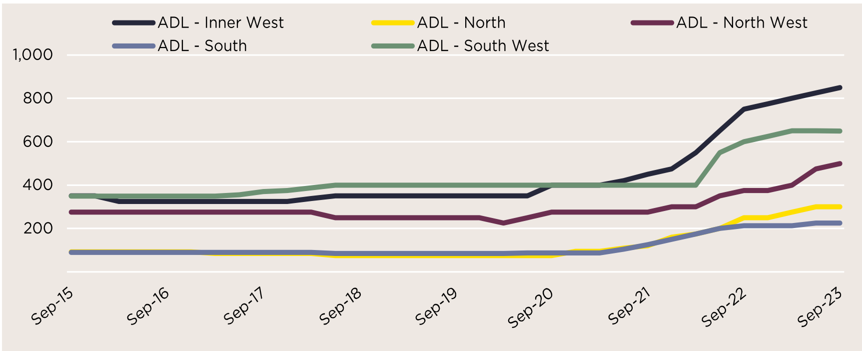
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth in select precincts

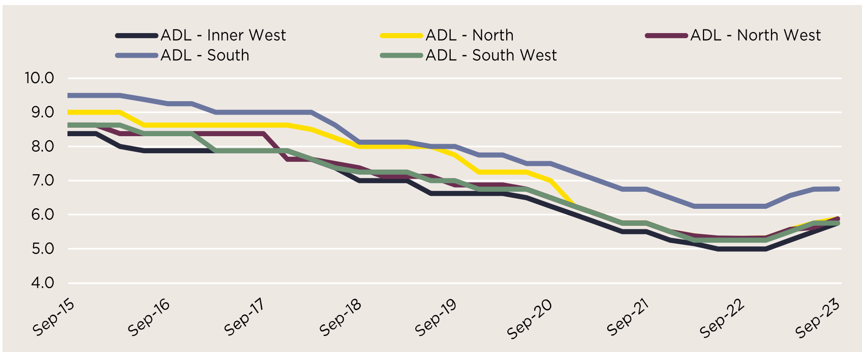
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields continue to soften

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Sales volumes down

Sales volumes ($5m+) reached c.$150 million in Q3, down 8% Q/Q (-46% Y/Y).

There has been a higher volume of smaller transactions, coinciding with the low-leverage investor type within the current market, as private investor and owner occupiers represented 82.2% of deals. The most significant transaction was the sale of 560-570 Grand Junction Road, Regency Park to MA Financial Group for $50 million.

Market yields expand

Prime market yields in Inner West and North West softened 25bps over Q3. North prime market yields softened 13bps, whilst yields in the South and South West held. On a blended basis, secondary market yields held over Q3, ranging from a low of 6.75% in the Inner West, to a high of 7.88% in the South.

Rental growth begins to moderate

Competitive tension for stock continues to place pressure on submarkets with available stock, including in the Inner West and North, with rental growth continuing, albeit at a moderated pace. On a blended basis, prime net face rents increased 1.3% Q/Q (4.1% Y/Y). A knock-on effect from the lack of prime stock was a notable uptick in secondary net face rents. In the North, secondary net face rents grew 6.7% Q/Q (8.7% Y/Y), while all other precincts held due to a lack of stock and transactional data.

Over the quarter, wholesale tenants dominated occupier markets, accounting for 26% of total deals in Q3, followed by transport & logistics (18%), construction, mining and industry (15%), health, education and community (13%) and IT and Tech (12%). Wholesaler Native Indulgence leased a 3,856sqm warehouse in Wingfield to expand operations. In Lonsdale, Finsbury Industrial Trailers took 2,310sqm of warehousing and Machinery disposals leased a 1,192sqm high exposure workshop in Gepps Cross.

Land value growth across select pockets

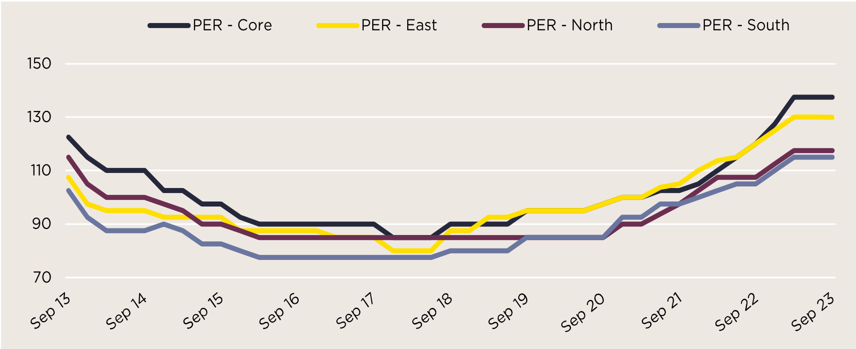
Land values have risen dramatically over the last few years due to a lack of serviced and benched sites, with small lots (<5,000sqm) demonstrating 15.5% growth Y/Y on a blended basis. Small lots held across most precincts, apart from the North West (+5.3% Q/Q) and the Inner West (+3.0% Q/Q). Medium lots (1-5Ha) increased 5.7% Q/Q (+24.9% Y/Y), with large lots (10Ha+) exhibiting 6.8% growth Q/Q (+37.5% Y/Y).

Perth

Rental growth rates begin to stabilise, as capital adjusts to higher interest rates.

Prime net rent growth stabilises

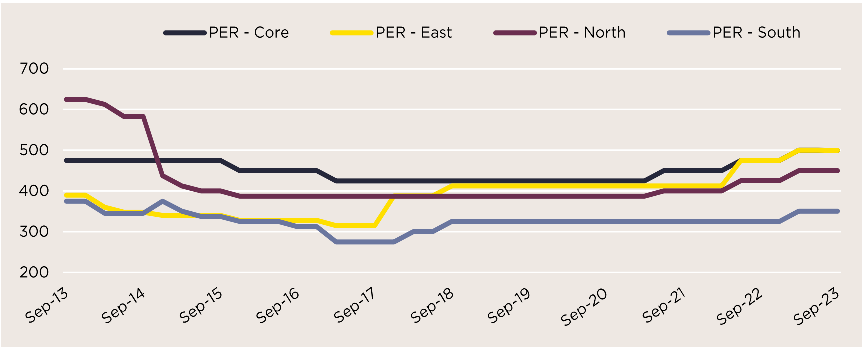
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land value growth holding

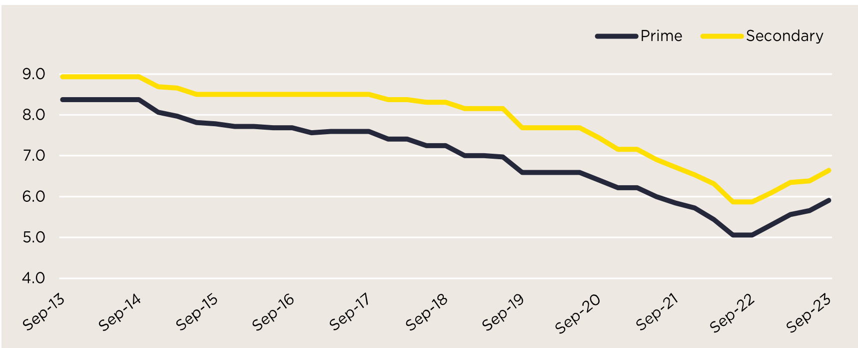
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields soften

Prime vs Secondary Market Yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Elevated interest rates subdue investment
Given the uncertainty towards interest rates and persistently high inflation, investment activity has remained subdued over the last 12 months.

Sales volumes ($5m+) reached $53 million in Q3, representing a 23% decrease compared to previous quarter and a significant decrease compared to same time last year.

Yields push out
Despite minimal transactional evidence to justify the yield expansion, investor sentiment reflects the impact of the rising cost of capital and yields have continued to soften. This has seen both prime and secondary market yields pushing out 25bps over the quarter to average 5.9% and 6.6%.

The spread between prime and secondary blended average yields was 73bps at September 2023, marking a decrease from the 81bps spread observed at the same time last year.

Capital values stable
Capital values remained stable in Q3, supported by rental growth through the year, although this has now eased. The lack of significant transactional evidence also contributed to the decision to maintain current values this quarter.

Annual rent growth offset yield softening but is normalising
Average prime net face rents have held for the second consecutive quarter, with the lack of deal evidence making it difficult to justify an increase. Across the Core and East precincts, prime net face rents averaged $134/sqm in Q3 and sit in a range that extends as high as $140-$150/sqm, representing an increase of c.11.5% on the same time last year.

Land values remain unchanged
Land sales have decelerated and few new sites are being offered to the market. As a result, there is limited evidence to support any further uptick in land rates in Q3.

On an annual basis, the price of small lots (<5,000sqm) has increased on average 5.9%, while medium lots (1-5ha) are up 6.9%. Further price stabilisation will likely to provide some confidence to developers looking at feasibility in the second half of the year. Large lots (+10ha) have increased 6.7% over the year to September 2023.

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