Australia Industrial – February 2024

SPOTLIGHT
Savills Research

Shed Briefing

savills

Rental growth still in play • Rate cuts come into view • Gradual investment recovery in 2024

Rate cuts come into view

Moderating inflation drive bond yields lower as expectations of central bank pivot increase

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 (including the recent attacks on ships in the Red Sea), 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 drive a rebound in consumer spending.

A rebound to investment

This recent shift in sentiment, underpinned by this outlook and potential pivot to rate cuts later this year, should 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. There are early indications that this adjustment is gathering momentum in Australia after a significant lag compared to major advanced economies.

Central banks to pivot

Easing inflation pressures have seen major economy government bond yields decline in recent months from the highs reached late last year as financial markets price in more interest cuts this year. Australian and US 10-year bond yields have both declined by around 65 basis points since the end of October, while the UK and German equivalents have fallen by 45 basis points.

Lower bond yields reflect increasing confidence that central banks will begin to ease monetary policy later this year. Financial markets are pricing in around 70bps of cuts in 2024 by the US Federal Reserve starting around mid-year, while the ECB is expected to lower its policy rate by 100bps.

In Australia, the RBA is expected to deliver at least one rate cut in 2024, with one 25-basis point move fully priced in by November.

Inflation moderating

The shifting outlook for interest rates is being underpinned by recent weaker than expected economic activity and inflation.

GDP growth slowed to 0.2% in Q3 (2.1% Y/Y), with household consumption, the largest component of GDP, making no contribution to growth. More timely data suggest consumer spending has slowed further in recent months, with retail sales falling by 2.7% in December to be just 0.8% higher over the year, well below the rate of inflation and population growth.

In line with slowing activity, inflation is moderating at a faster than expected pace. Annual headline inflation slowed from 5.4% in Q3 to 4.1% in Q4, and down from the recent peak of 7.8% in Q4 2022. Underlying inflation is also softening, with annual growth in trimmed mean inflation slowing to 4.2% in Q4, down from 5.1% in Q3, and materially below the RBA's forecast of 4.5%

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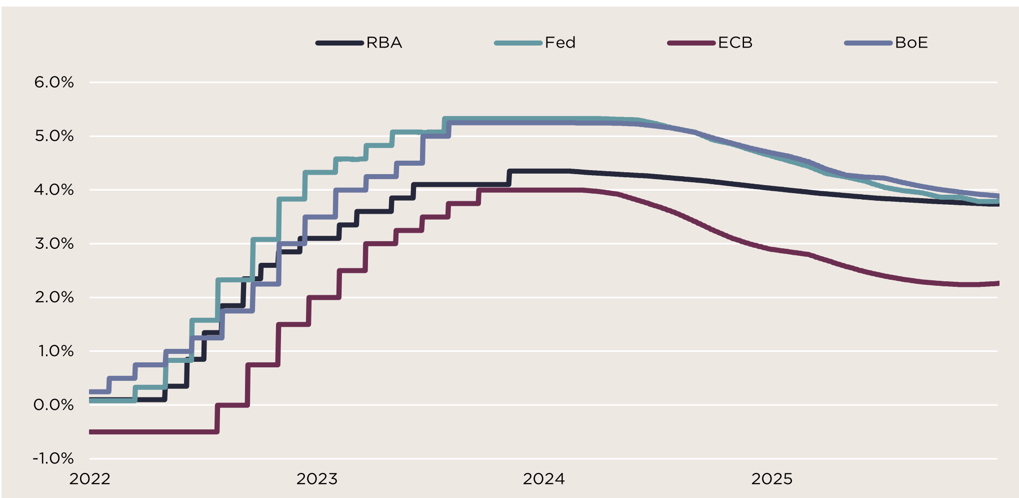
Major central bank policy rate outlook

Futures pricing, daily, %



Source Savills Research / Macrobond (futures pricing as at 14 February 2024)

Positive outlook for inflation but geopolitical uncertainties pose risks

While inflation pressures are easing, the outlook remains uncertain. Services price inflation could remain sticky, while disruptions to Red Sea trade, which have impacted supply chains and increased shipping costs, could potentially pose upside risks to inflation.

The New York Fed's Global Supply Chain Pressure Index (GSCPI), on the right, shows the current state of the logistics industry. The index for January 2024 moved to -0.1 from December's -0.15. While a reading below zero suggests below normal supply chain pressures, it may also indicate that shipping disruptions linked to the Red Sea attacks have yet to come through fully. However, in the first signal that the crisis is impacting air freight, Xeneta recently reported that global air cargo volumes rose by 10% Y/Y as shippers' concern over hostilities in the Red Sea (and an early Lunar New Year) encouraged some to shift to airfreight. Xeneta notes that fuller cargo holds are yet to translate into higher rates.

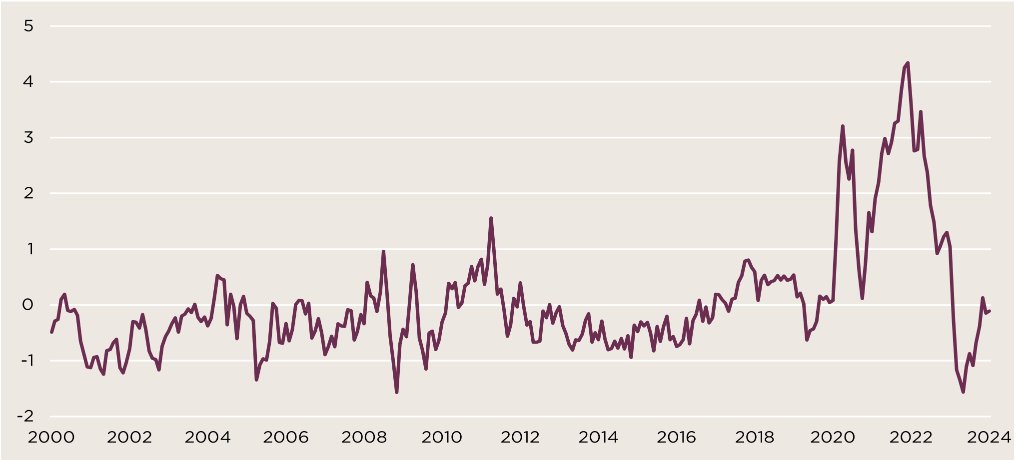
Notably, January's GSCPI reading is still well below the record 4.33 index reading in December 2021, when the pandemic severly impacted supply chains. A key driver in the global surge in inflation pressures through 2022 and 2023, which have now begun to decrease.

For Australia, commentary suggests that the disruption is adding three to four+ days to direct shipping to Australia and more than 10 days for those containers going via Singapore. Higher shipping costs on ocean freight are also being passed on to importers, particularly those businesses importing goods from Europe. This may be contributing to a rise in sublease availability, and other knock-on effects due to recent economic challenges, as wholesalers de-stock inventory back to a just-in-time strategy.

Source Xeneta.com/resources 1 Feb 2024

Only slightly higher supply chain pressure in January

Global supply chain pressure index

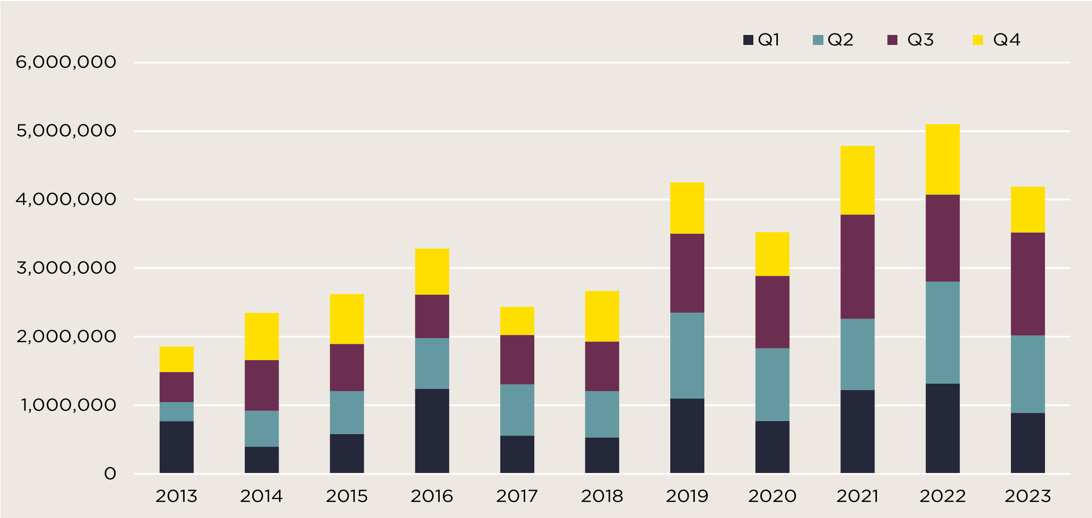


Source Savills Research using Federal Reserve Bank of New York, Global Supply Chain Pressure Index January 2024 https://www.newyorkfed.org/research/gscpi.html.
**index integrates transportation cost data and manufacturing indicators to provide a gauge of global supply chain conditions (includes Baltic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

Rent growth still in play

Despite an uptick in vacancy, rents are still rising, albeit more slowly, as the primary demand drivers sustain their resilience.

After rising in Q3, take-up cools off but remains above average
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

Rental growth cycle is still playing out
Despite signs that prime rental growth rates were normalising in Q3, there's been a final push through Q4 with the broader market still facing low vacancy conditions amid a pull-back in new spec development. The availability of prime space is still far below pre-pandemic levels, and this imbalance is resulting in real rental growth, albeit at lower levels than in Q1-2023.

Across the key core markets, Sydney West showed an increase of 2.2% in Q4, Melbourne West +2.8%, Brisbane Southside +3.4% and Perth Core +3.6%. Prime rents in Adelaide's North West have stabilised but are still up 25% since pre-pandemic.

Growth more than double its pre-pandemic average
For Australia's three largest industrial core precincts, Sydney West, Melbourne West and Brisbane Southside, prime rental growth has slowed to an average rate of 2.8% in Q4, up from 1.8% in Q3. While this is below its peak growth rate of 8.3% in Q1-23 when vacancy rates edged below 1.0%, in aggregate, it is more than double its pre-pandemic decade annual average growth rate of just 1.2%.

Cyclical headwinds ease market tension
Industrial job ads are nearly double their pandemic low, but there are signs that this resilience has cooled in recent months. However, employers still need help filling advertised roles. 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.

Vacancy rising but still below its equilibrium
Vacancy rates have continued to edge up on the East Coast, and as of January 2024, they now average 2.4%, up from 1.8% in September, according to Savills and SA1 Property. By location, Sydney's whole building vacancy (+3,000sqm) is 1.91%, up from 1.43% in September. In Brisbane, vacancy has increased marginally to 2.97%, up from 1.9% in the previous quarter. Meanwhile, in Melbourne, whole building vacancy sits at 2.4%, up from 1.8% in July.

Average vacancy on the East Coast is expected to tick up in line with a slight moderation in tenant demand in the short term but should remain below its equilibrium range of 3-4%. Some development starts are being pushed out, but land supply remains constrained, and the population is still growing. This will keep tension on availability, especially prime options.

Rent growth cycle still running, albeit at a slower rate

Vacancy rises slightly as competition for space starts to normalise.

70%
Industrial job ads are still 70% above their pre-pandemic level.

+2.7%
Prime net face rents increase 2.7% Q/Q across the key core markets.

+2.0%
Secondary net face rents increase 1.3% Q/Q across the key core markets.

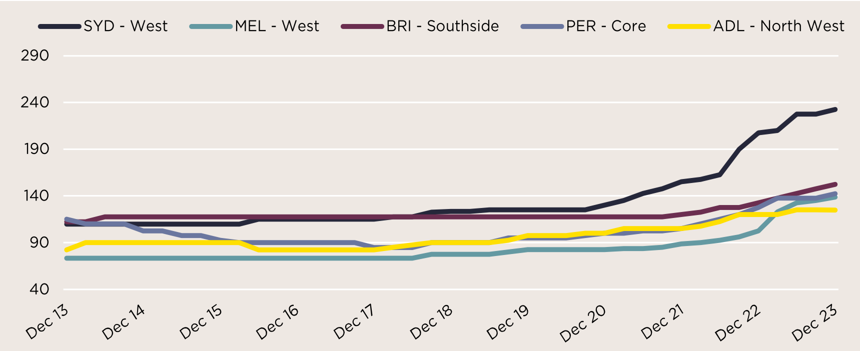
755,000sqm
Estimated leasing take- up (+3,000 SQM) on the east coast in Q4, including pre-commitments.

2.4%
Average vacancy on the East Coast is 2.4% January 2024 (Savills & SA1 Property).

Source Savills Research / ABS / LMIP

Prime net face rents

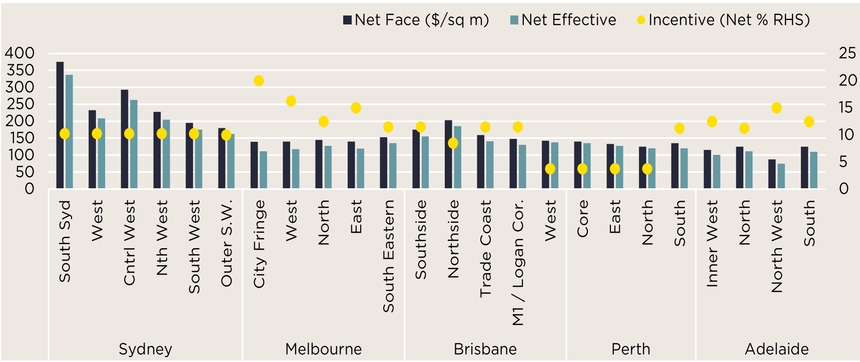
By key core market, $/sqm net face rent average



Source Savills Research

Net face and effective rents v incentives

By submarket, prime average $/sqm and %



Source Savills Research

Transport, logistics and wholesalers dominate take-up

Share of leasing volumes by subsector, % share of leasing in 2023

*Other includes undisclosed, health, property & business services, government

Source Savills Research

QUARTER HIGHLIGHTS

10,000sqm in demand

Leasing take-up (+3,000sqm) reached c.755,000sqm in Q4. This is about half the volumes recorded in Q3, which was revised up to c.1.5 million sqm after additional deal evidence came through, including c.115,000sqm in lease renewals. Approximately 64% of take-up in Q4 was for buildings 10,000sqm or larger.

Lease pre-commitments accounted for c.38%, slightly down on the previous quarter, buoyed by Amazon's 209,000sqm pre-commitment in Craigieburn in Melbourne. However, it remains above its average 30% pre-pandemic share.

Transport & Logistics most active nationally

In 2023, transport & logistics tenants were the most active takers of space nationally, accounting for c.36% of take-up (+3,000sqm), followed by wholesalers (c.35%) and manufacturing/ engineering (c.15%). However, by state, transport & logistics occupiers were more dominant in NSW, Qld, and WA, while wholesalers were more active in Vic and SA.

Some developments pushed into 2024

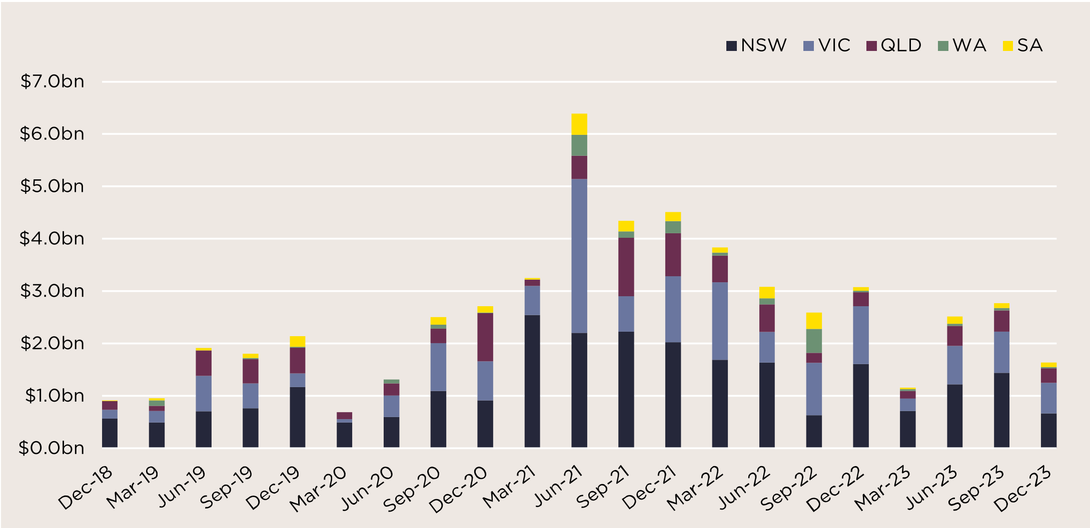
Savills has tracked c.2.1 million sqm of new development on the East Coast in 2023, with a further c.160,000sqm tracked as completed in Adelaide and Perth.

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 2.0%, including Sydney West, Outer South West, North West and South, Melbourne West, South East and East, and Brisbane's South East, Northside and Trade Coast, that competitive tension on new stock will remain.

Recovery in sight

Price discovery is gathering momentum, helping to reduce the gap between buyer and seller expectations to drive the recovery.

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
Market repricing to facilitate investment rebound

Investment volumes still above average
Pricing has been slow to adjust, and while this had narrowed the pool of buyers who can move ahead with some transactions, investment activity (+$10m) still exceeds the years before 2019/2020 when volumes started climbing before reaching their frenzied $21m peak in 2021.

Some investors are still opting to wait out this part of the cycle, which has limited investment activity, down about 38% from 2022. Still, when we compare it to the five-year pre-pandemic average, investment volumes are 55% higher.

Industrial remains a high conviction theme
Investor appetite remains steadfast, boosted by demographic tailwinds, infrastructure, net-zero targets and growth in technology demands (including e-commerce, AI, cyber security, data storage).

Beyond the broader challenges related to the interest rate environment, 2023 ended with below-average vacancy rates across the board. Despite some easing of rental growth rates, face rents are still 60% higher than pre-pandemic levels. The sector continues to look attractive to a large pool of capital, with target allocations to real estate remaining unchanged over the last two years despite some dislocation in the market, according to the 2023 Institutional Real Estate Allocations Monitor (*see page 7*).

The results of ANREV's Investment Intentions Survey 2024 also reveal a clear shift towards industrial/logistics, with Australian markets, along with Japan, dominating investors preferred cities for this investment in 2024 (*see page 7*). Industrial/Logistics has also overtaken residential as the preferred sector in APAC markets, with 93% of respondents indicating they would invest in the sector in 2024, up from 76% on 2023 .

Recovery coming in 2024
Interest rate stability and further pricing adjustment will help reduce the gap between buyer and seller expectations and fuel a recovery in investment market activity. We expect investment activity to gain momentum through 2024, with ongoing subdued activity in the first half of the year and the recovery gaining more traction later in the year and into 2025.

While benchmark performance indices for a broader range of commercial property assets are not yet available for Q4-23 (incorporating December valuations), property fund performance data points to pricing adjusting more fully to the sharp shift to higher interest rates since mid-2022. This adjustment will reduce the gap between buyer and seller expectations and, ultimately, drive a recovery in investment activity.

Gradual recovery in investment expected in 2024

Interest rate stability to spur recovery in investment activity

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

-39%
Transaction volumes have dropped 39% between Q3 and Q4 2023

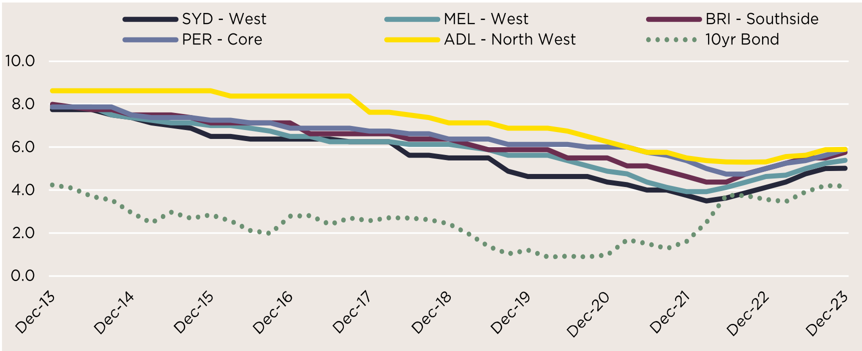
53%
Private, owner occupiers and syndicates accounted for 53% of total investment volumes in Q4.

28%
28% of deals tracked during Q4 were priced between $50- $100m.

Source Savills Research

Key Markets - prime yield & 10yr bond rate

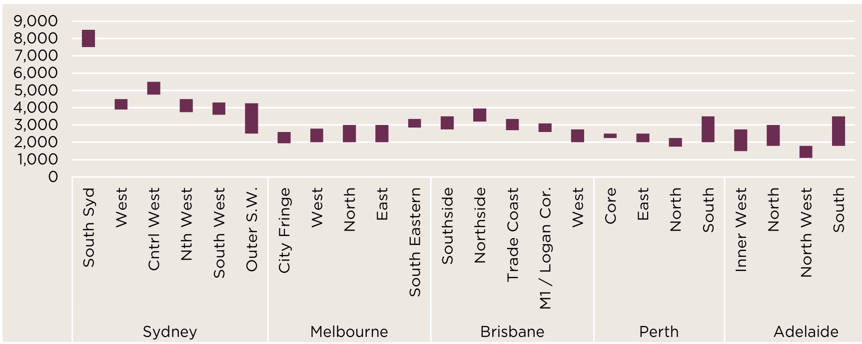
Average prime yield v 10yr bond rate, %



Source Savills Research / RBA

Typical capital value range

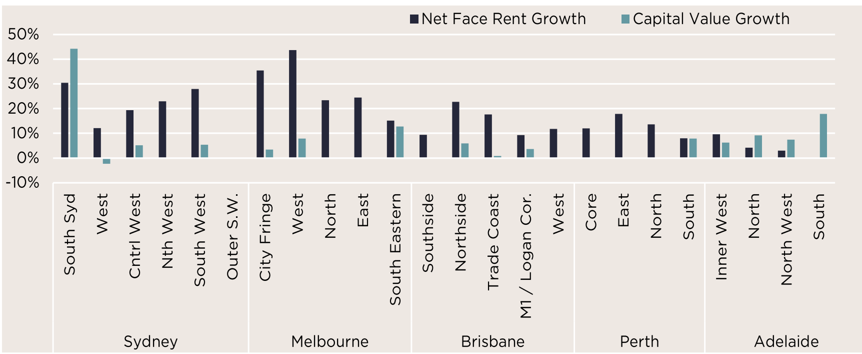
$/sqm prime average by submarket



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

Investment dips but still fares better than some

In quarterly terms, investment volumes reached $1.68 billion (+$10 million) in Q4, a 39% decrease from $2.77 billion recorded in Q3. In annual terms, c$8.1 billion (+$10 million) was recorded in 2023, down 36% on 2022. This is less than the nearly 60% decrease in Australian office, industrial and retail investment volumes combined, which suggests that industrial is faring slightly better than others by sector.

Slight uptick in private capital but no major deals

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 c.53% of investment volumes ($10m+) in Q4.

There has been a decline in large transactions, which at their quarterly peak in 2021, accounted for nearly 80% of volumes. In the first half of 2023, deals above $100m averaged about 30% of total transaction volumes, compared to about 10% in the year's second half.

$50-$100m sweet spot

Conversely, smaller deals requiring less debt have gained prominence. Notably, transactions in the $50 to $100 million bracket are the sweet spot, with their share of total volumes growing from their historical quarterly average of about 21% to 28% over 2023.

Yields continue to move outwards

While yields have continued to drift outwards in Q4-23, 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.

Across the capital cities, except Adelaide, which held, prime yields have moved out an average of 20bps. There was less movement in secondary yields, which in aggregate held in Melbourne and Adelaide but moved out an average 10bps in the other cities.

**From page 6:*
The 2023 Real Estate Allocations Monitor includes research collected on a blind basis from 175 institutional investors in 25 countries is conducted by Cornell University's Baker Program in Real Estate with Hodes Weill & Associates.

The Investment Intention Survey is carried out by three regional real estate associations, including the Asian Association for Investors in Non-Listed Real Estate Vehicles (ANREV), European Association for Investors in Non-listed Real Estate Vehicles (INREV) and the Pension Real Estate Association (PREA). The 2024 survey attracted responses from 90 participants globally, of which 85 are institutional investors, and 5 are funds of funds managers from 19 countries. The survey coverage reached more than 89.7 billion USD of AUM in real estate.

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

Q4-2023 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 (+38 bps)	6.63 (+25 bps)	8,000 (n/c)	3,500 (n/c)
SYD - West	233 (+2.2%)	5.00 (n/c)	6.88 (+25 bps)	4,200 (n/c)	1,475 (n/c)
SYD - Cntrl West	293 (+1.6%)	4.88 (+38 bps)	6.63 (+25 bps)	5,125 (n/c)	2,125 (n/c)
SYD - Nth West	233 (+1.1%)	5.06 (+6 bps)	6.88 (+25 bps)	3,875 (n/c)	1,300 (n/c)
SYD - South West	228 (n/c)	5.06 (+6 bps)	6.63 (+25 bps)	4,125 (n/c)	1,580 (n/c)
SYD - Outer S.W.	195 (n/c)	5.25 (+25 bps)	6.88 (+25 bps)	3,950 (n/c)	1,260 (n/c)
MEL - City Fringe	180 (n/c)	5.06 (n/c)	6.38 (n/c)	3,375 (n/c)	2,625 (n/c)
MEL - West	139 (+2.8%)	5.38 (+13 bps)	6.63 (+25 bps)	2,275 (n/c)	950 (n/c)
MEL - North	140 (-3.4%)	5.50 (+13 bps)	6.50 (n/c)	2,400 (n/c)	975 (n/c)
MEL - East	145 (n/c)	5.38 (+13 bps)	6.38 (n/c)	2,500 (n/c)	1,025 (n/c)
MEL - South Eastern	140 (+3.7%)	5.38 (+13 bps)	6.50 (+13 bps)	2,500 (n/c)	950 (n/c)
BRI - Southside	153 (+3.4%)	5.75 (+25 bps)	6.75 (+50 bps)	3,100 (n/c)	525 (n/c)
BRI - Northside	175 (+6.1%)	5.75 (+25 bps)	6.75 (+50 bps)	3,125 (n/c)	675 (n/c)
BRI - Trade Coast	203 (+5.2%)	5.50 (+25 bps)	6.38 (+25 bps)	3,575 (n/c)	750 (n/c)
BRI - M1 / Logan Cor.	159 (+7.6%)	5.75 (+25 bps)	6.75 (+50 bps)	3,025 (n/c)	450 (n/c)
BRI - West	148 (n/c)	5.88 (+38 bps)	7.00 (+63 bps)	2,850 (-3.4%)	400 (n/c)
PER - Core	143 (+3.6%)	5.88 (+25 bps)	6.88 (n/c)	2,375 (n/c)	513 (+2.5%)
PER - East	140 (+7.7%)	5.88 (+25 bps)	6.88 (n/c)	2,375 (n/c)	513 (+2.5%)
PER - North	133 (+12.8%)	6.50 (+25 bps)	7.25 (n/c)	2,250 (n/c)	463 (+2.8%)
PER - South	125 (+8.7%)	6.38 (+25 bps)	7.25 (n/c)	2,000 (n/c)	375 (+3.3%)
ADL - Inner West	135 (+3.8%)	5.75 (n/c)	7.00 (n/c)	2,750 (+8.9%)	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 (+5.0%)	800 (+6.7%)

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

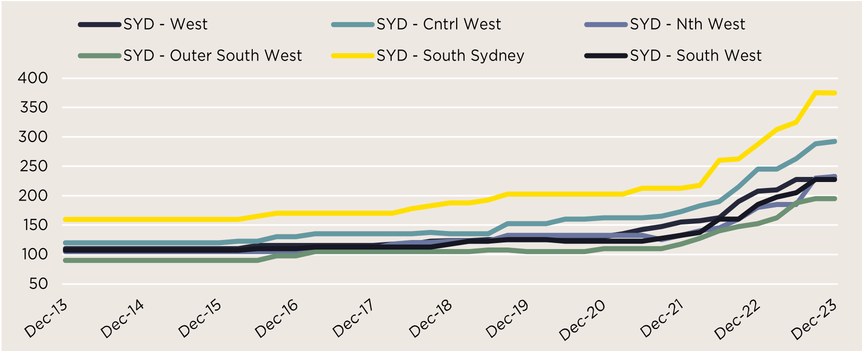
with
Barbara Cocca
Research Analyst

Sydney

Limited new supply, ongoing structural tailwinds and sustained rental growth will see the investment market regain its momentum when rates stabilise

Prime net rent growth rates are easing

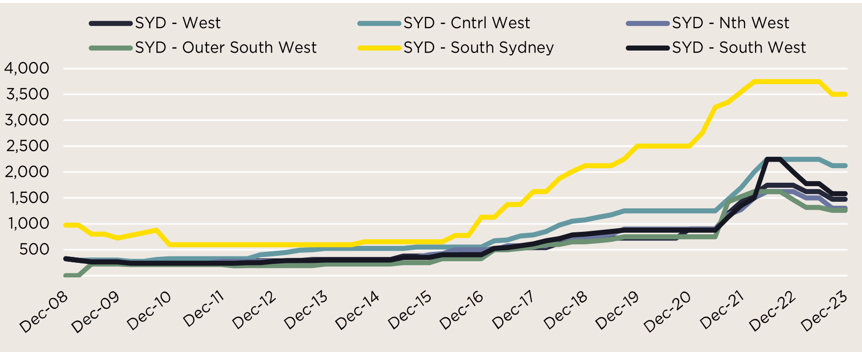
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land prices holding

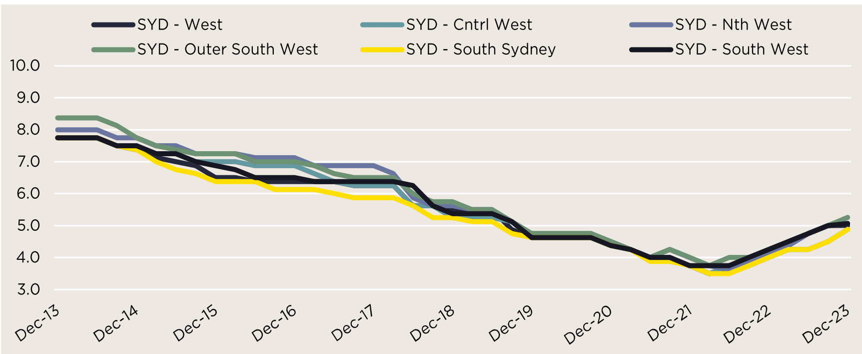
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Prime yields expand

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investors unlocking value-add opportunities

Investment volumes reached c.$827 million (+$5m) in Q4-23, down c.50% on Q3. Private capital accounted for 45% of deals in Q4, but interestingly, funds and trusts dominated, with 49% share of deals done by value; this is up from an average 38% quarterly share since Dec-22.

Notable transactions include Dexus selling 51 Eastern Creek Drive in the West, occupied by DHL and Independent Living Specialists, to Pittwater Industrial for $87 million, ESR's acquisition of a 30,114sqm facility on Templar Road in Erskine Park for $107 million on a reported yield of 5.89% and the off-market sale of 19-21 Loyalty Road, North Rocks (19,231sqm) for $70.6 million to Centuria, as part of Starwood Capital's $500 million Last Mile Logistics Partnership.

Yields expand

Prime market yields expanded 20bps in Q4, to average 5.00%, while average secondary yields remained stable at 5.50%. Capital values were unchanged and, in annual terms, showed 11.1% growth on a blended basis. A limited pool of deal evidence remains a key theme nationally.

Rent growth slowing

On a blended basis, prime net face rents are up 0.8% Q/Q (+23.7% Y/Y), underpinned by growth in the West (2.2%), Central West (1.6%) and North West (+1.1%).

Vacancy edges up

Vacancy averages 1.91% (+3,000 sqm) in January 2024, according to SA1 Property and Savills, only marginally ahead of the 1.43% in September. Competitive tension remains elevated for 20,000sqm+ buildings, where vacancy averages c.1.0%, limiting tenant options. Of the precincts, Western Sydney held the lowest average vacancy rate of 1.47% in January 2024 (buildings +3,000sqm). Notably, the Outer South West and South West saw a slight decrease in vacancy, while vacancy edged up in the South, North West, Central West and South West. The increase in sub-lease availability was the main driver.

Annual take-up above average

c.135,000sqm of leasing take-up (+3,000sqm) was recorded in Q4. This is a decline from the c.379,000sqm leased in Q3. However, in annual terms, take-up reached 1.3 million sqm, above its long-run annual average of 1.1 million sqm.

Land values hold

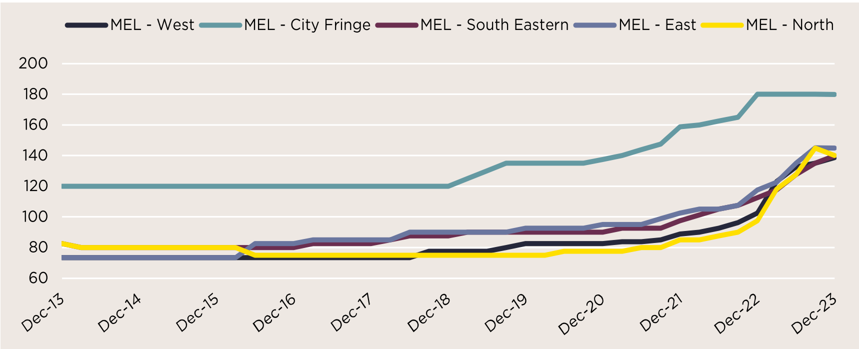
Land values remained stable for the second consecutive quarter. However, in annual terms, small lots (<5,000sqm) fell by 12.4%, with the shift occurring in the first half of 2023. Higher build costs, inflationary pressures, and the policy changes relating to the Sydney Water Development Servicing Plan have also increased development costs, impacting feasibility and economic rents.

Melbourne

Rental growth has eased slightly, but leasing activity has sustained its resilience, to help investor sentiment regain its momentum when rates stabilise.

Prime net rent growth rates start to moderate

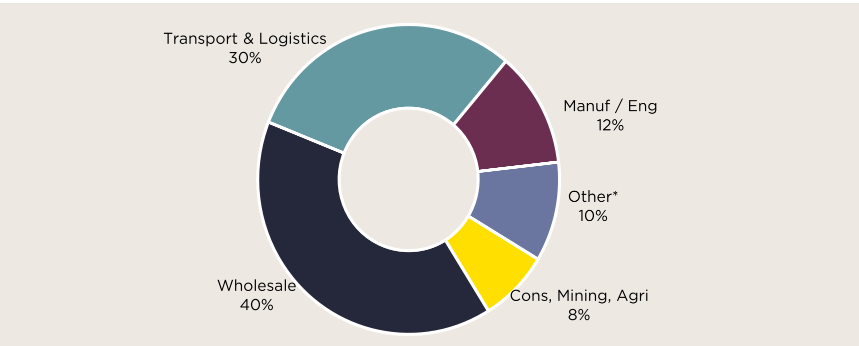
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Wholesalers dominate leasing take-up

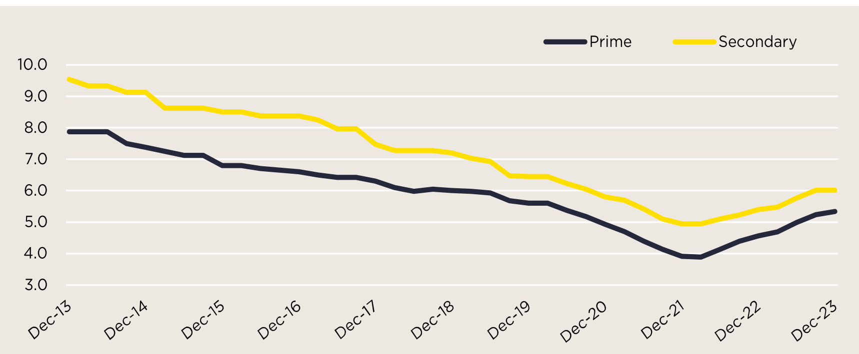
Share of Leasing Volumes by Subsector, % share in Q4



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

Yields expand across prime and secondary

Prime vs Secondary Market Yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Sales still above average
Investment volumes reached c.$738 million (+$5m) in Q4-23, slightly down on the previous quarter (-15%), but compared to the same period in 2022, volumes declined by 35%. In annual terms, investment volumes (+$5m) reached c.$2.7 million, and while subdued compared to the peak of 2021 and 2022, they surpass historical averages.

Yields soften
Average prime market yields softened 12.5bps in all submarkets except the Fringe, which remained steady in Q4. Stable capital values persisted as moderate rental growth helped counteract yield fluctuations.

Mixed trends reflect precinct dynamics
Rental growth rates have eased slightly, with average prime net face rents growing 0.5% Q/Q (+21.9% Y/Y) in blended terms. The Fringe and East held while the West and South East experienced Q/Q growth of +2.8% and +3.7%, respectively. In contrast, the North saw a decline of 3.4% Q/Q after further deal evidence came through. These trends highlight the nuanced nature of rental precinct-specific dynamics influenced by supply constraints and new developments.

Pre-lease fuels take-up
In 2023, Melbourne's take-up (+3,000sqm) reached c.2.0 million sqm, representing 46% of Australia's total and a 67% increase from the 10-year average. Quarterly leasing volumes hit c.437,000sqm, marking a 10% rise compared to Q4 2022.

Wholesalers accounted for c.40% of total deals (by volume) in 2023, followed by Transport & Logistics (30%). Notable pre-commitments announced during the quarter include New Aim (c.63,000sqm across Melbourne North and West) and Essity (c.35,000sqm in Tarneit). In annual terms, pre-commitments comprised 48% of lease deals (by volume).

Vacancy up in Q4
Vacancy averages 2.4% (+3,000sqm) in January 2024, according to SA1 Property and Savills, only marginally ahead of the 1.85% in September. Larger facilities (20,000sqm+) are highly sought after, with the lowest vacancy rate recorded at 1.73%, while the South East exhibited the tightest vacancy at 2.22% (+3,000sqm).

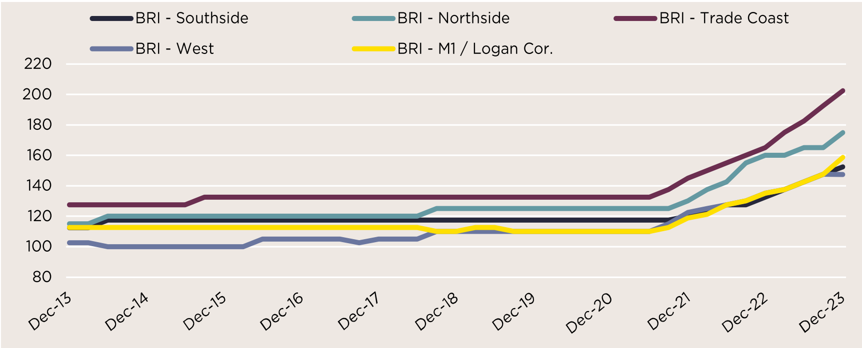
Land values stall
Land sale activity has decelerated, with the values of small (<5,000sqm), medium (1-5Ha), and large (10Ha+) sites showing no change during the December quarter. Over the past three years, small lots have exhibited annual growth of 21%. A critical shortage of zoned industrial land across Greater Melbourne, particularly in the South East region, may put pressure on land value growth in the longer term.

Brisbane

Despite an uptick in vacancy, tenant demand still outpaces supply in some precincts, fueling further rental growth to sustain investor interest.

Prime net rental growth cycle still runs

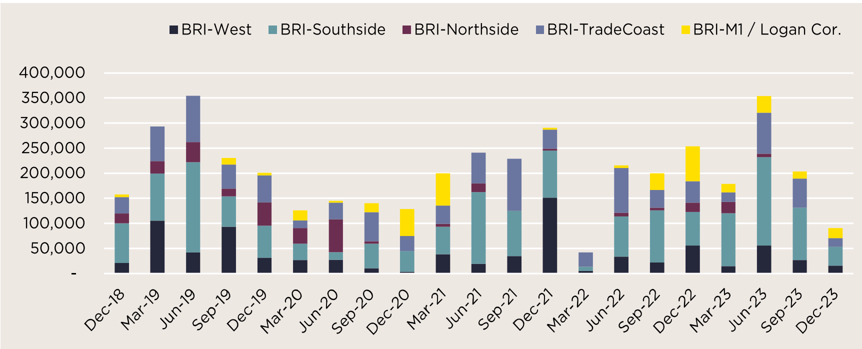
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Leasing volumes dip in Q4 but follow two buoyant quarters

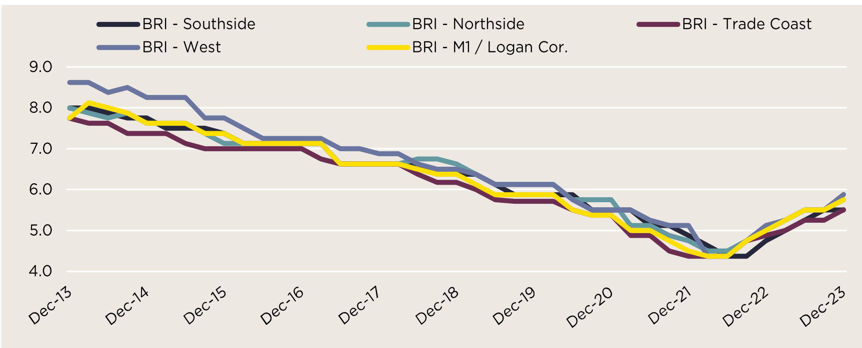
Leasing volumes by precinct, in sqm by quarter (+3,000sqm)



Source Savills Research

Yields soften

Prime Market Yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Southside dominates
Investment volumes reached c.$356 million (+$5m) in Q4-23, a 38% decrease on the previous quarter but similar to Q4-22 and near its 10-year quarterly average. The Southside emerged as the most active, accounting for 51.6%, trailed by the South East (29.3%), Northside (10.1%), and Trade Coast (9.1%).

Notable transactions include Centennial Property Group's sale of Acacia Ridge Industrial Park to Marina Eight Holdings for $55 million and AsheMorgan's acquisition of three Brisbane assets from CapitalLand Ascendas REIT, including 62 and 92 Sandstone Place, Parkinson in the South East (leased to Kimberly Clark), and 77 Logistics Boulevard, Larapinta for a combined A$73 million, reportedly at a 6.2% premium to its August 2023 market valuation.

Softening yields
Prime market yields softened by 25bps, averaging 5.725%, reflecting the broader national trend. Prime capital values were generally stable.

Bris defies national trend
While major capitals saw rental growth rates ease, Brisbane saw pockets of continued growth. Prime net face rents rose an average of 4.6% Q/Q. The M1/Logan Corridor led, with the growth of +7.7% Q/Q (17.6% Y/Y), followed by the Northside +6.1% Q/Q (9.4% Y/Y), Trade Coast +5.2% Q/Q (22.8% Y/Y)and Southside by +3.4% Q/Q (15.1% Y/Y). West rents were stable.

Record development
In 2023, c.848,300sqm of industrial space was completed, marking the highest level recorded since Savills began tracking in 2012, signalling sector strength. With additional new supply, the vacancy rate increased to 2.97% in January 2024 from 1.90% in Q3 (+3,000sqm), according to SA1 Property and Savills. Buildings between 10,000-20,000sqm had the tightest vacancy at 1.42%, with the South East exhibiting the lowest vacancy rate at 1.20%.

Annual leasing above its historical average
Leasing volumes totalled c.100,600sqm (+3,000sqm) in Q4, marking a 52% decrease from the previous quarter. In annual terms, leasing volumes soared to c.844,000sqm, a 19% increase from 2022 and 21% above the historical average. Pre-commitments drove 34.6% of leasing demand in 2023, with wholesale and retail comprising 38% of deals. The Southside dominated leasing, representing 46% of total deals by volume.

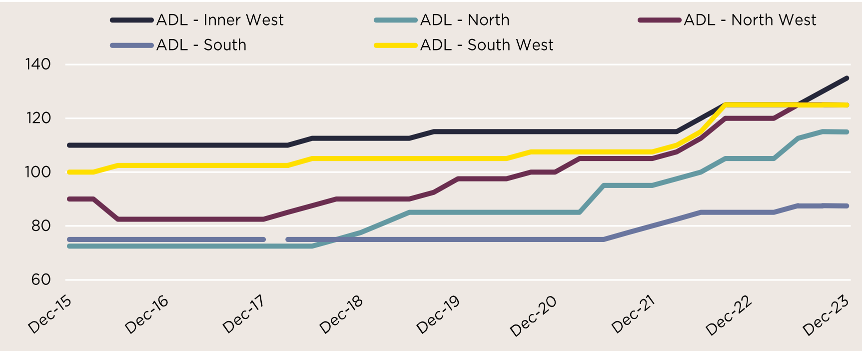
Land values stable
Land values held stable over Q4, with small lots (<5,000sqm) ranging from an average of $400/sqm in the West to $750/sqm in the Trade Coast, reflecting roughly +44% growth over the last three years across the precincts.

Adelaide

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

Rental growth rates easing

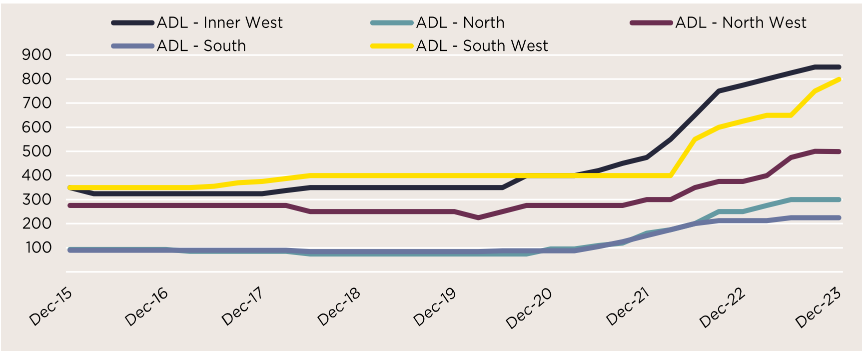
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth in select precincts

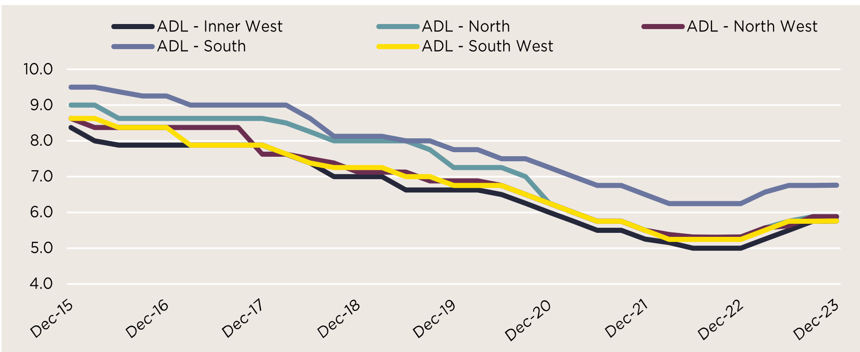
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields continue to soften

Prime Market Yield by Precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Limited investment activity

Sales volumes reached c.$113.7 million (+$5m) in Q4-23, representing a 31% decrease on Q3, but remain above the quarterly 10-year average. There was an uptick in the average deal size, indicating investor appetite may be increasing for slightly larger deal sizes. However, there were no significant transactions above $50m during the quarter. Among the most notable in Q4 was Growthpoint Properties $35 million off-market sale of 1-3 Pope Street, Beverley, reportedly at a 15% premium to its June 2023 book value.

Yields resist softening with limited deal activity

Average prime and secondary market yields held over Q4 on a blended basis, averaging 6.00% and 7.10%, respectively. In annual terms, prime yields softened 75bps, resulting in an aggregation of the yield spread with just 105bps between prime and secondary yields.

Stable net face rents with Inner West uptick

Net face rents have stabilised across all submarkets except the Inner West, which increased 3.9% Q/Q, to average $135/sqm due to limited stock. Secondary net face rents also increased by 3.3% in the Inner West and 2.7% in the South West, with stabilisation across the remaining precincts due to a lack of transactions.

Tesla moves in

Leasing demand over 2023 was driven by wholesale and retail tenants, accounting for 29.2% of total deals, followed by transport and logistics (12.6%), construction, mining and agricultural (8.6%) and manufacturing/ engineering (6.3%). In Q4, it was reported that Tesla leased a 3,590sqm facility within the Adelaide Airport Business District in the Inner West, which has become an economic gateway for connectivity and industry clusters

Land value growth slows

The scarcity of small land lots (<5,000sqm) in the Inner West, South West, and North West, which initially drove up values in 2023, has now slowed, with only the South West seeing a quarterly increase (+6.7%).

The State Government's land acquisition for the expressway project is underway, yet prices are undisclosed. Small lots averaged 19.6% annual growth. Medium lots (1-5Ha) in the North and North West saw 6.7% Q/Q growth (25.0% Y/Y) due to supply constraints, with values ranging from $250/sqm in the North to $350/ sqm in Adelaide's North West.

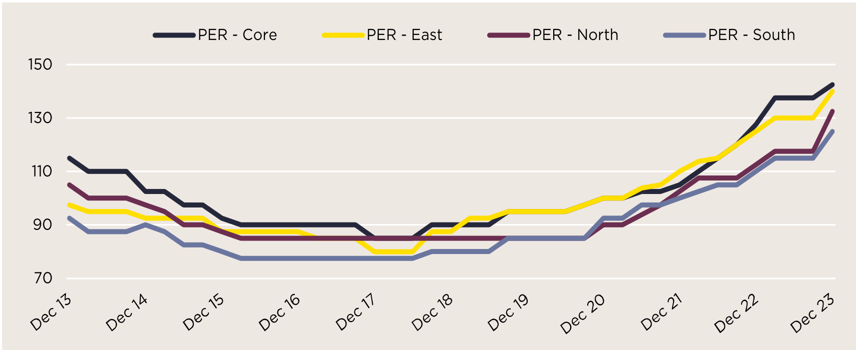
Other submarkets held steady due to limited serviced sites available for transactions. Persistent pressure on the construction industry may stabilise or reprice land values as developers balance project feasibility.

Perth

Low vacancy amid a pick up in tenant demand fuels rental growth in the final quarter.

Prime net rent growth uptick in Q4

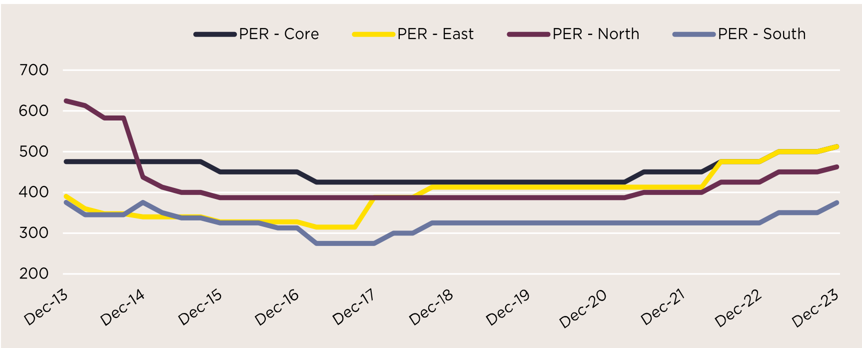
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land value growth

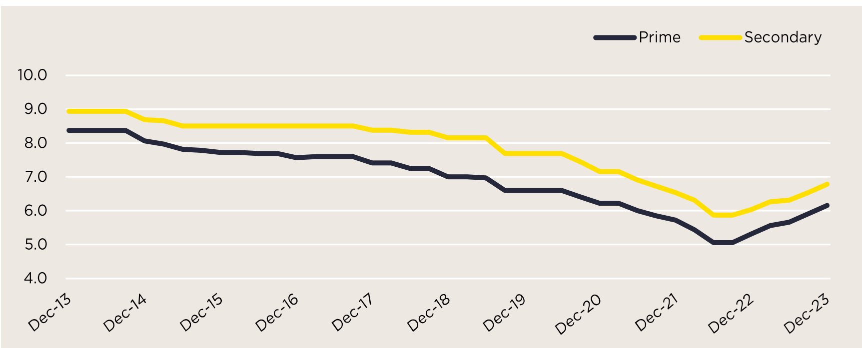
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields soften but limited activity

Prime vs Secondary Market Yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Elevated interest rates subdue investment
Investment volumes reached c.$43 million (+$5m) in Q4-23, marking a 19% decrease from the previous quarter. Annually, total sales amounted to c.$216 million. However, there were no transactions above $50 million in 2023. Of those sold assets, private investors and owner occupiers accounted for 61% of deals by value. Prime rents have increased by nearly 42%, and secondary rents are up by more than 50% over the last three years. Along with a shallow vacancy profile, particularly in the Core and East precincts, the demand from businesses to transition from leasing to owner occupier has also risen.

Yields push out
Prime market yields softened 25bps across all submarkets to average 6.16%. While yields have continued to soften, major transactional evidence remains limited.

Capital values hold
Capital values for both prime and secondary assets are unchanged. A lack of transactional data and sustained rental growth has helped to offset an increase in market yields.

Against the trend
Average prime net face rents increased 8.0% in Q4, representing an increase of +13.7% annually. Although the range can extend as high as $160-$170, in aggregate, they average $135/sqm. Land supply remains a critical issue in some areas, and vacancy remains near a historical low, sustaining the competitive tension on stock through Q4. In blended terms, secondary rents rose an average of 2.8% (+7.1% Y/Y)

Spec supply still lags tenant demand
Savills has tracked c.177,000sqm of take-up (+3,000sqm) in 2023. While this is below the 10-year average of around 285,000sqm annually, spec supply still lags tenant demand. This is keeping competitive tension in the market, particularly for prime product, helping to extend the rental growth cycle.

Notably, WA has been outperforming NSW and Vic on industrial job ad growth since mid-2023, suggesting the demand drivers behind future take-up are still very strong.

Slight lift in land values
Limited land supply is a significant challenge, leading to a demand-supply imbalance and subsequent rise in land values. Small lots (<5,000sqm) witnessed an average increase of 3.7% during Q4, while medium lots (1-5Ha) appreciated by an average of 4.2%. Large lots (10Ha+) grew an average of 4.2% Q/Q, mainly driven by the scarcity of available supply across the precincts.

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