Australia Industrial – July 2024

SPOTLIGHT
Savills Research

Shed Briefing

Investment activity increases ● Strong conviction despite rate outlook ● Rent growth slows

Great expectations

Despite ongoing economic uncertainty, this protracted period of price discovery may be approaching its peak.

The road to recovery
Expectations have once again been adjusted as monetary policy and economic performance dominate the local narrative. Persistent high inflation, geopolitical shocks, and ongoing supply chain disruptions – particularly freight delays caused by recent logjams in Singapore – compound these difficulties. Higher-than-expected inflation and an increase in the unemployment rate over the last few months are also putting extra strain on household spending.

Geopolitics stoking concerns
Adding to economic uncertainty are recent political changes. Policymakers are navigating these shifts while addressing high inflation, supply chain disruptions, and lower household spending. The path to recovery will depend on balancing these factors and fostering a stable environment for economic growth and investment.

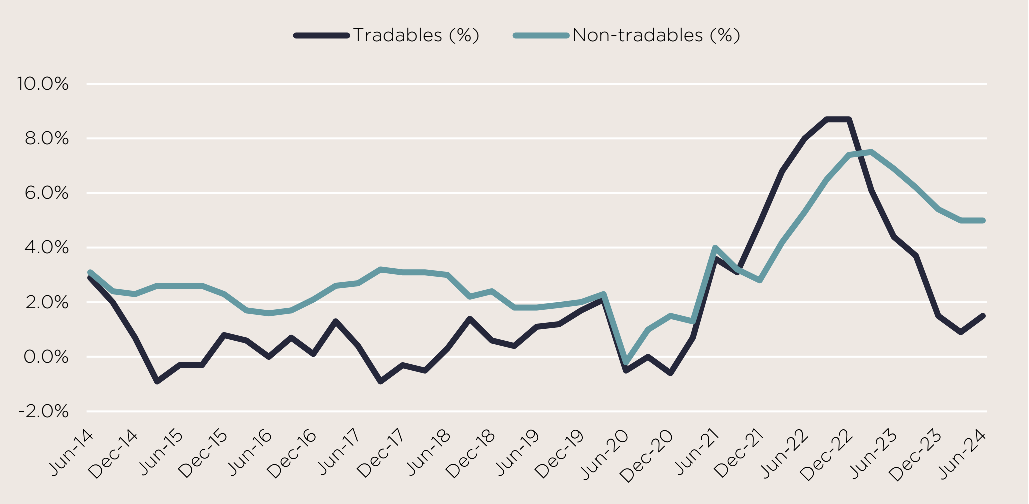
Timing of RBA pivot changes, again!
After slowing sharply in 2023, inflation picked up in the March quarter. However, in the June quarter, the closely-watched trimmed mean measure, which excludes volatile items, decelerated to 3.9%, down from 4.0% in the prior period, ABS data showed. While financial market participants have delayed expectations of RBA policy easing to mid-to-late 2025, the latest data suggests the RBA is likely to maintain its current stance in August.

Nevertheless, there remain upside risks due to the pace of domestically generated inflation, notably non-tradable categories (goods and services minimally exposed to international competition), which have escalated to a 5.0% Y/Y increase. In contrast, prices on tradable categories have increased by just 1.5% Y/Y.

Glass half full?
The government's budget announcements, effective 1 July 2024, including 'Stage 3' tax cuts and various cost-of-living measures, may help lower headline inflation in the near term while still providing a boost to consumer spending in the second half of 2024. This could be especially noticeable during promotional events like Black Friday/Cyber Monday later in the year.

Deal flows a positive turn
Investment turnover (+$10M) in Q2 is 168% higher than its lowest quarter last year. After a 12-month period of muted activity relative to the highs of 2021 to 2023, increased deal flow indicates that the gap between buyer and seller expectations is narrowing. Although the recent volatility in the interest rate outlook may temporarily increase the hesitancy among some investors in the short term, ongoing deal activity suggests that we may be closer to the cyclical bottom than previously thought.

Tradable and Non-tradable inflation
Year-on-year (Y/Y) % increase



Source Savills Research using ABS

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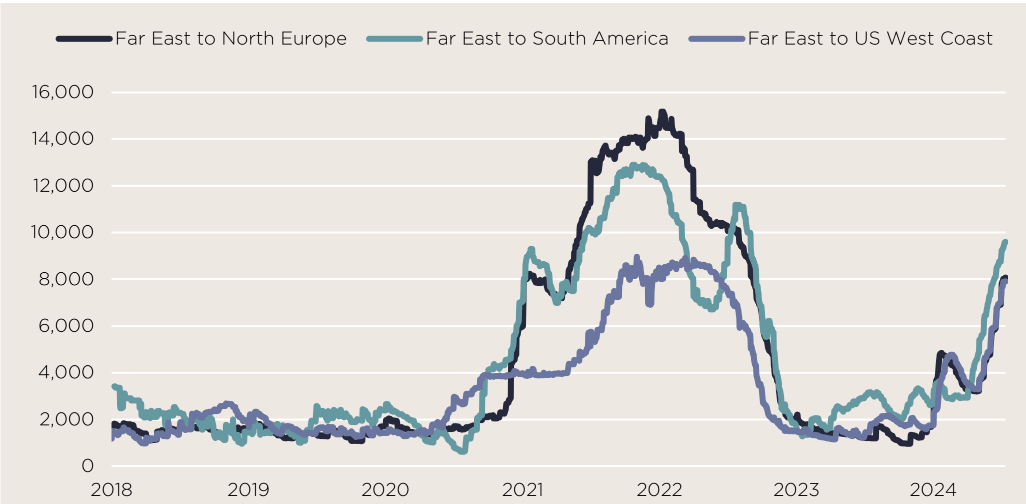
Supply chains acting up

Supply chains are acting up again, stoking inflation concerns

Shipping rates surge

Rates to ship a 40-foot container in USD from Far East Asia



Source Savills Research using Macrobond (World, Xeneta Shipping by Compass, Shipping, Index, USD data as at 11 July 2024)

Longer transit times

Due to ongoing attacks in the Red Sea, ships are rerouting around southern Africa instead of stopping at Middle Eastern ports. A Maersk spokesperson, quoted in a Reuters article from May, stated that this detour—from Singapore around the southern tip of Africa—adds an extra 10 days to transit times and increases fuel costs by 40% per journey for Asia-Europe routes.

Tariff pressure

The pressure is further compounded by a surge in exports from China to the US ahead of new trade tariffs on Chinese imports. These tariffs, affecting a range of products including EVs, solar panels, lithium-ion batteries, semiconductors, steel and aluminum products, along with select medical supplies, will begin to take effect on 1 August 2024, with others phased in through to 2026.

More inventory?

The knock-on effect of these pressures is contributing to logjams in ports in Singapore, China and Malaysia. With ships facing longer anchor times and extended journeys, supply chain users are pre-emptively increasing orders or stockpiling inventory to navigate the anticipated congestion during peak shipping seasons, when retailers gear up for promotional events and year-end holidays. This congestion is prolonging transit times for cargo to Australia, increasing costs for shipping lines, which may lead to inflationary pressures as these costs are passed on to consumers.

Shipping prices growing

Rates for a 40-foot container from Far East Asia to North Europe trade corridor soared to over US$8,000 in the first week of July 2024, up from a low of around US$960 in October 2023, according to Xeneta data using Macrobond. This sharp rise in rates is approaching the peak levels seen during the pandemic, fuelling inflation concerns and heightening the risk of an interest rate hike in Australia.

Does industrial vacancy rate pressure loom?

While there are number of concerns regarding inflation, shipping delays and impact on pricing, the increase in demand from retailers restocking or ordering early also raises questions on whether there is enough warehouse capacity on Australia's east coast.

With a vacancy rate closer to 3.0% than 4.0%, can we manage a potential spike in demand for additional storage or swing space during this peak period?

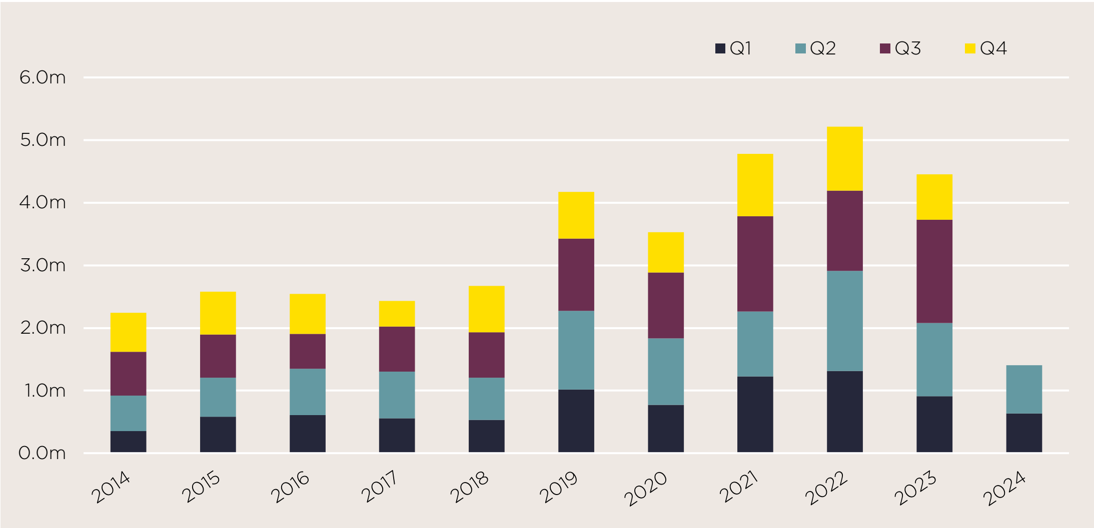
3.4%
Average vacancy on the East Coast July 2024 (Savills & SA1 Property).

75%
Share of leasing take-up from transport/ logistics and wholesalers has grown to 78% in Q2 from a low of 70% last year.

Rent standstill?

2024 brings a new narrative as rental growth slows to a standstill and vacancy continues to rise in most markets.

Leasing take-up cools as demand adjusts
Quarterly east coast leasing volumes (+3,000 sqm) by year for the last decade



Source Savills Research

Rental growth rates slipping, making a dramatic change from 2023 peaks
Average vacancy starts to climb but remains low by historical standards

A growth reset?
After prime rental growth rates peaked at nearly seven times their average in some precincts in 2023, 2024 is unfolding a much different theme. Rental growth has now slowed to a standstill in the majority of precincts, with a select few now starting see face rents contract.

New stock is still coming online, much of it planned when demand was still elevated and this is adding some downward pressure to prime rental values in select markets, especially where there has been a rise in sublease vacancy from 3PL companies and some wholesalers who have pulled back their inventory restocking levels. In addition to rising vacancy, there has also been a decline in the urgency to find industrial space as higher interest rates and inflation slow the short-term outlook for the Australian economy.

Across the five key core markets nationally, average prime rents have remained unchanged for two consecutive quarters in Melbourne West, Brisbane Southside and Adelaide North West. In Perth Core, prime rents ticked up +3.2% Q/Q as some deal evidence has started to materialise after a quiet period. In contrast, Sydney West prime rent face rents have declined on average 7.1% Q/Q following a spike in vacancy during the quarter. Notably, Sydney West rents are still 84% higher than Q2 2019, prior to the pandemic. Nationally, on average, prime rents are about 62% higher than the same period in 2019.

Shifting negotiations as incentives rise
Incentives have been gradually increasing since mid-2023 and this has continued in Q2. Alongside some caution due to higher interest rates and inflationary pressures, time lines for decision-making have been extended. This focus on cost has contributed to a rise in the availability of sublease space on the market, but also reflects the cyclical headwinds and changes to supply chain demands, including a reduction in inventory levels over the last 12 months. As a result, landlords are seeking to secure income to underwrite the stability in capital values and to address higher face rents, a higher incentive is being offered.

Market rents are still significantly higher than two years ago, but growth outlook narrows.
Vacancy rises again as sublease ticks up.

+62%
Prime net face rents have increased 62% since 2019, across the five key core markets.

+67%
Secondary net face rents have increased 67% since 2019, across the five key core markets.

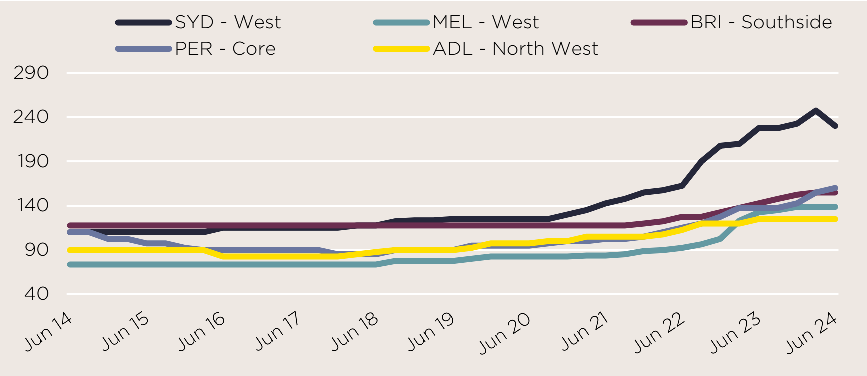
767,875 sqm
Estimated east coast leasing take- up (+3,000 SQM) in Q2, including pre-commitments.

3.4%
Average vacancy on the East Coast is 3.4% in July 2024*
(Savills & SA1 Property).

Source Savills Research
* vacancy at 7 July 2024

Key Markets - Prime net face rents

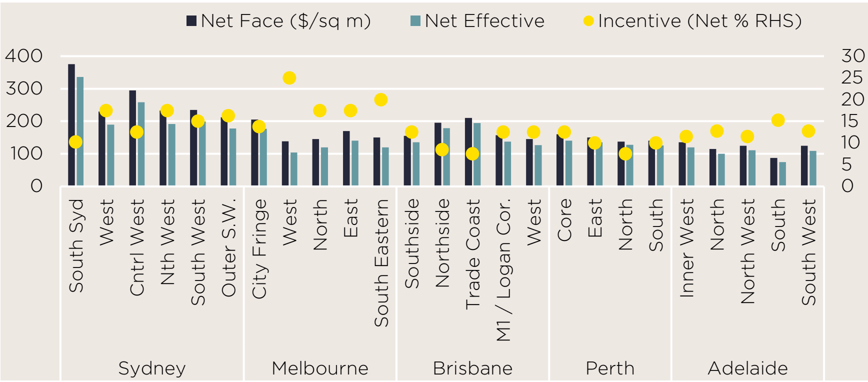
By key core market, $/sqm net face rent average



Source Savills Research

Net face and effective rents v incentives

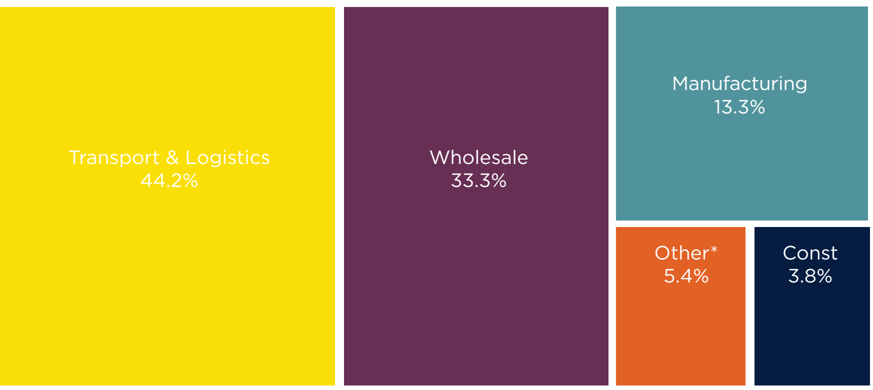
By submarket, prime average $/sqm and %



Source Savills Research

Transport & logistics, wholesalers dominate take-up

Share of east coast leasing volumes by subsector, % share of leasing in Q2-24



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

Source Savills Research
Const = Construction

QUARTER HIGHLIGHTS

Vacancy rises again

Vacancy rates have risen on the East Coast, reaching an average of 3.36% in July 2024, up from 2.8% in March, according Savills and SA1 Property. Sydney's vacancy (whole buildings over 3,000sqm) is at 3.62%, up from 2.2% in March. Melbourne vacancy rose to 3.07% from 2.72%, while Brisbane vacancy is relatively stable at 3.38%, compared to 3.47% in March.

Take-up normalising?

East Coast leasing take-up (+3,000sqm) reached c.767,875sqm, reflecting a 20% increase from Q1. The volume of deals transacting over the last three quarters is now similar to the quarterly trend seen over the five years before the pandemic, which averaged c.700,000sqm. While this may indicate some market normalisation, it also suggests that tenant demand is adjusting to short-term economic pressures such as lower household consumption, higher inflation, and the tight financing conditions that constrain business expansion. At the same time a slow global recovery is capping external demand.

Transport & logistics most active

Transport and logistic occupiers were the most active takers of space, accounting for c.44% of take-up (+3,000sqm), followed by wholesalers (c.33%) and manufacturing/ engineering (c.13%).

Pre-commitment and speculative leasing activity has pulled back, averaging about 34% of leasing volumes during the quarter, down from its quarterly average of about 40% since 2020. Although in annual terms, it is still above average due to the 209,000sqm Amazon pre-lease in Melbourne in August 2023.

New development scaling back in 2024

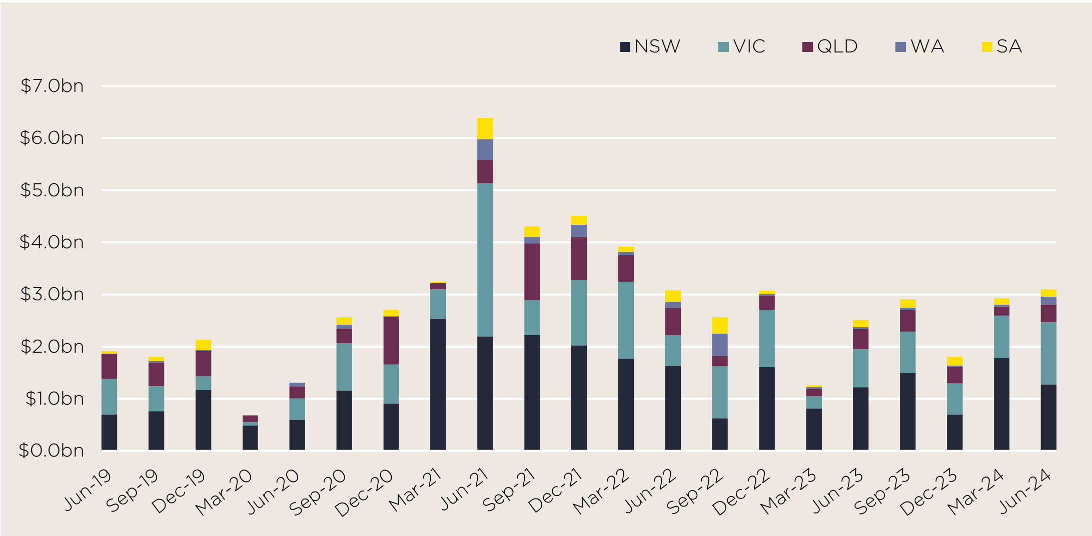
Savills has tracked c.1.8 million sqm of new development underway or due for completion on the East Coast in 2024, of this c.836,000sqm has been tracked as completed during the first half. Development starts have decreased further through Q2, with c.2.2 million sqm previously tracked for completion. Although the prices of some critical construction materials have eased off from the peaks seen in the previous 12-18 months, ongoing labour availability remains challenging and overall development costs are still well above pre-OVID historic levels.

The scarcity of skilled tradespeople is a significant factor driving up construction costs, along with regulatory impacts and contractor solvency. These issues have made it difficult for some projects to proceed, leading to delays and some projects being shelved indefinitely. This could put some pressure on availability later in the year if tenants need swing space before new spec deliveries come online in 2025.

Closing the gap

The potential for a rate rise may increase caution for some investors, while others start to speculate the market is close to its cyclical bottom.

Increased deal flows suggest gap between buyer and seller is getting closer
$10m+ industrial investment transactions quarter on quarter since 2019



Source Savills Research

Q2 deals suggests improved liquidity despite the need for further price discovery
No notable changes in yields but on-market activity limited

Strong conviction despite volatility in rate outlook
Market activity continues to be influenced by interest rates, and the absence of a strong motivation to sell is extending the period of price discovery.

Limited on-market transactions are not aiding transparency in the short-term, however strong off-market activity has buoyed overall volumes. The most significant of these is the Barings and REST Super joint acquisition of a 12 asset portfolio from Goodman Group for approximately $780 million. While such a large portfolio sale can distort the data, there remains a strong conviction in the drivers of growth as evidence by other investment activity of approximately $2.3 billion during Q2, which is trending well above its pre-COVID average (c.$1.3bn).

Investment turnover rising
Total investment reached approximately $3.1 billion in Q2 (for deals with a sale price of $10 million or above). This represents a small increase of 8% on the previous quarter. Encouragingly, investment turnover has been gradually increasing in quarterly terms since the Q4-2023 low of c.$1.8 billion, to bring annual volumes to the end of June to c.$10.8 billion, above the $9.4 billion recorded for FY23. Although current investment is still down from the peak periods of 2021 and 2022, when volumes reached $17 billion and $16 billion, respectively, it still significantly exceeds the pre-COVID, annual average of about $5 billion.

Yields rising but deals limited
There has been sharp reversal in interest rate expectations since the beginning of the year. While the risk of another rate rise may have eased back a bit after the June quarter inflation data, upside risks remain, and the timing of RBA policy easing has been pushed out to mid-to-late 2025. The reversion on rents that was possible this time last year, now seems more challenging.

Although market rents are still significantly higher than what was being achieved two years ago, rental growth expectations have narrowed, particularly in markets where vacancy has risen. This may place further upward pressure on yields in the short term, although at this stage this pressure seems minimal, with only a modest 6bps average increase on prime yields coming through in Q2 in average terms across all precincts nationally. However, there remains a low level of transactions to benchmark from.

Investment turnover (+$10M) is 168% higher than its lowest quarter last year.
Shift in rate cycle should favour an increase in market activity

+5 to 6bps
Average market yields for prime and secondary increase between 5 and 6bps in Q2.

+8%
Transaction volumes have increased 8% between Q1 2024 and Q2 2024.

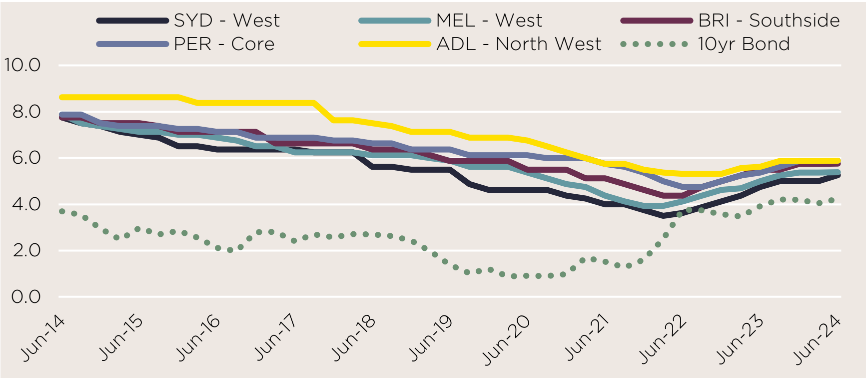
38%
Institutional buyers (funds, trusts) accounted for 38% of total investment volumes in Q2.

$3.1bn
Total investment reached c.$3.1 billion in Q2 (+$10m), an increase of 168% on the lowest quarter in 2023.

Source Savills Research

Key Markets - prime yield & 10yr bond rate

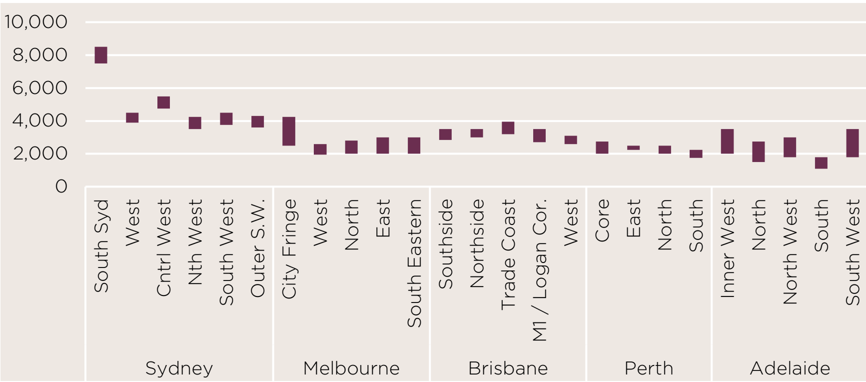
By key core market, average prime yield v 10yr bond rate, %



Source Savills Research / RBA

Typical capital value range

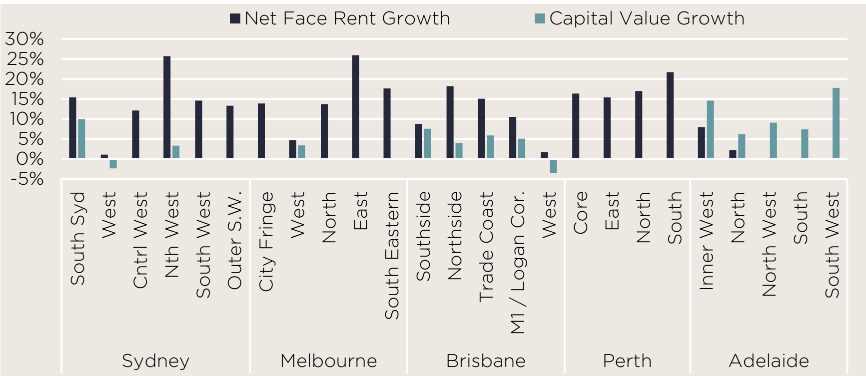
$/sqm prime average by submarket



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

Yields stabilising but limited transactions to justify shift

Across the key core markets Melbourne West, Brisbane Southside, Perth Core, and Adelaide's North West, average prime and secondary yields remained stable in Q2.

For NSW, its key core market, Sydney West, saw prime and secondary yields moved outwards a further 25bps on average. With limited transactions, this is more of product of the decrease in average net face rents and spike in vacancy that has been observed during the quarter.

$10 to $50M sweet spot

While there has been evidence of a more cautious investor base due to the higher-interest rate environment, private investors, syndicators and owner occupiers have remained active in the $10 to $50 million price bracket accounting for nearly half of deals tracked (by value) in Q2 (47%), well above its historical average share of 30%.

Effective rents pressure?

Industrial benefited significantly from the associated increase in demand for space partly brought on by the COVID-19 pandemic. However, there has been some uncertainty over the outlook for demand due to the inflationary pressures, decline in household spending and ongoing supply chain volatilities such as rising freight rates and port congestion. These impacts have already weighed on demand across most markets, with rental growth stopping in some markets, and decreasing in others, while incentives gradually tick up, resulting in a decline in effective rental rates. If effective rents continue to come back due to higher incentives, there may be a real adjustment to capital values, which up to this point, has been shored up by face rental growth as yields hold.

While there has been no sign of this correction in Q2, with all markets nationally holding capital value ranges, we may start to see this divergence if there is a greater spread of precincts that see effective rents decline.

City Highlights

Despite a slowdown in rental growth and a recent increase in vacancy rates, strong off-market activity shows investor conviction for industrial remains unwavering.

Summary - Key Prime Averages

	Net Face Rent $/sqm	Market Yield (%)	IRR (%)	Capital Value $/sqm	Land Value $/sqm
SYD - South Syd	375 (n/c)	5.13 (+25 bps)	7.13 (+25 bps)	8,000 (n/c)	3,500 (n/c)
SYD - West	230 (-7.1%)	5.25 (+25 bps)	7.13 (+25 bps)	4,200 (n/c)	1,375 (-6.8%)
SYD - Cntrl West	295 (+0.9%)	5.13 (+6 bps)	7.13 (+25 bps)	5,125 (n/c)	2,125 (n/c)
SYD - Nth West	233 (n/c)	5.25 (+19 bps)	7.13 (+25 bps)	3,875 (n/c)	1,300 (n/c)
SYD - South West	235 (-6.0%)	5.25 (+19 bps)	7.13 (+25 bps)	4,125 (n/c)	1,475 (-6.6%)
SYD - Outer S.W.	213 (n/c)	5.25 (n/c)	7.13 (+25 bps)	3,950 (n/c)	1,200 (-4.8%)
MEL - City Fringe	205 (+2.5%)	5.13 (n/c)	6.63 (n/c)	3,375 (n/c)	2,625 (n/c)
MEL - West	139 (n/c)	5.38 (n/c)	6.88 (n/c)	2,275 (n/c)	1,050 (+10.5%)
MEL - North	145 (+3.6%)	5.38 (n/c)	6.88 (n/c)	2,400 (n/c)	975 (n/c)
MEL - East	170 (+13.3%)	5.38 (n/c)	6.88 (n/c)	2,500 (n/c)	1,100 (+7.3%)
MEL - South Eastern	150 (n/c)	5.38 (n/c)	6.88 (n/c)	2,500 (n/c)	950 (n/c)
BRI - Southside	155 (n/c)	5.75 (n/c)	7.00 (n/c)	3,175 (n/c)	625 (n/c)
BRI - Northside	195 (n/c)	5.75 (n/c)	7.00 (n/c)	3,250 (n/c)	750 (n/c)
BRI - Trade Coast	210 (+3.7%)	5.50 (n/c)	6.38 (n/c)	3,575 (n/c)	850 (n/c)
BRI - M1 / Logan Cor.	158 (n/c)	6.00 (+25 bps)	7.25 (+25 bps)	3,100 (n/c)	625 (n/c)
BRI - West	145 (-6.5%)	6.00 (+13 bps)	7.25 (+13 bps)	2,850 (n/c)	500 (n/c)
PER - Core	160 (+3.2%)	5.88 (n/c)	6.88 (n/c)	2,375 (n/c)	513 (n/c)
PER - East	150 (+5.3%)	5.88 (n/c)	6.88 (n/c)	2,375 (n/c)	513 (n/c)
PER - North	138 (+3.8%)	6.50 (n/c)	7.25 (n/c)	2,250 (n/c)	463 (n/c)
PER - South	140 (+7.7%)	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)	888 (+4.4%)
ADL - North	115 (n/c)	5.88 (n/c)	7.00 (n/c)	2,125 (n/c)	320 (+6.7%)
ADL - North West	125 (n/c)	5.88 (n/c)	7.00 (n/c)	2,400 (n/c)	523 (+4.5%)
ADL – South	88 (n/c)	6.75 (n/c)	7.63 (n/c)	1,450 (n/c)	230 (+2.2%)
ADL - South West	125 (n/c)	5.75 (n/c)	6.88 (n/c)	2,650 (n/c)	825 (+3.1%)

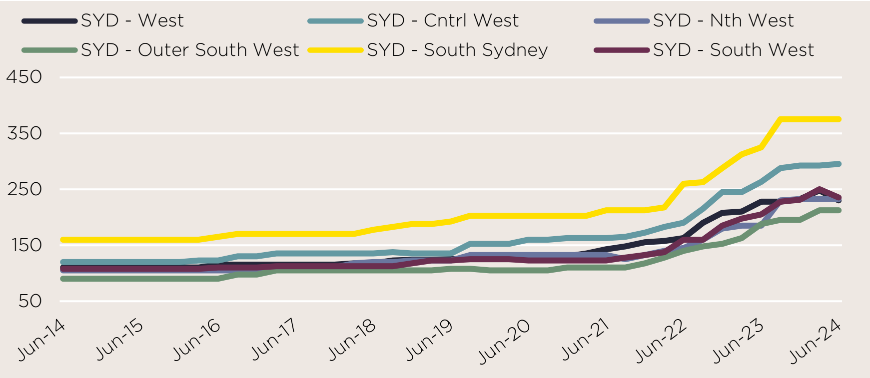
Source Savills Research
3 month change shown in brackets, land values reflect 'serviced & benched' sites (3,000 - 5,000 sqm). Metrics includes marketable commercial industrial buildings within defined precinct boundaries, generally inclusive of an improved building area of greater than 5,000 square metres. However, for smaller sub-markets, a building area of greater than 1,000-3,000sqm is considered when adopting the house-view.

Sydney

Market conditions are rebalancing amid uncertainty over interest rate outlook, but ongoing deals suggest investors remain poised to capitalise on opportunities.

Prime net rent growth diverges

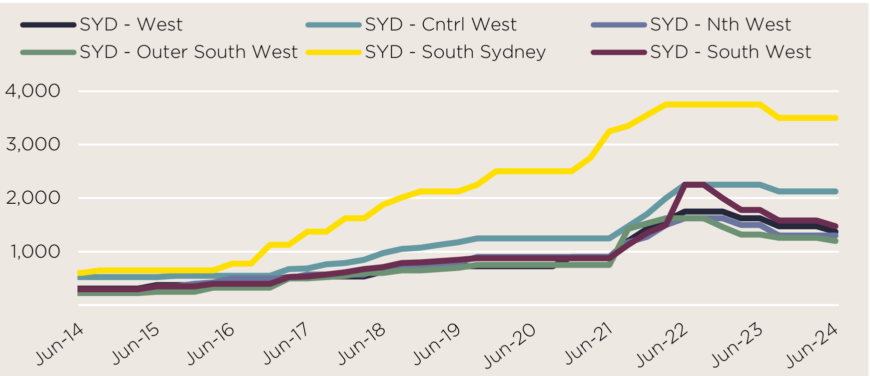
Prime net face rents by precinct, $/sqm average



Source Savills Research

Land prices decline

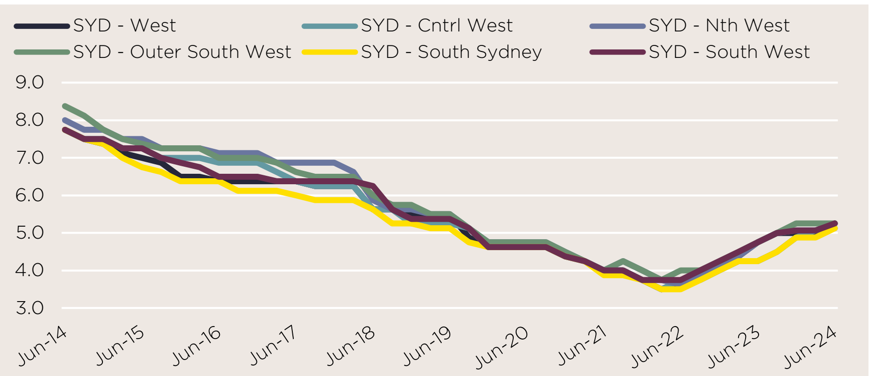
Land values by precinct, small lots, $/sqm, average



Source Savills Research

Prime yields show outward movement

Prime market yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Sales down in Q2 but higher over the year
Investment volumes reached c.$1.5 billion (+$5M), reflecting a 18% decrease in volumes compared to the previous quarter. However, by FY24, volumes totalled c.$5.9 billion, 26% above FY23 where $4.7 billion in sales was tracked.

Rental growth halts
Blended prime net face rents saw a 1.8% decrease, primarily driven by a decrease in the West (-7.1% Q/Q) and South West (-6.0% Q/Q). The Central West rose marginally (+0.9% Q/Q), while all other precincts held.

Vacancy uptick
Vacancy saw another marginal increase in July, rising to 3.62% from 2.2% in March, driven by an increase in sublease availability and vacancy in 20,000sqm+ facilities, according to SA1 Property and Savills. Compared to January, vacancy in existing buildings larger than 20,000sqm has increased from around 4.1%, up from about 1.0%. In contrast, the vacancy rate on existing buildings sized between 3,000 and 5,000sqm averages 1.9%, not dissimilar to last year. It's the strongest indication to date that select operators are rationalising space requirements due to lower inventory levels. Although, it is worth noting that this does vary by precinct, with the Central West and Outer South West still tightly held.

Incentives creep up
Average incentives continue to gradually increase, with prime rising to about 15%, up from 11.3% in Q1 and double the same time last year. With net face rental growth slowing in some precincts and declining in others, this is now putting downward pressure on effective rents. In blended terms, net effective rents are now showing a decline of 5.3% Q/Q, although remain +4.8% higher than the same time last year.

Yields move outwards
Prime and secondary market yields softened on average 15bps to an average of 5.2% and 5.7%, in blended terms. Capital values were unchanged and, in annual terms, showed +2.6% growth on a blended basis. A limited pool of deal evidence remains a key theme nationally.

Market tension eases
Leasing volumes in Sydney reached c.223,000sqm (3,000sqm+) over the June quarter, up 18% compared the previous quarter. Transport and logistics tenants drove demand, comprising 38.4% (c.85,670sqm), followed by wholesale/retail tenants (31.2%) and manufacturing (21.7%).

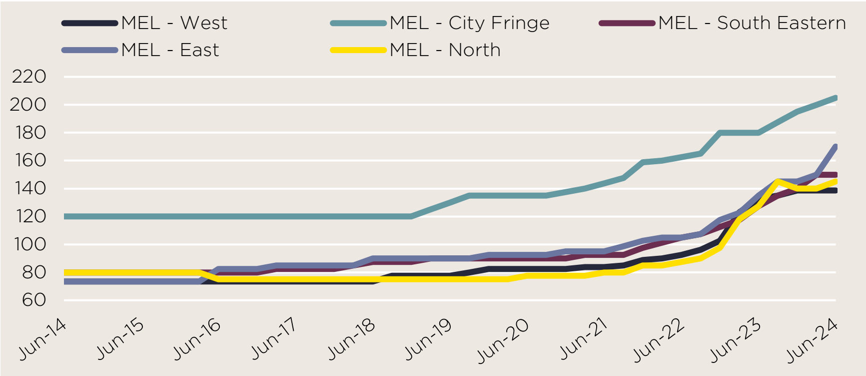
Land values decline
Average land values declined across Sydney as elevated construction costs and regulatory impacts take hold. In annual terms, small lots (<5,000sqm) fell by 2.3%, medium lots (1-5Ha) are down 4.1%, and large lots (10ha+) fell on average -0.2%.

Melbourne

Rental growth has decelerated, but leasing activity remains robust despite economic headwinds, helping to sustain investment momentum throughout the quarter.

Prime net rent growth rates start to moderate

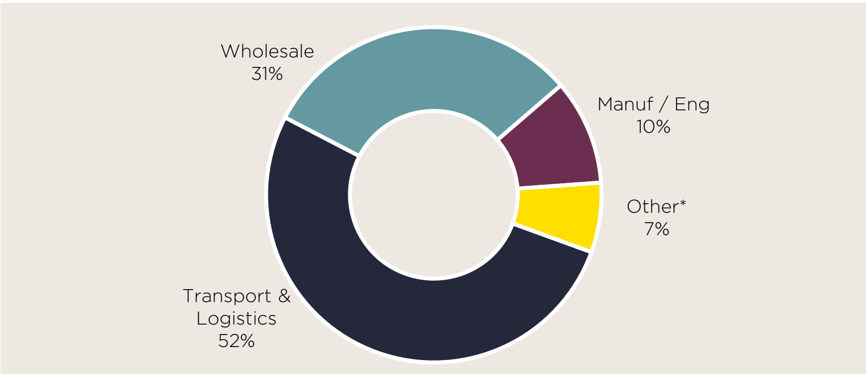
Prime net face rents by precinct, $/sqm average



Source Savills Research

Transport & logistics, wholesalers dominate leasing take-up

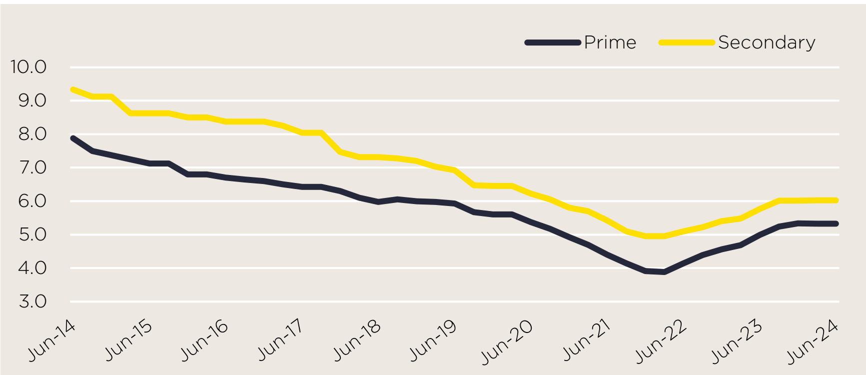
Share of leasing volumes by subsector, % share in q2



*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

Investment volumes reached c.$1.36 billion (+$5m), reflecting a 57% increase Q/Q. Volumes received a boost from the sale of Goodman's Metcash Portfolio to REST Super and Barings for approximately $780 million. While the portfolio included assets in NSW comprising a mix of infill locations, it is understood that the Melbourne assets formed the larger majority, including recently completed or soon to be completed assets in traditional core locations such as Melbourne West. The most significant of these assets is a c.110,000sqm facility under construction in the West leased to Metcash on a 15 year lease.

Annual volumes amounted to c.$3.9 billion, reflecting an increase of 15.5% Y/Y and surpassing the 10-year average of $2.3 billion.

Yields stabilising

Market yields remain stable in Q2, holding at 5.33% for prime and 6.01% for secondary. Although strong investor interest is supporting investment volumes, including deals of scale such as the Goodman portfolio sale to REST and Barings, the outlook for rate cuts and recent inflation numbers remains a concern for other buyers and there has been limited transactional evidence to support any further softening.

Rental growth rate slows

Net face rental growth has slowed to 3.9% Q/Q in blended terms, reflecting 15.1% Y/Y. By precinct, rents held in the West and South East, while the City Fringe rose +2.5%, the East +13.4% and North +3.6% (Q/Q).

Marginal rise in vacancy

The average vacancy rate for existing buildings (+3,000 sqm) has risen, albeit only at a modest pace, reaching 3.07% in July 2024, up from 2.72% in March 2024, according to SA1 Property and Savills. While enquiry levels have pulled back from the high levels seen this time last year, new spec completions and large sublease availability, in the West in particular, have contributed to the increase in vacancy.

Take-up trends

Leasing volumes reached c.396,000sqm (3,000sqm+), up 20% over the quarter. Tenant demand was driven by transport and logistics, comprising 52.1% of deals, followed by Wholesale/retail tenants (31%) and manufacturing/engineering operators (10.2%).

Land lot prices increase

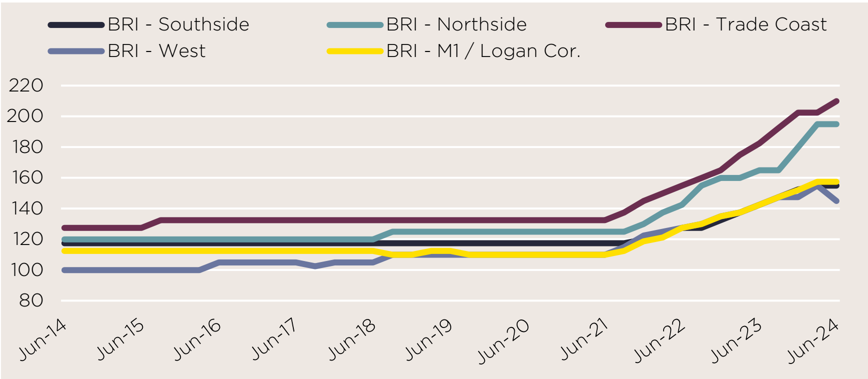
There has been a slight uptick in overall small lot land values in Q2, led by growth in the West and East of +10.5% and +7.3% respectively. In the West, this has predominantly been driven recent land sales around Laverton and in the East, in Clayton. Medium lots are showing growth of +2.3% Q/Q and large lots (10Ha+) are up +4.0%.

Brisbane

Vacancy dynamics between precincts drives rental growth in some areas and contraction in others, amid signs of increasing private investor activity.

Prime net rental growth mixed

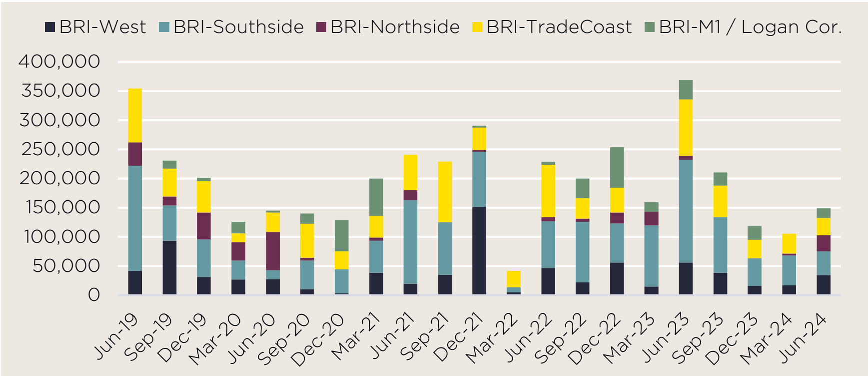
Prime net face rents by precinct, $/sqm average



Source Savills Research

Leasing volumes increase Q/Q

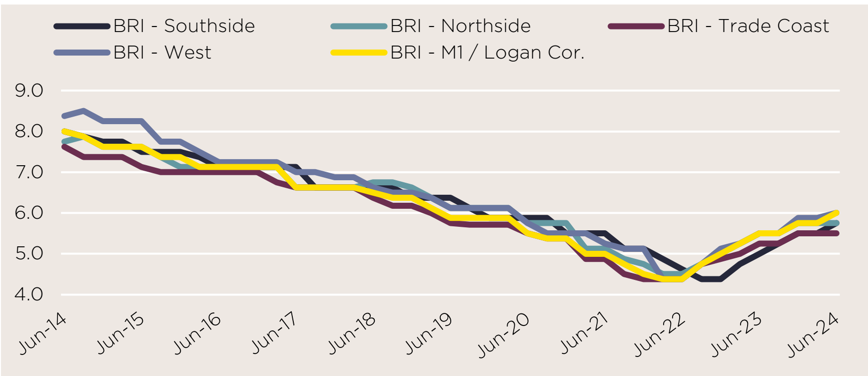
Leasing volumes by precinct, in sqm by quarter (+3,000sqm)



Source Savills Research

Yields holding steady

Prime market yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment lift
Investment (+$5m) reached c.$484.8 million, up 41%, but similar to the same quarter last year. The average deal size is $12.7 million, about half the average of the peak periods in 2021-2022, indicating increased private investor activity.

Net face rents shifting
Prime net face rents (blended) fell 0.3%, although are showing an increase of +11.3% Y/Y.

Vacancy has risen in larger buildings, and the pressure in the secondary market is starting to affect prime asking rents. As a result, there has been a slight pull back in prime rents in the West (-6.4%), where vacancy is the highest and a slight increase in the Trade Coast (+3.7%), where vacancy is the lowest. All other precincts held stable.

Under supply in the Trade Coast has also supported growth in secondary net face rents, where a 6.7% increase was recorded in Q2, while other precinct secondary rents are stable.

Vacancy stasis?
The vacancy rate for existing buildings (3,000sqm+) has declined in July, albeit only marginally, to 3.38%, just down from 3.47% in March, according to SA1 Property and Savills. This has been driven by tenant relocations to new development completions, which has contributed to backfill supply and an increase in West sublease vacancy.

Market yields stabilise
Average prime market yields are mostly stable, but do show softening of 8bps in blended terms due to 25bps outward movement in M1/Logan Corridor and +12.5bps in the West. While some deal evidence has started to materialise, there is still not enough to justify any significant changes in Q2.

Prime and secondary capital values are unchanged Q/Q. In blended terms, prime capital values show +3.9% growth over the 12 months to June, and secondary +7.2%.

Leasing uptick
Leasing volumes totalled c.149,000sqm, representing a 26% uplift Q/Q. Quarterly volumes are still 60% below the peak levels witnessed in the June 2023 quarter and 44% below the 5-year Q2 average of c267.364sqm.

Wholesale / retail contributed the most to leasing activity, accounting for 42.7% of deals, followed by the transport and logistics sector at 31.8% and manufacturing / engineering at 9.2%. There were a couple of smaller deals to IT/Tech sector, and technology, and construction, which accounted for about 12% of deal volume overall.

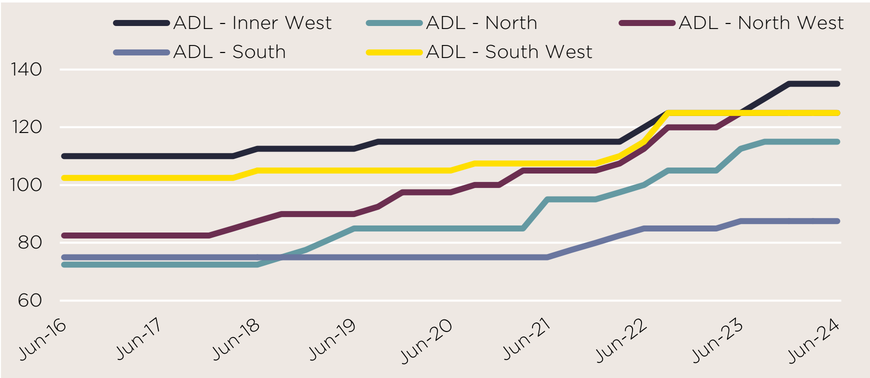
Land values stable
Small (<5,000sqm), medium (1-5Ha) and Large (10Ha+) lot land values held stable over the June quarter, while in annual terms remain in growth territory, growing +18.6%, +17.7% and +21.7% respectively.

Adelaide

Demand from private capital sustains investment activity, even as rent growth stagnates and rising land values pressure economic rents.

Rental growth rates slows

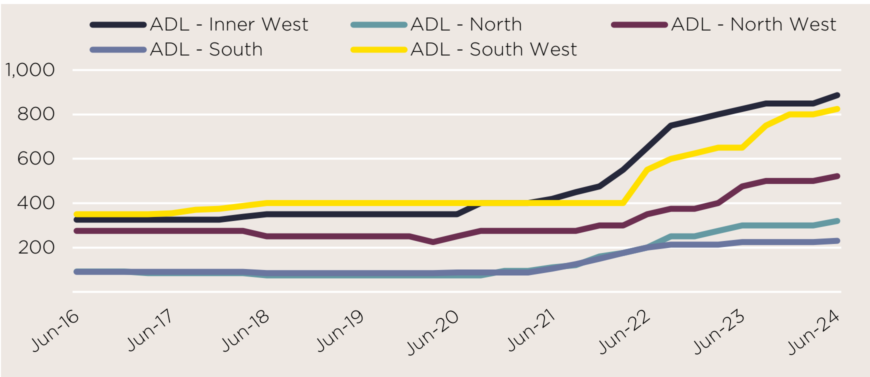
Prime net face rents by precinct, $/sqm average



Source Savills Research

Land price growth stable

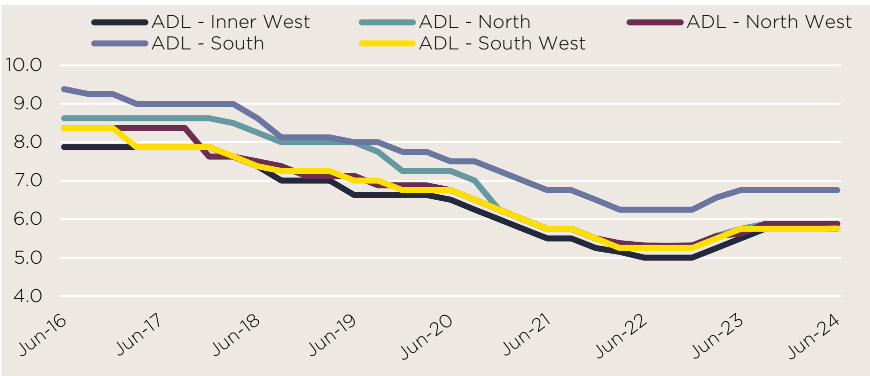
Land values by precinct, small lots, $/sqm, average



Source Savills Research

Yields hold

Prime market yield by precinct, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment activity

Sales volumes ($5m+) reached c.$161.3 million, similar to Q1 at $166.8 million. However, by deal count, transactional activity is at low levels, with only six deals reported in Q2.

In annual terms, sales volumes totalled c.$734 million, showing an 18% increase Y/Y. Private capital was the most active, comprising 63.2% (c.$464 million) of total transactions over the 12-months to Q2, followed by owner occupiers at 15% (c.$110 million), and government (9.2%).

$50m activity shifts

There were two sales above $50 million in Q2, including 26-34 Caribou Drive, Direk ($61m) and 34 Share Street (Lot 1 Kilkenny Road) Kilkenny ($52.7m). Caribou Drive was sold by Moelis to a private investor. Moelis previously purchased the site from Cromwell Property in 2020 for $63.05 million. The second major sale in Kilkenny was an asset divested by Straits Real Estate to an undisclosed private investor. Fully leased to Visy, the property was reportedly sold at a 18% discount to its December 2023 book value.

Rental growth holds

Prime net face rents remain on hold in Q2, but are showing a 4.0% increase Y/Y on average. The Inner West saw the strongest growth at 8.0% Y/Y.

Secondary net face rents also remained steady across the precincts in Q2, with the South West showing the strongest annual growth at 8.6%.

Market yields steady

Average prime market yields have softened on average 12.5bps over the 12-months to June, averaging 6.00% in Q2. Secondary market yields have held at 7.05% on average across the precincts over the last 12-months.

Land values stable

Land scarcity in key areas drove a significant uplift in values over 2023. After growth steadied in Q1, there has been some uplift across pockets in the Inner West, South West and North West. Small lot land values increased 4.1% in blended terms over Q2, averaging $557/sqm. In annual terms, small lots (<5,000sqm) have averaged +12.6% growth on a blended basis.

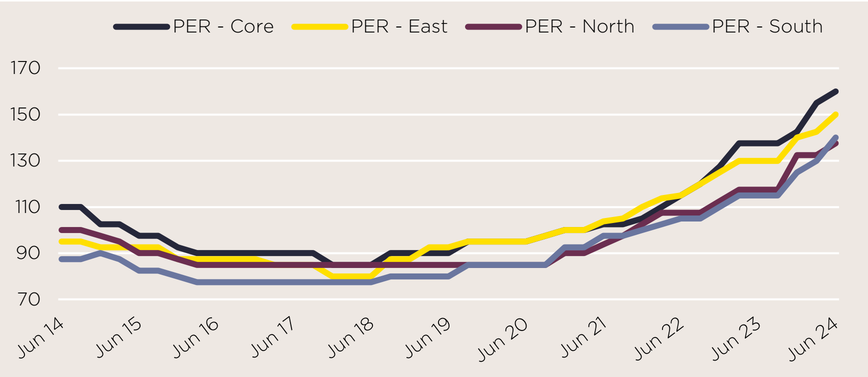
Medium lots (1-5Ha) land values have increased 5.4% over Q2, on a blended basis, and have increased 18.8% over the 12-months to June. Large Lots (+10Ha) have risen 4.6% Q/Q due to heightened developer competition.

Perth

Rental growth continues, though the market is becoming two-tiered, influenced by new supply and a slight uptick in investment activity.

Prime net rent growth

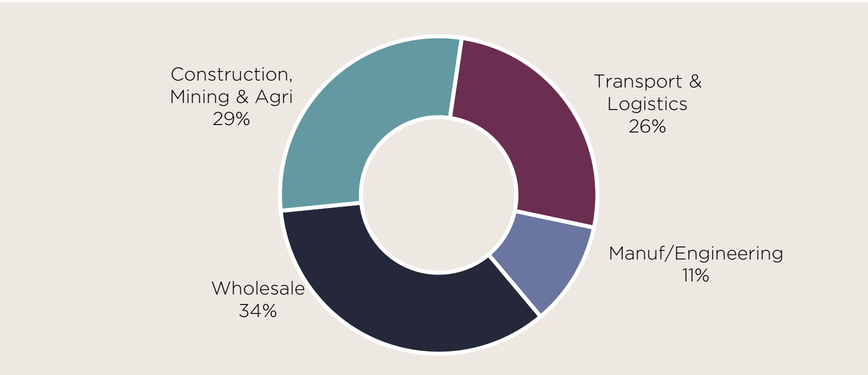
Prime net face rents by precinct, $/sqm average



Source Savills Research

Wholesalers, transport & logistics most active

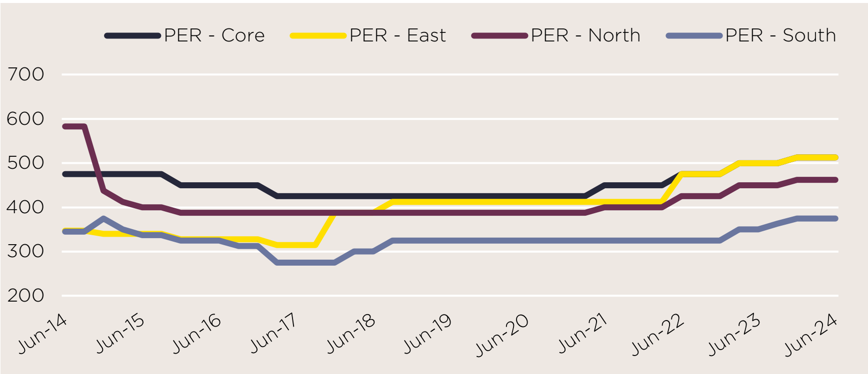
Share of leasing volumes by subsector, % share over the 12 months to june 2024



Source Savills Research

Land values steady

Land values by precinct, small lots, $/sqm, average



Source Savills Research

QUARTER HIGHLIGHTS

Investment activity
Sales volumes (+$5m) reached c.$186.9 million, well above the $61 million that transacted in the previous quarter. However, FY24 turnover remains at low levels with c.$350 million transacted, down 41% on FY23. This is consistent with the significant scaling back in activity nationally compared to previous years.

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. Nationally, 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 to justify any further outward movement, prime market yields have held stable in Q2 at 6.2% on average. Secondary yields are also unchanged.

Rental growth still in progress but market is two-tiered
Rental growth has been positive, with prime net face rents increasing across all precincts in Q2. On a blended basis, prime net face rents were up 4.9% Q/Q and 17.5% Y/Y. Some deal evidence has started to materialise, which shows that growth is being driven by new floorspace, rather than the existing buildings. There has been increased upward pressure economic rents in new buildings, due to higher construction costs and labour and this is playing a significant role in pushing up the overall average.

Wholesale/retail tenants most active
Leasing activity for spaces over 3,000sqm reached approximately 306,200sqm over the 12 months to Q2. Leading sectors included wholesale/ retail (34% of total lease deals), transport and logistics (26%), and construction, mining, and agriculture (28%).

Land values trend sideways
The value of small lots (<5,000sqm), medium lots (1-5Ha), and large lots (10Ha+) remained stable over the June quarter. However, over the last three years, small lots have increased by 17.3%, medium lots by an average of 37.3%, and large lots by 31.6%, over the same period.

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