Australia Industrial – April 2023

SPOTLIGHT
Savills Research

Shed Briefing

Record rental growth ● Yields expand outwards ● Investors focused on structural tailwinds

Still signs of resilience

Higher rates and sticky inflation to carry on into 2023 as business confidence inches up and supply chains start to normalise

Surveys point to slowdown

Survey activity, such as the purchasing managers indices (PMIs), which are strongly correlated with GDP growth, are pointing to a much milder slowdown. Supplier delivery times have shortened but price pressures remain elevated.

Business investment still positive

In an ABS survey of expectations for capital expenditure taken early 2023, businesses reported their intention to invest more in 2023-24 than they did in FY22-23 despite rising costs. This is echoed in the PMI Survey for March, with business confidence inching up to a two-month high and firms indicating that they are still looking to expand their workforces in 2023. Similarly, in NAB's Business Survey for February, firms reported above-average business conditions with elevated capacity utilisation, trading conditions and employment.

China's reopening lifting demand

China's reopening has brought forward its own recovery and added to growth in global demand for industrial commodities. This will support Australia's terms of trade and economic growth outlook. As well as growth in commodity demand, this could also translate into a rise in demand of low-cost manufactured goods, particularly the supply of those products that have been impacted by the lockdowns in China over the last two years. This may result in an uptick in demand for swing space to store inventory in the short-term.

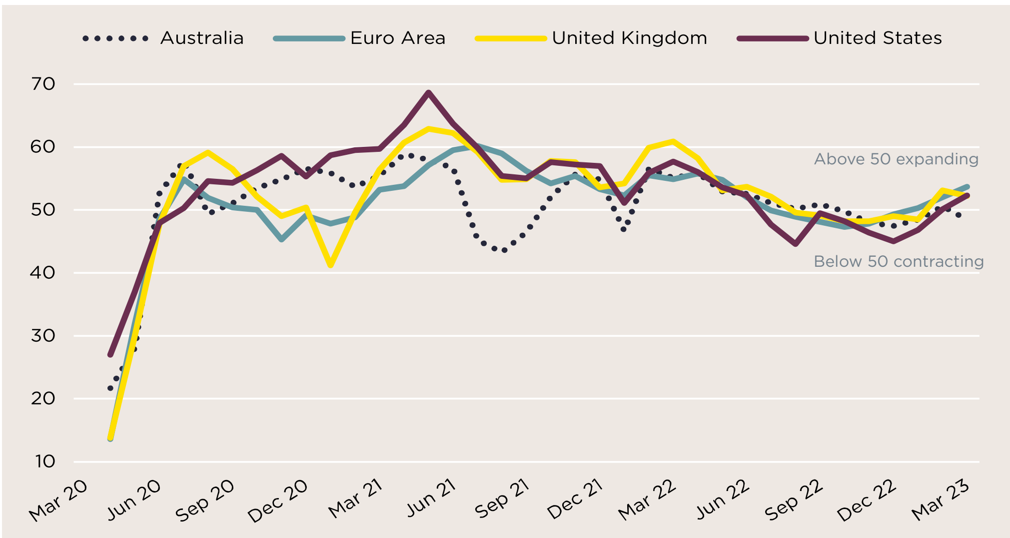
Inflation could remain higher for longer

Growth in inflation is expected to moderate but remain well above target this year. There's no doubt that high inflation remains one of the overarching themes coming into 2023. Core inflation, which strips out volatile items, has been higher than expected. Wage growth has also ticked up. The anticipation of the extra demand from China's reopening has begun to lift commodity markets, and this may contribute to higher for longer inflation levels in the near term.

End could be in sight for rate hikes

There has been some difficulty in the financial markets in March following the collapse of three US banks, and Credit Suisse in Switzerland. In the immediate aftermath, investors were quick to wind down expectations of future policy tightening and government bonds declined considerably. While further rate rises haven't been ruled out completely, forecasts for the terminal rate have dropped to 3.85%, suggesting at least one more rate rise. Materially, clarity on the all-in-cost of debt, alongside lower bond yields could limit further yield expansion and unlock investment activity.

PMIs point to much milder slowdown as economy responds to higher rates
Purchasing Managers Indices (level above 50 denotes expansion)



Source Savills Research / IHS Markit

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Key macro takeaways

1 The global economic outlook is at a turning point. Household spending has started to moderate, and the savings rate has fallen back to its pre-pandemic level. Growth in retail trade starts to reflects higher prices for goods and services.

2 Unemployment rate resists moving from its 50-year low of 3.5%. Although it has been up and down month to month, it hasn't been higher than 3.7% since May 2022. This is helping to support income growth and offset the decline in household savings.

3 Inflation could remain higher for longer. Extra demand from China's reopening may contribute to higher for longer inflation levels in the near term. Easing of supply-chain contraints will help offset this.

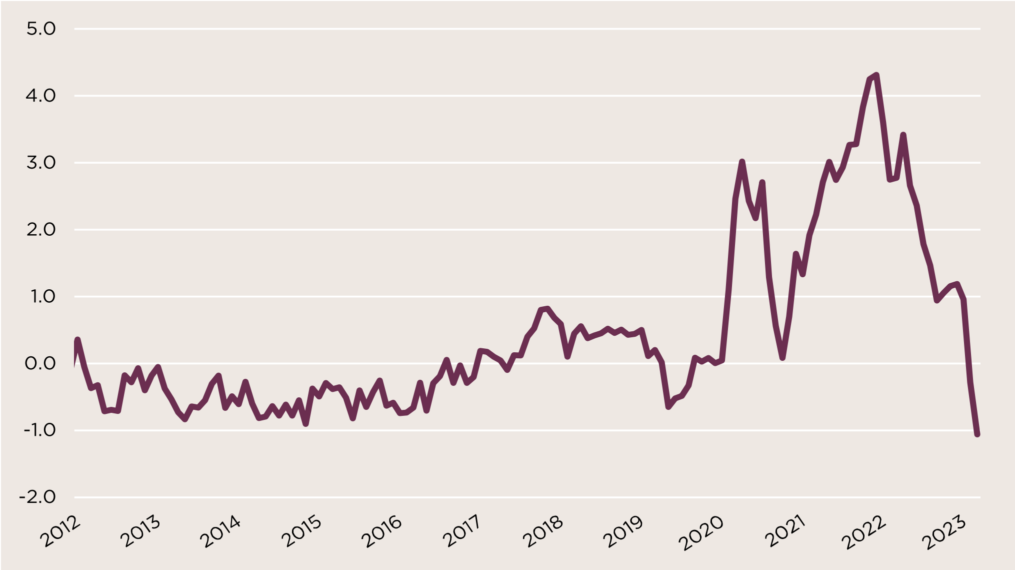
4 Surveys point to slowdown but China's reopening lifting demand. China's reopening is aiding growth in global demand for industrial commodities, which will support Australia's terms of trade and economic growth outlook.

5 Business investment is positive, and firms still plan to expand their workforce. Businesses reported their intention to invest more in 2023-24 than they did in FY22-23 despite rising costs, as business confidence inches up.

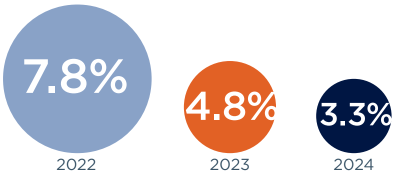
6 Is the end in sight for rate hikes? Investors are winding down expectations of further rate rises. Materially, lower bond yields could limit further yield expansion.

Global supply chain disruptions ease and upstream costs start to fall

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)



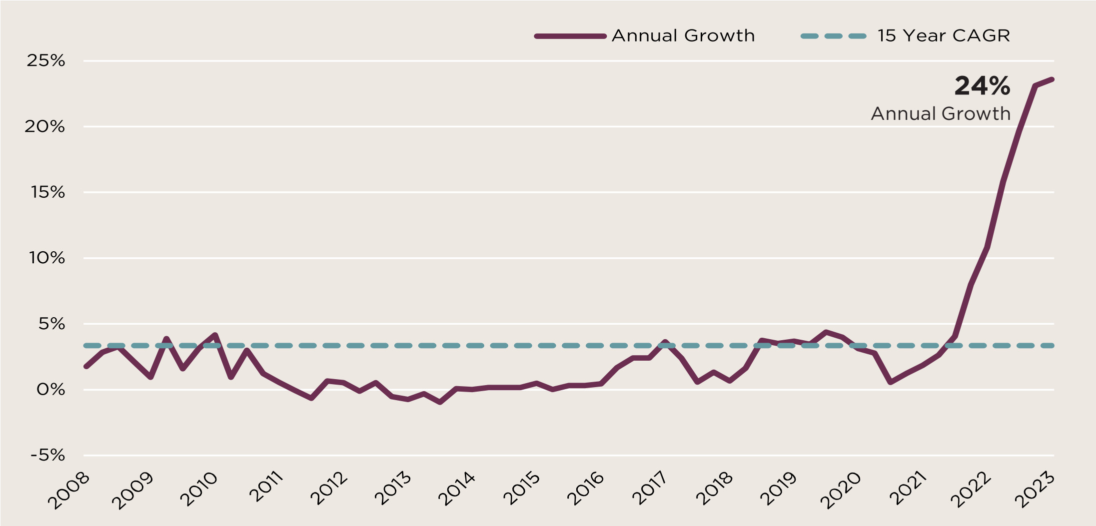
Source RBA inflation forecasts

Supply chain pressures have eased since the start of 2022. Improvements could help reduce inflation from the 7.8% in Dec-22 to 3.25% in 2024.

Rental growth upside

Demand is still outpacing supply as the pace of rental growth accelerates.

Rents are increasing seven times their annual average pace
Annual Prime Rental Growth Rate % (East Coast Average)



Source Savills Research

Low vacancy amid the high demand profile supports rental growth

Strong underlying fundamentals continues to cement the tailwinds for growth

Record year for growth

After a solid 18 months of unprecedented demand, the cycle is producing a growth rate of more than seven times its 15-year average for the east coast markets. Rents are being pushed well above the previous benchmarks in all markets.

Sydney prime net face rents grew 36.4% over the year, following a 4.4% push in Q1. Melbourne has been similarly as strong, with rents growing on average 16.4% Y/Y, with 3.3% growth coming in Q1. Brisbane grew 14% Y/Y and 2.8% in Q1, while Perth saw a 15.3% average rise Y/Y and 5.3% in Q1. Adelaide rents rose 9.3% Y/Y but after averaging +5.2% growth in Q3-22 are now holding.

Significant upside on market reversion

Such strong rental growth is enabling owners to capture the upside through market reversion and inflation-linked reviews. Compared to three years ago, prime rents on the east coast have grown by nearly 40% and secondary 45%, with some sub-markets experiencing growth above 50%, setting new benchmarks for market rents. This is helping to support valuations despite recent yield expansion. There are also attractive re-leasing spreads being reported, further supporting income growth outlook on renewals and/or new leases in the coming 12 to 18 months.

99-100% occupancy

Reflecting the tightness in the market, most major REITs are reporting 99-100% occupancy rates. In the recent reporting season, CIP and DXI reported re-leasing spreads of +19% and +11% respectively, while GPT reported +15%. For some REITs, there is a low number of leases expiring in 2023, limiting the opportunity to capture the uptick in growth rates until 2024.

Rental growth is also being led by CPI-reviews and economic rents in development feasibility have increased as construction costs have increased.

Demand and low vacancy driving rental growth

Low supply and demand for supply-chain resilience is expected to continue

+18.5%
Industrial job ads are up 18.5% Y/Y, with growth led by strong growth in Qld (+24%), NSW (+24%) and Vic (+15%).

+7.8%
Prime net face rents have increased on average 7.8% Q/Q on the east coast.

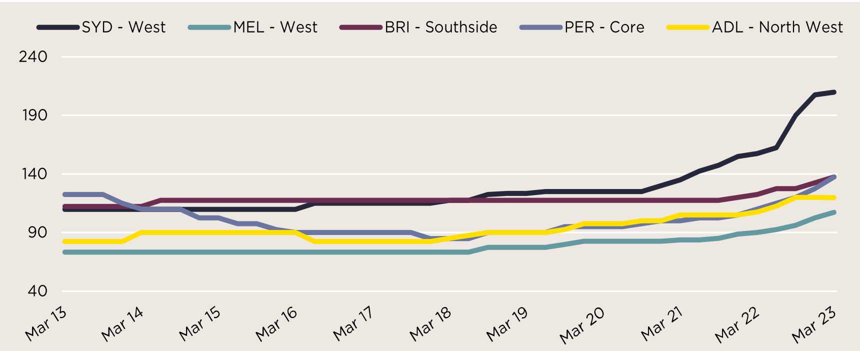
+6.5%
Secondary net face rents have increased on average 6.5% Q/Q on the east coast.

+15%
Industrial development approvals grew +15% Y/Y nationally, well above its 4.3% annual average.

Source Savills Research / ABS / LMIP

Prime net face rents

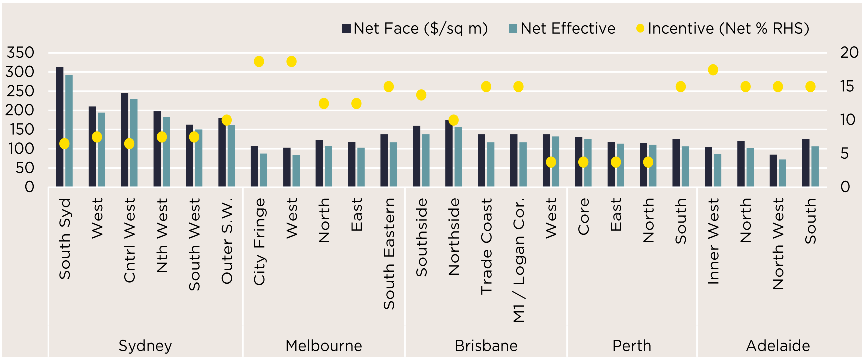
By core market, $/sqm net face rent average



Source Savills Research

Net face and effective rents v incentives

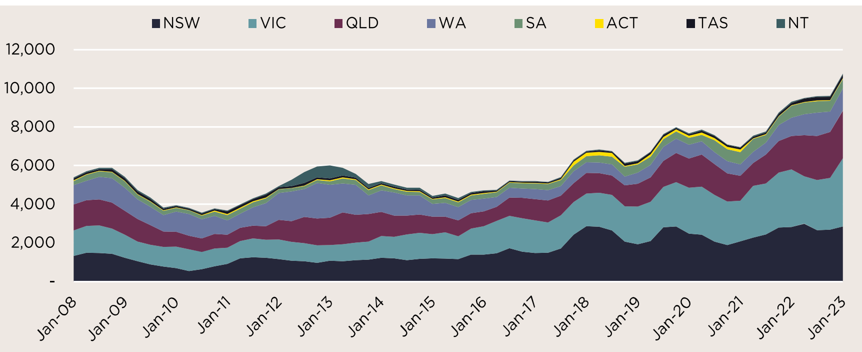
By submarket, prime average $/sqm and %



Source Savills Research

Development approvals ($m) up 15% annually

Value of industrial development approval by state and territory, to quarter



Source Savills Research / ABS

QUARTER HIGHLIGHTS

Low availability amid high pre-commitment rates

Low vacancy has started to limit the churn of existing space to lease, particularly for large mandates (>20,000sqm), of which there is little to no availability in Sydney and Brisbane. New supply has been largely pre-committed and with build times extending due to higher construction costs, pressure on vacancy remains. For example, Goodman recently reported that 81% of its commencements had been pre-leased and those projects that have been completed are averaging a 99.8% leased rate. Charter Hall is reporting a 99.5% occupancy rate and a 94% pre-lease rate on committed projects.

Less spec in short term

Developers are focused on building out existing holdings to capture the market rental growth and are less focused on new land acquisitions. There is expected to be a shift away from spec projects back to pre-commitment in the near term.

Land price growth cools

There are strong signs that values have peaked on the east coast and a correction is on its way in some markets. In Sydney, the annual growth rate of small lots has dropped to 2.3% compared to peak growth rate of 67% in Q2-22. In Melbourne, it has eased to 7.0% Y/Y, down from 44.3% in Q1-22.

Two-tiered land market

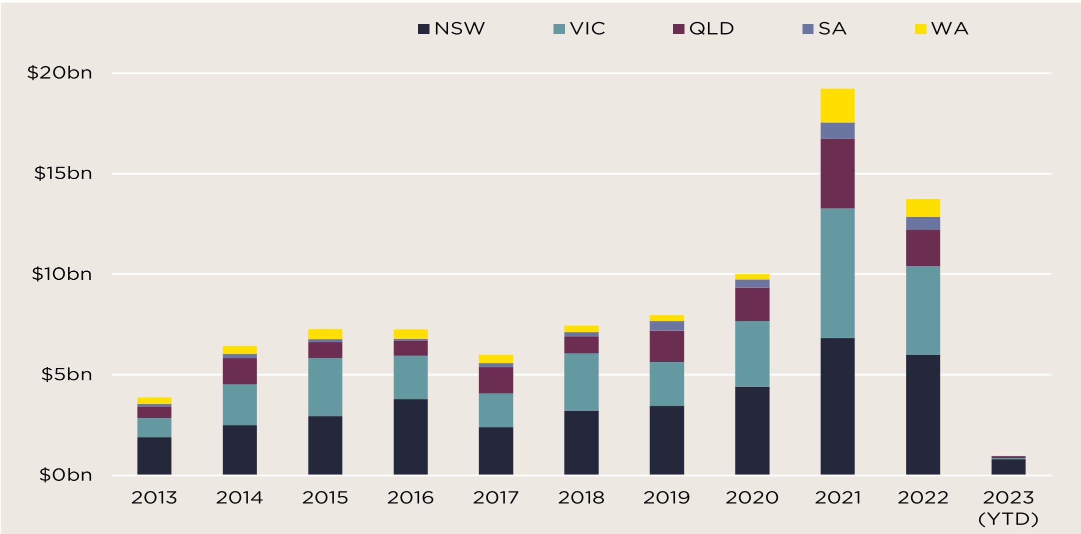
The pricing shift reflects the emergence of a two-tiered market dynamic, at a national level and by precinct, particularly in areas where developers have been acquiring sites for multi-level. There is still a lag in the smaller markets with Brisbane, Adelaide and Perth recording stronger Y/Y growth rates than the nation's two largest markets of +18.5%, +45.1% and +13.4% respectively, driven by growth in Q2-22.

At a precinct level, small lot land values have declined by c.20% over the last two quarters in Sydney's South West and Outer South West. Inflationary pressures have driven up build costs and in some cases the development of single deck building is no longer as viable, decreasing demand and the price buyers are willing to pay for it. Higher rates per sqm are still being achieved on sites being purchased for multi-level, due to rental growth.

Investment still in favour

Rising rates have slowed down the pace of deal-making but investor appetite remains large, driven by the income-upside and strong underlying demand fundamentals.

Investment volumes dip from the high of 2021 but still signs of liquidity
$10m+ industrial investment transactions year on year since 2013



Source Savills Research using MSCI RCA

Yields adjust but clarity on future path of interest rates will unlock activity

Investors keen to capture the upside through market reversion

Yields soften further in Q1
There has been some repricing in response to higher interest rates and historically higher inflation. The Bid-Ask spread between purchaser and vendor has widened. This limited deal activity and saw yields soften during the second half of 2022. This trend has continued in Q1, with average prime market yields expanding a further 25bps.

Some investors will continue to wait for the full impact of higher interest rates to wash through valuations, which is likely to keep investment volumes subdued during the first half of 2023.

Volumes dip but market still liquid
Transaction volumes have decreased in 2022 to c.$13.8 billion, down 28% from the record-breaking c.$19.2 billion rally in 2021. Preliminary estimates for Q1 indicate c.$860 million has transacted, which is below trend.

Despite this dip, the depth of capital targeting the sector in historical terms is quite remarkable, given its pre-pandemic average was about $7.8 billion annually.

Global capital still active
The scarce supply of industrial assets, coupled with demand, has seen rents skyrocket, offsetting the nationwide yield softening associated with interest rates soaring.

Recent campaigns are highlighting the preference for global capital to increase exposure to Australia. This will play a significant role in unlocking investment activity during the second half of 2023.

Investors still smiling on industrial and logistics

Rental growth helping to offset yield expansion

+25bps
Average market yields for prime and secondary have expanded by 25bps in most markets.

-28%
Transaction volumes have decreased to c.$13.8 billion in the year to March 2023, down 28% from the c.$19.2 billion rally in the 12 months to March 2022.

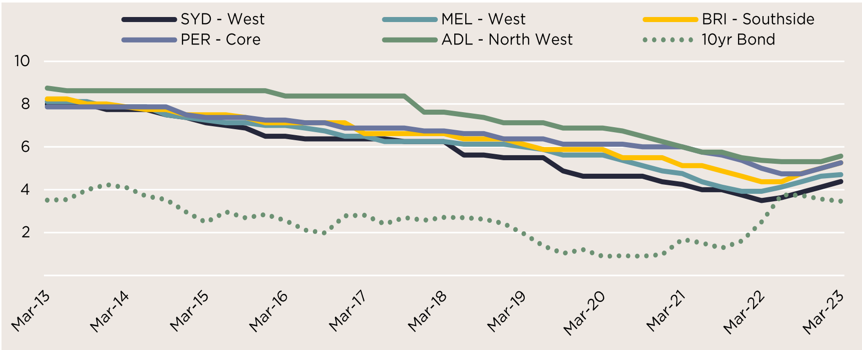
28%
Privates, owner occupiers and developers accounted for c. 28% of total investment volumes in 2022, compared to just 18.6% in 2021.

+30bps
In 2023, allocations are expected to increase a further 30bps, as investors anticipate an opportunity to take advantage of potential repricing.

Source Savills Research / MSCI / Hodes Weill

Key Markets - prime yield & 10yr bond rate

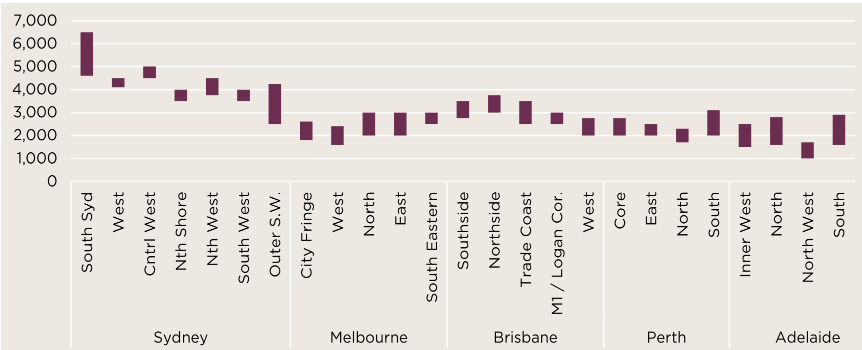
Average prime yield v 10yr bond rate, %



Source Savills Research / RBA

Typical capital value range

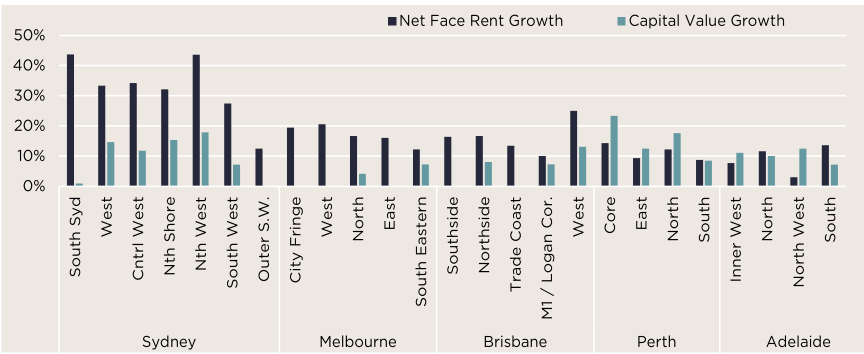
$/sqm prime average by submarket



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

Institutions continue to favour real estate

Despite transaction activity cooling in the second half of 2022, institutions are continuing to raise their allocations to commercial real estate. There will still be some rebalancing of this relative to the repricing that is underway due to the higher cost of capital, but target allocations are still rising.

In the Cornell University / Hodes Weill & Associates 2022 Allocation Monitor, target allocations to real estate reached a 10-year high of 10.8% in 2022.

In 2023, allocations are expected to increase a further 30bps, as investors anticipate an opportunity to take advantage of potential repricing.

Dry Powder

There is also a significant amount of real estate dry powder looking to deploy capital in 2023, with unallocated funds sitting 73% above their decade average according to Realfin. Indeed, in recent APAC surveys by ANREV and PWC ULI, Australian markets stood out as the preferred destination in the region for investors in 2023.

Industrial preferred

Additionally, in the poll taken by the ANREV, which surveys 82 global institutional investors who manage more than $1.1 trillion in real estate assets, industrial/logistics was the second most preferred sector in the APAC region for investors for investment targets in 2023.

City Highlights

Historically low levels of available space continue to support strong rental growth rates, highlighting investor focus on structural tailwinds to drive future returns.

Summary - Key Prime Averages

Q1-2023 indicators by sub-market

	Net Face Rent $/sqm	Market Yield (%)	IRR (%)	Capital Value $/sqm	Land Value $/sqm
SYD - South Syd	313 (+8.7%)	4.25 (+25 bps)	6.13 (+25 bps)	5,550 (n/c)	3,750 (n/c)
SYD - West	210 (+1.2%)	4.38 (+25 bps)	6.13 (+25 bps)	4,300 (n/c)	1,625 (-7.1%)
SYD - Cntrl West	245 (n/c)	4.25 (+25 bps)	6.13 (+25 bps)	4,750 (n/c)	2,250 (n/c)
SYD - Nth West	185 (+2.8%)	4.38 (+25 bps)	6.13 (+25 bps)	3,750 (n/c)	1,500 (-7.7%)
SYD - South West	198 (+6.8%)	4.50 (+25 bps)	6.13 (+25 bps)	4,125 (n/c)	1,778 (-11.2%)
SYD - Outer S.W.	163 (+6.6%)	4.50 (+25 bps)	6.13 (+25 bps)	3,750 (n/c)	1,318 (-9.9%)
MEL - City Fringe	180 (n/c)	4.50 (+13 bps)	5.88 (+13 bps)	3,375 (n/c)	2,625 (n/c)
MEL - West	108 (+4.9%)	4.69 (+6 bps)	5.88 (n/c)	2,200 (n/c)	613 (n/c)
MEL - North	103 (+5.1%)	4.88 (+6 bps)	6.00 (n/c)	2,000 (n/c)	700 (n/c)
MEL - East	123 (+4.3%)	4.69 (+19 bps)	5.88 (+13 bps)	2,500 (n/c)	925 (n/c)
MEL - South Eastern	118 (+4.4%)	4.69 (+19 bps)	5.88 (+13 bps)	2,500 (n/c)	850 (n/c)
BRI - Southside	138 (+3.8%)	5.25 (+25 bps)	6.13 (+38 bps)	2,950 (+7.3%)	525 (n/c)
BRI - Northside	160 (n/c)	5.25 (+25 bps)	6.13 (+25 bps)	3,125 (n/c)	675 (n/c)
BRI - Trade Coast	175 (+6.1%)	5.00 (+13 bps)	6.00 (+13 bps)	3,375 (n/c)	750 (n/c)
BRI - M1 / Logan Cor.	138 (+1.9%)	5.25 (+25 bps)	6.13 (+25 bps)	2,950 (-1.7%)	450 (n/c)
BRI - West	138 (+1.9%)	5.25 (+13 bps)	6.13 (+13 bps)	2,950 (+7.3%)	400 (n/c)
PER - Core	138 (+7.8%)	5.25 (+25 bps)	6.50 (+25 bps)	2,375 (n/c)	500 (+5.3%)
PER - East	130 (+4.0%)	5.25 (+25 bps)	6.50 (+25 bps)	2,375 (n/c)	500 (+5.3%)
PER - North	118 (+4.4%)	6.00 (+25 bps)	7.50 (+25 bps)	2,250 (n/c)	450 (+5.9%)
PER - South	115 (+4.5%)	5.75 (+25 bps)	7.00 (+25 bps)	2,000 (n/c)	350 (+7.7%)
ADL - Inner West	125 (n/c)	5.25 (+25 bps)	6.50 (+25 bps)	2,550 (n/c)	750 (n/c)
ADL - North	105 (n/c)	5.56 (+25 bps)	6.69 (+25 bps)	2,000 (n/c)	250 (n/c)
ADL - North West	120 (n/c)	5.56 (+25 bps)	6.69 (+25 bps)	2,200 (n/c)	350 (n/c)
ADL – South	85 (n/c)	6.56 (+31 bps)	7.56 (+25 bps)	1,350 (n/c)	213 (n/c)
ADL - South West	125 (n/c)	5.50 (+25 bps)	6.81 (+25 bps)	2,250 (n/c)	650 (n/c)

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

Quarter Highlights

Demand and low vacancy driving rental growth as yields expand

+3.6%

Prime Rents
Average increase east coast prime net face rents Q1-2023

+6.5%

Secondary Rents
Average increase east coast secondary net face rents Q1-2023

+25bps

Prime Yields
Average change in blended prime yields Q1-2023

-4.8%

Land Values
Average decrease of small lot land prices in Sydney Q1-2023

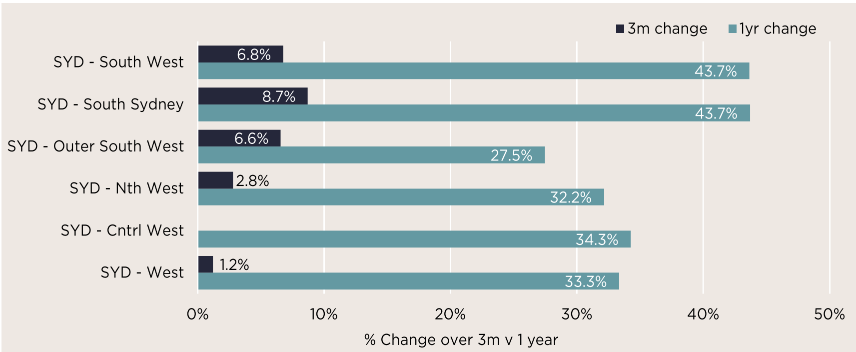
Source Savills Research

Sydney

Yields expand but structural tailwinds continue to drive rental growth.

Low vacancy drives further rental growth

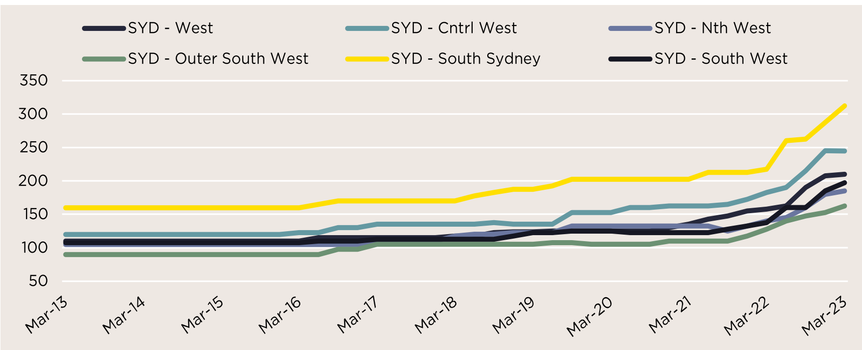
Prime net face rent % change, 3 months vs 1 year



Source Savills Research

Prime net rents have increased on average 4.4% Q/Q

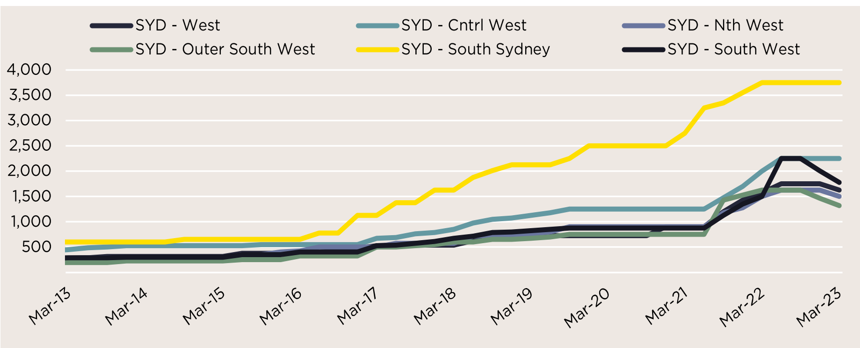
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land prices start to fall

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



Source Savills Research

QUARTER HIGHLIGHTS

Investment volumes double the pre-pandemic average

It is estimated that c.$910 million in assets (+$5m) traded during Q1. This is more than double the pre-pandemic average ($377m) for this time of the year and follows a significant uptick in Q4, when c.$1.7 billion was transacted. In annual terms, c.$5.5 billion in sales (+$5m) have been recorded. This is about 40% less than the previous 12 months, but nearly 70% higher than the 10-year average (c.$3.2bn), which suggests that there is still liquidity in the market, even at higher financing costs for the right asset.

Prime yields expand 25bps but less in secondary due to reversionary upside

Average market yields for prime and secondary have moved out a further 25bps and 12.5bps Q/Q.

Rent surge helps to offset yield expansion

On a blended basis, prime net face rents are up 4.4% Q/Q (+36.4% Y/Y) and secondary rents are up 12.0% Q/Q (+38.0% Y/Y). Rents are rising at a particularly strong pace in those areas with the lowest vacancy and access to growing populations, which indicates that the e-commerce tailwinds are well engrained. This is adding pressure on secondary stock, especially in urban areas, and in some precincts, such as the Central West, secondary rental growth is now outpacing prime.

Land rates start to fall from their 2022 peak

Land price escalation during the last two years has been rapid, with the double-digit growth rates reflecting land supply constraints during a period of historically high occupier demand. However, rising build costs amid higher borrowing costs saw growth stall from mid-2022, and by Q4, the South West and Outer South West precincts had started recording negative growth rates.

Except for South Sydney, all precincts recorded a fall in small lot land values in Q1. In blended terms, small lots have declined on average 4.8% Q/Q.

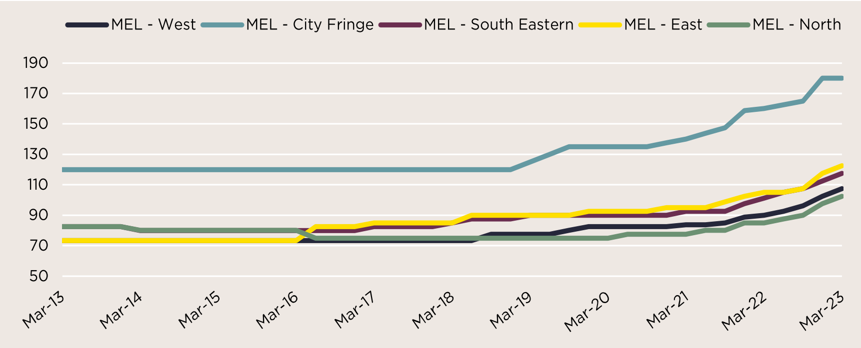
By precinct, small lot prices in the South West and Outer South West have fallen c.20% over the last six months. While price for medium and larger lot sizes appear to be holding, transactions have cooled, suggesting appetite to acquire land at those peak prices is starting to wane.

Melbourne

Rents continue their strong growth trajectory as demand levels outrun supply, supporting low vacancy and the outlook for income growth.

Prime net rents have increased on average 3.3% Q/Q

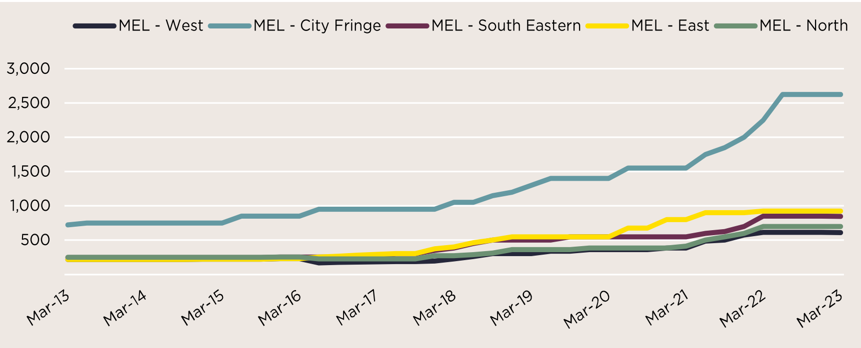
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth rates now holding

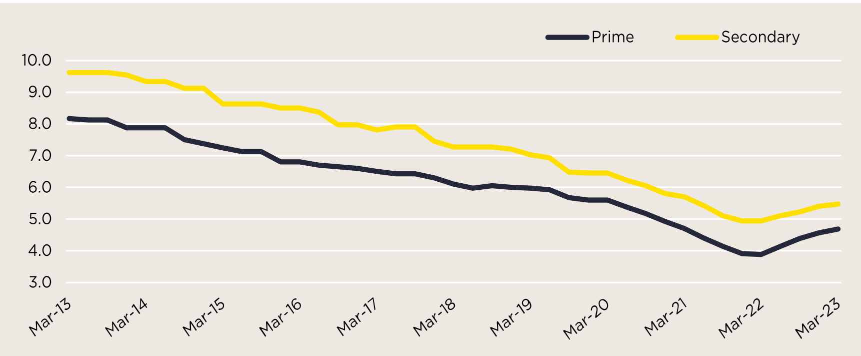
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields expand across prime and secondary

Prime vs secondary market yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment strong as yields start to widen
Q1 finished with c.$299 million in transactions and follows a strong Q4 with c.$1.1 billion in deals (+$5m). In the year to March, c.$2.8 billion has traded, this is more than 40% above the decade average and about 3% higher than the same period in 2021, which was equally as strong.

Higher interest rates start to reprice yields
There has been some outward yield movement in Q1, with average market yields for prime and secondary softening 12.5bps.

Rents still growing
On a blended basis, prime net face rents are up 3.3% Q/Q (+16.4% Y/Y). There continues to be strong growth in the secondary market, which faces similarly low vacancies as the prime segment, particularly in the West and North.

On a blended basis, secondary face rents have increased 4.2% Q/Q and are up 18.7% on average over the year.

Land rates stabilising
Low supply and high occupier demand has been a significant tailwind for land value growth over the last couple of years. The rental growth outlook has also contributed to developer appetite, particularly for infill sites because of their direct access to relatively dense population centres.

Economic rents have moved higher and developers have shifted focus to building out existing land holdings rather than acquiring new lots. There have also been limited on-market opportunities. As a result, no further uptick in land prices has been recorded since Q2-22. The confluence of these factors, including the land tax increases that are coming from mid-2023, suggests that pricing may adjust over the coming quarters.

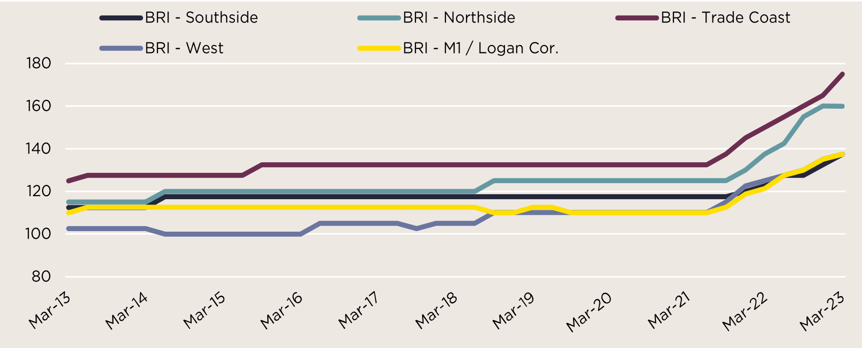
In annual terms, growth is still above average, with small lots (<5,000sqm) showing an increase of 7.0%, while medium lots (1-5Ha) and (+10Ha) have increased 1.3% and 1.2% over the same period.

Brisbane

Rent reversion to market, alongside low vacancy and e-commerce structural tailwinds is giving investors confidence to transact despite yield moving outwards.

Prime net rents have increased on average 2.3% Q/Q

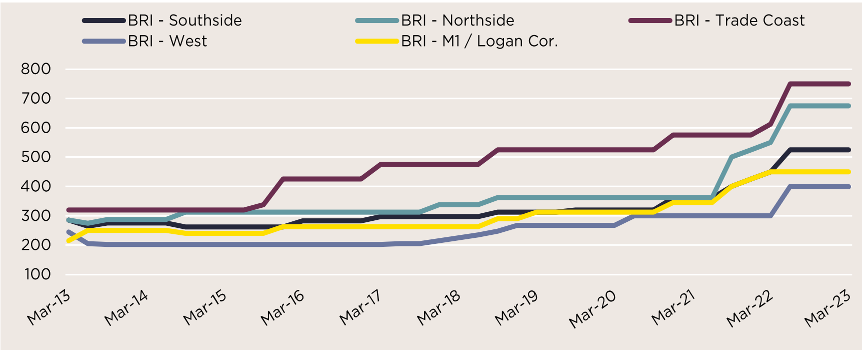
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth has peaked

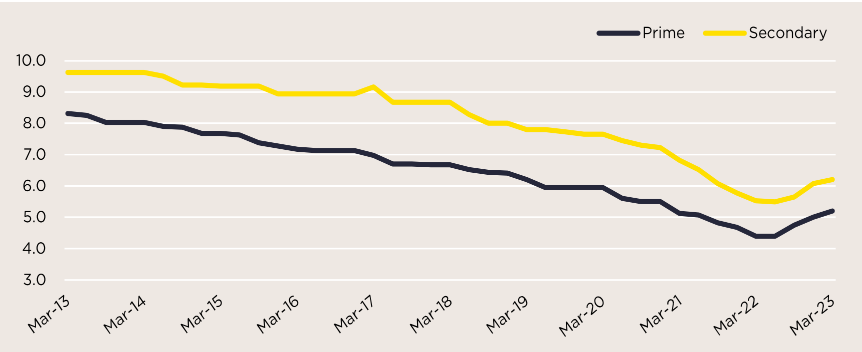
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields softening

Prime vs secondary market yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment activity decelerates but stays above its average
Investment volumes reached c.$138 million in Q1, bringing annual volumes in the year to March to c.$1.3 billion (+$5m). While activity has come off the highs of early 2022, this is still about 22% above the long-run average.

Yields move outwards
Prime and secondary market yields have softened on average 20bps Q/Q to average 5.2% in prime and 6.2% in secondary.

Sustained rental growth as demand continues
On a blended basis, prime net face rents are up 2.8% Q/Q and secondary rents are unchanged.

However, in annual terms, secondary rents have increased 14.4%, which is slightly more than prime (+13.9%), further demonstrating the low vacancy profile of the market, despite the uptick in the development pipeline.

High demand dynamic keeps pushing rents
Rents are expected to keep rising, with signficiant uplift likely where rents are reset to market rates. With the vacancy rate averaging 0.6% or less in some of submarkets, there will still be pockets of elevated growth in the near term. At the core of this strength is SEQ population and jobs growth, which is boosting demand for industrial and logistics space.

On the supply side, low vacancy alongside sustained high tenant demand has reduced large tenant options (>20,000sqm) and buoyed the current development pipeline. New completions could exceed 1 million sqm this year, with transport/ logistics and retailers driving some of this take-up.

Land rates stabilising
After surging nearly 60% over the last three years, land price growth has moderated with higher construction costs and the recent softening of yields amid construction delays, including flood impacts, impacting required returns.

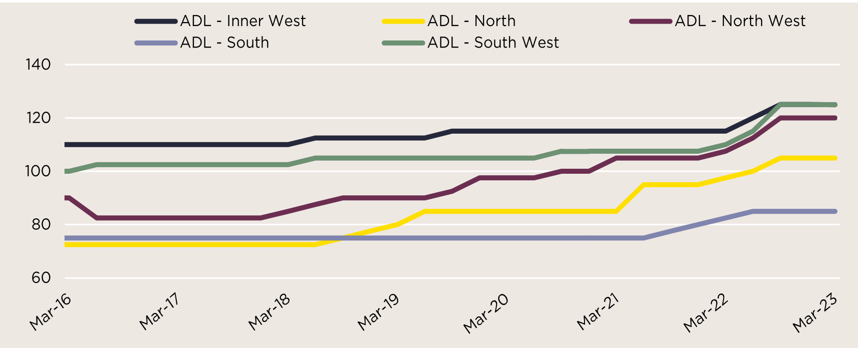
The value of small lots (<5,000sqm), medium (1-5Ha) and large lots (+10Ha) remain unchanged over the March quarter, however on a blended basis the value of small lots is up 18.5% Y/Y, while 1-5Ha and +10Ha have increased 12.8% and 4.4%.

Adelaide

Sustained low vacancy amid robust demand continues to buoy rental growth rates to record levels, while capital adjusts to economic headwinds.

Rental growth rates start to ease

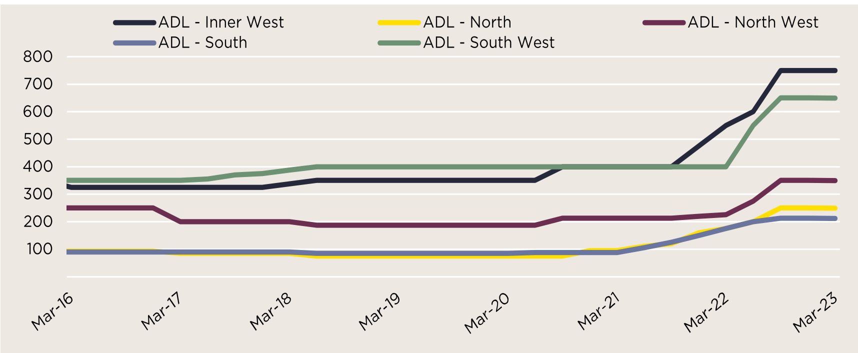
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land price growth now stable

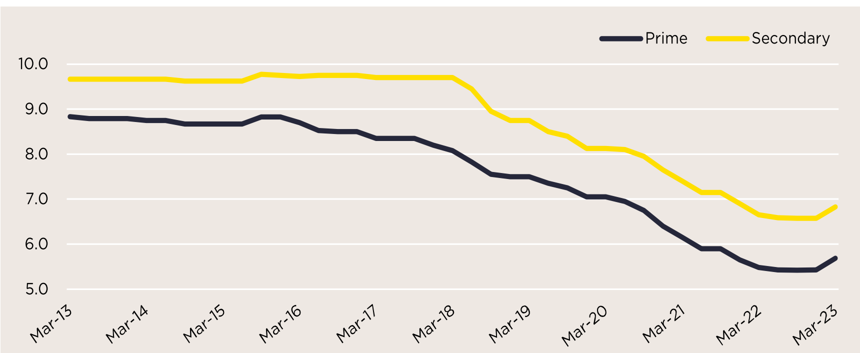
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields continue to soften in prime and secondary

Prime vs secondary market yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment slows
Transaction volumes were subdued in Q1, reaching c.$37.5 million (+$5m), down from c.$71 million in Q4. This brings the year to March total to c.$647 million, down from c.$889 million in the year to March 2022, which was a record year.

Despite activity cooling through the second half of 2022, volumes are still double the decade average of c.$322 million.

Yields start to soften
Prime and secondary market yields have expanded 25bps since Q4.

Rental growth eases
Prime and secondary net face rents remained unchanged in Q1. However, in annual terms prime net face rents grew 9.3%, while secondary net rents increased 11.6%. While there may be select examples of buildings renting at higher rates, there has been limited evidence to support an uptick in Q1.

Low vacancy in some markets is beginning to impact the churn of existing stock. However, there are attractive re-leasing spreads being reported that support further rental growth in the coming 12 months.

Land rates hold
On average, the value of small lots (<5,000sqm) remained unchanged over the quarter, however on an annual basis are up 45%.

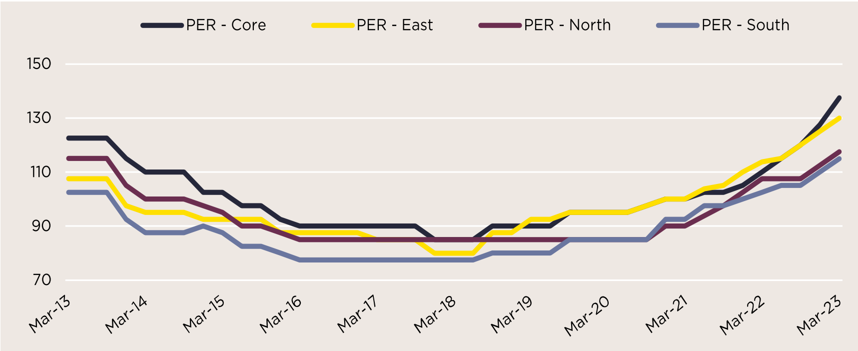
Of the precincts, the South West experienced the largest growth rate of 62.5% Y/Y, with an average of $650/sqm, while the North West also experienced significant growth of 55.6% Y/Y, to average $350/sqm.

Perth

Rental growth accelerates, underpinned by low vacancy and high tenant demand, but investment volumes start to dip as capital adjusts to rising interest rates.

Prime net rents increase 5.3% in Q1

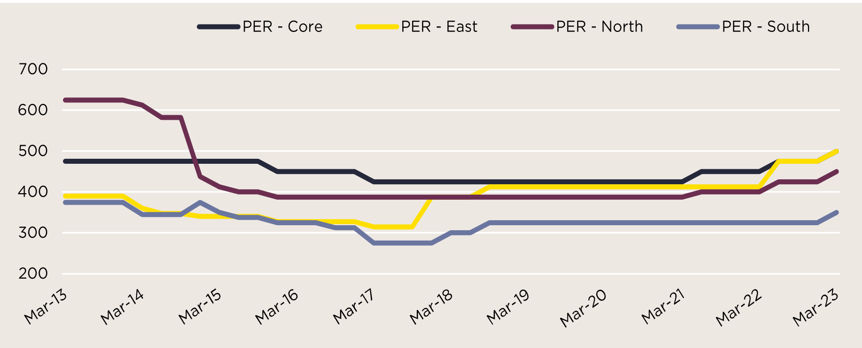
Prime Net Face Rents by Precinct, $/sqm average



Source Savills Research

Land value growth shows signs of easing

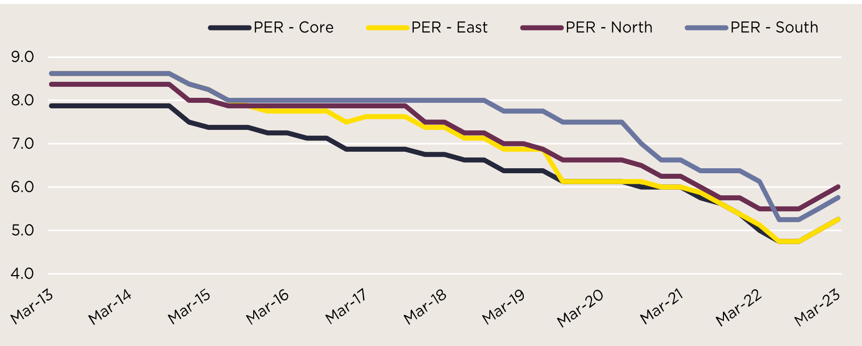
Land Values by Precinct, Small Lots, $/sqm, average



Source Savills Research

Yields have expanded on average 25bps Q/Q

Prime vs secondary market yield, % average



Source Savills Research

QUARTER HIGHLIGHTS

Investment volumes have been subdued
After a heady Q3-22, following the sale of Roe Highway Logistics Park from Tattarang and JV partner, Hesperia to Charter Hall for about $300 million, transaction volumes have fallen, with c.$55.7 million of assets trading in Q1.

In annual terms, volumes reached c.$679 million, down 18% from the previous year, however, remain well above the 10-year average of c.$453 million.

Yields soften 25bps
Further yield movement was observed over the March quarter, with average market yields softening 25bps across prime and secondary markets. On a blended basis, the average prime market yield was 5.60% and 6.40% for secondary.

Rents surge helps to offset yield expansion
On a blended basis, prime net face rents are up 5.3% Q/Q and 15.2% Y/Y.

The Core experienced the greatest increase of 7.9% Q/Q, to average $137.5/sqm.

Secondary net face rents were up 4.1% on a blended basis.

Vacancy is estimated to be less than 1.0% and with limited larger prime leasing options, pre-lease enquiry remains elevated to meet that demand.

Land value growth rates starting to slow
In blended terms, the value of small lots (<5,000sqm) rose 5.9% Q/Q, and show a rise of 13.4% Y/Y.

Growth has been relatively subdued compared to the east coast markets, with local developers dominating the majority of acquisition activity, albeit this has been at low levels. Construction costs have begun to level off and this will assist in pricing development feasibility over medium term.

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