Australia’s Industrial yields continue to firm to a position beyond the office sector

▼ 4.2%
Australia Real Final Demand q-o-q

▼ 2.1%
Australia Gross State Product q-o-q

▼ 1,476,231 sqm
New Industrial Supply 2021YTD

▲ 3,124,594 sqm
Gross Take-Up 2021YTD

▼ -100 bps
Super Prime Yield change y-o-y

Note: Arrows indicate change from previous quarter / year.

Key Points

- Australia’s e-commerce penetration rate continues to rise and is at a new record of 14% (or AUD 51 billion over the past 12 months).[1]
- 35% of total gross-take-up in 3Q21 was attributed to occupiers within the Retail Trade sector.
- Gross take-up is expected to reach a record level year by year-end, with leasing activity surpassing 3 million sqm over 2021YTD.
- Total new stock completions over 2021YTD has reached the 10-year annual average (1.45 million sqm) and is expected to total 1.97 million sqm by the end of the year.
- Rental growth recorded across all major markets in Australia over the quarter, for all asset grades - mainly owing to record low vacancy (sub-2% national average).
- Yields continued to compress across all major markets nationally, and super prime and prime midpoint yields are now tighter than the CBD office sector.
- Investment sales (≥ AUD 10 million) over 2021YTD totals around AUD 9 billion, already making it a record year of transaction activity.

FIGURE 1: Summary of Physical Indicators

	Stock Completions (sqm)			Gross Take-Up (sqm)		
	3Q21	**2Q21**	**1Q21**	**3Q21**	**2Q21**	**1Q21**
Sydney	126,822	56,067	102,423	207,169	404,503	316,815
Melbourne	356,599	218,883	314,565	586,411	234,973	796,355
Brisbane	106,024	4,154	101,504	67,204	54,961	117,994
Perth	16,525	6,817	23,736	49,929	131,232	4,331
Adelaide	44,384	11,709	3,700	15,364	22,552	114,821
Total[2]	632,673	297,630	545,928	926,077	848,221	1,350,296

1. NAB and ABS
2. Does not include ACT
Source: CBRE Research

Demand

Occupier activity is ahead of record 2020 year, with 2021YTD leasing transactions above 3 million sqm

Gross take-up over 3Q21 totaled 926,000 sqm, which is in line with 12-month quarterly average. Leasing activity continues to remain significantly elevated, with floorspace absorption for the year-to-date reaching 3.1 million sqm. This is 30% above the long-term average, and only 178,000 sqm short of reaching last year's record year of take-up. Therefore, we expect gross-take-up for 2021CY to be another record year.

Leasing activity was mainly within existing assets over the quarter (66%). This is a relatively higher weighting to existing asset leases than the historic average (50%), likely indicative of the fact some occupiers who are expanding are addressing their immediate needs.

Melbourne continues to lead take-up activity

The concentration of floorspace take-up over the quarter was within the Melbourne market, representing 63% of the national. Sydney only accounted for 22% (or 207,169 sqm) of floorspace take-up, below the 12-month quarterly average of 361,400 sqm. The lack of available space in the Sydney market is one of the main reasons for lower lease transactions, with the vacancy rate further tightening to a record low of less than 1%.

The retail trade sector contributes to 34% of leasing transactions over 3Q21

In line with recent demand trends, the Retail Trade sector was the most active in 3Q21, accounting for 34% of gross take-up this quarter. This was followed by Transport, Postal & Warehousing sector (30%) and Manufacturing (16%).

E-commerce related occupiers have leased nearly 600,000 sqm in the year to date, with their activity expected to approach 1,000,000 sqm by year's end. Lockdowns continue to accelerate the major growth trends for Industrial & Logistics, as more consumers take their non-discretionary and discretionary shopping online.

FIGURE 2: National Gross Take-Up by City

FIGURE 3: National Gross Take-Up by quarter (1Q20-3Q21)

	Gross Take-Up (sqm)						
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Total	535,491	913,211	799,662	1,046,222	1,380,296	848,221	955,377
12-mth Rolling	2,701,248	2,78,636	2,862,534	3,294,586	4,139,391	4,074,401	4,230,116

*As at 3Q21
Source: CBRE Research

Supply

New development supply for 2021YTD reaches the 10-year average

Approximately 32% (or 635,660 sqm) of the 2021 development supply pipeline was completed over 3Q21, across 37 projects. The concentration of new floorspace over the quarter was delivered within the Melbourne market (56%). Only 126,822 sqm (or 20%) of new floorspace was delivered in the Sydney market, this is mainly owing to the lack of industrial zoned land that is serviced. The Brisbane market recorded an uptick in new stock over the quarter, adding 83,228 sqm to the market (13% of the national total). The Perth 2021 pipeline is significantly low, delivering only 16,565 sqm of new floorspace over the quarter across one project – lower than the Adelaide total of 26,703 sqm.

One of the largest projects to reach completion over the quarter was Charter Hall's Midwest Logistics Hub in Truganina, Melbourne (West precinct). Also, Dexus' development in South Granville, Sydney (Central West precinct) reached completion – totaling approximately 57,000 sqm.

Over 2021YTD there has been 1.48 million sqm of new floorspace added to the national market, with around 30% of these developments' speculative builds.

Outlook

The 2021 supply pipeline remains above the long-term average, with 497,785 sqm of stock under construction and due to complete in 4Q21. Assuming all projects reach completion as per their current expected timelines, this would make 2021 the second highest year of completions – totaling 1.97 million sqm.

Just over half of the total floorspace expected to be delivered next quarter is in the Sydney market (266,090 sqm), with only 18% (or 88,830 sqm) in Melbourne, 16% (81,646 sqm) in Brisbane, 9% (44,384 sqm) in Adelaide and 3% (16,835 sqm) in Perth. Construction volumes in Sydney will be elevated by projects such as Goodman's development of Amazon Fulfilment Centre, Oakdale West at Kemps Creek (Outer North West precinct) – adding around 212,500 sqm of new floorspace.

Beyond 2021, new development projects are limited and the pipeline for 2022 is expected to be in line with the long-term average. However, given the growing requirements from the e-commerce sector and associated transport and logistics services, coupled with record low vacancy rates (sub-2% nationally) this is forecast to drive continued land appreciation and upward pressure on rents.

FIGURE 4: Development Supply Pipeline

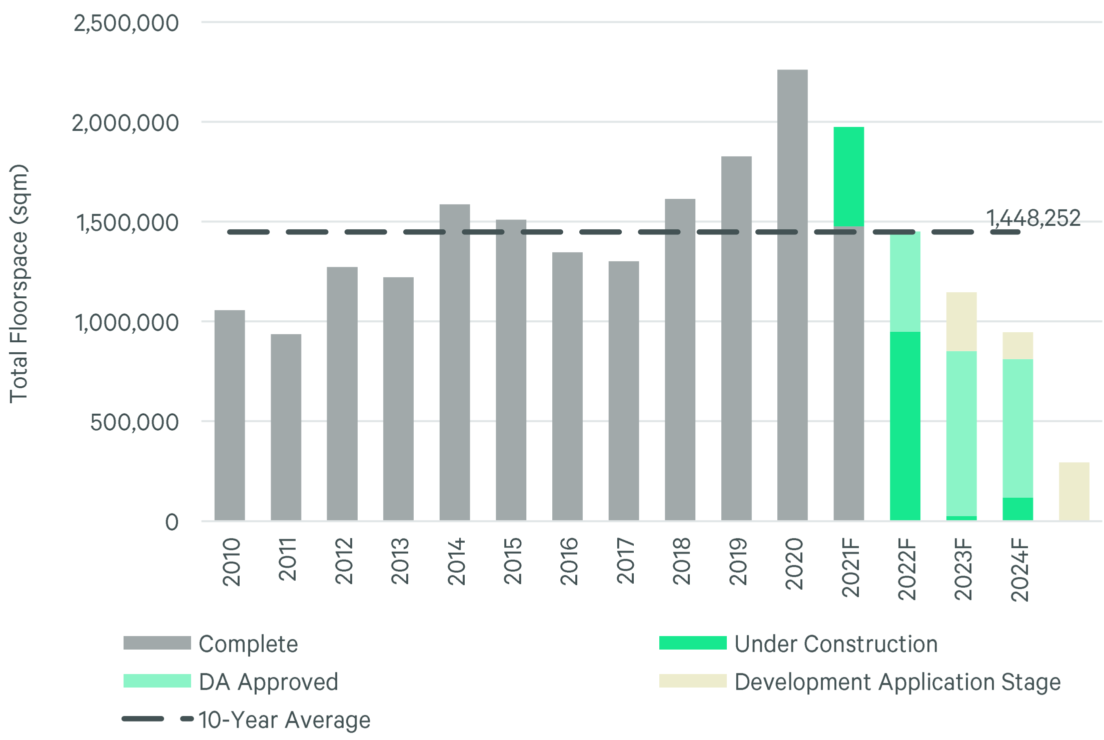


FIGURE 5: Development Completions and Under Construction by quarter (1Q21-2Q22)

	Stock Completions (sqm)					
	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Total Completions	548,274	300,018	635,661	-	-	-
Under Construction	-	-	-	497,785	203,347	278,216

To note: reflects projects >5,000 sqm for Sydney and Melbourne, projects >4,000 sqm for Brisbane and Perth, projects >3,000 sqm for Adelaide.
Source: CBRE Research

Leasing Market

Record low vacancies has driven growth in face rents over 3Q21 across all markets

The national super prime average net face rent has increased by 2.6% over the quarter and now averages AUD 117/sqm. Rental growth was recorded in all major markets across Australia. Prime and secondary average rents increased by 2.3% (averaging AUD 114/sqm) and 1.7% (averaging AUD 92/sqm), respectively.

On a y-o-y basis, national super prime average rents have grown by 3.4%, prime by 6.2%, and secondary by 7.0%. Growth in super prime grade assets were mainly attributed by the Sydney market (5.7% y-o-y).

In line with our expectations of strong occupier activity continuing this year, coupled with low vacancy and declining development pipeline, we are forecasting continued uplift in national super prime and prime average net face rents over the next 12 months.

Land Values

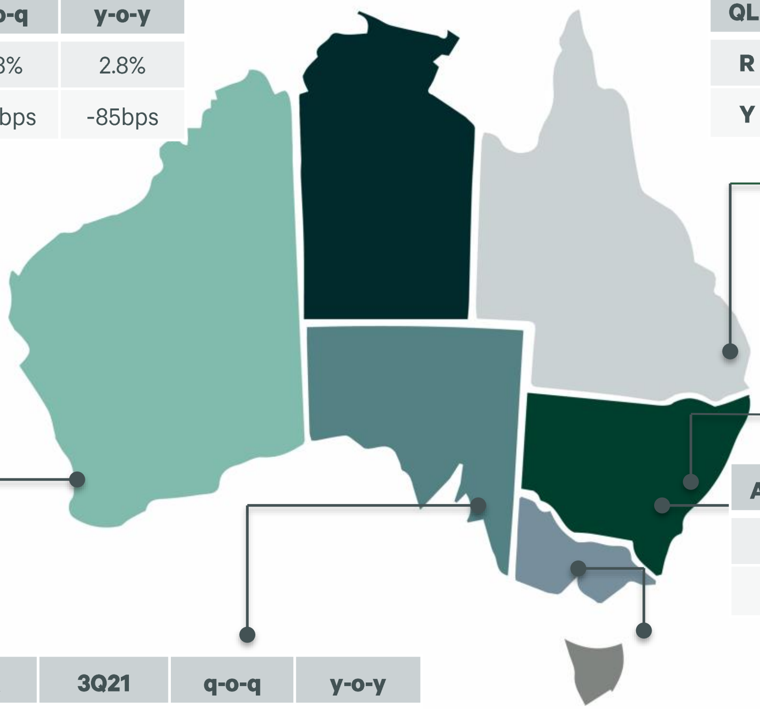
Land value appreciation recorded across all markets

Average land values for 1.6 ha lots experienced the greatest growth in the Adelaide market over the past 12 months (+76% y-o-y) due to the diminishing availability of serviced land, particularly in the Outer North precinct. The Sydney market also recorded significant growth of +35% y-o-y, followed closely by the Melbourne market (+34% y-o-y). The Brisbane market is beginning to record strong growth in land values (+13% y-o-y) and this is expected further rise, as Brisbane usually lags trends observed in the Sydney and Melbourne markets. Brisbane is also characterized by a limited supply of industrial zoned serviced land (like the Sydney and Adelaide markets), particularly within the Trade Coast and North precincts.

FIGURE 6: Super Prime key metrics

WA	3Q21	q-o-q	y-o-y
R	93	2.8%	2.8%
Y	4.75%	-50bps	-85bps

QLD	3Q21	q-o-q	y-o-y
R	126	0.7%	0.7%
Y	4.60%	-15bps	-75bps



NSW	3Q21	q-o-q	y-o-y
R	$149	3.7%	5.7%
Y	3.85%	-12bps	-71bps

ACT	3Q21	q-o-q	y-o-y
R	130	4.0%	4.0%
Y	6.10%	-15bps	-75bps

SA	3Q21	q-o-q	y-o-y
R	107	1.6%	2.6%
Y	4.93%	-15bps	-125bps

VIC	3Q21	q-o-q	y-o-y
R	97	2.5%	3.9%
Y	4.05%	-15bps	-80bps

Legend
R - Rents
Y - Yields

Source: CBRE Research

Investment Market

Over AUD 2 billion of investment sale transactions occurred in 3Q21

Australia's industrial and logistics investment sales over the year continues to remain elevated and retains a high degree of liquidity through with multiple domestic and offshore capital sources competing for product. Bolstered by the Milestone portfolio transaction and Jandakot Airport in Perth (purchased by Dexus), investment sales for income producing assets over AUD 10 million currently totals AUD 9.2 billion over 2021YTD and has now surpassed the record high levels seen in 2016. Capital allocation to Australia's industrial and logistic sector continues to grow - with over AUD 50 billion of capital looking to be deployed this year, well below the level of sales occurring. In order to unlock opportunity in this sector capital partnering and sale and leaseback strategies are the main investor routes for capital deployment.

Institutional investment appetite continues to favour this sector due to high quality covenants in institutional grade assets and confidence in the ability to collect income

The yield spread between Industrial & Logistics and the Office sector is now at a record –25 bps differential.

Midpoint Industrial & Logistics super prime yields across Australia are now at 4.71%, compared to office at 5.00% (as at 2021YTD). Over the past 12 months (i.e. 3Q20-3Q21) the 50bps compression is up to 10% capital value uplift, and the industrial & Logistics investable universe has now grown to AUD 137 billion compared to AUD 123 billion a year ago.

The strong demand for industrial and logistics assets in tightly held markets, coupled with the low cost of debt and further decline of the bond rate is facilitating further yield compression for the industrial and logistics asset class across Australia and other major markets globally. Super prime industrial yields are now firming to a position beyond the office sector, like what is being experienced in most OECD economies. The midpoint super prime yield has compressed by 20bps over the quarter to 4.71%.

FIGURE 7: Industrial Investment Sales for income producing assets (greater than AUD 10 million), 2010 to 2021YTD

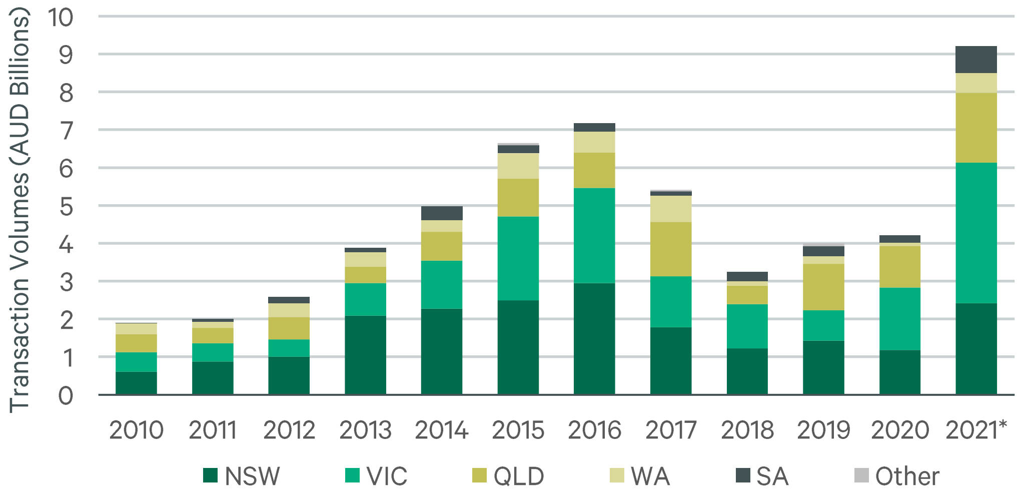
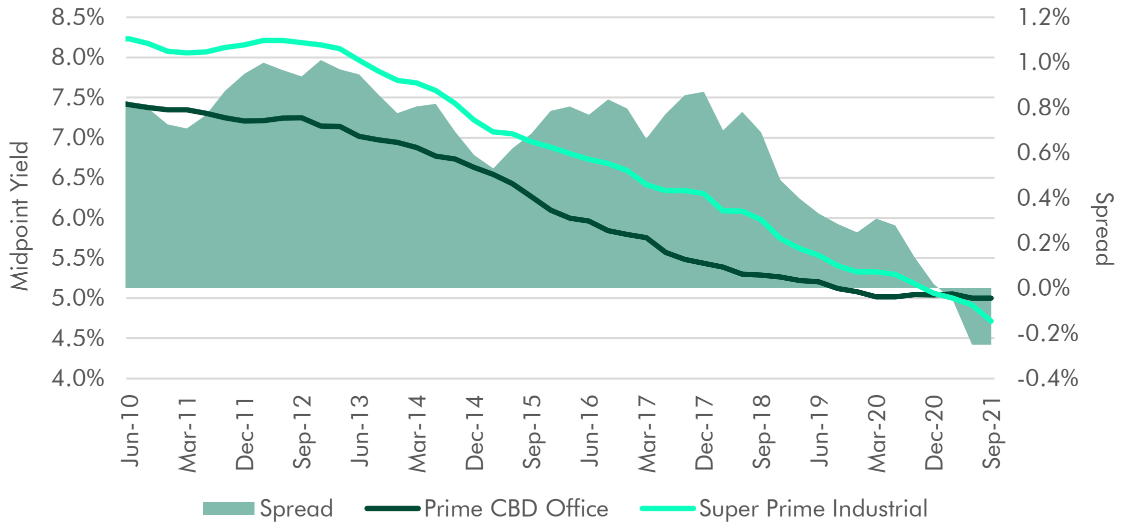


FIGURE 8: Industrial & Logistics vs Office Midpoint Yields and Spread



Source: CBRE Research

FIGURE 9: National Average Net Face Rents, by Grade

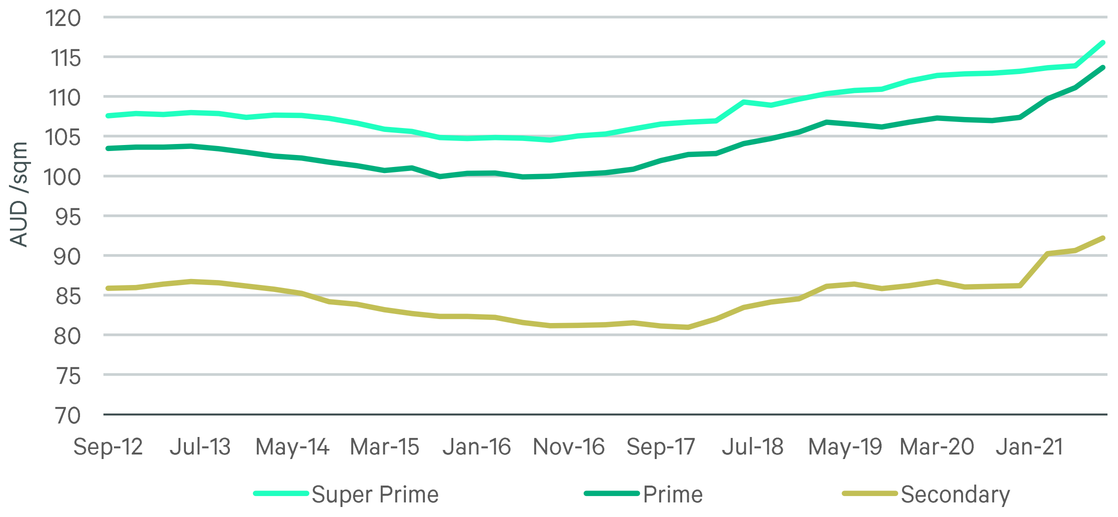
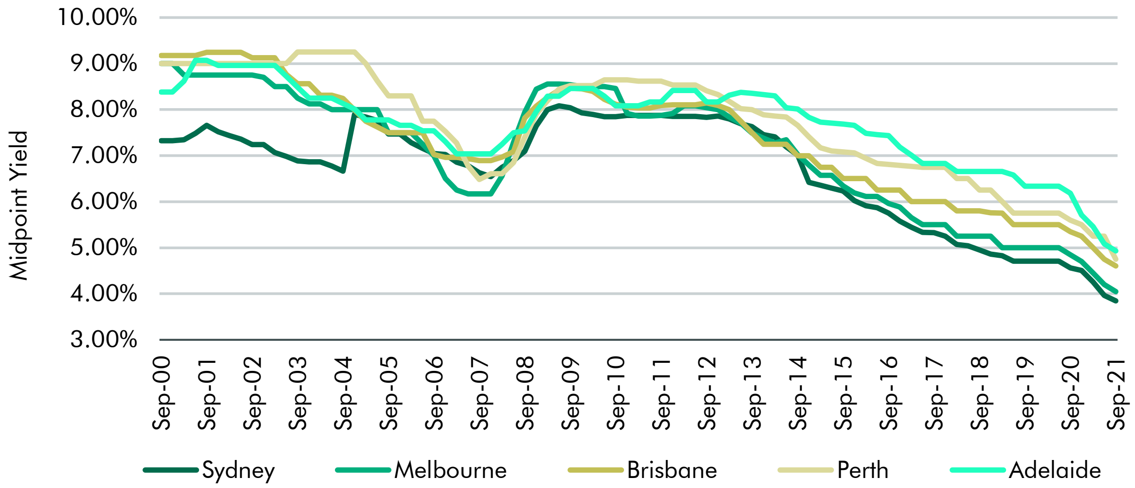


FIGURE 11: Australia Super Prime Net Face Rent Growth y-o-y

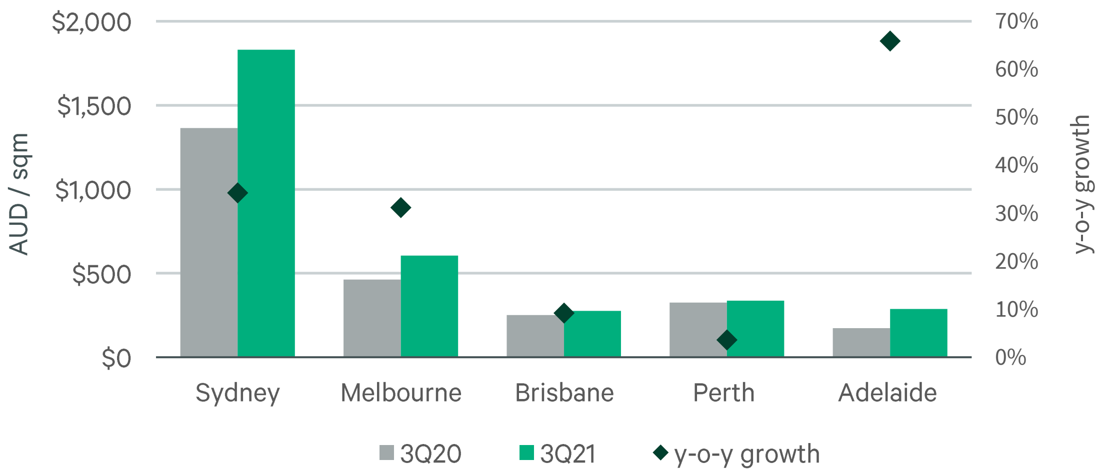
Source: CBRE Research Q3 2021

FIGURE 10: Super Prime Industrial & Logistics Midpoint Yields, by City



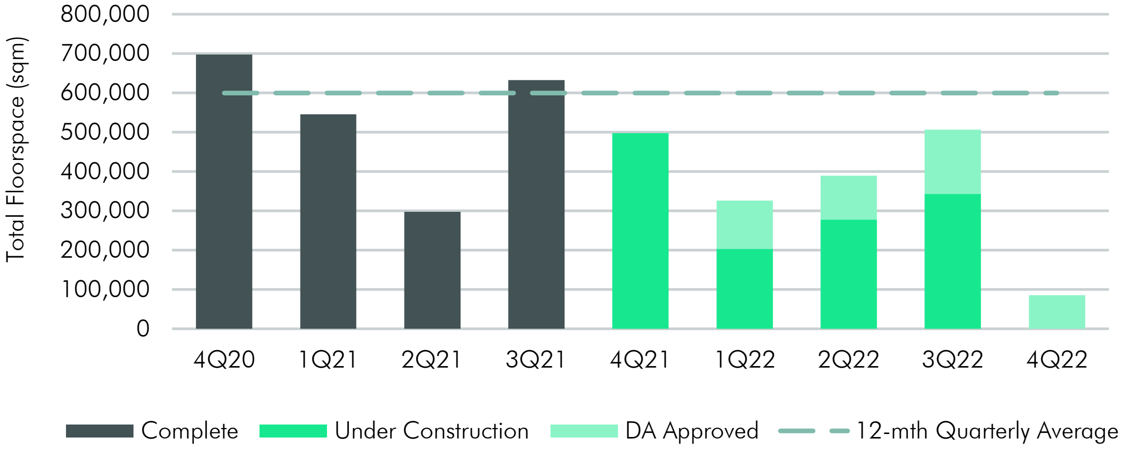
Source: CBRE Research Q3 2021

FIGURE 12: Average Land Values (1.6 ha lots) 3Q21 vs 3Q20



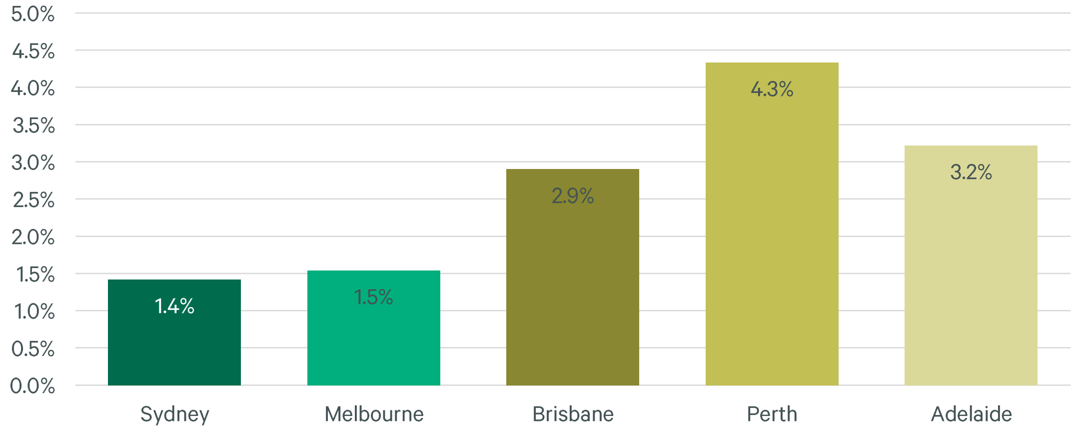
Source: CBRE Research Q3 2021

FIGURE 13: Quarterly Development Supple Pipeline



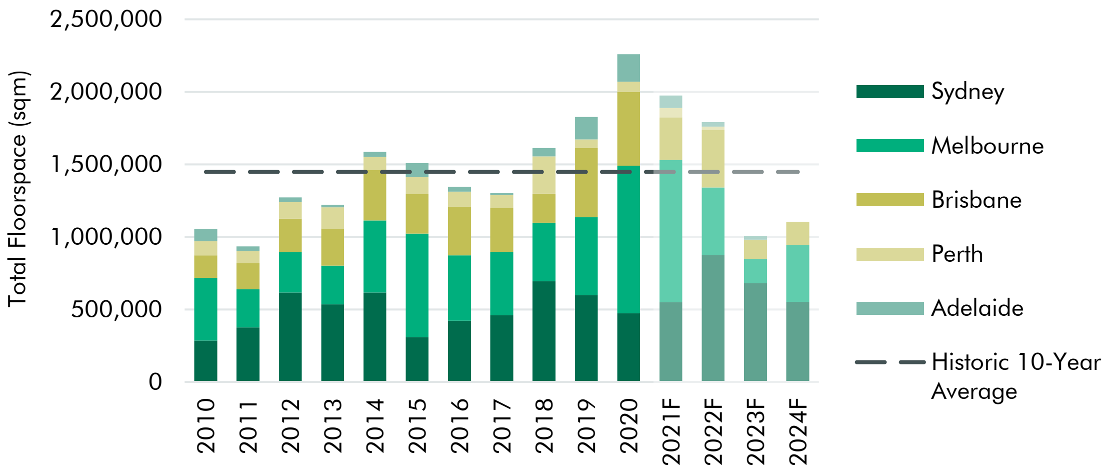
To note: reflects projects >5,000 sqm for Sydney and Melbourne, projects >4,000 sqm for Brisbane and Perth, projects >3,000 sqm for Adelaide.
Source: CBRE Research

FIGURE 15: Sydney vs Other Australian Markets Vacancy 1H21



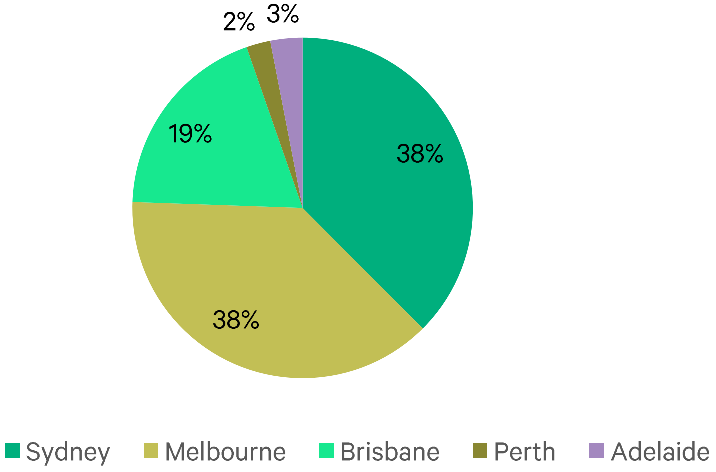
Source: CBRE Research

FIGURE 14: Development Supply Pipeline by City



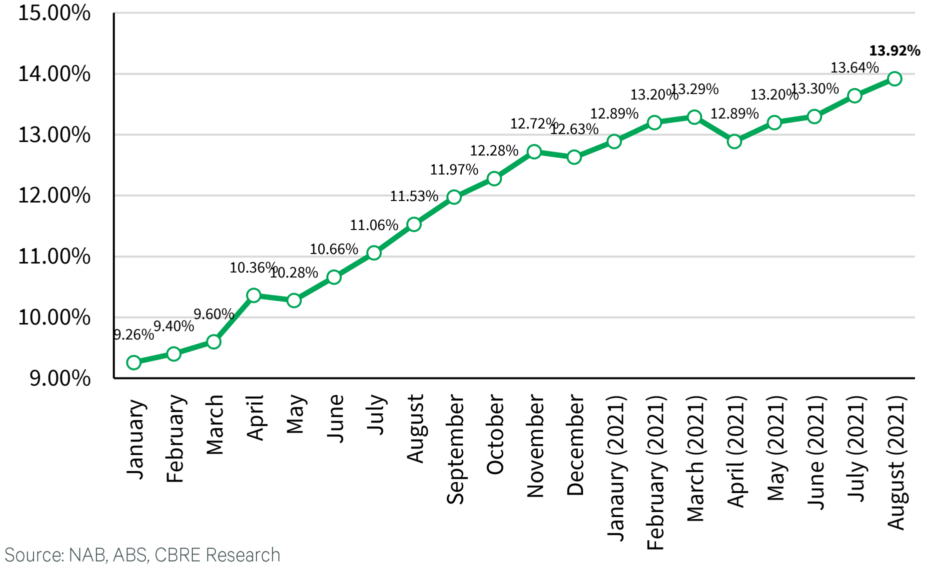
To note: reflects projects >5,000 sqm for Sydney and Melbourne, projects >4,000 sqm for Brisbane and Perth, projects >3,000 sqm for Adelaide.
Source: CBRE Research

FIGURE 16: Development supply by floorspace % 2021-2022F



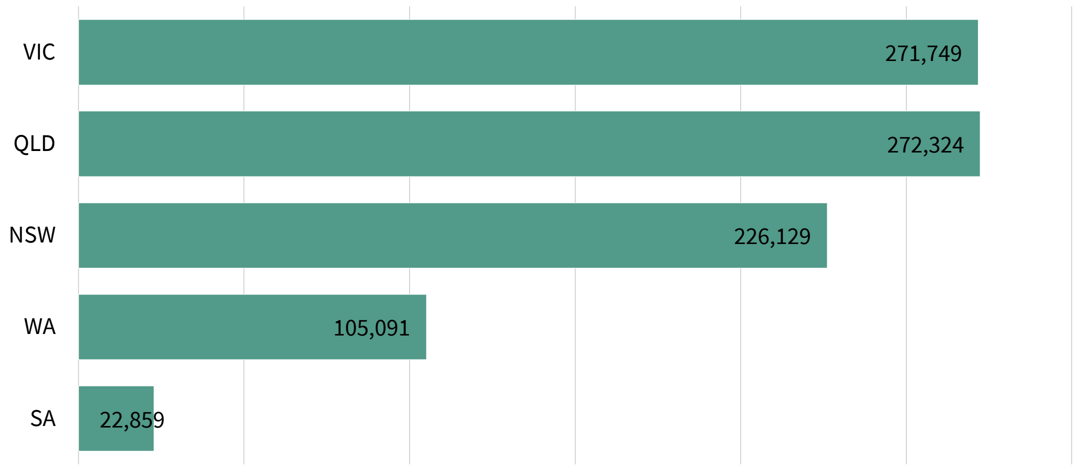
Source: CBRE Research

FIGURE 17: Australia's e-commerce growth 2020 - August 2021



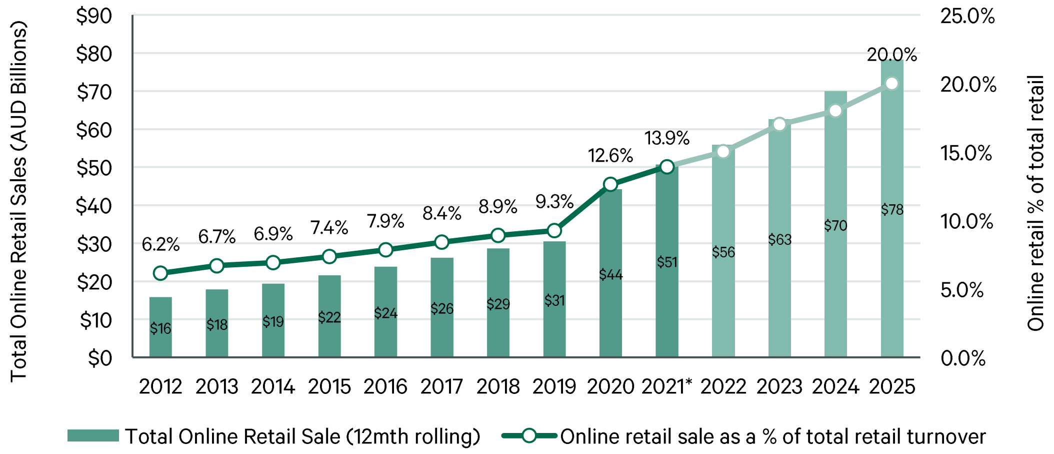
Source: NAB, ABS, CBRE Research

FIGURE 19: Additional persons between 2021 and 2025



Source: DAE, CBRE Research. As at 3021.

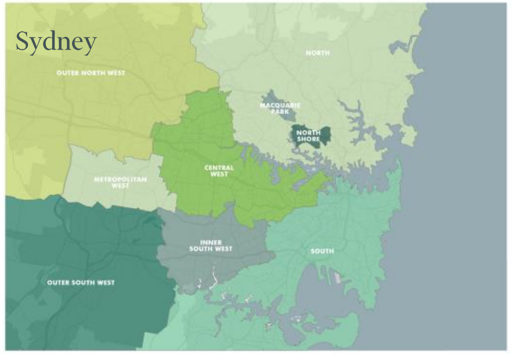
FIGURE 18: Australia's e-commerce growth trend and trajectory

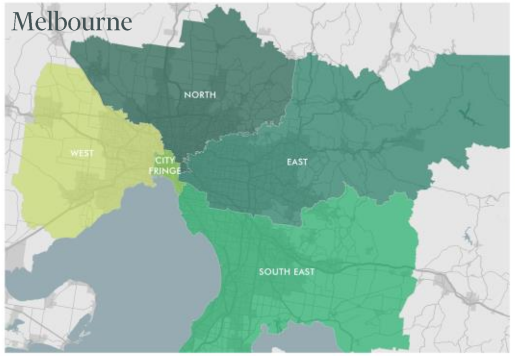


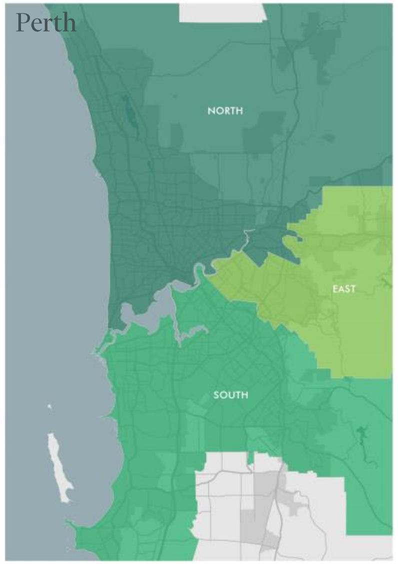
Source: NAB, ABS CBRE Research. As at August 2021.

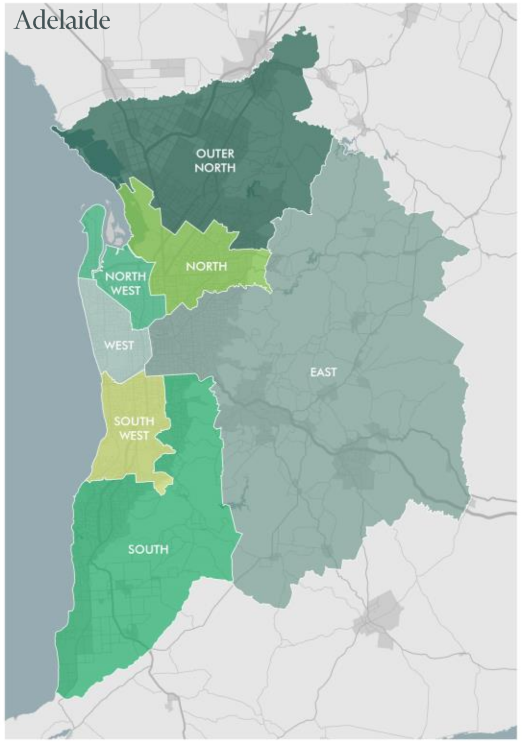
Source: CBRE Research Q3 2021

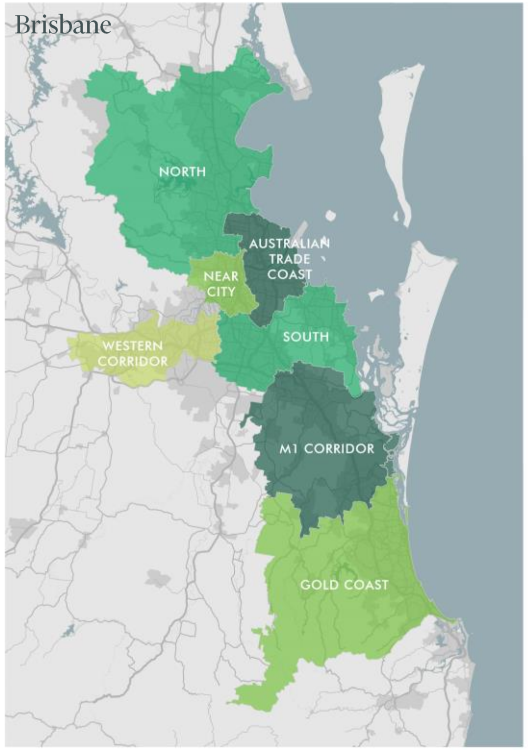
Market Area Overview











Definitions

Super Prime: Less than 6 years old, height clearance between 13.7m – 14.6m. Buildings showcasing design excellence with combination of ESFR sprinklers and docks / on-grade doors, as well as strong truck articulation for loading/unloading.
Prime: Generally, between 6 and 15 years old, height clearance over 10m and up to 13.7m.
Secondary: Building that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

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