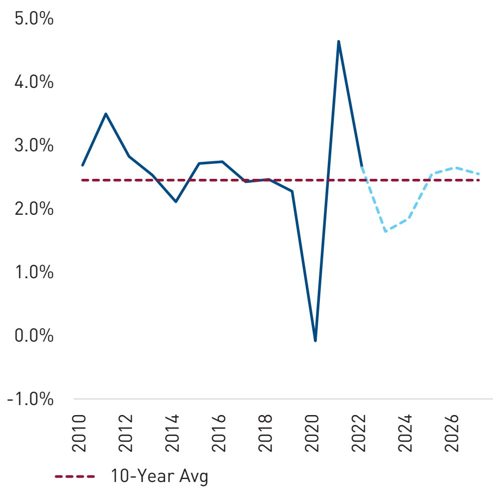
AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

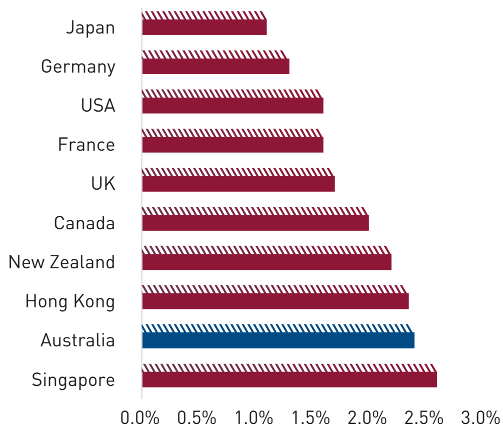
ECONOMIC OVERVIEW & OUTLOOK

The Australian economy performed well in 2022, despite broader headwinds and rising cost of living pressures in the second half of the year. However, the prospects of a significant slowing in the global economy have intensified over the past six months, fuelled by persistently high inflation and rising policy rates, the energy crisis in Europe, and the various headwinds affecting China's recovery. For Australia, economic conditions are expected to be mixed in 2023, and the growth outlook is dependent on the path for inflation and interest rates.

Australian Annual Economic Growth



Annual Economic Growth by Country, 2021–2027



Source: ABS, IMF, Colliers Research

Key trends within the Australian economy are noted as follows:

Gross Domestic Product (GDP)	The Australian economy grew strongly in 2022, however, current forecasts suggest that growth will slow in 2023 as higher consumer prices, rising interest rates and declining housing prices weigh on growth. GDP growth is expected to average 1.7% over 2023 and 2024.
Interest Rates & Bond Yields	The cash rate has increased substantially over the past year in response to higher inflation levels. The cash rate currently stands at 3.35% and is expected to rise to ~3.85% by mid-2023. 10-year Government bond yields have almost doubled over the past 12 months and currently average ~3.5%. Bond yields are expected to gradually fall throughout 2023 and average around 3.0% by the end of the year.
Inflation (CPI)	Australian Consumer Price Index (CPI) has increased sharply throughout 2022 and currently stands at 7.8% (year to December 2022) which represents the highest level since the early 1990s. Inflation is widely forecast to be at its peak and is expected to gradually fall throughout 2023 with the Reserve Bank of Australia forecasting it to sit at 4.8% at the end of 2023 and 3.2% at the end of 2024.
Jobs Growth	The unemployment rate in December 2022 measured 3.5% which is well below the 10-year average of 5.5% and below the 4.2% levels recorded at the end of 2021. Jobs growth in the 12 months to December 2022 totalled just over 450,000. The labour market is forecast to remain robust in 2023, albeit modest upward pressure is expected given slowing economic growth.

Population Growth	Australia's population growth has increased following the opening of international borders. In the 12 months to June 2022 (latest available data), population growth totalled 1.1% nationally and follows a sharp pick up in net overseas migration. Population growth is expected to pick up substantially in 2023; however, it is not likely to reach pre-COVID-19 levels until 2024.
Wages Growth	Wages growth has increased by 3.1% in 2022, up from the 2.2% recorded at the same point in 2021. Growth is expected to increase in 2023 given the tight labour market with an increase of 4.2% forecast for the year.
Consumer Confidence	Consumer sentiment has fallen sharply throughout 2022 as rising cost of living pressures have impacted disposable incomes. The index currently stands at 83.7%, which is well below the 104.6% recorded at the same point in 2021.

Australian Economic Forecasts

	Current (2022)	2023	2024	2025	2026
GDP	5.9%	1.6%	1.8%	2.5%	2.6%
CPI	7.8%	3.9%	3.1%	2.5%	2.5%
Population Growth	1.1%	1.3%	1.3%	1.3%	1.2%
Interest Rates	3.35%	3.85%	2.85%	2.85%	3.10%
Unemployment Rate	3.5%	4.1%	4.5%	4.6%	4.6%

Source: Deloitte Access Economics, Westpac, Colliers Research

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INDUSTRIAL & LOGISTICS MARKET OVERVIEW

The Australian industrial and logistics sector has continued to show its strength throughout 2022, particularly regarding occupier demand and rental growth, despite growing economic uncertainty. The sector has consistently outperformed the other mainstream commercial property sectors over the past five years as underlying tailwinds including e-commerce and a focus on supply chain resiliency have supported growth. In 2022, the sector provided a total return of almost 20.0% which was over double the returns for office and retail sectors over the same period.

Notwithstanding this, economic dynamics have been altered over the past six months as high inflation, rising interest rates, and growing geopolitical uncertainty triggers a fall in consumer sentiment.

Market Drivers

Favourable fundamentals within the sector have underpinned the sector's recent performance. The following highlights the key drivers.

E-commerce

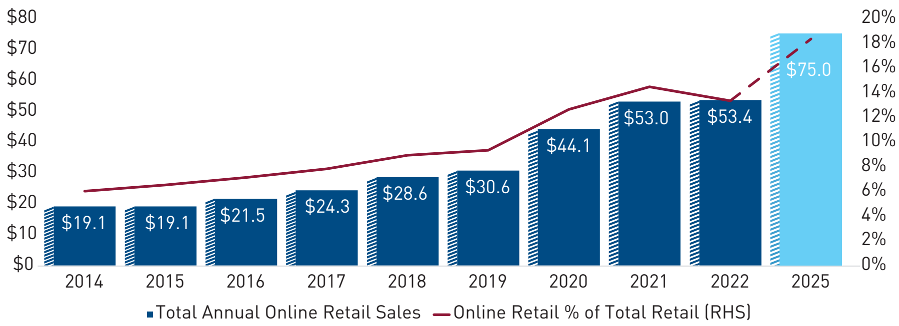
The rate of online retail adoption in recent years has been significant, with approximately five years of growth being recorded in a two-year period. At its peak, online retail sales represented 15.0% of total retail transactions, up from 9.0% just prior to COVID-19.

More recently, the online retail penetration rate has fallen to 13.0% and reflects consumers gravitating to brick-and-mortar stores and spending money on services and overseas holidays given these activities were not allowed for large parts of the past two years. However, long term, the fundamentals of online retail sales are sound, and once there is greater certainty around the cash rate and inflation, the upward trend is expected to continue.

Our forecasts indicate that online sales in Australia will grow by almost A$22 billion between 2022 and 2025. From a warehouse demand perspective, this level of online retail sales growth will generate warehouse space requirements of approximately 1.7 million sqm to support this growth.

Australian Online Retail Sales

Total Online Retail Sales (A$ billions)



Source: NAB, Colliers Research RHS: Right Hand Side

Infrastructure

Nationally, the investment in transport infrastructure is currently at record levels with approximately A$250 billion in projects in the pipeline. For the industrial sector, ultimately these projects will shape the location of industrial demand while areas that were once considered secondary may perhaps become prime demand areas.

Population Growth	Historically, Australia has enjoyed one of the strongest rates of population growth in the world and it has been this growth that has underpinned the country's economic expansion over the past two decades. Population growth is a key driver for warehouse demand as it leads to higher levels of consumption and hence higher demand for goods. While population growth in 2021 fell to its lowest level in over 100 years given international border closures, growth has improved and is expected to increase further over the next five years and will support warehouse demand.
Supply Chain Volatility	Port delays and supply chain volatility have been key drivers of warehouse demand as occupiers are having to hold more stock in their warehouses in order to satisfy demand. Previously, just-in-time inventory management was the preferred model, however, occupiers were forced to hold 'buffer' stock throughout the supply chain in the event of future supply chain disruptions. Our analysis suggests that occupiers are now taking anywhere from 5–20% more warehouse space to house this buffer stock. While port congestion and supply chain volatility has eased, occupiers remain conscious that disruptions can occur quickly and are continuing to hold additional stock as a precaution.

Occupier Market

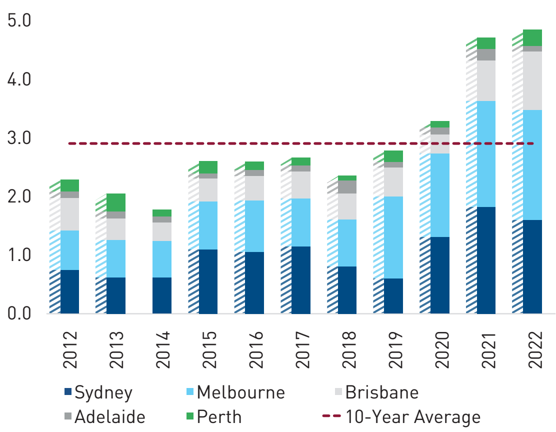
Despite a lack of availability in the existing market, warehouse demand is currently at record high levels, led more recently by pre-commitments and speculative lease deals. The demand for industrial space is being driven largely by a surge in consumption and e-commerce, as well as a broadening of the manufacturing base. Supply chain management has also been central in this as occupiers look to shield themselves from future fluctuations in demand given port and shipping delays.

In 2022, almost 4.9 million sqm was leased nationally which is almost double the long-term average of 2.5 million sqm per annum. This level of demand represents a new record high and is up from 4.7 million sqm in 2021.

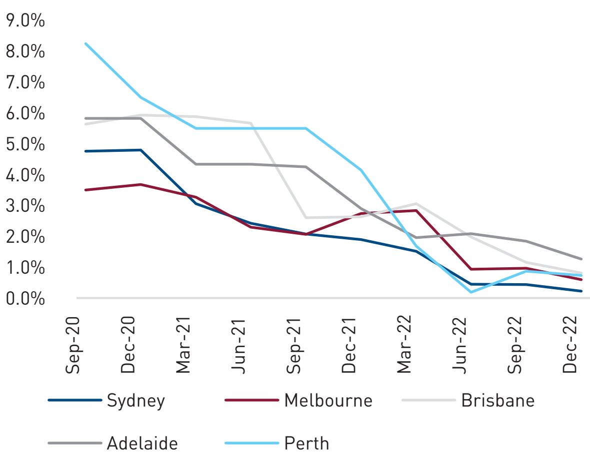
Warehouse demand in recent years has been heavily linked to the transport and logistics and retail trade sectors as both look to build resiliency within their supply chain by holding more stock locally. In 2022, 71% of transactions by GLA stemmed from these sectors and includes major deals to the likes of Australia Post, Mainfreight, Winning Appliances and Woolworths.

Australian Industrial and Logistics Gross Take-up

(million sqm)



Industrial Vacancy Rates by City



Source: Colliers Research

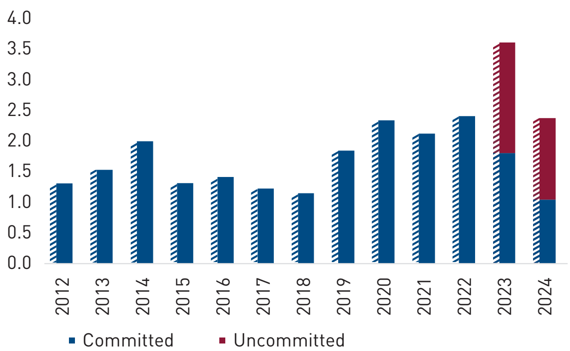
AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

As a result of this demand, vacancy rates have fallen sharply in all markets and currently average 0.6% at a national level, down from 2.7% at the same point in 2021. Selected markets such as Sydney are even tighter with the vacancy rate averaging 0.2% for the same period.

The national weighted average prime rent index increased by 5.2% in Q4 2022, resulting in annual growth of 21.7% across 2022. This level of growth is six times the long-term average with Sydney and Perth being the standout performers over the year. Selected submarkets recorded annual rental growth in excess of 30.0% in 2022, underpinned by the lack of leasing options.

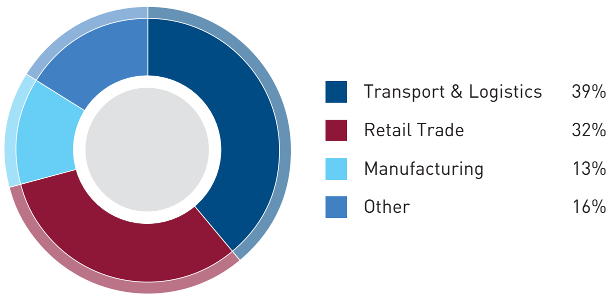
From a supply perspective, just over 2.4 million sqm was delivered to the market in 2022, led by Melbourne which contributed 44% to the national total. Looking ahead, a ~50% increase in supply is forecast for 2023 (~3.6 million sqm), partly the result of weather and material delays which pushed selected projects into 2023 and a pick-up in developer appetite for speculative development given historically low vacancy rates. Supply for 2023 is expected to be strongest in Sydney (1.2 million sqm), followed by Melbourne (1.0 million sqm).

Australian Industrial and Logistics Supply
(million sqm)



Source: Colliers Research

2022 Take-up by Sector



Investment Market

Despite broader economic headwinds and softening yields, transaction activity remains buoyant with A$7.9 billion trading in 2022. While this is well below the A$16.0 billion in 2021, volumes for 2022 are the second highest on record, highlighting the continued demand for assets in the sector.

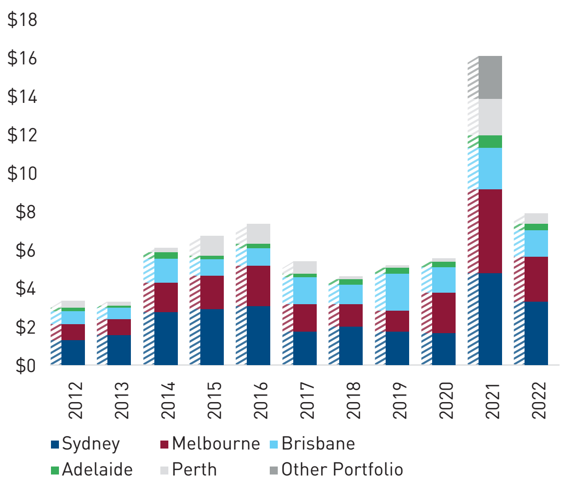
Domestic institutions (listed and unlisted) have acquired 62% of assets by value in 2022 and are often backed by offshore capital. Offshore investors acquiring assets directly accounted for 17% of volumes in 2022. The dominant buyers in 2022 were Charter Hall, Fife Capital, Wentworth Capital and ESR who collectively acquired almost a third of transactions by value.

On the flip side, private investors were the dominant vendors in 2022 with 47% of assets by value stemming from this segment of the market, followed by corporates at 19%. Institutional groups became more active vendors in the final quarter of 2022 and included Dexus, Centuria and GPT among others trading.

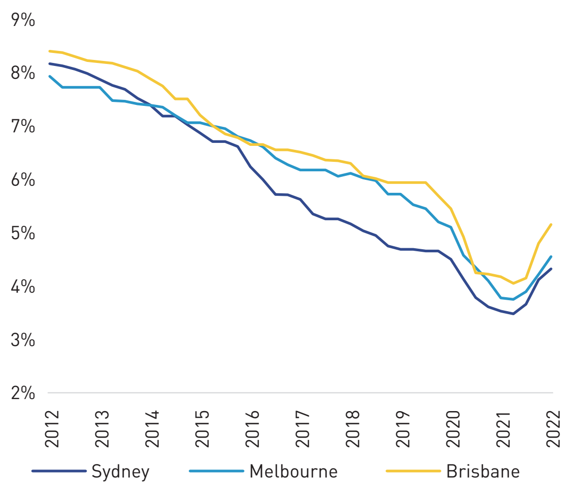
From a pricing perspective, higher funding costs and an increase in the risk-free rate (10-year Government bonds) have meant the yield compression cycle has ended and expansion in the order of 86 basis points has been recorded (to Q4 2022) since the low point in Q1 2022. Notwithstanding this, income growth within the sector is at its highest level on record (+21.7% for 2022), which has supported asset values to a large extent and will become the primary driver behind asset values over the next five years.

National Investment Volumes (>A$10 million - AUD)

Billions



Prime Industrial Yield by City



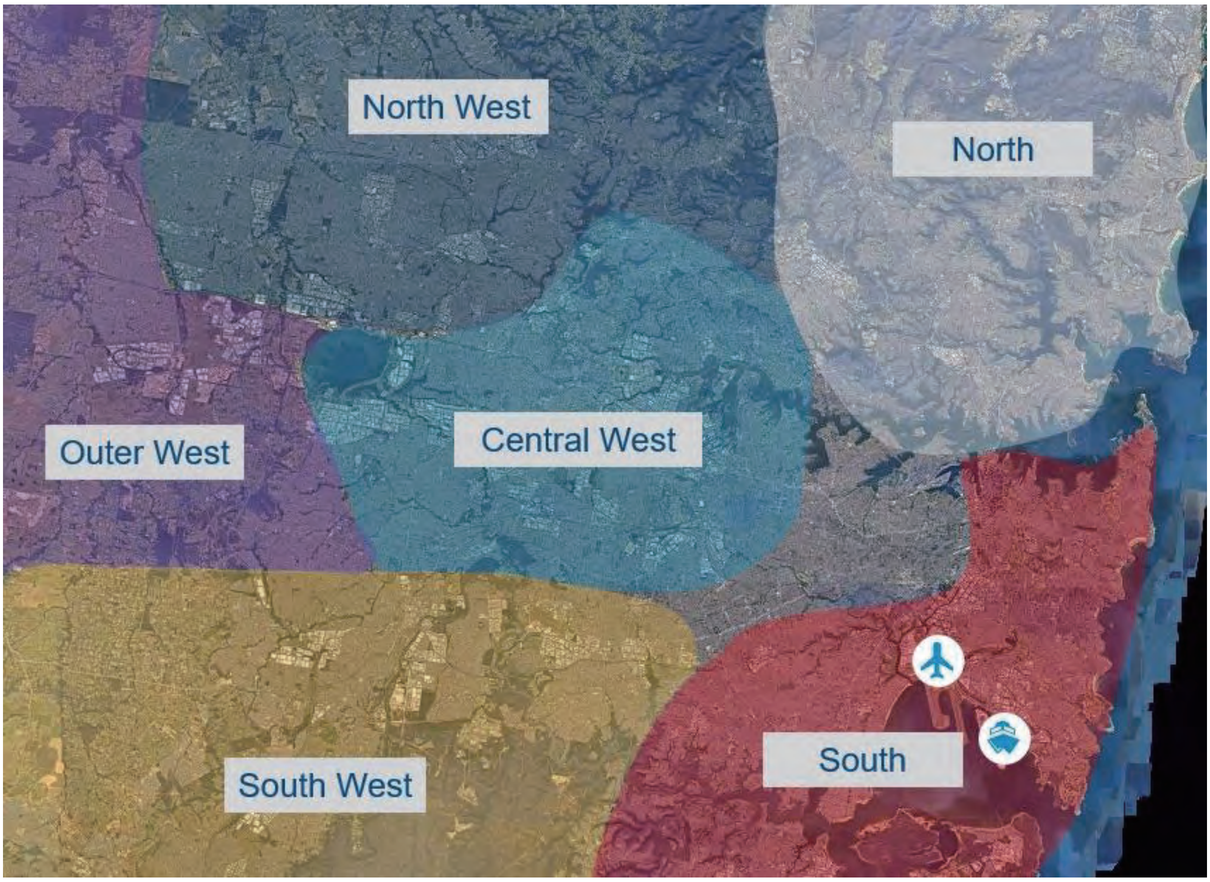
Source: Colliers Research

AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

SYDNEY INDUSTRIAL & LOGISTICS

The Sydney industrial and logistics market comprises 23.4 million sqm of industrial stock (for warehouses above 5,000 sqm) with the market broken into several major precincts — Central West, Outer West, North West, South West, South, and North. The South market has traditionally been Sydney's most important industrial hub due to its proximity to Port Botany, the Sydney Airport, and the CBD. Logistics, retail and port-related tenants predominantly occupy the South precinct. Over the past decade, however, the South Sydney industrial market has experienced strong levels of stock withdrawal for alternative uses due to zoning changes, largely for residential use given proximity to the Sydney CBD in a bid to boost housing supply. A similar situation has been experienced in the North industrial precinct where residential activity has continued to encroach on the industrial space market. Today, the North industrial precinct is dominated by smaller and high-value users such as IT, Pharmaceutical, and Hi-tech industries.

In recent years, the lack of larger space availability in the inner-city markets has resulted in larger industrial users moving towards the South West, Outer West, and North West precincts where much of the new supply is concentrated. In addition, the Western markets are benefiting from a significant level of road upgrades and infrastructure investment. Tenancy profiles include a diverse range of industries, including Third Party Logistics (3PL), retail, supermarkets, and construction.



The following table provides a summary of the key industrial locations in each submarket.

South	North	Central West	Outer West	North West	South West
Alexandria	St Leonards	Greystanes	Eastern Creek	Marsden Park	Moorebank
Botany	Artarmon/Chatswood	Smithfield	Erskine Park	Huntingwood	Prestons
Banksmeadow	Lane Cove	Wetherill Park	St Marys	Arndell Park	Bankstown
Rosebery	Frenchs Forest/ Belrose	Chullora	Penrith	Seven Hills	Milperra
Matraville/Hillsdale	Mona Vale/ Warriewood	Rydalmere	Kemps Creek	Glendenning	Ingleburn
Waterloo	Brookvale	Strathfield		Kings Park	Minto

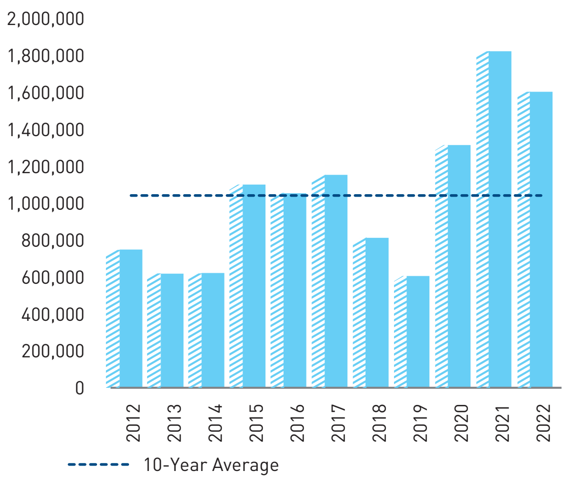
Occupier Market

Leasing Activity

Leasing activity across Sydney remained elevated in 2022 with 1.6 million sqm being leased in the year, not far from the record 1.8 million sqm in 2021. This level of demand remains well above the 10-year annual average of 1.04 million sqm.

Given falling vacancy rates, 65% of lease deals by NLA stemmed from pre-commitment or speculative built facilities. Demand was spread across the city, albeit dominated by the Outer West (815,000 sqm) and West (210,000 sqm) submarkets. By sector, take-up in 2022 was led by transport and logistics (43%), followed by retail trade (31%) and health/pharmaceutical (11%).

Sydney Industrial Gross Take-up (sqm)



Source: Colliers Research

Vacancy Rates

As of Q4 2022, the Sydney vacancy rate measured 0.2%, down from 1.9% in Q4 2021. For many submarkets across the city, there are no leasing options currently available and include the Outer West, West and North West submarkets. Across the city, there is just ~50,000 sqm currently available for lease.

Sydney Industrial Vacancy Rates by Submarket — Q4 2022

	South	North	Outer West	North West	South West	Central West	Sydney Average
Q4 2021	0.9%	1.8%	1.2%	1.9%	0.3%	3.3%	1.9%
Q4 2022	0.3%	1.2%	0.0%	0.0%	0.2%	0.5%	0.2%

Source: Colliers Research

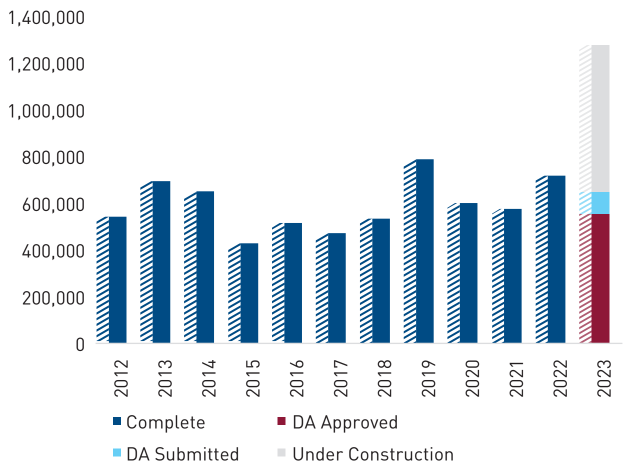
AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

Supply

Industrial completions reached approximately 720,000 sqm in 2022, up from ~575,000 sqm in 2021. Of the stock to complete in 2022, all facilities were leased prior to completion which highlights the current strength of the occupier market.

For 2023, the supply pipeline is expected to increase to approximately 1.25 million sqm and is dominated by facilities within the Outer West submarket (58% pre-committed). Beyond 2023, there is potential for a further 1.3 million sqm to be delivered to the market in 2024 (32% pre-committed) as this is when the bulk of facilities within the Mamre Road Precinct can be delivered.

Sydney Industrial Supply (sqm)



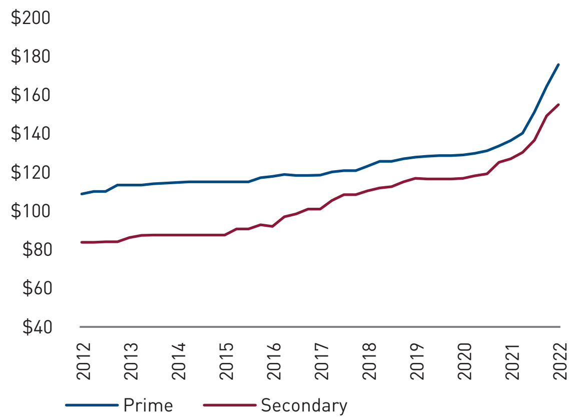
Source: Colliers Research

Rents & Incentives

As a result of a lack of available leasing options and continued high demand levels, record levels of rental growth have occurred across all submarkets in 2022. As at Q4 2022, average net face rents measured A$208/sqm for prime (A$176/sqm in Western Sydney) and A$180/sqm for secondary (A$155/sqm in the Western markets). On an annual basis, prime rents grew by 24.9%, the largest YoY increase on record. Secondary grade rents have grown by 22.1% over the past year.

Average prime incentives have fallen further throughout the year and currently average 5.9% (range of 0.0% to 10.0%), down from 10.4% at the end of 2021. Secondary incentives are on par at 5.8%, down from 10.3% a year ago.

Western Sydney Industrial Net Face Rents (A$/sqm)



Source: Colliers Research

Sydney Prime Rents by Submarket, Q4 2022

	South	North	Outer West	North West	South West	Central West	Sydney Average
A$/sqm p.a.	$301	$246	$175	$171	$171	$187	$208
12-month change	30.0%	10.1%	29.6%	29.7%	28.2%	27.5%	24.9%
Average Incentive	7.5%	7.5%	5.2%	4.0%	6.3%	5.3%	5.9%

Source: Colliers Research

Investment Market

Volumes

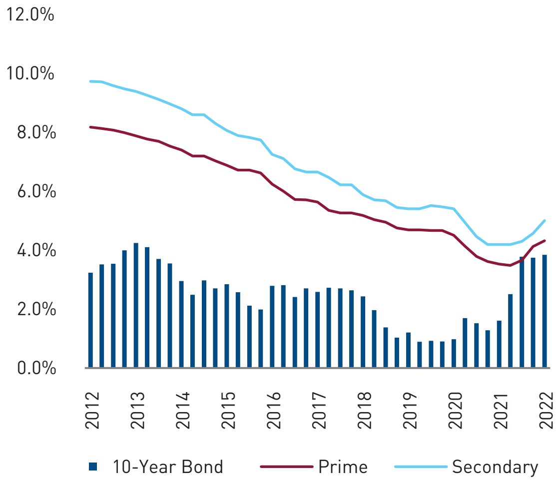
After a strong start to 2022, transaction volumes fell sharply in the second half of the year, with higher debt costs, a deteriorating economic outlook and pricing uncertainty weighing on investment activity. In 2022, approximately A$3.3 billion traded which was well below the A$4.8 billion recorded in 2021. Notable transactions for 2022 include the Rosehill Business Park, which Wentworth Capital (formerly NashCap) acquired from GPT for A$141.6 million and the Leda Holdings Portfolio (three assets) which Pittwater Industrial bought for A$95 million. Beyond this, there were multiple other confidential sales above A$100 million.

Yields

In response to higher interest rates and funding costs, industrial yields have softened across the Sydney market as meeting price expectations of both the vendor and buyer remains the challenge. Since the low point in yields in Q1 2022, prime yields have softened by 84 basis points while softening in the secondary market has totalled 81 basis points.

Average prime yields in Sydney currently average 4.32% (range of 4.00%–4.75%) while secondary average 5.00% (range of 4.75%–5.50%).

Sydney Industrial Yields



Source: Colliers Research

Outlook

Occupier demand is forecast to remain robust over the next 12 months, led by the transport and logistics sector as businesses continue to outsource their transport functions. At the same time, demand from the retail trade sector is expected to somewhat moderate as cost-of-living pressures limit consumer consumption, particularly to discretionary retail items.

From a rental perspective, prime rental growth of ~8.0% is forecast over the next 12 months with inner and middle ring markets expected to be closer to 10.0% over the period while Western Sydney prime rents are forecast to grow by ~8.0% in the year ahead.

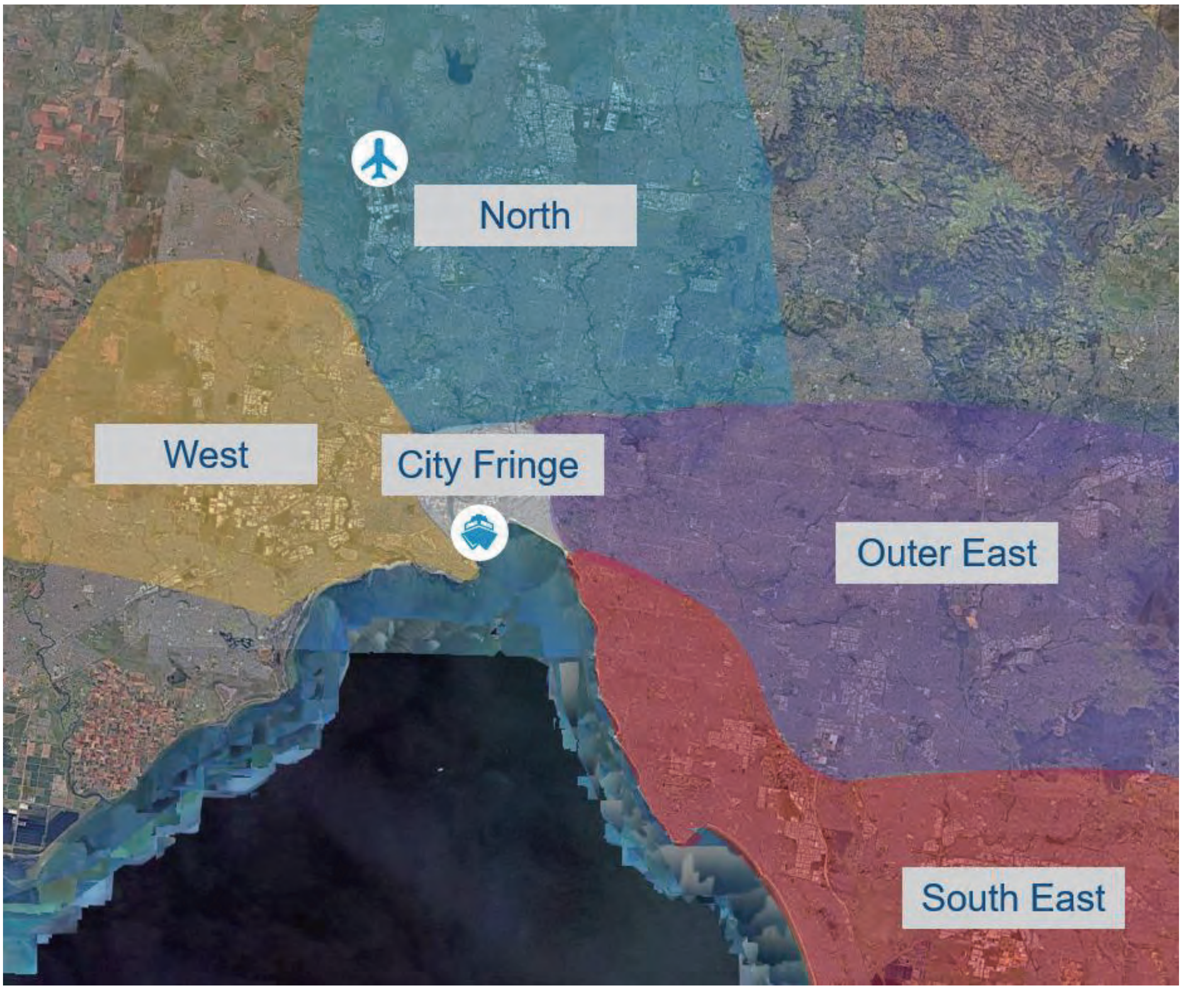
Pricing uncertainty is expected to persist in the first half of 2023 and yields are expected to soften further over the next six months given the higher interest rate environment. At this stage, we are expecting prime industrial yields to average closer to 4.75% by mid-2023.

AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

MELBOURNE INDUSTRIAL & LOGISTICS

Melbourne is Australia's largest industrial and logistics market, supported in recent years by high levels of new warehouse completions. At present, the total market provides approximately 27.1 million sqm of warehouse space, dominated by the West submarket.

The Melbourne industrial market comprises five major precincts: the North, South East, West, Outer East, and City Fringe. The City Fringe precinct primarily consists of smaller sites with higher rents, specifically appealing to tenants that need to be located close to the city. Many of these industrial sites are being slowly converted to residential sites due to high underlying land values and diminishing availability of land suitable for residential development. The South East and Outer East precincts comprise larger land holdings with Industrial hubs including Moorabbin, Cheltenham, Clayton, and Dandenong. The largest industrial precinct in Australia is the West precinct which has the largest industrial and logistics sites. This precinct continues to have new pockets of land unlocked in areas including Truganina, Tarneit, and Ravenhall.



The following table provides a summary of the key industrial locations in each submarket.

City Fringe	West	North	Outer East	South East
Port Melbourne	Truganina	Epping	Clayton	Dandenong South
	Altona North	Tullamarine	Clayton South	Braeside
	Laverton North	Somerton	Mulgrave	Keysborough
	Derrimut	Campbellfield	Scoresby	Noble Park
	Brooklyn		Bayswater	Hallam

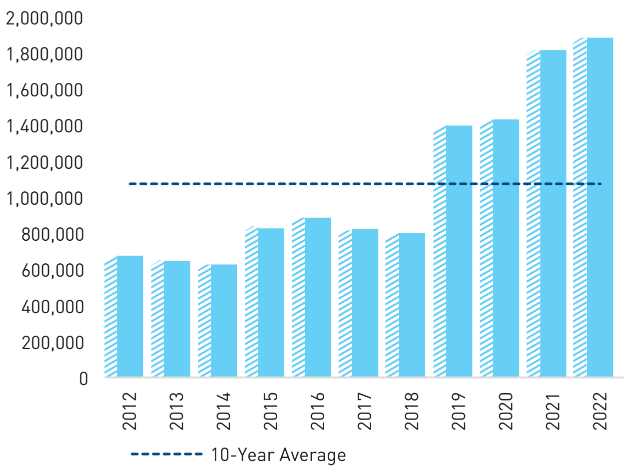
Occupier Market

Leasing Activity

Demand for warehouse space reached a record 1.88 million sqm in 2022, surpassing the previous high of 1.81 million sqm in 2021. Melbourne's West submarket continues to be the most active market in Australia, with almost 850,000 sqm leased in 2022. The South East submarkets remain active with 540,000 sqm leased in 2022 (both South East and Outer East submarkets), with a lack of stock capping the rate of take-up.

Retail trade (38%) and transport and logistics (33%) were the two most active sectors for the year, while manufacturing saw a large uptick in demand, accounting for 18% of lease deals. 58% of take-up by Gross Lettable Area ("GLA") stemmed from pre-commitment/speculative deals.

Melbourne Industrial Gross Take-up (sqm)



Source: Colliers Research

Vacancy Rates

In response to demand levels, vacancy rates remain below historical levels in all submarkets. As of Q4 2022, the vacancy rate for the Melbourne industrial market measures 0.6%, down sharply from 2.7% in Q4 2021. Vacancy rates have fallen across each submarket with the South East being the tightest at 0.2%. Across the market, there is just ~160,000 sqm currently available for lease and compares to over 670,000 sqm in Q4 2021.

Melbourne Industrial Vacancy Rates by Submarket — Q4 2022

	South East	Outer East	West	North	Melbourne Average
Q4 2021	0.3%	1.9%	3.2%	5.8%	2.7%
Q4 2022	0.2%	0.5%	0.9%	0.6%	0.6%

Source: Colliers Research

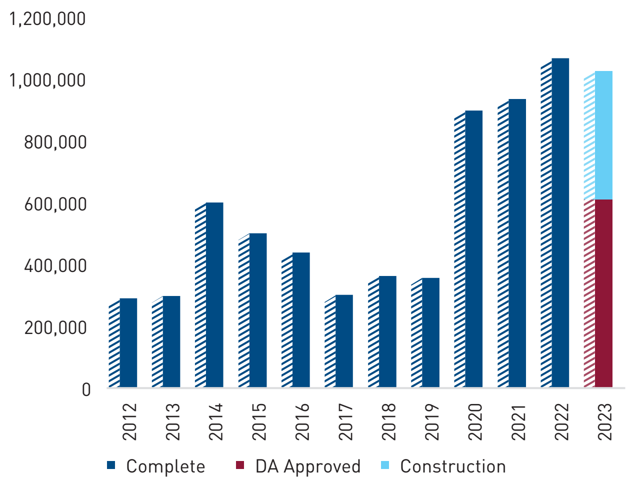
AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

Supply

Industrial completions across Melbourne totalled almost 1.1 million sqm in 2022, up from the 920,000 sqm which was delivered to the market in 2021. This level of supply is well above the 10-year average of 550,000 sqm per annum.

Looking ahead, supply levels are forecast to remain strong in 2023, with approximately 1.1 million sqm expected to enter the market (50% pre-committed). Of this total, almost 560,000 sqm stems from speculative developments

Melbourne Industrial Supply (sqm)



Source: Colliers Research

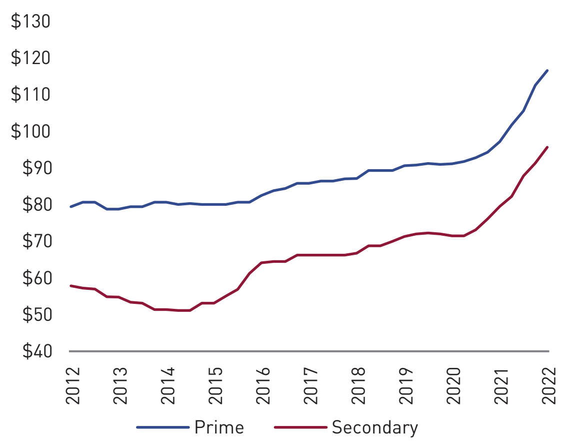
Rents & Incentives

Strong rental growth continues to be recorded across the Melbourne market as occupiers compete for space given the low vacancy rate. In 2022, prime rents jumped by 20.0% while growth in secondary rents averaged 20.3% across the market. This level of growth is the strongest on record for the Melbourne market.

As at Q4 2022, net face rents in Melbourne average A$117/sqm for prime and A$96/sqm for secondary (excl. City Fringe). Pre-commitment rents typically range between A$95-A$105/sqm in the West and A$130-A$140/sqm in the South East submarket.

Average incentives have declined over the year for both prime and secondary space. Incentives currently average 11.9% for prime (ranging from 7.5% to 17.5%) and 11.1% for secondary (ranging from 7.5% to 17.5%).

Melbourne Industrial Net Face Rents (A$/sqm)



Source: Colliers Research Excludes City Fringe precinct

Melbourne Prime Rents by Submarket, Q4 2022

	South East	Outer East	West	North	Melbourne Average*
A$/sqm p.a.	$121	$129	$108	$109	$117
12-month change	17.8%	18.8%	21.0%	23.0%	20.0%
Average Incentive	10.0%	11.0%	15.0%	11.5%	11.9%

Source: Colliers Research   * Excludes City Fringe

Investment Market

Volumes

After a strong start to 2022, investment activity has slowed more recently across the Melbourne market as headwinds such as higher interest rates and debt costs limit the number of assets being brought to market. In 2022, just over A$2.3 billion traded within Melbourne, down from A$4.4 billion in 2021.

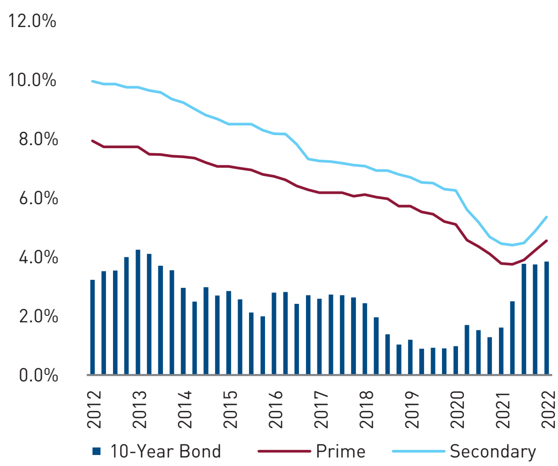
Notable transactions include five assets acquired by ESR for A$106.5 million, reflecting a blended yield of 4.46%. Assets as part of this transaction include 147-153 Canterbury Road, Kilsyth (A$22.2 million) and 321-327 Greens Road, Keysborough (A$25.0 million). Outside of this, 45-49 Vella Drive, Sunshine West was acquired by Centennial for A$11 million.

Institutional investors remained the dominant buyer type in 2022. Alternatively, private investors and corporate groups remain active in bringing assets to market given the outlook for further increases in yields.

Yields

Inflationary pressures are continuing to drive an upward interest rate cycle and has led to a softening of yields in 2022. Midpoint prime yields recorded 80 basis points of softening in 2022 with prime yields now averaging 4.55% across the Melbourne market (range of 4.25% to 5.00%). The rate of yield expansion in the secondary market was more pronounced at 95 basis points since the pricing peak in Q1 2022, with midpoint yields now averaging 5.35% (range of 5.00% to 5.75%).

Melbourne Industrial Yields



Outlook

Going forward, leasing demand is expected to remain elevated in 2023, albeit below the levels recorded over the past two years. Supply chains are expected to normalise in 2023 and it is likely that high inventory models will begin to unwind, however, will continue to remain above the levels seen prior to the pandemic. This in turn is expected to see more modest levels of demand from the retail trade sector.

Rental growth of ~7.5% is forecast for the prime market over the next 12 months with the West and South East markets expected to outperform given the lack of leasing options. Rental growth is expected to remain strong for secondary space with similar levels of growth expected across the Melbourne market.

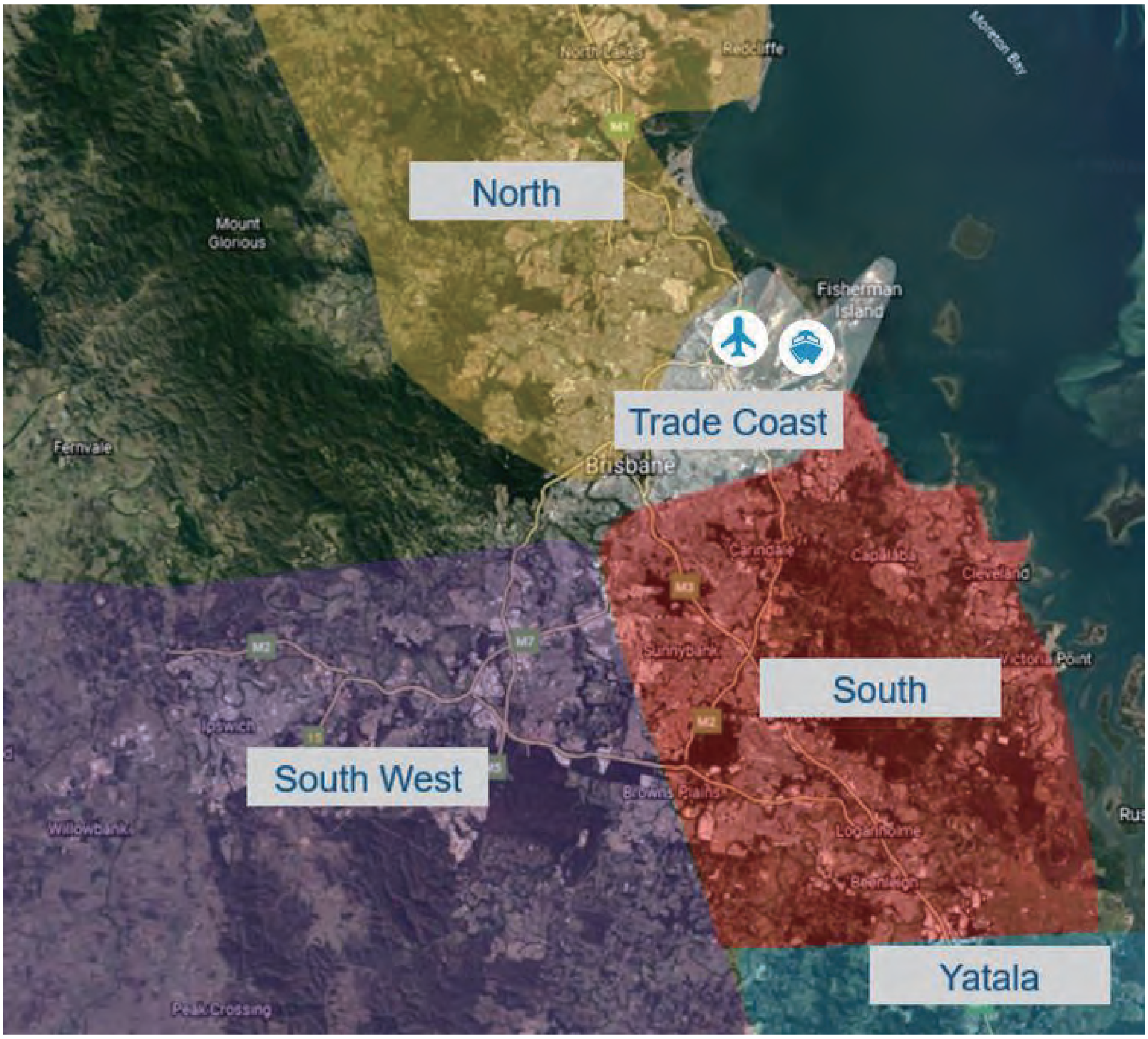
From a pricing perspective, we expect yields to soften further over the next 12 months, given the higher interest rate environment. At this stage, we are forecasting further yield expansion in the order of 50 basis points by the end of 2023, most of which will occur in the first half of 2023.

AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

BRISBANE INDUSTRIAL & LOGISTICS

At present, the Brisbane market provides 10.6 million sqm of warehouse space (facilities above 5,000 sqm) with the South being the largest market. The Brisbane industrial market has five key precincts: Australia Trade Coast ("ATC"), Brisbane North, Brisbane South, Brisbane South West, and Yatala. The ATC has direct links to air, sea, road, and rail networks which supports its desirability from transport and logistics providers.

The Brisbane North benefits from overflow demand on the Trade Coast due to its proximity to the Brisbane Airport and the Port of Brisbane. The southern precincts (South, South West, and Yatala) have benefited from major transport infrastructure upgrades and high levels of population growth in recent years. As a result, the bulk of new supply and tenant demand has stemmed from the southern precincts in recent years.



The following table provides a summary of the key industrial locations in each submarket.

Trade Coast	North	South	South West	Yatala
Hendra	Zillmere	Salisbury	Darra	Yatala
Eagle Farm	Strathpine	Acacia Ridge	Springfield	
Pinkenba	Northgate	Berrinba	Ipswich	
Morningside	Virginia	Eagleby	Redbank	
Lytton		Underwood	Wacol	

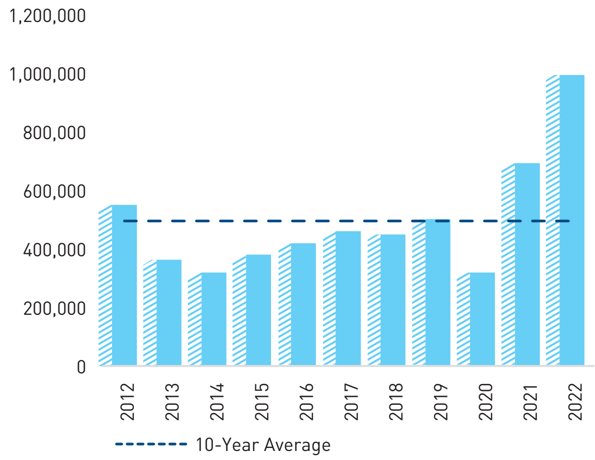
Occupier Market

Leasing Activity

Transport and logistics occupiers have underpinned a new record year for the Brisbane market, with almost 1.0 million sqm being leased in 2022. This strong result follows 690,000 sqm being leased in 2021. The Southern submarkets continue to be the most active, with 71% of lease deals by area occurring in the South, South West or Yatala submarkets.

Demand continues to be skewed to new builds given the limited leasing options of existing space, with 71% of take-up by GLA stemming from precommitment or speculative deals.

Brisbane Industrial Gross Take-up (sqm)



Source: Colliers Research

Vacancy Rates

Recent lease deals have reduced the Brisbane vacancy rate to 0.8% in Q4 2022, down from 2.6% in Q4 2021, with the ATC and North submarkets being the tightest markets. Across the market, there is just over 85,000 sqm currently available for lease.

While there remains a pipeline of speculative projects across each submarket, current tenant enquiry will ensure the vacancy rate remains low for the foreseeable future.

Brisbane Industrial Vacancy Rates by Submarket – Q4 2022

	ATC	North	South	South West	Brisbane Average
Q4 2021	2.5%	3.3%	2.2%	3.2%	2.6%
Q4 2022	0.9%	0.0%	0.4%	1.6%	0.8%

Source: Colliers Research

Supply

In 2022, approximately 440,000 sqm of new stock was added to the Brisbane market, which is up from the ~375,000 sqm added in 2021. For 2022, the southern submarkets captured the bulk of new supply at ~390,000 sqm while modest levels of completions occurred in the ATC and North submarkets.

Beyond 2022, there is the potential for over 900,000 sqm to be delivered to the market in 2023 which would represent a record level of supply for the Brisbane market. However, at this stage, only around 40% of this pipeline is pre-committed with several projects only going ahead once a pre-commitment is secured which may delay the timing of some of this supply.

Brisbane Industrial Supply (sqm)

Source: Colliers Research

AUSTRALIA INDUSTRIAL PROPERTY MARKET OVERVIEW

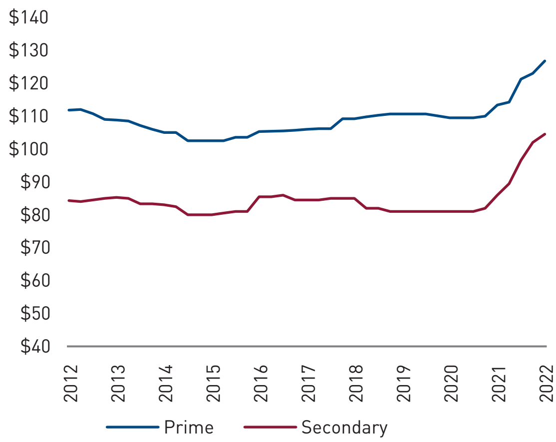
Rents & Incentives

Industrial rents experienced strong levels of growth in 2022, however, rents for prime space lagged the Sydney and Melbourne markets throughout the year. Prime net face rents increased by 12.4% in 2022 to A$130/sqm with the largest increase recorded in the ATC (+12.8%) and North (+15.2%) submarkets.

Secondary grade rents recorded growth of 21.5% in 2022 to A$105/sqm. The North and South West submarkets recorded the largest increase over the year at 34.4% and 24.2% respectively.

Incentives have also fallen sharply, currently averaging 11.5% for prime and 10.5% for secondary.

Brisbane Industrial Net Face Rents (A$/sqm)



Source: Colliers Research

Brisbane Prime Rents by Submarket, Q4 2022

	ATC	North	South	South West	Brisbane Average
A$/sqm p.a.	$133	$133	$128	$128	$130
12-month change	12.8%	15.2%	10.9%	10.9%	12.4%
Average incentive	7.5%	7.5%	12.5%	12.5%	11.5%

Source: Colliers Research

Investment Market

Volumes

As a result of several large transactions, investment volumes remained elevated in 2022, albeit under the heights recorded in 2021. In 2022, approximately A$1.4 billion traded, however, by number, assets remain tightly held while there remains a divergence between vendor and purchaser expectations given rising yields. The largest transaction to occur over the year was Fife Capital's acquisition of a 50% stake in 99 Sandstone Place, Parkinson for A$177.4 million. The sale reflected an initial yield of 4.74% and reflects a 16% increase in value from when it last sold in 2020. Other major acquisitions include ESR buying five assets from Direct Commercial Property for A$61.6 million, reflecting a yield of 5.75%.

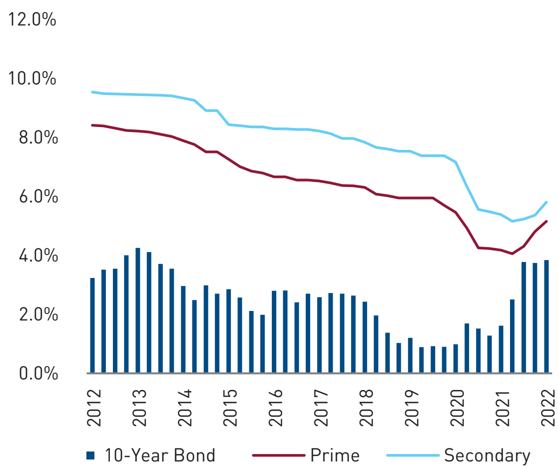
Similar to broader national trends, private investors remain the most active vendors in 2022 while institutions have been the most active purchasers over the period.

Yields

Prime and secondary yields have softened 110 and 70 basis points respectively since the peak in pricing in Q1 2022 as rising funding costs are being priced in. At present, prime yields currently average 5.15% (range of 5.00% to 5.50%) and secondary are higher at 5.80% (range of 5.50% to 6.00%).

The rate of yield softening has been consistent across all submarkets, while the yield range remains tighter within the ATC and North submarkets at 5.00% respectively for prime.

Brisbane Industrial Yields



Source: Colliers Research

Outlook

Industrial take-up activity is expected to remain strong in 2023 as the level of tenant enquiry remains significant. However, with vacancy rates trending lower, a large share of deal activity is expected to stem from pre-commitment and speculative deals.

Rental growth has consistently lagged Sydney and Melbourne over the past 12 months, however, given the lack of leasing options in all markets, rents are expected to accelerate over the next six months. We are forecasting prime rental growth of ~6.5% for the next 12 months with the ATC and North submarkets expected to outperform with growth rates of ~7.5% expected.

Developers' risk appetite has increased in light of improved market conditions and the flight to quality trend, particularly in the +5,000 sqm size range in southern Brisbane. As a result, developers are expected to remain active in their speculative development plans.

From a pricing perspective, we expect yields to soften further over the next 12 months given the higher interest rate environment. At this stage, we are expecting prime industrial yields to average closer to 5.30% by early to mid-2023.