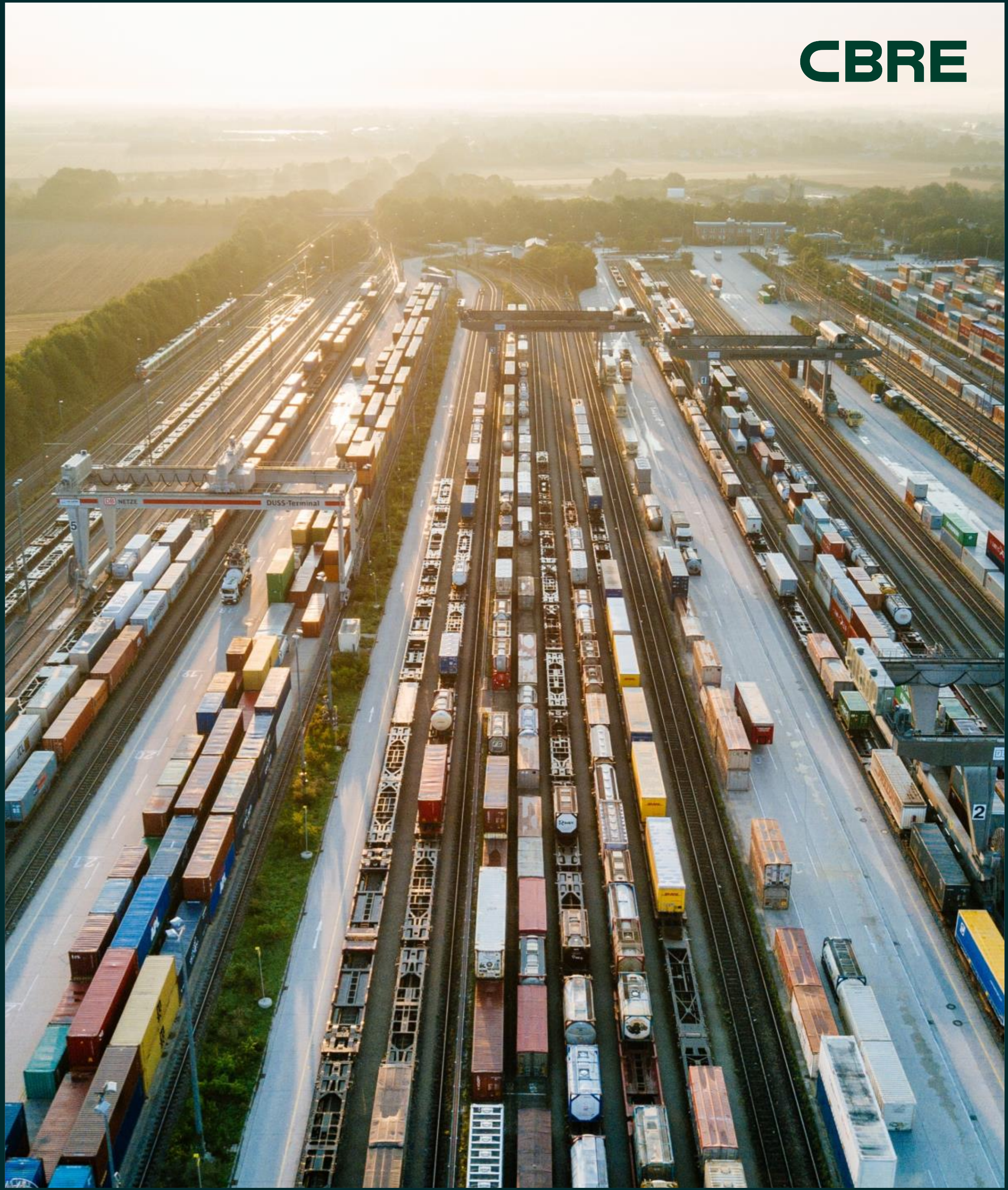
Investment Intelligence

Australia's Industrial and Logistics Vacancy First Half 2022 (1H22)

REPORT

CBRE RESEARCH
JULY 2022



Around the Country

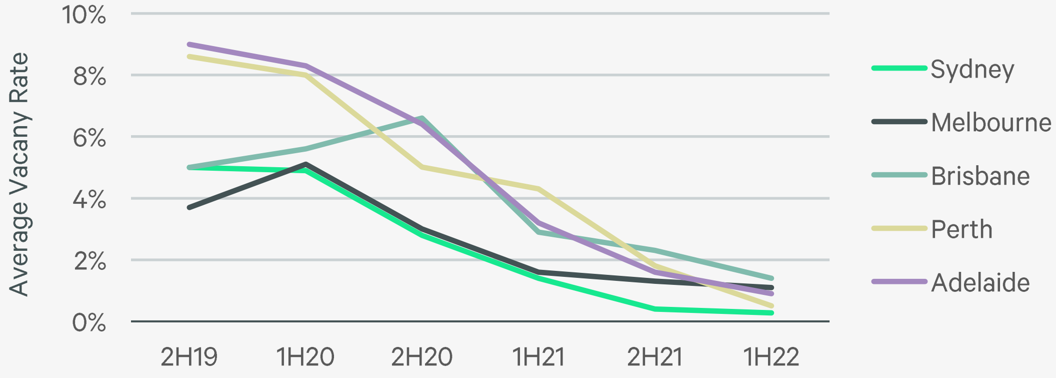
The national vacancy rate continues to fall and now stands at a record low of 0.8% - one of the tightest vacancy rates globally.

Downward movement in the vacancy rate recorded for all major markets across Australia reflects chronic undersupply.

Since the second half of 2019 (pre-pandemic) the national vacancy rate has been trending down, from 6.3% in 2H19 to 0.8% in 1H22, demonstrating a chronic undersupply of floorspace in the Australian market. Over the same period, gross take-up activity exceeded the long-term annual average of 2.6 million sqm. In 2021 gross take-up almost doubled the 10-year average and totaled to a record high of 4.2 million sqm. Although vacancy rates across the globe have continued to decrease over the past 12 months with the global average rate now at circa 3% (vs. 4% in 1H21), Australia has the lowest national vacancy rate globally, and Sydney has lowest vacancy rate of any city globally. Other major markets with a relatively low vacancy rate, such as the US (3.1%) and the Inland Empire in Southern California (0.3%), have significantly higher speculative development activity compared to Australia. Australia's current share of new floorspace in the pipeline that are speculative developments represents only 33%, versus the US at 76% and the Inland Empire at 77%. Therefore, the Australian market is less susceptible to major fluctuations in supply and vacancy levels.

FIGURE 1

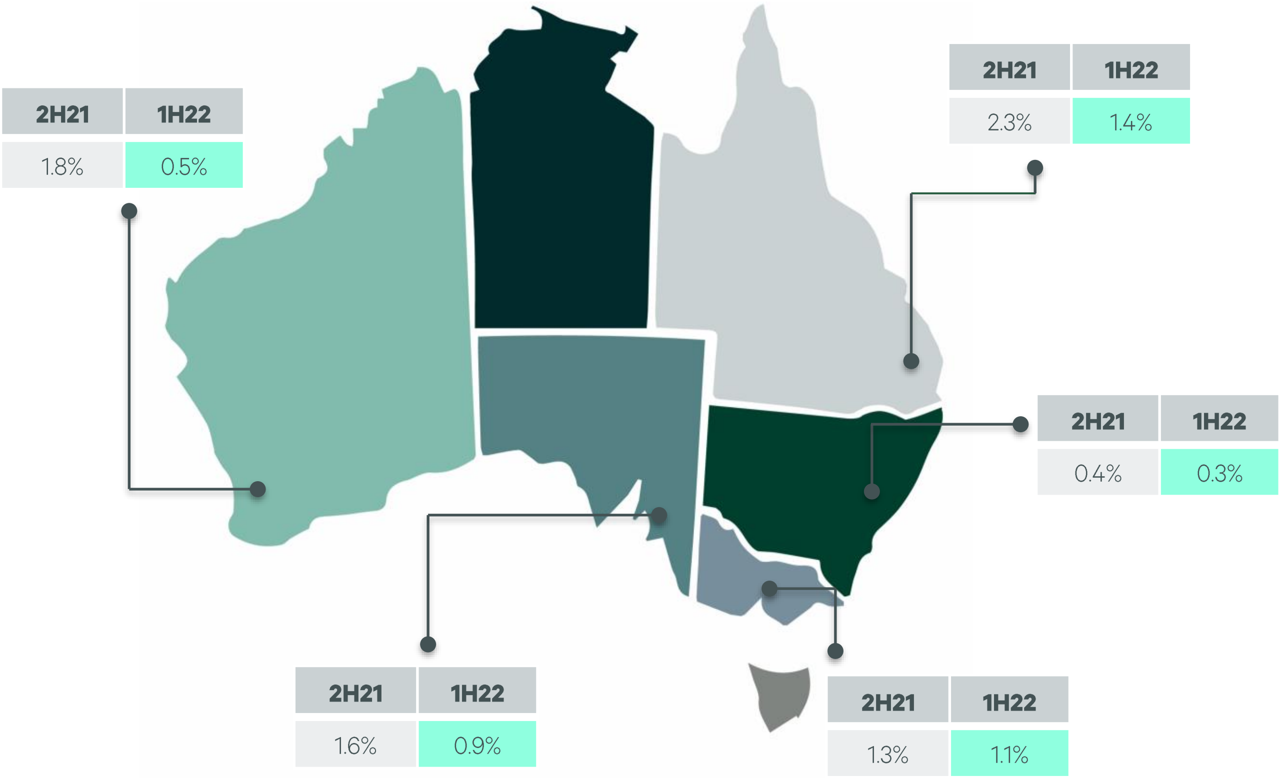
Vacancy Trend by City



Source: CBRE Research

FIGURE 2

Average Vacancy Rate by State, 1H22 vs. 2H21



To note: reflects building NLA >5,000 sqm in Sydney and Melbourne, and >3,000 sqm in Brisbane, Perth and Adelaide.
Source: CBRE Research

Net Absorption

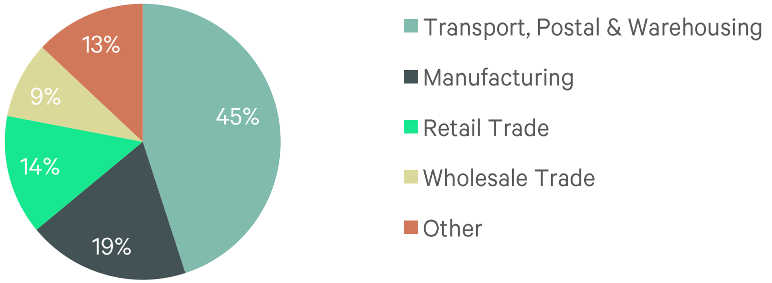
National net absorption over the first half of 2022 falls due to limited availability of space.

Net absorption falls due to supply shortage, and significant rental growth is being recorded. Over the 1H22, there has been limited leasing activity due to a lack of space available, however a continual need for industrial and logistics space. Total floorspace net absorption reached 1.4 million sqm over 1H22, a decrease of around 40% compared to the figure for the second half of 2021. Most major markets' net absorption levels experienced a decrease in the first half of the year, with the Brisbane market recording an increase in net absorption levels – mainly owing to the relatively higher space available in the second half of last year (2.3% vacancy in 2H21 – the highest in the country). Based on our gross take-up data and net absorption figures, occupier movement has been led by tenant expansion and additional new space requirements rather than purely for relocation purposes.

Over the past 6 months we have recorded significant rental growth and overall decline in incentives. The current year-on-year growth rate for super prime grade face rents averaging 13.0% nationally (as at 2Q22). Although we don't expect higher growth rates, we forecast national rent growth to average circa 5% p.a. over the next four years.

FIGURE 3

Take-up by Industry Sector 1H22



Source: CBRE Research

FIGURE 4

Net Absorption 1H21, 2H21, 1H22

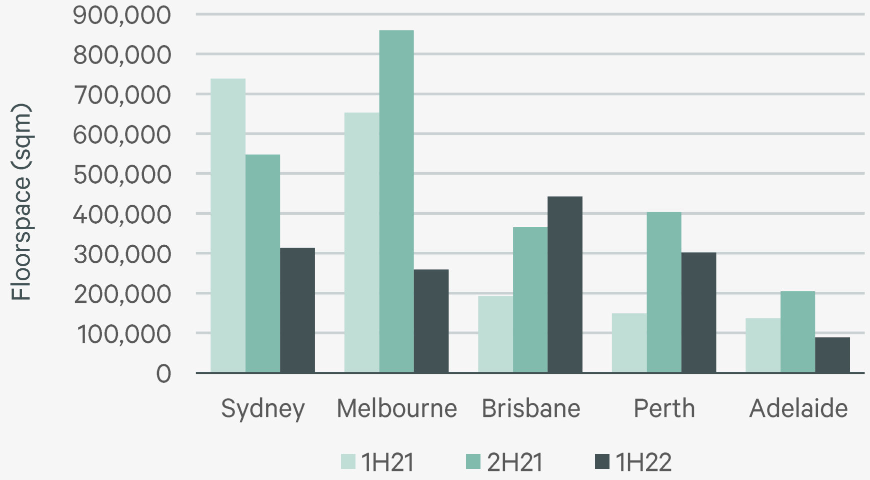
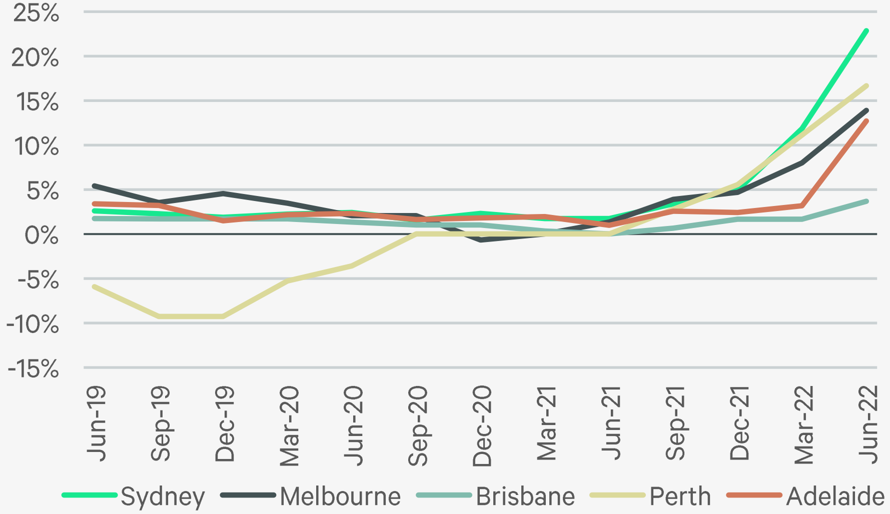


FIGURE 5

Net Face Rental Growth, Super Prime (year-on-year)



Source: CBRE Research.

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At the halfway mark of the year, we have seen vacancy tighten further around the country as demand seems to continue to outstrip new supply. Whilst our Industrial and Logistics teams have recently started to witness nervousness from occupiers with some requirements now delayed or cancelled due to economic headwinds seen both locally and overseas, we expect demand continuing to outpace supply this year and into 2023. This depth in demand is seeing owners and developers having such choice right now that only occupiers with the strongest covenants are winning the right to secure space and its certainly a tough time if you are a specialised or lower site cover user.

Sydney and Perth remain the tightest held markets in the country and are seeing rental growth above CBRE Research forecasts at the start of the year. Melbourne is getting tighter by the month and Queensland remains the only market balanced with supply …for now. Rapidly increasing construction pricing, and perceived future softening of long WALE assets, we expect to put further pressure on rents this year.

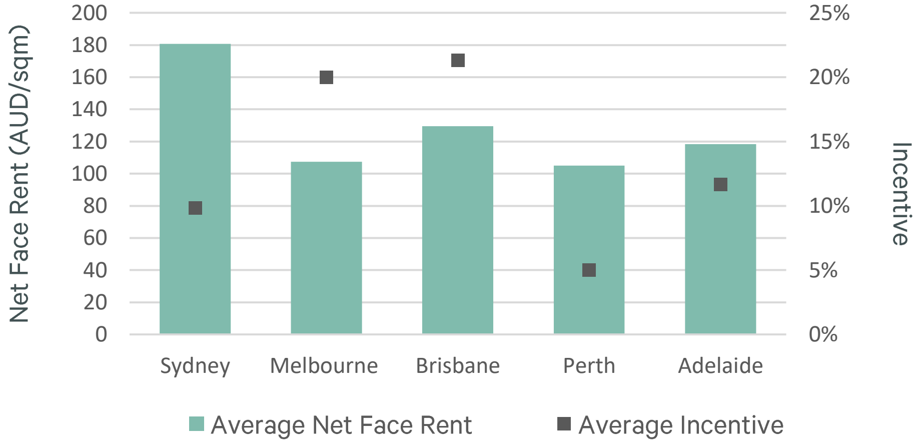
”

Cameron Grier
Regional Director – Australia/New Zealand | Industrial & Logistics Advisory and Transactions Services

Raffles Glade, Eastern Creek (NSW) within the Outer North West Precinct | vacancy in this Precinct now averages 0.3%

FIGURE 6

Net Face Rents and Incentives by City



Source: CBRE Research. As at 2Q22.

Sydney

The Sydney market remains the tightest in the country and globally (0.3%)

Occupier movements have been limited due to almost no available space.
Vacancy levels continue to be at an all-time low in Sydney due to strong occupier demand. The city's vacancy rate is also one of the lowest rate globally, and now on par with the Inland Empire in Southern California (0.3%).

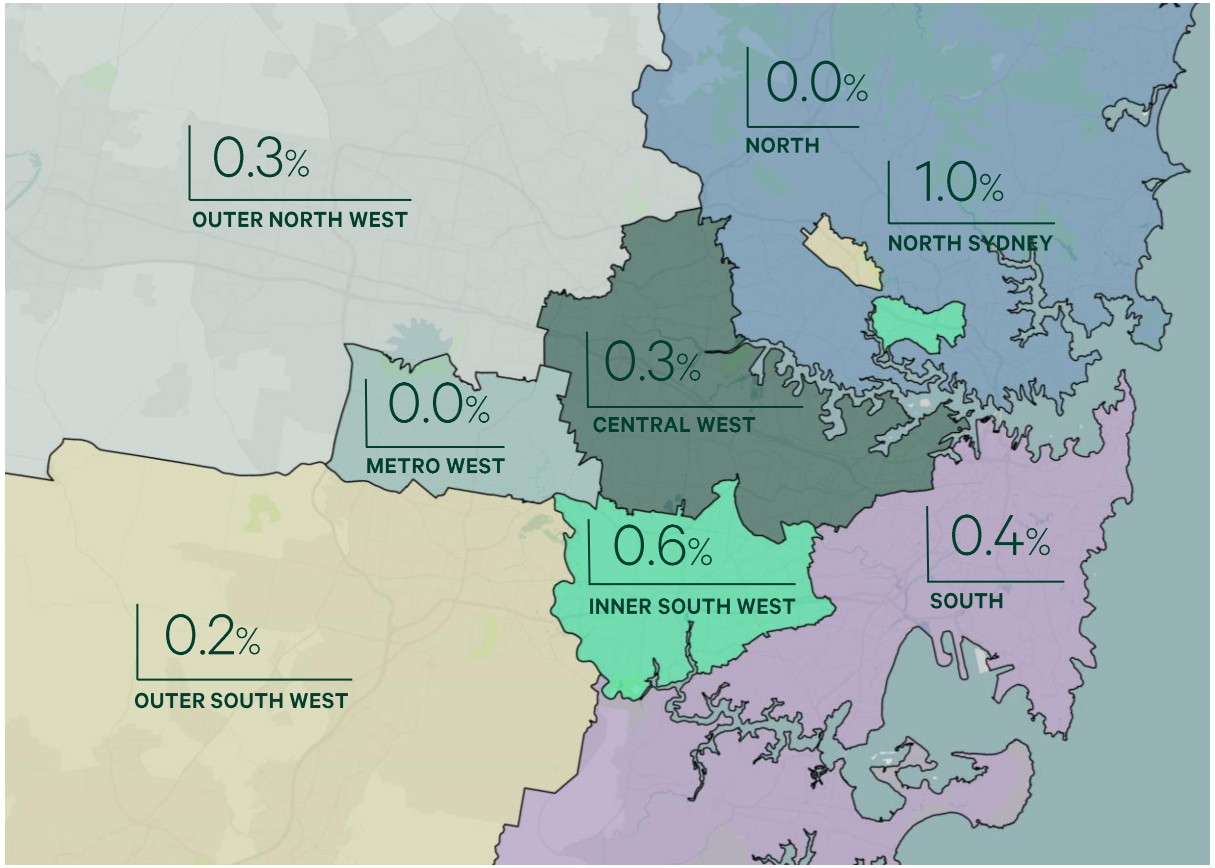
While there has been limited leasing activity, the concentration of occupier floorspace take-up are from those in the Transport, Postal and Warehousing sector within the Central West precinct. The vacancy rate within the Central West precinct has fallen by 30 bps between 2H21 and 1H22. The largest decline in the vacancy rate over 2H21 and 1H22 has been recorded in North Sydney (-150 bps), North Shore (-120 bps), and Metro West (- 50 bps) precincts.

Although the 2022 supply pipeline is at a record high, totaling 874,880 sqm, approximately 73% of this new floorspace is already pre-committed (as at 2Q22). Historically, an annual average of 510,600 sqm of new floorspace has been added to the Sydney market, versus gross take-up 10-year annual average of 878,000 sqm. Pent-up demand has led to a relatively high pre-commitment rate, and the lack of serviced and zoned land supply has limited development activity and will continue to post-2022.

> "Vacancy in the Sydney leasing market has continued to tighten across all precincts beyond the already record low rates in 2H21. Demand from 3PL's continue to represent most of the larger enquiry, but e-commerce; retail; and food users are most active occupiers seeking space ranging from 2,000sqm to 10,000 sqm. We have witnessed rental growth in excess of 10% in 1H22 in most precincts, and recently some transactions reflecting closer to 15% from 2H21. The supply pipeline will be relatively low in all precincts, with respect to demand, until early to mid-2023 with weather delays pushing projects from 2022 until 2023. There will be increased upward pressure on rents with increasing construction costs, especially as we approach the Christmas period with close to 0% vacancy. We continue to see occupiers commit to pre-lease and speculative space sooner because some owners are reluctant to negotiate beyond 18 months from lease expiries. Owners are increasingly focussed on covenant which is a trend we expect to continue given recent economic headwinds."
>
> **Michael O'Neill**
> Managing Director | Western Sydney

FIGURE 7

Sydney 1H22 Vacancy by Precinct



Source: CBRE Research. Reflects building NLA >5,000 sqm.

Melbourne

The Melbourne vacancy rate declines to 1.1%

The West Precinct records the largest drop in vacancy.
Despite lower lease volumes, occupier activity in Melbourne continues to remain the strongest in the country, representing 50% of national total gross take-up over 1H22. Transport, Postal and Warehousing occupiers have made up most of the leasing transactions in the past 6 months (45%), however Manufacturing also has contributed to a significant share of space requirements (19%), with Retail Trade closely following (15%).

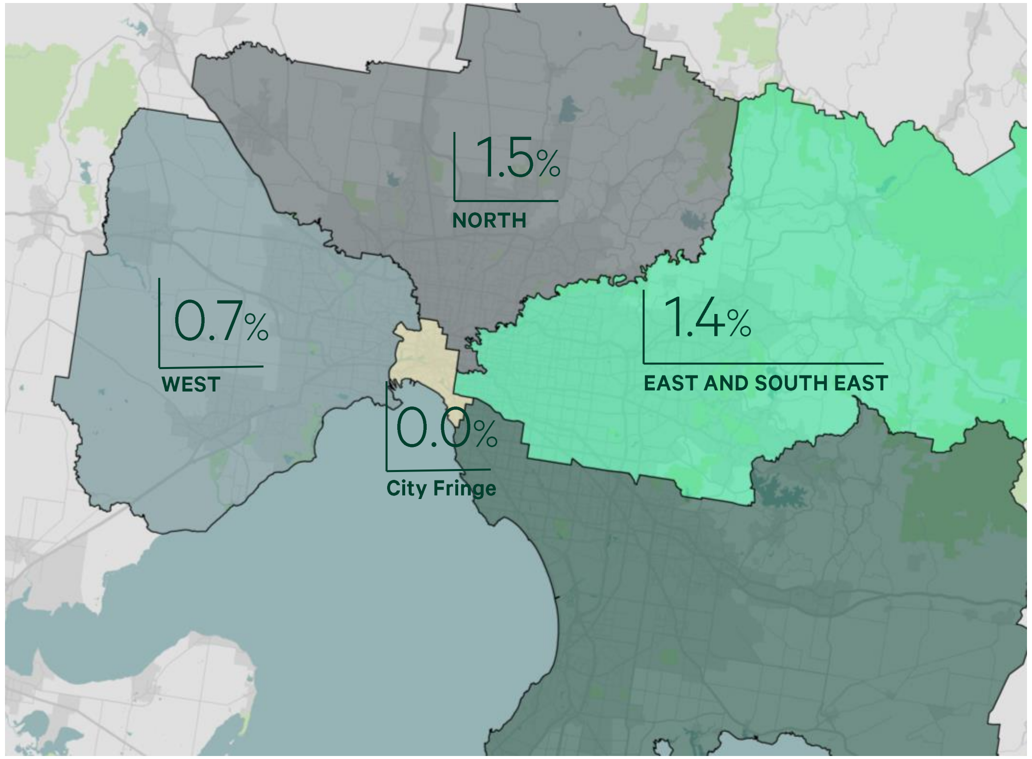
The West and the North were the only precincts in Melbourne recording a fall in the vacancy rate over the past 6 months, from 1.2% in 2H21 to 0.7% in 1H22 in the West and from 1.7% to 1.5% in the North over the same period, with the rest of Melbourne's vacancy rate remaining unchanged. Most of the vacant space in the West Precinct are in existing secondary grade buildings. Despite the West precinct accounting for the largest share of new floorspace expected to be delivered in 2022 (68% of the 2022 supply pipeline), occupiers are attracted the lower rental rates and speculative developments on offer.

Like the Sydney market, the record low availability of vacant floorspace has led to strong rent growth in super prime and prime grade stock. Super prime and prime face rents have grown significantly by 13.9% and 11.1%, respectively, over the past 12 months. Incentives have fallen over the past 6 months in both super prime and prime assets across all precincts leading to strong net effective growth.

> "Vacancy rates stabilised but have stayed at record low levels, during a period of strong rental growth across each Melbourne precinct. Rising construction costs and delays in the arrival of materials are slowing the speculative development pipeline which is reducing supply, whilst occupier demand remains incredibly robust and at very high levels. We are still seeing record prices paid for anything with a development angle, however the depth of the market will start to be tested as we face more uncertain macro economic times in 2H22."
>
> **James Jorgensen**
> State Director

FIGURE 8

Melbourne 1H22 Vacancy by Precinct



Source: CBRE Research. Reflects building NLA >5,000 sqm.

Brisbane

Brisbane market records the largest decline in vacancy between 2H21 and 1H22, now averaging 1.4%

Occupier demand over the past 6 months has been driven primarily by the Retail Trade (35%) and Manufacturing (35%) sectors. Even with the supply levels in 2022 slated to break through the long-term average, the continued occupier requirement for industrial space has seen vacancy levels for Brisbane drop 90bps from 2.3% in 2H22 to 1.4% in 1H22.

The North precinct maintains the lowest vacancy rate in Brisbane at 0.2% - falling by 40 bps since 2H21. The largest fall in vacancy was within the Australian Trade Coast (ATC), decreasing by 220 bps over the past 6 months and now has the second lowest vacancy rate in Brisbane at 0.9%. All the current vacant space in the ATC are existing secondary grade buildings. The M1 Corridor was the only Precinct that experienced an upward movement in vacancy from 0.8% to 2.6%. This is likely due to the significant volume of supply in this Precinct for 2022, with speculative stock dominating.

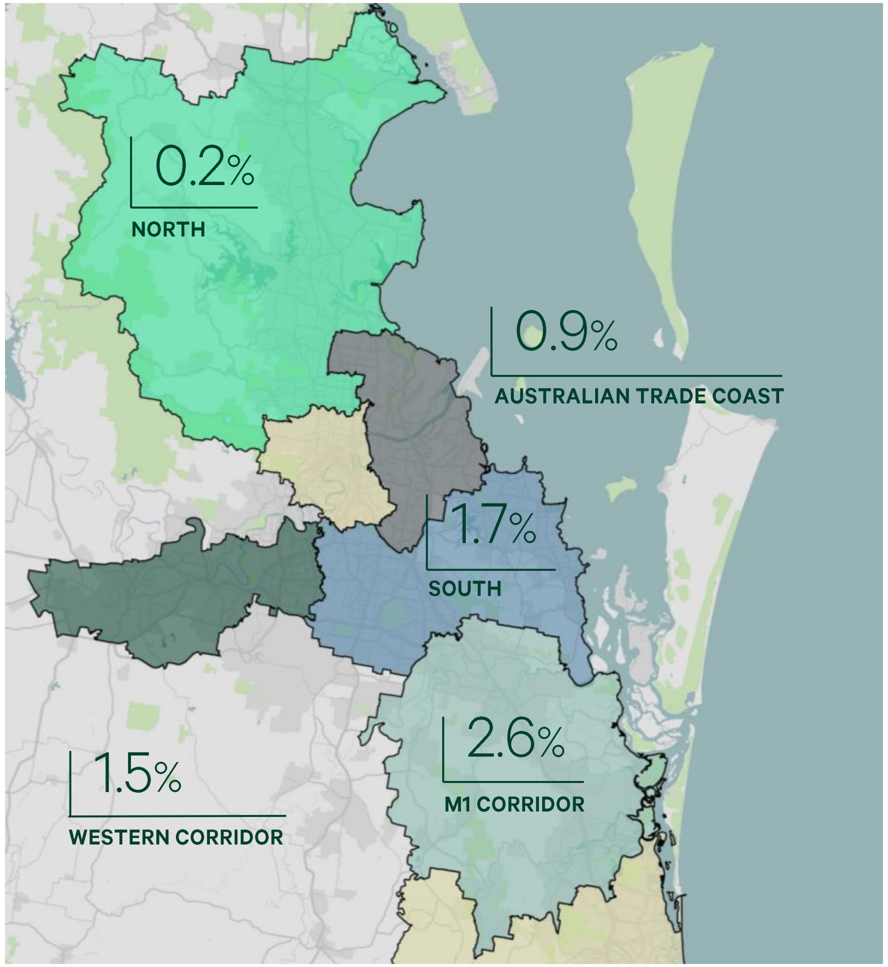
Although the South precinct continues to have a relatively higher vacancy level, both in 1H21 and 2H21, the Precinct has seen the largest share (45%) of Brisbane's floorspace take-up so far in 2022. The concentration of occupier activity has led to the vacancy rate for the Precinct drop over the first half of the year by -160 from 3.3% in 2H21 to 1.7% in 1H22.

The tightening market and expansionary activity from tenants has followed through to prime net face rental growth of 5.2% YoY, now averaging AUD 118/sqm (as at 2Q22), and average incentive levels falling by 100 bps between 1Q22 and 2Q22. There are signs that the vacancy rate could continue to fall further as more tenants look for space and enquiry levels continue to increase. We forecast positive rental growth in the next 12 months, in line with the current trend being recorded nationally. However, the relatively higher level of supply in the pipeline over the next couple of years may limit effective rental growth and taper off any significant downward movement in the vacancy rate.

> "This last quarter has seen significant take up of existing stock resulting in a situation where there are limited options for the larger tenants to consider. This take-up is also forcing an increase in rental rates and a decrease in incentives. On top of this increased demand is also the increase in construction pricing which may put some potential speculative developments on hold, placing further pressure on supply. Our figures show that there is a good supply of stock coming on line Q2 2023, if tenants can wait that long."
>
> **Peter Turnbull**
> State Director

FIGURE 9

Brisbane 1H22 Vacancy by Precinct



Source: CBRE Research. Reflects building NLA >3,000 sqm.

Perth

Perth vacancy drops below 1%

The industrial vacancy rate in the Perth market has continued to decline and now sits at just 0.5% (1H22). The very minimal availability of stock in the market and continued tenant demand has led to strong rental growth in industrial and logistics assets. Super prime and prime rents have experienced growth of 11% just over the first half of 2022. Rental growth in Perth's industrial and logistics market is forecast to continue to be strong.

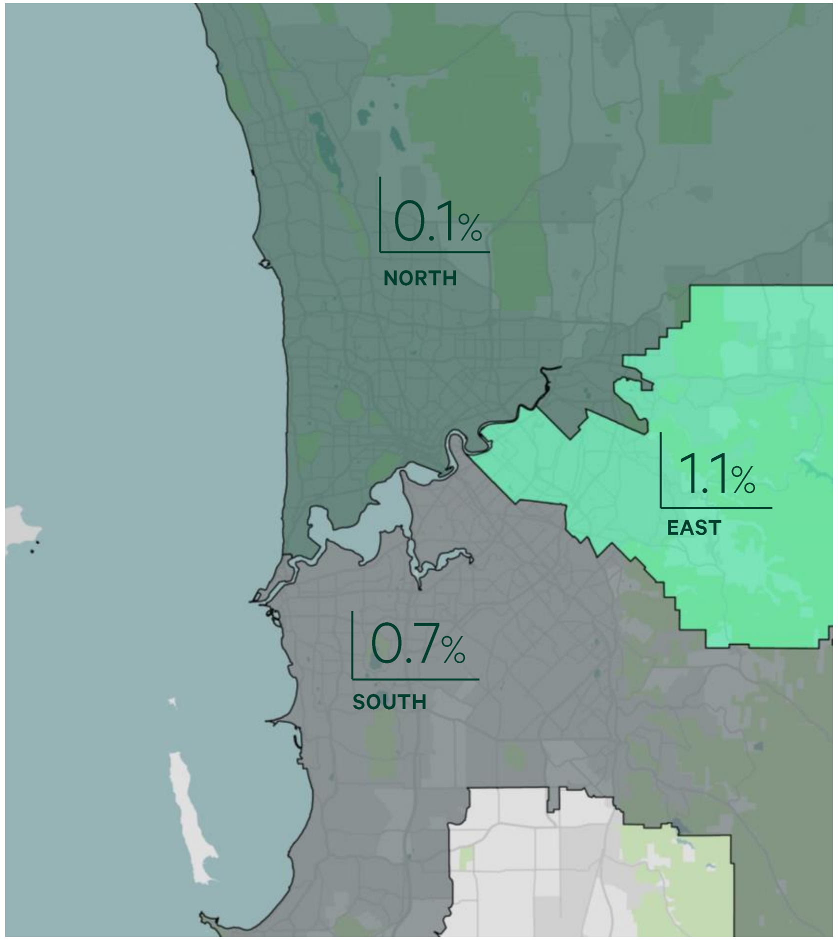
Net absorption has totaled approximately 302,000 sqm over 1H22 driven by the South precinct which accounted for approximately 67% of the total net absorption. Net absorption during the half year was more than double that recorded in the prior corresponding period in 2021. Tenant demand in Perth's industrial market has been driven primarily by the Transport, Postal & Warehousing, Retail Trade, and Mining sectors. The strength in WA's mining sector combined with increased demand from online retailing is expected to continue driving WA's industrial and logistics market.

While development supply delivered in 2021 was only 38,000 sqm (65% below the 10-year average), supply is expected to pick up with the current pipeline for 2022 at approximately 105,000 (largely inline with the 10-year average of 110,000 sqm). Supply in 2022 is expected to be added primarily in the South precinct (78%) with the remainder of supply expected to be added in the East precinct (22%). With the very limited availability of existing stock in the market, tenants are increasingly turning to pre-lease developments to secure their space needs.

> Continued tenant demand and a market vacancy rate of less than 1% is continuing to fuel prelease demand and place upward pressure on market rents. Further, a perceived lack of industrial land supply in key industrial areas and a change in prelease metrics is resulting in an increase in economic rents and a decrease in leasing incentives. Continued activity in the states resources sector and ongoing construction delays are likely to result in continued upward pressure on rents and land supply.
>
> **Jarrad Grierson**
> Head of Industrial and Logistics Perth

FIGURE 10

Perth 1H22 Vacancy by Precinct



Source: CBRE Research. Reflects building NLA >3,000 sqm.

Adelaide

Vacancy now sub-1%

With strong rental growth forecast and occupier activity anticipated to rise leading into 2022, tighter vacancy in Adelaide was expected. The rate is now 0.9% (as at 1H22) having declined by a further 70bps. This is also owing to the low supply of quality industrial stock - a trend that was already in motion as 2H21 vacancy fell from 3.2% to 1.6%.

Over 2H21 the highest market vacant was the Outer North (6.2% - having decreased from 1H21 by 0.3%). The market is now only 0.9% vacant. Lionsgate Business Park had a monumental dip in vacancy as 2021 take-up blitzed this, leaving current minimal levels of vacant space. The North West market has tightened from 1.1% to 0.9%, as high-quality industrial assets become scarce. Leasing deals in 1H22 (for space over 3,000 sqm) fall in both Outer North and North West markets, pulling vacancy shrinkage close to 30,000 sqm. The neighbouring West market has tightened from 3.1% to 1.0%. The West precinct locational attributes includes accessibility to the airport and port.

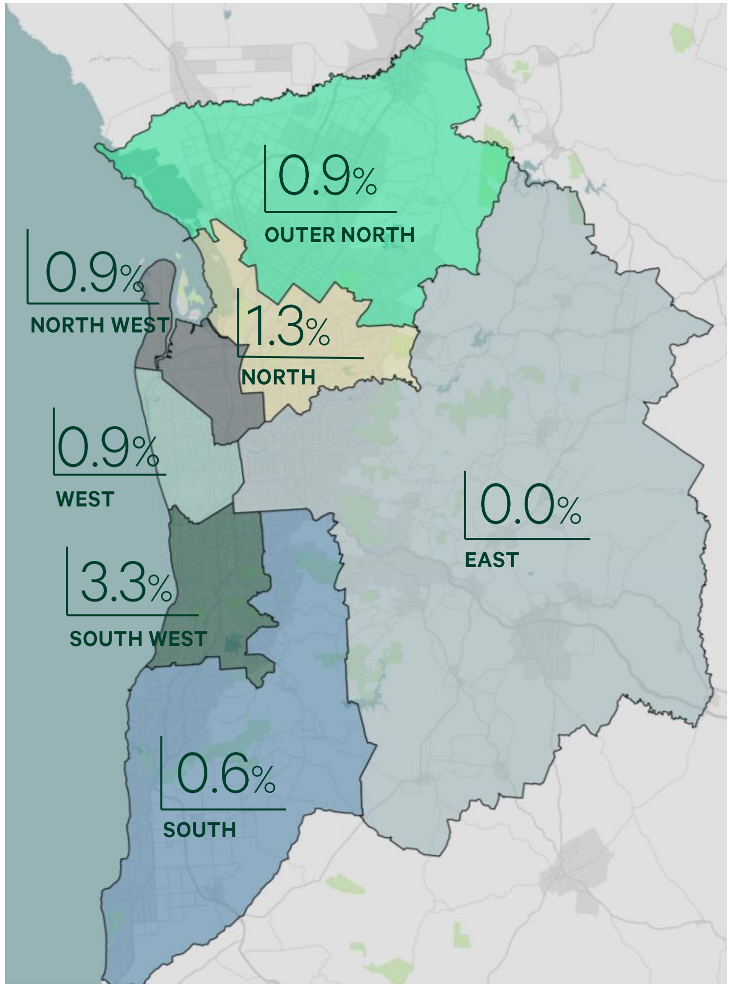
Diminishing availability of serviced industrial zoned land over the last 12-months has hiked up land values. With ongoing demand for developable land and limited supply, land value for 1.6 ha lots have increased by 32.2% (y-o-y) to an average of AUD 341 per sqm. Smaller 0.25 ha lots have increased by 28.7% (y-o-y) to an average of AUD 435 per sqm. Most available land in the Outer North has been taken up on the back of design & construct requirements.

Low vacancy with ongoing high demand continues to drive down incentives for prime assets. Accelerated rental growth has been experienced in net face rents for super prime and prime assets. Super prime grew by 17.8% y-o-y, averaging AUD 124/sqm. Prime grew by nearly 25% y-o-y. Over 2022-2023, new supply of 51% (45,000 sqm) is expected to be completed to the North West and 49% the Outer North (43,800 sqm) precinct. With close to 60% of this supply understood to be pre-committed, or significant refurbishments, the high demand for new industrial developments delivering warehousing units suggests the vacancy to market will be short-lived. Construction activity on track for completion in 2022 should see sqm delivered on par with the 10-year national average.

> "Rental growth has naturally become a material trend within the South Australian Industrial & Logistics market due to historically low vacancy and limited options currently available for tenants. We expect this rental growth trend, as well as the imbalance between supply (lack thereof) and demand (strong) for developable industrial land will continue to drive the sectors sentiment in a positive direction."
>
> **Jordan Kies**
> State Director

FIGURE 11

Adelaide 1H22 Vacancy by Precinct



Source: CBRE Research. Reflects building NLA >3,000 sqm.

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