Rental growth continues as tight vacancy persists

1.0%	▼ c.10,300 sqm	▲ c.30,300 sqm	▲ 6.2%
SA annual population growth FY24-27[1]	New supply completed 3Q24	Gross Take-Up 3Q24	Super Prime midpoint yield 3Q24

Note: Arrows indicate change from previous quarter.

Key Points

- Gross take-up recorded in 3Q24 totalled c.30,300 sqm bringing the 12-month rolling total to c.88,500 sqm, below the 10-year annual average of c.150,000 sqm.
- There was c.10,300 sqm of new industrial stock added in 3Q24. The rolling 12-month development supply totals c.63,800 sqm, which is below the 10-year average of c.87,600 sqm.
- The development supply between 2024F and 2027F currently averages c.89,000 sqm per annum which is in line with the 10-year average. As of 3Q24, the pre-commitment rate for the forward pipeline between 4Q24 and 4Q27 is just over 60%.
- Adelaide's low vacancy rate (1.3% as at 1H24) continues to drive rent growth. In 3Q24 super prime net face rents increased by 10.2% y-o-y to an average of AUD 149/sqm. Average super prime incentives increased to 11.3% from 10.0% in the prior quarter.
- Constrained industrial land supply and owner occupier demand in Adelaide's core industrial precincts continues to drive land values higher, with 0.25ha lots increasing by 30.7% y-o-y and 1.6ha lots increasing by 19.9% y-o-y.
- Super prime midpoint yields expanded by 6 bps q-o-q and now sit at an average of 6.2%

1. Deloitte Access Economics
Source: CBRE Research

Demand

Continued low stock availability is limiting gross space take-up levels in Adelaide

Gross take-up recorded in 3Q24 totals c.30,300 sqm (for transactions ≥ 3,000 sqm), up from the 7,000 sqm recorded in the previous quarter. While there was a q-o-q improvement in leasing activity, the rolling 12-month total is c.88,500 sqm, which is significantly below the 10-year annual average of c.150,000 sqm.

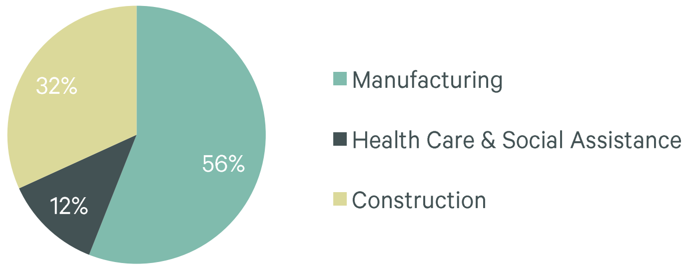
A notable lease transaction from 3Q24 was Beaumont Tiles taking up c.11,600 sqm at part of 325 Richmond Road at Adelaide Airport (West precinct).

Shortage of readily available to occupy stock continues to be a key factor hindering leasing activity. This, coupled with moderating demand due to occupiers being more cautious as economic conditions have moderated, has weighed on gross take-up levels in 2024.

Over the past 12 months gross take-up of floorspace (for transactions ≥ 3,000 sqm) has been concentrated in the West precinct (41%), followed by the Outer North (28%) and North West (23%).

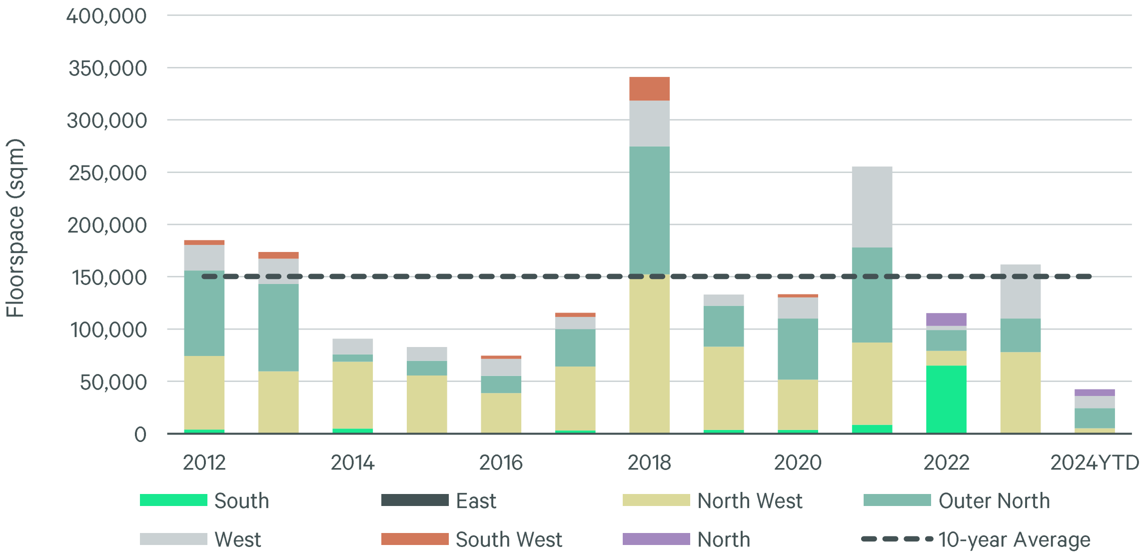
Occupiers in the manufacturing sector have accounted for the largest share of gross take-up in 2024YTD, followed by Construction and Health Care & Social Assistance. The Manufacturing industry has historically accounted for the largest share of leasing activity in Adelaide, accounting for 36% of total leased floorspace over the past 10 years.

FIGURE 1: Adelaide Take-Up 2024YTD by Industry Sector (Top 3 Sectors)



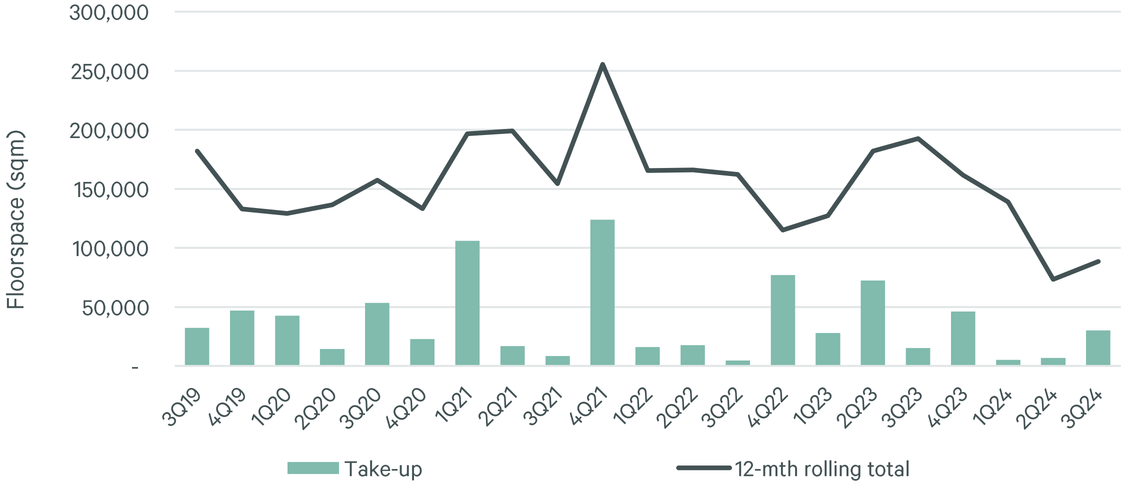
Source: CBRE Research

FIGURE 2: Adelaide gross take-up 2012-3Q24, by precinct



Source: CBRE Research

FIGURE 3: Adelaide quarterly gross take-up, 3Q19-3Q24



Source: CBRE Research

Supply

Over 60% of the forward pipeline is pre-committed

Development supply completions for 3Q24 totals c.10,300 sqm (for developments ≥ 3,000 sqm), below the c.30,700 sqm recorded in the previous quarter. This brings the rolling 12-month total development supply to c.63,800 sqm, which is 27% below the 10-year average of c.87,600 sqm.

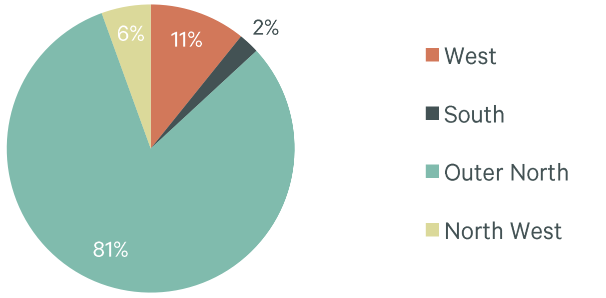
The new warehouse facility developed by Industrial & Commercial Developments (ICD) at 45-53 Woomera Avenue in Edinburgh was the only recorded project completed (>3,000 sqm) over the quarter.

As of 3Q24, the total development supply for CY2024 is expected total c.59,000 sqm, which is well below the 10-year average supply of c.87,600 sqm.

Despite the lower levels of new supply this year, the 2025 pipeline is currently forecast to total c.232,000 sqm. However, only 22% of the developments forecasted for 2025 have begun construction with the balance still in development approval stage and forecasted to reach completion in 4Q25.

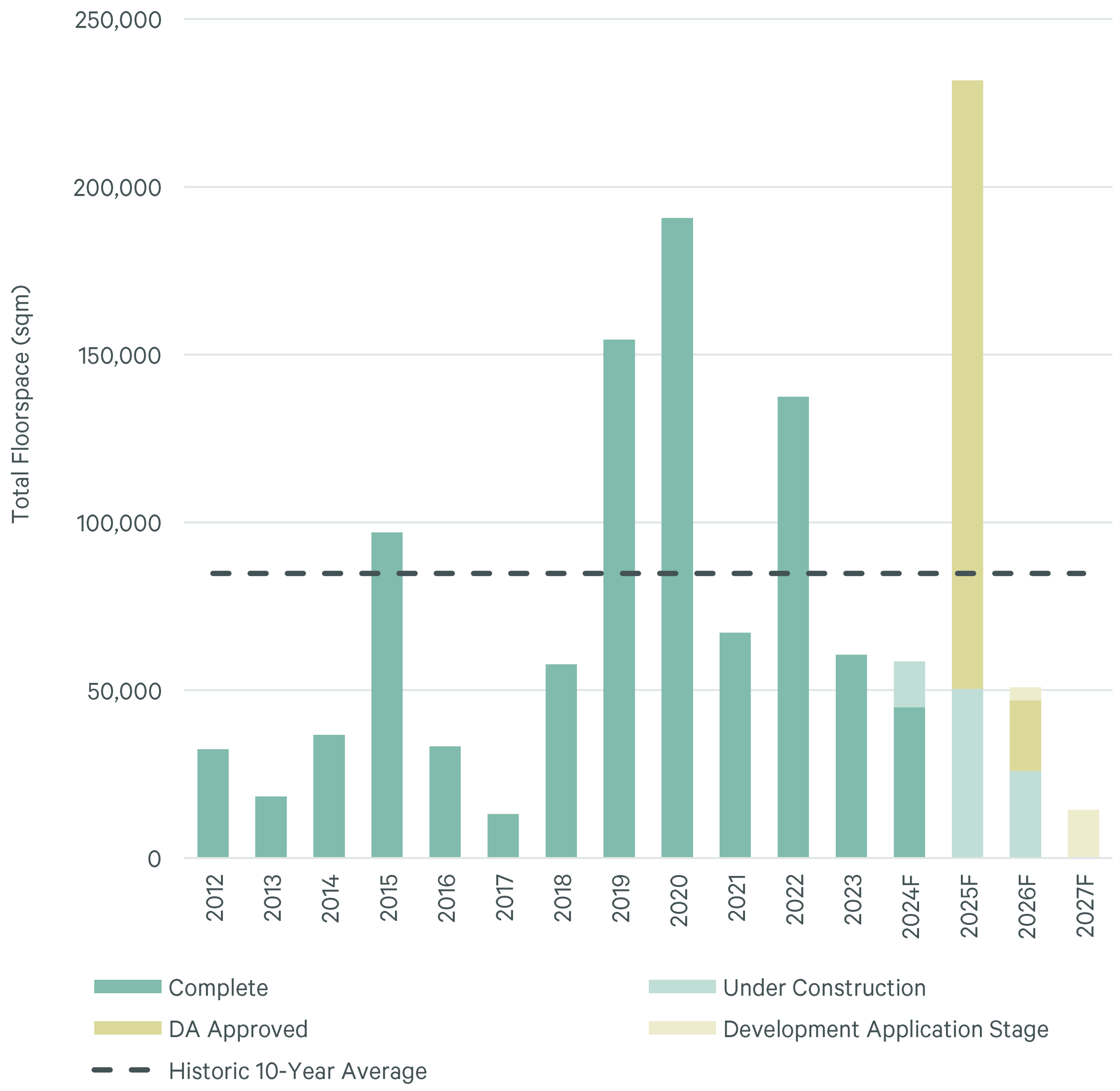
The development supply between 2024F and 2027F currently averages c.89,000 sqm per annum, which is largely in line with the 10-year average. As of 3Q24 the pre-commitment rate for the forward pipeline between 4Q24-2027 is close to 62%.

FIGURE 4: Development Supply 4Q24F-2027F, Floorspace Share by Precinct



Source: CBRE Research

FIGURE 5: Development Supply Pipeline 2012-2027F



To note: reflects projects ≥ 3,000 sqm.
Source: CBRE Research. As at 3Q34

Leasing Market

Tight supply and low level of development completions have resulted in continued rent growth

The shortage of readily available industrial stock (1H24 vacancy rate of 1.3%) continues to put upward pressure on rents for Adelaide's industrial market. Despite the moderating economic conditions, rental growth in Adelaide has continued to remain strong in 3Q24 as the supply side remains tight with new development supply in the past two years (2023-2024F) being on average 30% below the 10-year historic average.

Super prime net face rents have increased by 10.2% y-o-y to an average of AUD 149/sqm. Super prime net face rents in the Outer North precinct increased by 17.7% y-o-y to an average of AUD 135/sqm.

Tighter vacancy rates in the inner precincts and higher rental rates in a moderating economic environment is resulting in increased demand in the Outer North precinct where stock availability is relatively greater, and rents are more affordable for tenants. Super prime incentives increased to an average of 11.3% in 3Q24 from 10.0% in the prior quarter.

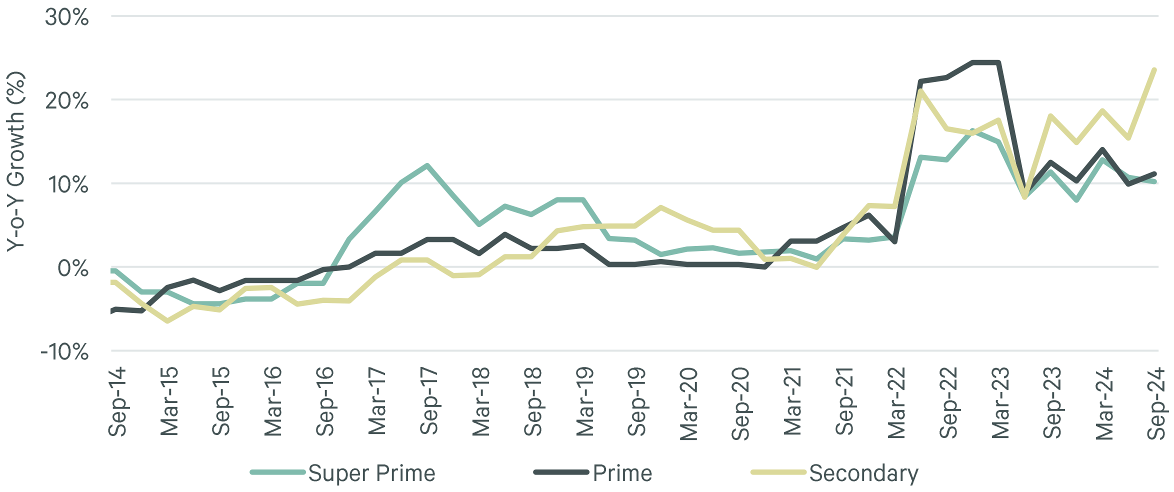
Prime net face rent increased by 11.1% y-o-y to an average of AUD 130/sqm and secondary grade net face rents increased by 23.5% y-o-y to an average of AUD 105/sqm. Both prime and secondary grade incentives decreased to an average of 9% in 3Q24 from 11% the prior quarter. This was largely driven by the South precinct. The South precinct is also witnessing a 'drag effect' from the inner precincts and improved demand as it remains a more affordable option for tenants.

FIGURE 6: Adelaide 2H23 vs 1H24 vacancy by precinct

	Outer North	North West	North	West	South West	South	East	Adelaide Total
2H23	4.3%	1.5%	0.2%	1.8%	2.3%	0.0%	0.0%	1.5%
1H24	2.4%	1.6%	0.0%	1.9%	2.3%	0.0%	0.0%	1.3%

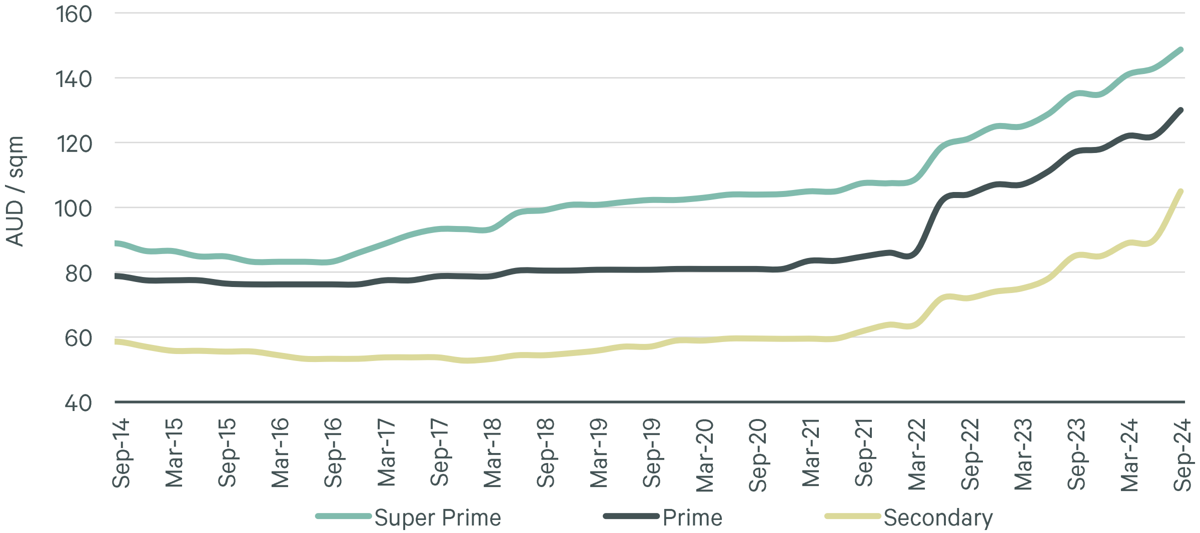
Source: CBRE Research, for stock with NLA ≥ 3,000 sqm.

FIGURE 7: Average net face rent growth



Source: CBRE Research

FIGURE 8: Adelaide average net face rents by grade



Source: CBRE Research

Land Values

Industrial land values continue to grow in Adelaide driven by owner occupier demand

The lack of serviced industrial zoned land released to market across Adelaide's industrial precincts have led to significant appreciation in land values.

Given the strong demand for developable industrial land and limited supply, land values in Adelaide's core industrial precincts comprising the North West, Outer North, West, and South West recorded strong growth over 2021-2023.

Despite the high construction and financing cost environment, land values over the quarter recorded continued growth. More recently the strong growth in land values has been driven by owner occupiers in Adelaide who are less sensitive to the higher cap rates and elevated financing/construction costs compared to developers that must make a profit on developments.

Averaged 1.6ha land values across the core precincts comprising the North West, Outer North, West and South West increased by 19.9% y-o-y to an average of AUD 588/sqm. Average land values for the Outer North have increased by 31.0% y-o-y to an average of AUD 275/sqm .Given the greater availability of industrial land in the Outer North and the Precinct's relative affordability, there have been a greater concentration of development activity - accounting for c.80% of the 4Q24F-4Q27F development pipeline.

Average land values for the West precinct have increased by 26.7% y-o-y to an average of AUD 950/sqm. Along with the scarcity factor, compulsory land acquisitions due to the North-South Corridor expressway infrastructure development has been a factor driving the strong land value growth.

Land values in the smaller 0.25ha lots also recorded strong growth, with average values across the North West, Outer North, West and South West increasing by 30.7% y-o-y to an average of AUD 825/sqm.

FIGURE 9: Adelaide Industrial 0.25 ha land values by precinct (3Q22 to 3Q24)

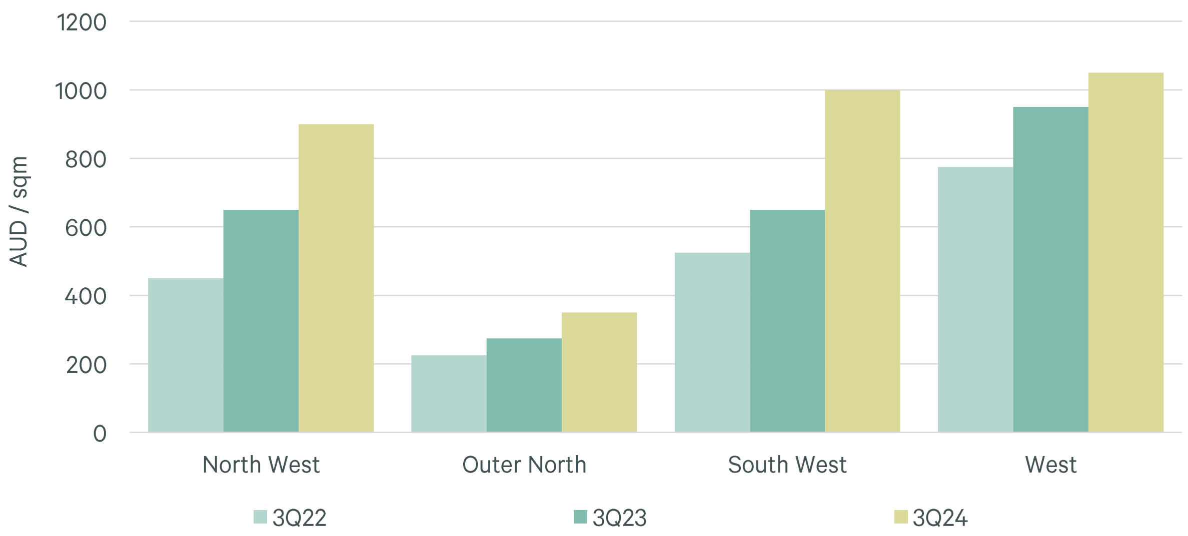


FIGURE 10: Adelaide Industrial 1.6 ha land values by precinct (3Q22 to 3Q24)

Source: CBRE Research

Investment Market

Marginal yield movements recorded during 3Q24

Sales transaction were muted in Adelaide during 3Q24 with AUD 51 million of transactions recorded (for transactions ≥ AUD 5 million). Transaction volumes in Adelaide's industrial market for 2024YTD totals AUD 319 million, and the rolling 12-month total is AUD 534 million - above the 10-year average of AUD c.400 million.

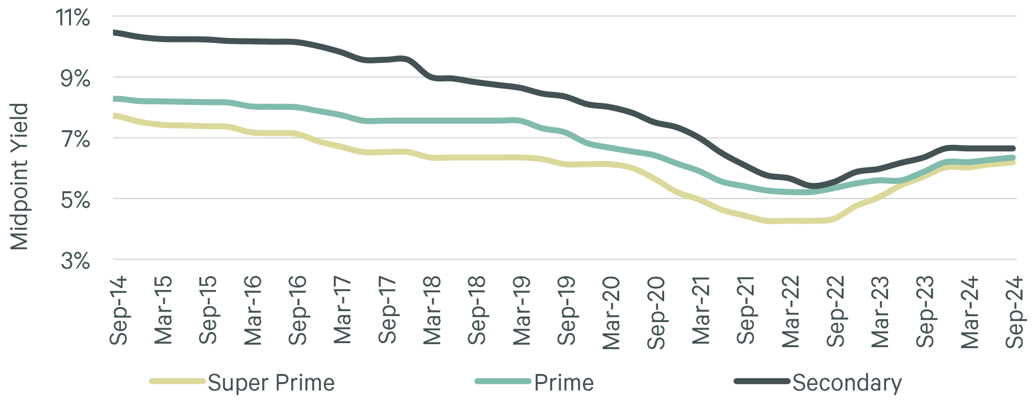
Notable sales transaction recorded over the quarter include:

- Super lot 12 on the Corner of Light Terrace and Cawthorne & Smith Streets in Thebarton which transacted for AUD 23.6 million
- 38 Birralee Road in Regency Park which transacted for AUD 8.3 million.

Super prime midpoint yields increased by 6 bps q-o-q to 6.19%. Prime midpoint yields increased by 7 bps q-o-q to 6.35%, and secondary grade yields were stable q-o-q at a midpoint of 6.65%.

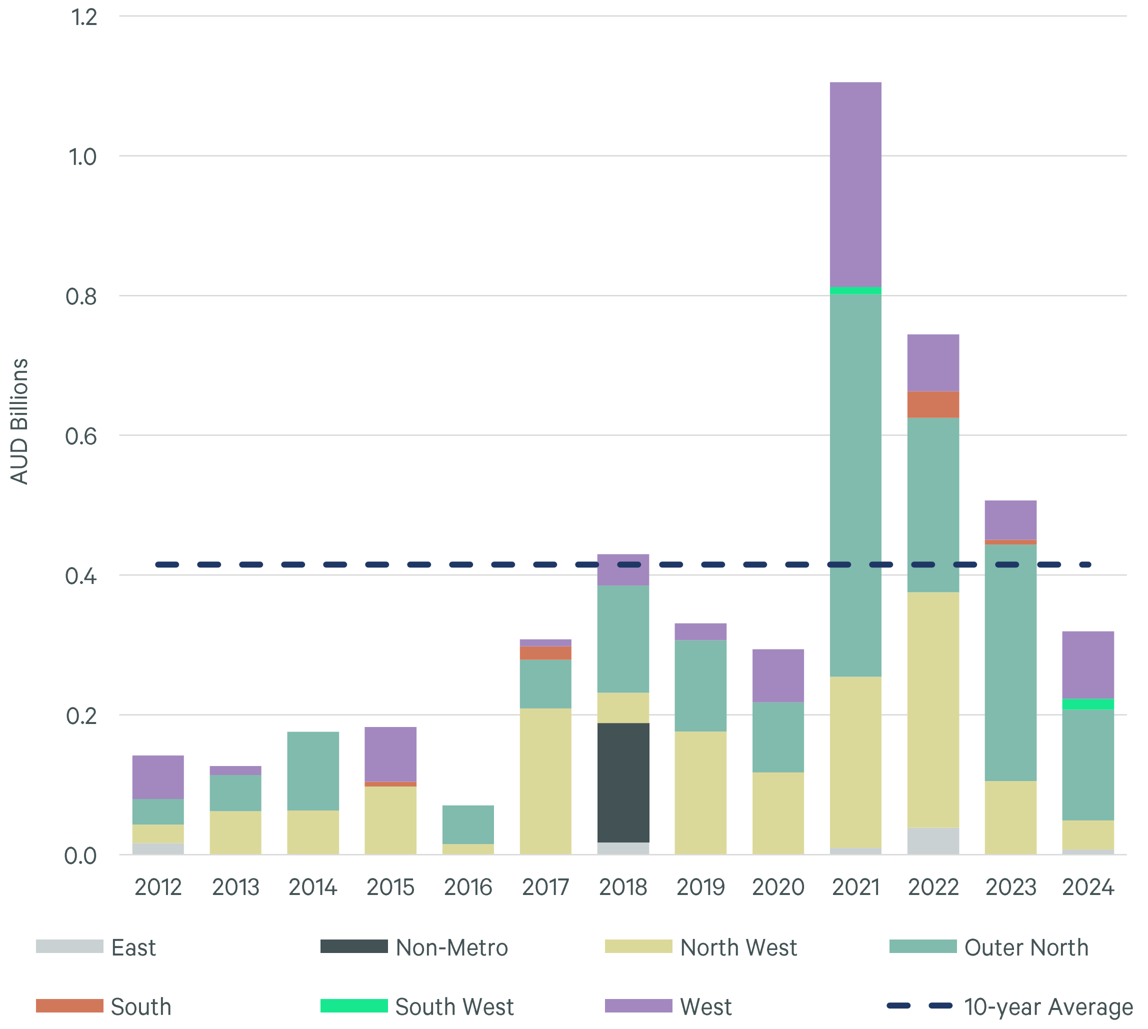
The gap in buyer and vendor pricing expectations continues to limit sales of institutional grade stock in Adelaide. However, appetite among private investors remains strong, which has supported sales transaction volumes in 2024YTD.

FIGURE 11: Midpoint yields (2Q14-2Q24)



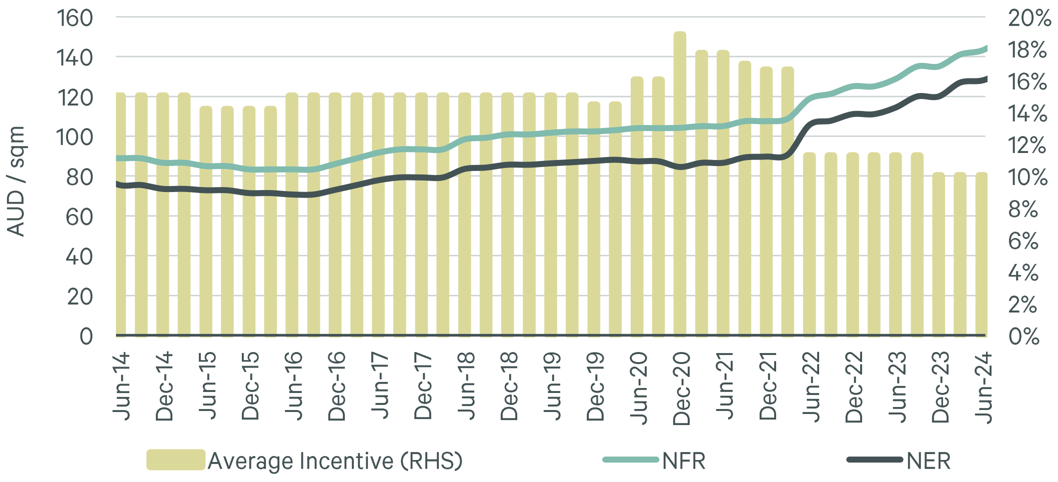
Source: CBRE Research

FIGURE 12: Adelaide Industrial investment sales 2012-2024 (greater than AUD 5 million)



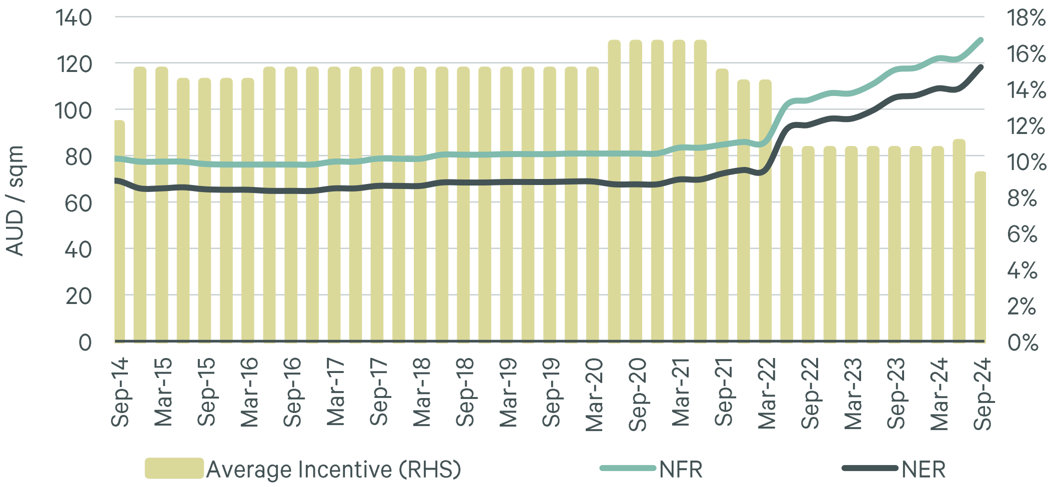
Source: CBRE Research

FIGURE 13: Average super prime net face rents, net effective rents and incentives



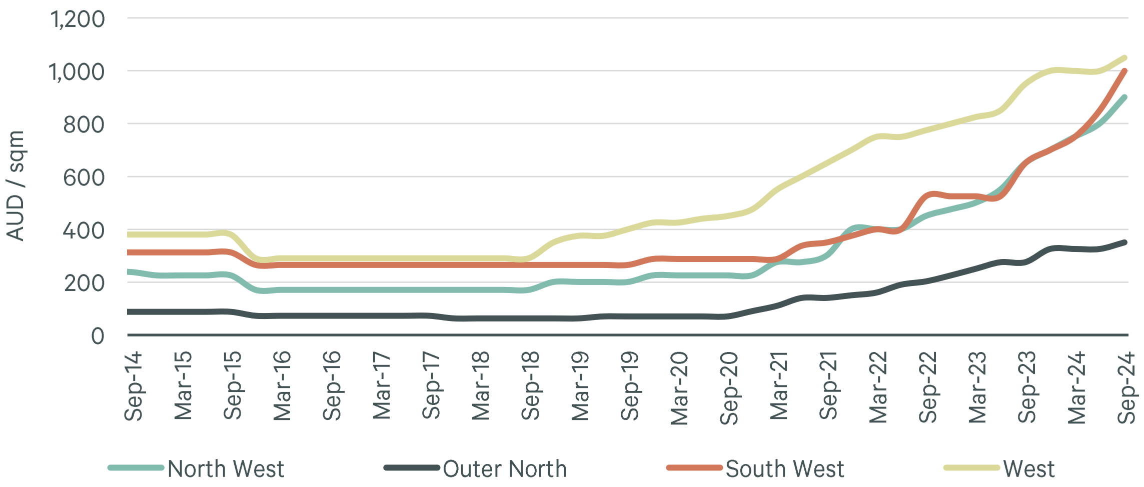
Source: CBRE Research Q3 2024

FIGURE 14: Average prime net face rents, net effective rents and incentives



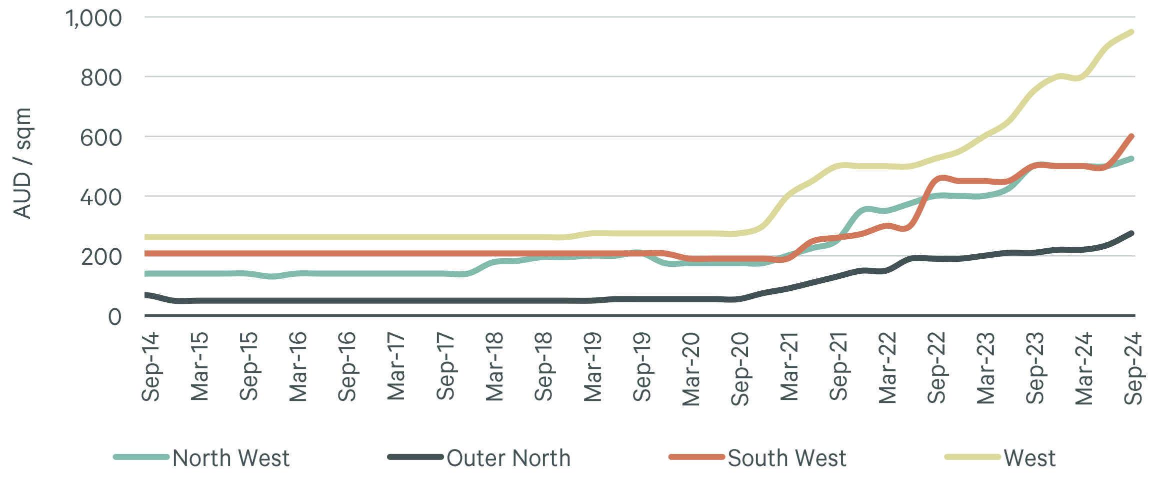
Source: CBRE Research Q3 2024

FIGURE 15: Average land values (0.25 ha lots), by precinct



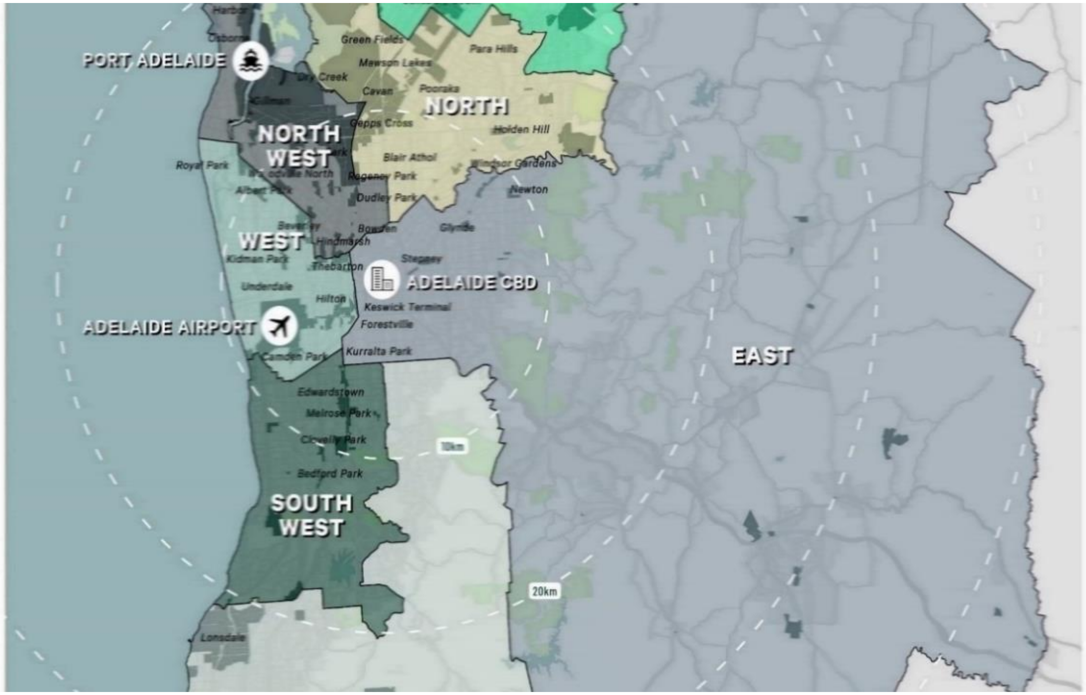
Source: CBRE Research Q3 2024

FIGURE 16: Average land values (1.6 ha lots), by precinct



Source: CBRE Research Q3 2024

Market Area Overview



Definitions

Super Prime:
Less than 6 years old, height clearance between 13.7m and 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:
Buildings that are older style but still very functional, height clearance in the ranges of 8-11m, Over 15 years old.

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