Centuria

2023 industrial eBook

Record low vacancy and continued tenant demand driving strong rental growth within industrial real estate

Across Australia, strong sector tailwinds have continued to benefit Industrial real estate. Increased tenant demand from burgeoning ecommerce adoption with more people shopping and transacting online than ever before, businesses building resilience to disruptions in their supply chains and moving production and assembly back to Australia, coupled with limited near term supply of industrial warehousing have resulted in record low levels of vacancy across the Australian industrial real estate market.

This increased occupier demand and limited availability of industrial space continues to drive rental growth across the country. In particular, within Australia's urban infill markets, which are positioned in close proximity to densely populated areas, demand is exceptionally high. These markets afford quicker 'last mile' deliveries to consumers, arguably fostering repeat patronage.

Within the past three years, five dominant industrial subsectors have emerged: distribution centres, transport and logistics, production and assembly, cold storage and data centres.

The COVID-19 pandemic, with its corresponding lockdown periods, inadvertently accelerated the maturity of the domestic industrial market, setting a course for continual expansion in the short to medium term.

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Strong tailwinds across Australia's industrial real estate market are underpinned by robust macroeconomic trends, burgeoning ecommerce, the increased need for supply chain resilience and continuous constrained supply/vacancy metrics, driving strong rental growth.

Macroeconomic landscape

Australia benefits from a relatively strong, resilient economy when compared on the world stage. According to the International Monetary Fund, Australia has the twelfth largest economy in the world, the ninth highest GDP per capita and is the third highest GDP among the world's largest 20 economies[1].

Our strong economy is supported by a growing population, which is anticipated to increase a further 14% by 2030, one of the highest forecasts among developed nations[2]. Research by CBRE estimates that the industrial space requirement for every incremental person is 3sqm. This estimates that population forecast alone is anticipated to drive demand for an additional 2.75 million square metres of industrial space across the nation[2].

While the interest rate environment has evolved and inflation has grown over the course of 2022, industrial property remains a resilient asset class within real estate, providing a natural inflationary hedge through rising rents from continued growth in demands for industrial space from a wide range of users.

1. IMF, World Economic Outlook Update, April 2022
2. CBRE Research: Why Invest in Australian Real Estate - October 2022

eCommerce: from shops to sheds

Since the onset of the COVID-19 pandemic, eCommerce adoption by consumers has accelerated, shifting traditional spending behaviours and habits to online.

Australia experienced a

73% increase in eCommerce between 2020 and 2021[1].

13% of all retail expenditure is now transacted online

up from 9.4% in 2019[2].

More specifically, Australian households continued to transact online

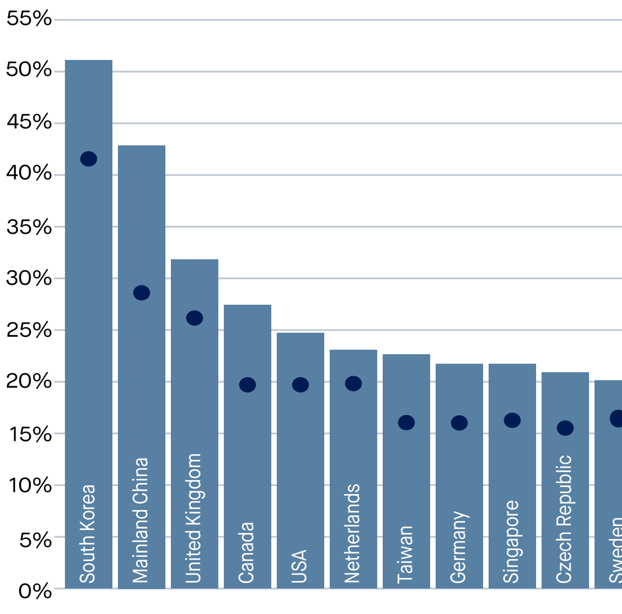
35% more than in January 2020[1].

Looking abroad to more mature eRetailing markets in the UK, Europe and USA, we could expect to see further growth across our domestic market in the short to medium term.

According to Colliers, across 2022, the retail sector accounted for

34% of leasing demand[3].

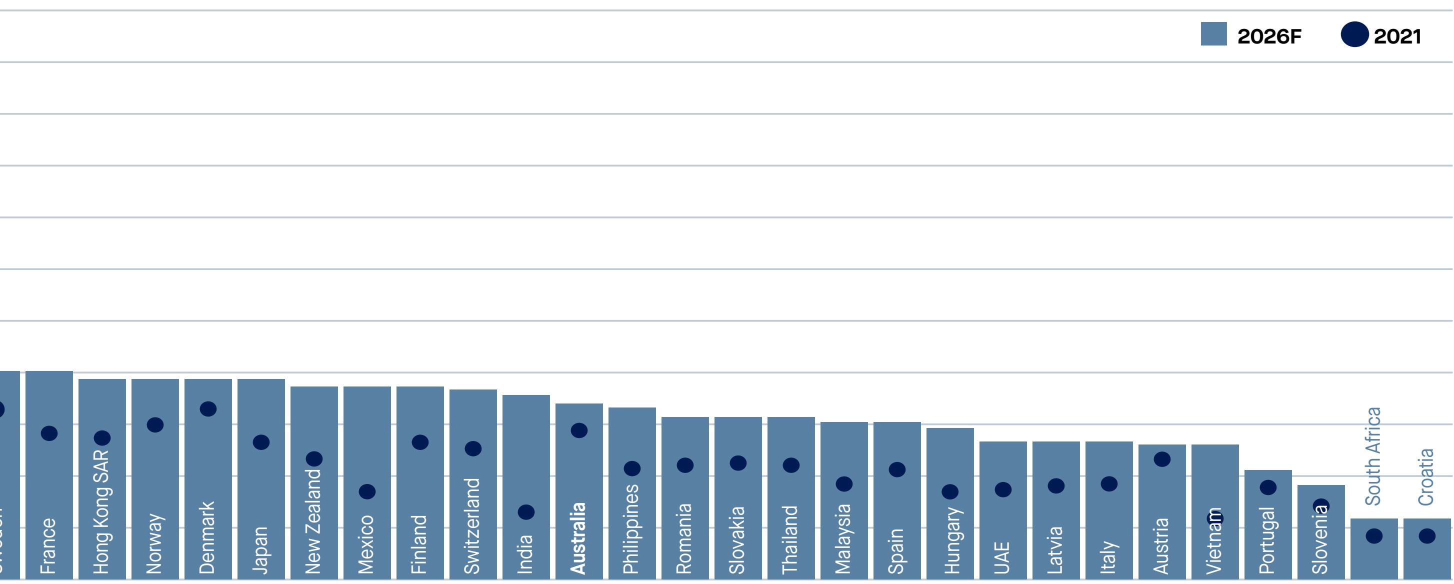
Internet sales as a % of total retail sales, 2021



1. CBRE Research: Australia's E-Commerce Trend and Trajectory – September 2022
2. NAB Online Retail Sales Index: January 2023
3. Colliers Research – Australian Industrial and Logistics Snapshot - Q4 2022


AUSTRALIA POST, 6 MACDONALD ROAD, INGLEBURN NSW

vs 2026F



Building supply chain resilience

As global supply chains came to a complete halt at the height of the pandemic, businesses were faced with the lack of product and shortages across many inventory lines. These significant disruptions highlighted the need for most businesses to reassess their 'Just in time' inventory management model.

Many businesses moved to a 'Just in case' inventory model, building resilience and a level of redundancy within their supply chains. This trend has further accelerated demand for last mile, infill locations that are in close proximity to densely populated areas.

Not only do last mile industrial locations ensure quicker delivery timescales but, with rising fuel costs, less fuel consumption is a growing consideration for operators. Overall this has created a need for more industrial space to store, assemble and distribute goods to a large population base within a short drive time.

Rental growth

Reduced national industrial real estate vacancy rate is now 0.6%[1]. Australia has one of the lowest industrial vacancy rates in the world and with limited medium term supply, the industrial property market is experiencing significant market rental growth. Despite the significant increase in rent during 2022, Australian industrial rents remain more affordable in comparison to global cities.

Record low national industrial vacancy, coupled with limited supply of industrial space, continues to create a divergence between supply and demand resulting in accelerated industrial market rental growth across the country.

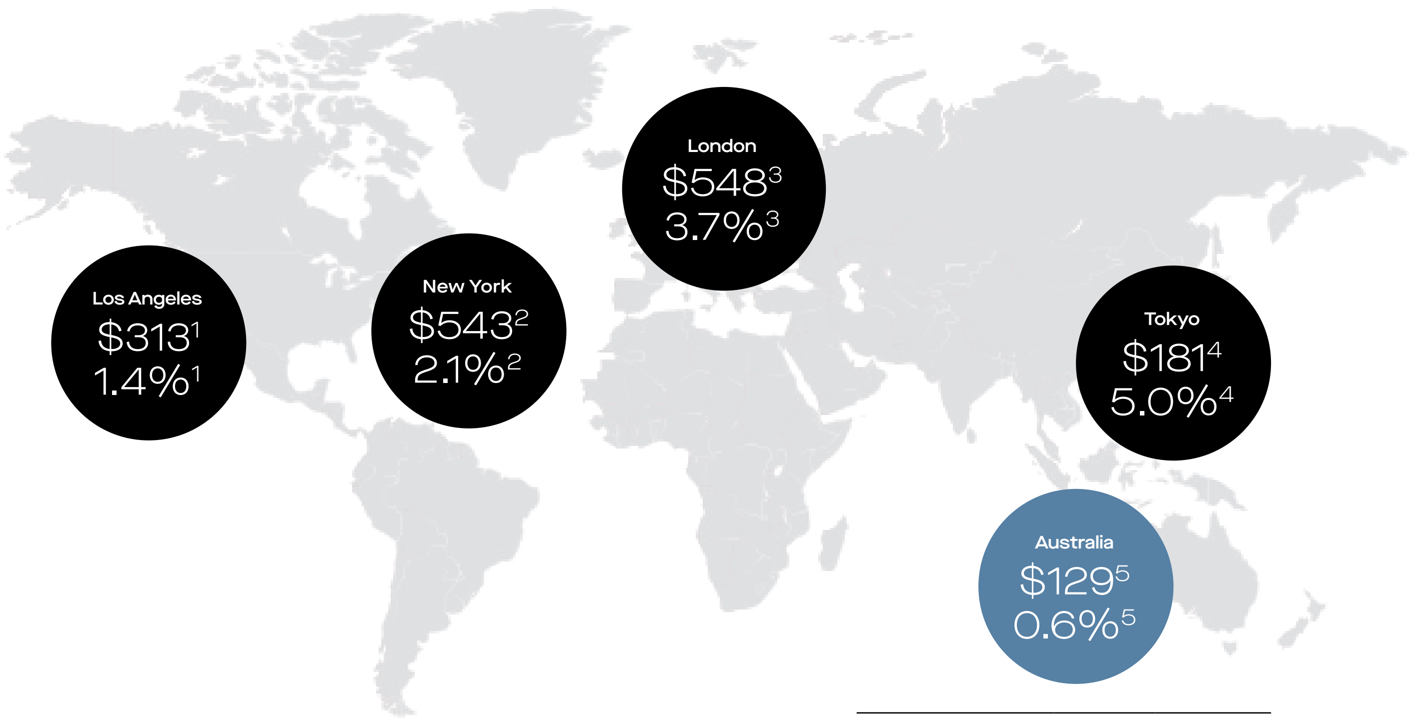
Gross industrial take up throughout 2022 totalled 4.9 million square metres and is expected to remain strong throughout 2023 with an anticipated take up of 3.2 million square metres[2]. Compounding demand was a supply of only 2.1 million square metres in 2022 with a forecast 3.1 million square metres of availability forecast for 2023[3].

Typically, supply of new space brings the supply/demand equation back into balance. However, with labour shortages, supply chain disruption and limited industrial zoned land, demand continues to outstrip supply. Additionally, substantial increases in both industrial land prices and construction costs puts upward pressure on economic rents. This backdrop creates an environment for prolonged rental growth, particularly within urban infill markets.

Consequently, prime industrial rents increased across the nation with Sydney and Melbourne recording average annual rent increases of 25% and 20% respectively in 2022 and Perth recording 23% over the same period[4].

1. Source: Colliers Research – Australian Industrial and Logistics Snapshot - Q4 2022
2. Colliers Research: Outlook for Australian Warehouse Demand – Q3 2022
3. Source: CBRE Research – Industrial and Logistics Update - Q3 2022
4. Source: JLL Research – National Industrial Summary - Q4 2022

Avg. global rents (AU$ equivalent/per square metre) and vacancy rates (%)



SYDNEY[5]	$162	0.2%
MELBOURNE[5]	$106	0.6%
BRISBANE[5]	$117	0.8%
ADELAIDE[5]	$101	1.3%
PERTH[5]	$107	0.7%

1. Source: JLL – Q4 2022 – Los Angeles sub market
2. Source: JLL – Q4 2022 – New York Outer Boroughs sub market
3. Source: Knight Frank – October 2022 –London and South East sub market
4. Source: JLL – Q3 2022 – Tokyo sub market
5. Source: Colliers Research – Q4 2022

Sustainability

Within recent years, the industrial real estate sector has matured with more sophisticated developments and a concerted focused on sustainable designs and features as operators and landlords alike seek to reduce their carbon footprint to meet Environmental, Social and Governance (ESG) targets and mandates.

In 2022, the National Australian Built Environment Rating System (NABERS) piloted a programme to evaluate a warehouse and cold storage rating criteria for the industrial real estate asset class. A five star rating system has since been introduced to the market.

2 WOOLWORTHS WAY, WARNERVALE NSW

For newly developed properties, the Green Council of Australia provides a robust Green Star rating system. The highest score being six stars. Green Star – Design & As Built sustainability assessment incorporates nine categories:

1. Management

Practices and processes that support best practice sustainability outcomes throughout the different phases of a project's design, construction and ongoing operation.

2. Indoor environment quality

Enhance the comfort and wellbeing of occupants especially regarding air quality, thermal comfort and acoustic comfort.

3. Energy

Reduce overall greenhouse emissions especially by using efficiency generated from alternative sources.

4. Transport

Reduce dependency on private car use.

5. Water

Reduce the consumption of potable water e.g. use water efficient fixtures and water reuse.

6. Materials

Encourage the selection of low impact materials.

7. Land use and ecology

Minimise harm and enhance the quality of local ecology.

8. Emissions

Reduce environmental impacts/pollution generated by projects with regard to the atmosphere, watercourses and native animals.

9. Innovation

Practices, processes and strategies that promote sustainability in the built environment.

CASE STUDY: Bundamba, Qld

In mid 2020, Centuria began development of a 10,244sqm industrial facility located in Bundamba, Qld, which was one of Australia's first five star Green Star – Design & As Built Certified industrial buildings under the Green Building Council Australia's (GBCA) new rating guidelines v1.3. Sustainable features include:

- a 99kw solar panel system
- a recycled watering system and rainwater harvesting
- drought resistant landscape
- a new concrete system using steel fibres within the concrete which excludes the requirement for steel reinforcement, recycles existing material, and therefore minimises material usage and wastage and therefore reduces the overall embodied carbon of the building.

The sustainable development is fully occupied by Australia Post and Jaycar Electronics Group. Since opening, the development has won both Regional and State Awards for *Excellence in Energy Efficiency and Environmental Management* from the Master Builders Queensland.

42 HOEPNER ROAD, BUNDAMBA QLD

Distribution centres

With shipping and airfreight restrictions caused by the pandemic, the need to stockpile goods and products has become more critical.

The disruption has forced the industry to change from 'just in time' to 'just in case' models, which means operators need more space to house their stock, ready to deploy in a timely manner. This is not only to mitigate supply chain challenges that may arise but to provide goods on hand for the speedy delivery that consumers have come to expect.

CASE STUDY: Amazon, Bella Vista, NSW

In March 2021, Centuria acquired 8 Lexington Drive, in an off market transaction. At the time of acquisition, the property provided a short 0.5 year lease, which enabled Centuria to implement a targeted leasing campaign to leverage the asset's position within a tightly held, highly desirable urban infill Sydney industrial market.

The property lends itself to the 'last mile' logistics market, providing access to 1.2 million households within a 60 minute drive and 358,000 households within a 30 minute drive[1]. Within seven months, global eCommerce brand Amazon was secured on a 10 year lease. In addition to the long lease, Centuria implemented refurbishments to the warehouse to suit Amazon's needs, increasing the value of the property.

1. Source: SA1 analytics

2-8 LEXINGTON DRIVE, BELLA VISTA NSW


Delivering to you
7 days a week
Delivering to you
Delivering
7 days a we
Delivering
7 days a we

Transport and logistics

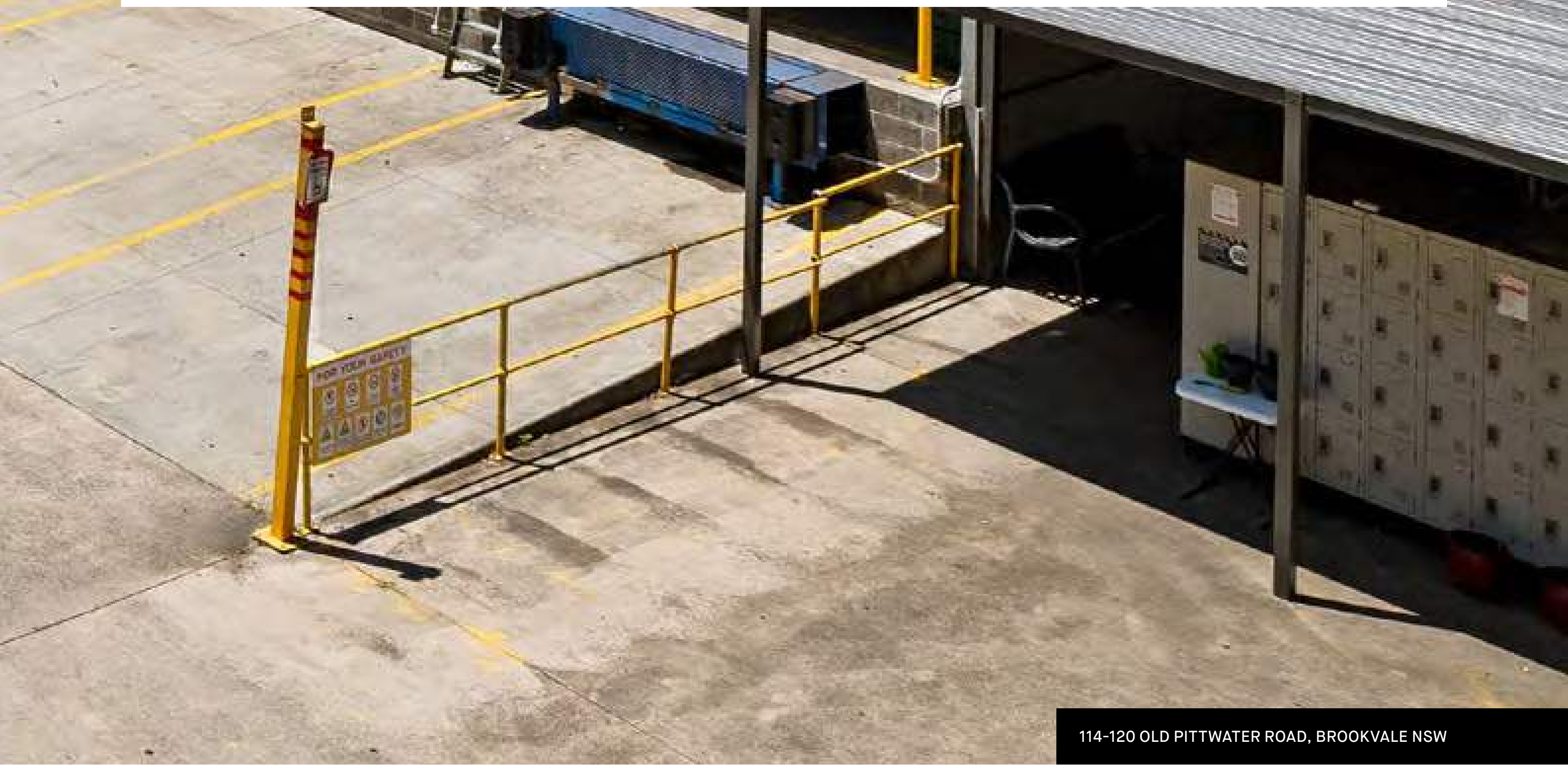
With a larger dependence on eCommerce and focus on onshoring supply chains, transport and logistics has been bolstered, particularly across food, medical supplies and consumer goods. The distribution of goods to date was largely focused on B2B commerce but the rise of eRetailing is creating a rapidly increasing B2C market with operators such as Australia Post and Woolworths expanding their operations.

CBRE Research shows a very strong correlation between industrial space take up and the increase in the percentage of online sales. Online penetration in Australia accounts for c.14% of total retail sales[1]. For every additional $1 billion spent online, there is a correlating c.70,000sqm of industrial space requirement[3].

CASE STUDY:
Woolworths' dark store, Brookvale, NSW

In 2018, Woolworths leased c.6,200sqm at a multi-tenanted Centuria industrial facility in Brookvale, to service the growing needs of its online grocery order business. This 'dark store' facilitates the distribution of its online orders throughout Sydney's northern beaches. Known as a customer fulfillment centre the unit includes a large cold storage area for perishables, onsite baker and dry store area that's laid out like a supersized full line supermarket with wider aisles and more shelf space so workers can hand pick products that customers order online. The facility is complete with c.15 loading docks to transport the ordered goods to their recipients as well as recess docks to replenish the facility with new goods. The online grocery sector continues to expand year on year and this growth accelerated throughout the pandemic. During the second half of FY22, Woolworths grew eCommerce sales by 33.6%[2] and throughout the full financial year 2022, it grew its weekly Woolworths App users by 53%[1].

1. Woolworths Group Full Year Results 2022 Presentation, published 25 August 2022.
2. CBRE Research: Australia's E-Commerce Trend and Trajectory – September 2022
3. Woolworths Group 2022 Full Year Results ASX Announcement, published 25 August 2022.



114-120 OLD PITTWATER ROAD, BROOKVALE NSW

Production and assembly

Industrial real estate demand from manufacturing operators increased from 8% of total leasing activity in 2021 to 14% as at the third quarter of 2022[1]. While traditional notions of manufacturing conjure images of steel work warehouse, today manufacturing is growing particularly within the Research and Development sector, packaging (required for goods bought online) and food manufacturing

Australia's food manufacturing sector remains robust with data from the Australian Bureau od Statistics showing food retail vs total retail has increased in the past 39 years. In 1984, food retail accounted for c.33% of the sector and this increased to c.40% in January 2023.

1. Colliers Research: Outlook for Australian Warehouse Demand – Q3 2022

CASE STUDY: Arnott's, Virginia, Qld

Iconic Australian biscuit brand, Arnott's, is illustrative of the domestic food manufacturing industry. The Arnott's Group portfolio of brands include Tim Tams, Campbell's Soup, Shapes, V8 and Scotch Finger. The Virginia (Brisbane) asset was constructed in c.1988 and is responsible for producing numerous biscuit varieties. The infrastructure within the building is considered 'mission critical' and core to Arnott's ongoing operations. The factory produces 7,000kg of Shapes biscuits each hour and utilises cutting edge robotic technology to package and ship the biscuits across the nation and internationally. The asset was acquired on a 30 year sale and leaseback.

Cold storage

To support growing consumer ecommerce demand, retailers have increased their online presence especially those within the non discretionary sector such as grocery stores and pharmaceutical providers. This has led to a strong demand in the cold storage industrial subsector to cater for perishable goods logistics.

Online grocery sales are anticipated to continue to increase in the coming years, particular driven by consumer shifts towards more fresh food. In 2021, approximately 20% of all online retail was attributed to grocery spend, with the lion's share from Woolworths, Coles and Hello Fresh.

In recent years, there has been increased demand for refrigerated distribution centres, especially throughout the pandemic impacted period, as online grocery shopping increased. Additionally, there has been rising demand from both food and pharmaceutical related users requiring climate controlled facilities. This is creating an environment where tenant demand is outstripping supply.

CASE STUDY: Ormeau, Qld

The modern 9,500sqm cold storage warehouse in Ormeau, was built in 2015 and is fully leased to Markwell Cold Storage, a subsidiary of Competitive Foods Australia – one of the largest privately owned companies in the Australasian food sector. They are a well known handler of imported foods, quarantine foods, export foods and Halal meat with household name customers including Coles, Woolworths and Bulla Dairy Foods. The high specification property includes high bay cold storage warehousing with ability to operate the main chamber at -22 degrees Celsius and smaller blast chamber at -28 degrees Celsius. The asset was acquired in October 2020.

46 ROBINSON ROAD, EAST VIRGINIA QLD

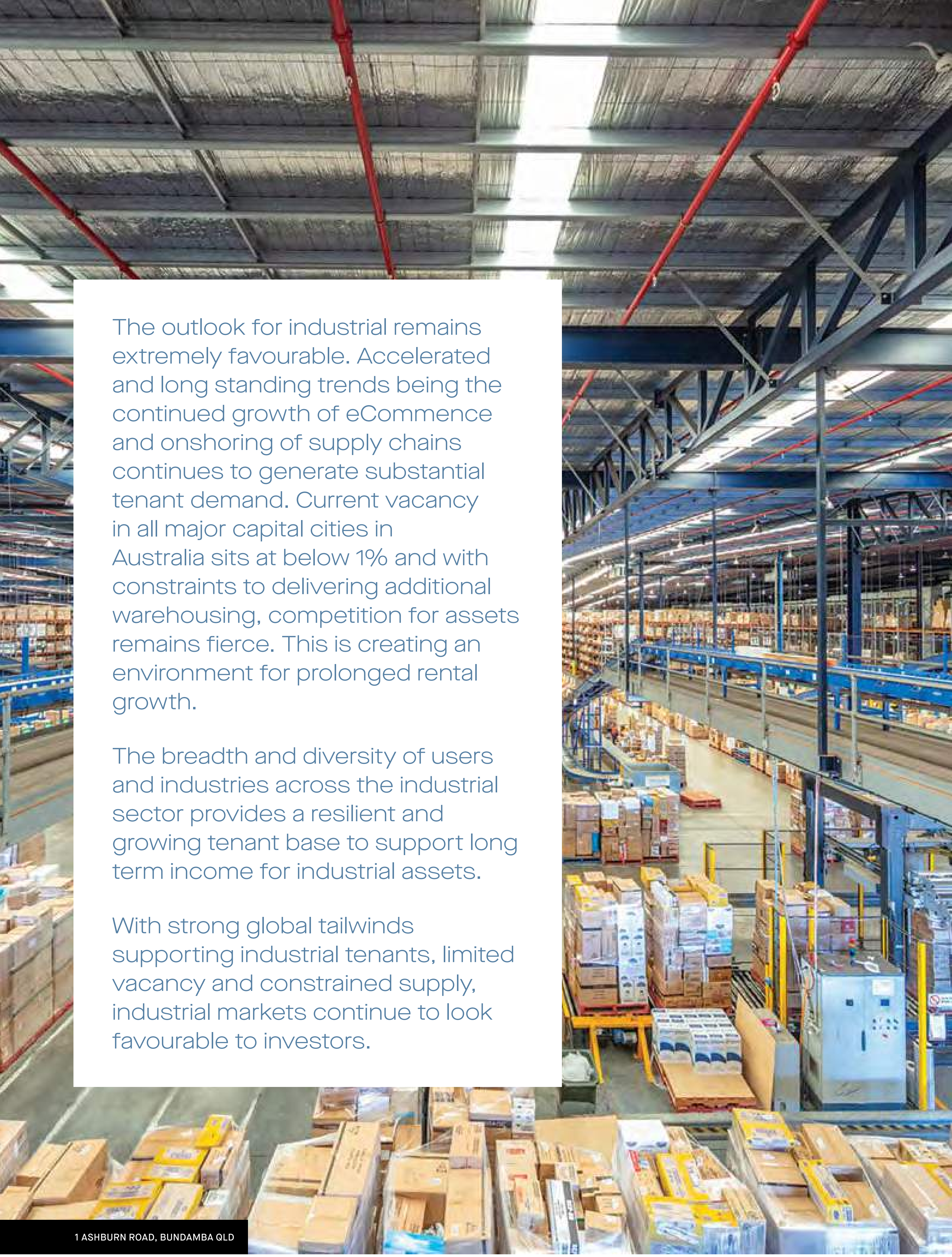
TELSTRA DATA CENTRE, CLAYTON VIC

Data centres

Data centres are a growing industrial real estate subsector. More data than ever is consumed and demand for fast and reliable resources is increasing. This includes data connection for those who work from home, those streaming entertainment services or shopping online, in addition to work based systems changing from paper based to online. Storage of this cloud-based hardware is found within specialist, high security warehouses.

CASE STUDY: Telstra Data Centre, Clayton, Vic

In August 2020, CIP acquired the Telstra Data Centre in Clayton. The transaction was secured on a 30 year sale and leaseback, triple net lease. The asset plays a core role in Telstra's data centre strategy and provides capacity requirements as part of Telstra's infrastructure network. Telstra is an ASX20 company with an A-/A2 credit rating.



The outlook for industrial remains extremely favourable. Accelerated and long standing trends being the continued growth of eCommence and onshoring of supply chains continues to generate substantial tenant demand. Current vacancy in all major capital cities in Australia sits at below 1% and with constraints to delivering additional warehousing, competition for assets remains fierce. This is creating an environment for prolonged rental growth.

The breadth and diversity of users and industries across the industrial sector provides a resilient and growing tenant base to support long term income for industrial assets.

With strong global tailwinds supporting industrial tenants, limited vacancy and constrained supply, industrial markets continue to look favourable to investors.

1 ASHBURN ROAD, BUNDAMBA QLD

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