MARKETBEAT
ADELAIDE
LOGISTICS & INDUSTRIAL Q3 2024

CUSHMAN & WAKEFIELD

MARKET FUNDAMENTALS

	Q3 2024	12-Month Forecast
2.2% Vacancy Rate	▲	—
6.56% Average Prime Yield	▲	▼
1.4% Prime QoQ Rental Growth	▲	▲

ECONOMIC INDICATORS

	YoY Chg	12-Month Forecast
1.0% (National) GDP Growth	▼	▼
1.5% (South Australia) State Final Demand Growth	▲	▼
4.2% (National) Unemployment Rate	▲	▲

Source: ABS

ECONOMIC OVERVIEW

The second-quarter GDP release was a key highlight among recent economic updates. It showed real growth slowing, with GDP increasing by 1.0% in the year to June 2024 (0.6% for the June quarter). Adjusted for population growth, however, per capita GDP declined by 1.5%, indicating weaker economic output per person. This highlights the economy's growing reliance on population growth, as net overseas migration surged to over 70,000 in Q2, contributing significantly to overall economic activity and helping offset productivity challenges.

Forecasts for South Australian gross state product remain modest for 2024, forecast to increase 1.7% over 2024, before recovering to grow 2.9% in 2025.

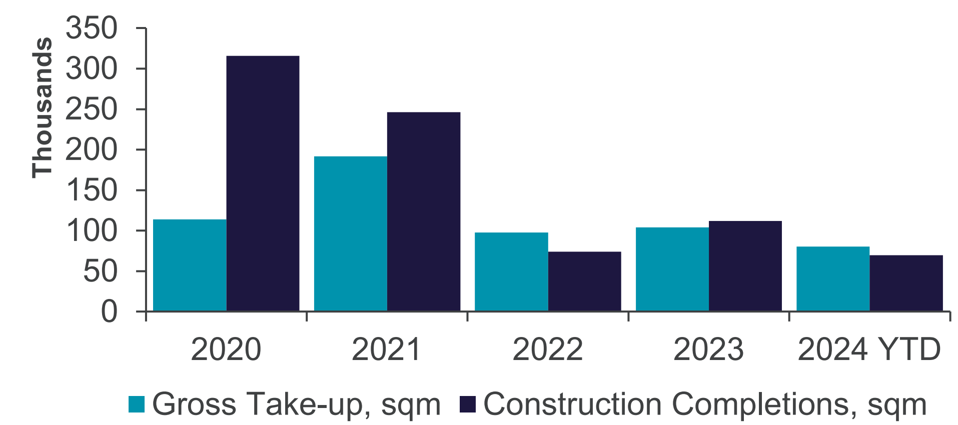
DEMAND

Gross take-up across Adelaide recorded a large increase in Q3 2024, with almost 60,000 sqm leased across nine transactions (deals above 3,000 sqm), representing the largest quarterly total since early 2021. By comparison, long-term quarterly take-up in Adelaide averages 28,350 sqm.

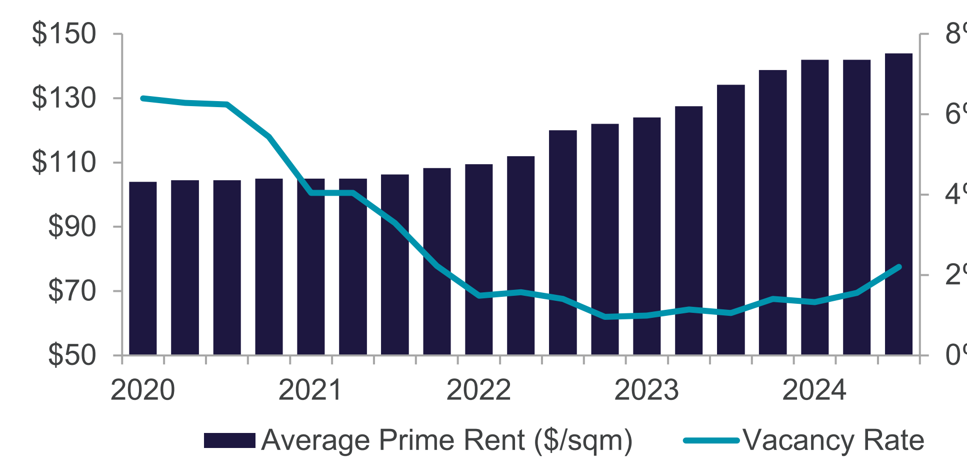
The elevated level of leasing activity was dominated by the Inner North submarket, which accounted for 62% of deals by floorspace. Notably, this includes the leasing of 13,183 sqm at Fife's Wingfield Logistics Park and includes 3,500 sqm to Dutt Transport. Other facilities to have been leased include 520 Churchill Road, Kilburn (~13,000 sqm), while GPC Asia Pacific has taken space within the Charles Sturt Industrial Estate.

The sub-3,000 sqm size bracket remains the most liquid part of the Adelaide market, and several deals have been done in this size range over the quarter. More broadly, demand remains dominated by the transport and logistics and manufacturing sectors, while there is a steady flow of enquiry occurring from the defence sector.

SPACE DEMAND / DELIVIERIES



VACANCY & AVERAGE PRIME RENTS



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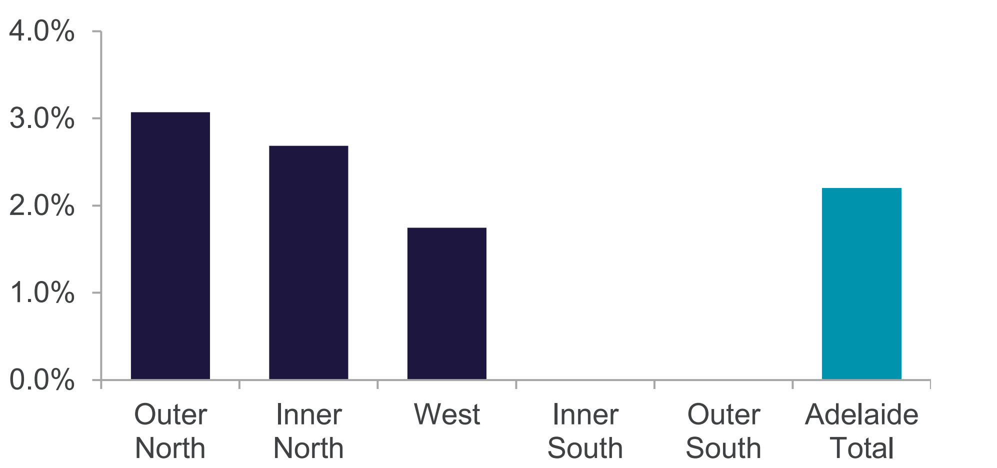
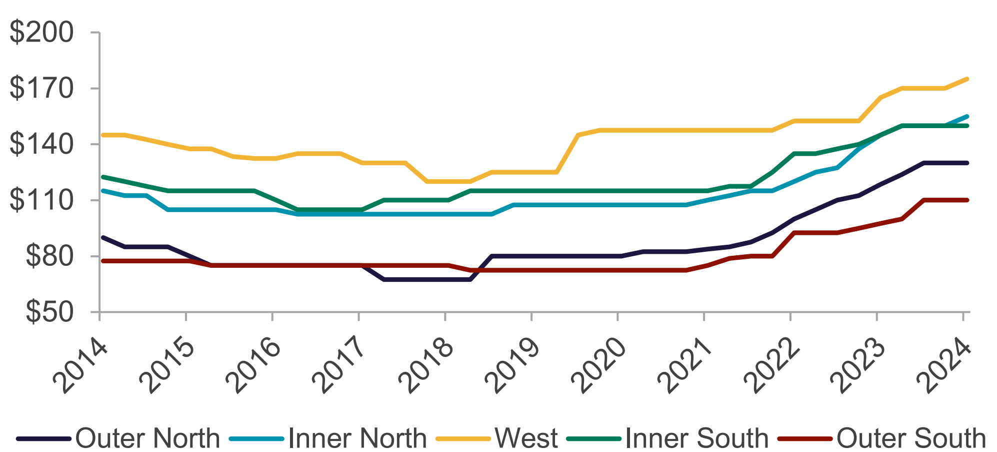
Q3 2024

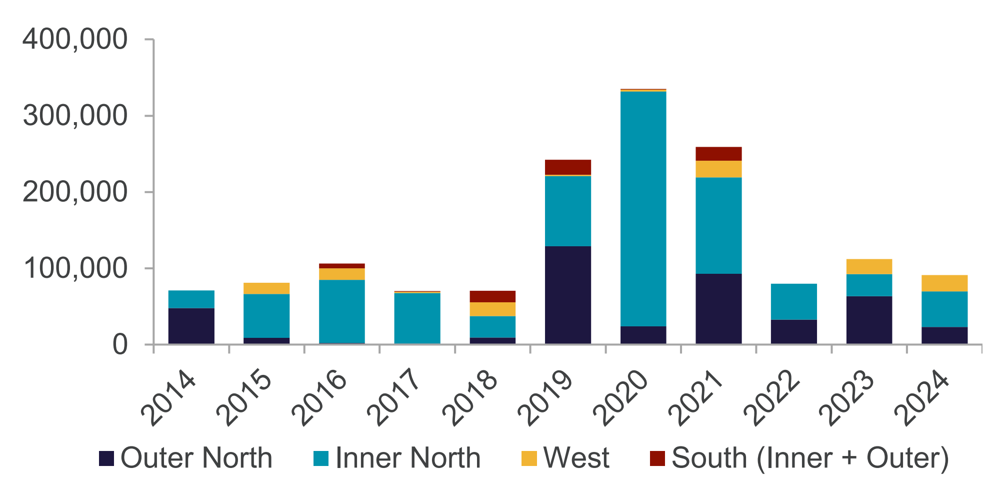
Q3 2024 VACANCY RATES BY SUBMARKET



PRIME NET FACE RENTS BY SUBMARKET ($/SQM)



SUPPLY BY SUBMARKET (SQM)



VACANCY

Adelaide's vacancy rate remains low at 2.2%, recording a moderate uptick from where it sat in the quarter prior (1.6%). Notably, this level of vacancy remains well below the long-term average of 5.8%.

The Inner North represents 62% of vacancy by floorspace; however, the vacancy rate remains low at 2.7%. Speculative additions account for just 15% of the overall vacancy and demonstrates the strong appetite for new facilities as occupiers seek to achieve efficiencies and ESG initiatives.

RENTS & INCENTIVES

Prime rents in Adelaide this quarter have increased by 1.4% and are currently averaging $144/sqm net face. On an annual basis, average prime rents are 7.3% higher than 12 months ago. The quarterly increase stems from rent rises in both the Inner North and West markets due to recent deal activity and the sustained appeal of these areas to occupiers.

While still strong, this level of growth is a step down from the double-digit rental growth recorded in recent years and reflects the normalisation of demand (despite Q3 2024 recording strong take-up).

Rental growth remains strong in the secondary market, with growth of 1.6% recorded in Q3 2024 (11.5% year-on-year), taking average rents to $97/sqm net face.

Incentives saw a modest increase to 5.9% and are substantially lower than the East Coast capital cities, stemming from a higher share of private ownership who don't tend to offer as much incentive.

SUPPLY

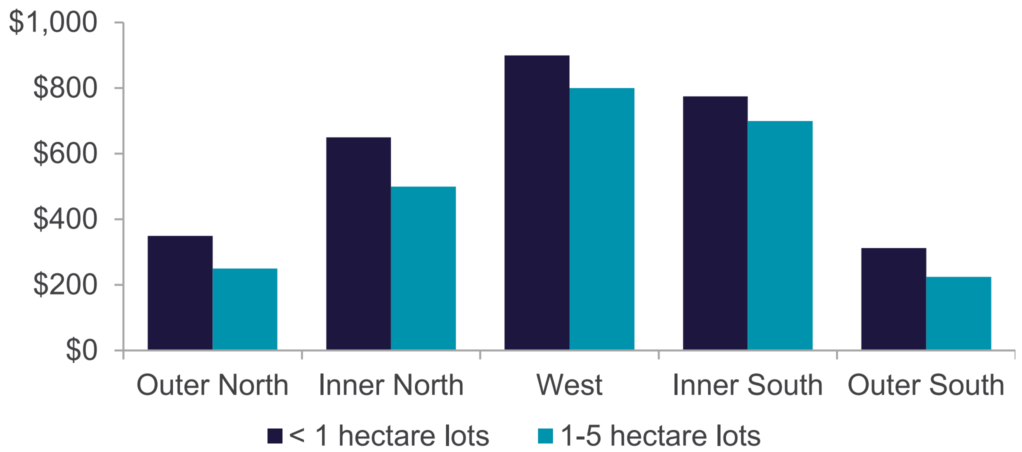
Warehouse supply in Q3 2024 was underpinned by over 13,000 sqm of space completed in the Outer North submarket. Notably, this included 47-53 Woomera Avenue, Edinburgh (~10,300 sqm), while Warehouse O at the Port Adelaide Distribution Centre (~7,620 sqm) completed within the Inner North submarket. For the remainder of 2024, 21,578 sqm is expected to be added to the market, taking the total supply for 2024 to 91,000 sqm, well below the 10-year average of 135,000 sqm.

At this stage, approximately 170,000 sqm could come online in 2025, however, the timing of a lot of this space remains subject to pre-commitments being secured. Projects in the pipeline for 2025 include Noumed's new facility at Salisbury South (~26,000 sqm), while immediately adjacent is the Haigh's Chocolate Manufacturing Facility (~15,000 sqm), both of which are expected to be completed in the second half of 2025.

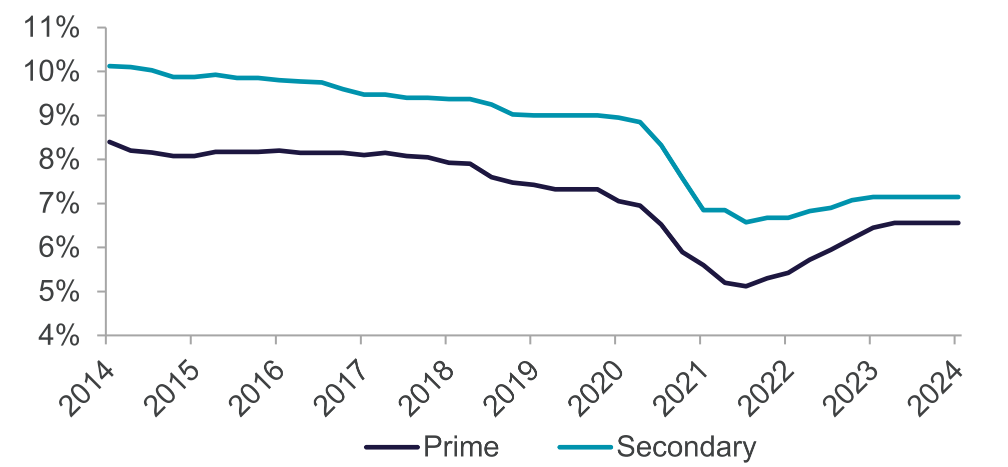
OUTLOOK

- Over the short term, leasing demand is expected to remain patchy, particularly at the larger end, as broader economic uncertainty weighs on occupier decision-making. However, a pick-up in real economic growth in 2025 will support a pick-up in consumer consumption and drive more elevated levels of take-up. Modest levels of supply will continue to cap take-up volumes.
- Adelaide remains on track to record prime rental growth in the order of ~5.0% for 2024. With the sweet spot for demand being for facilities under 5,000 sqm, this segment of the market is anticipated to continue to outperform, led by enquiry from local population-driven industries.
- A lack of new supply will ensure Adelaide's vacancy rate remains well under historical benchmarks. As per current trends, secondary vacancies will remain higher as occupiers seek prime facilities.

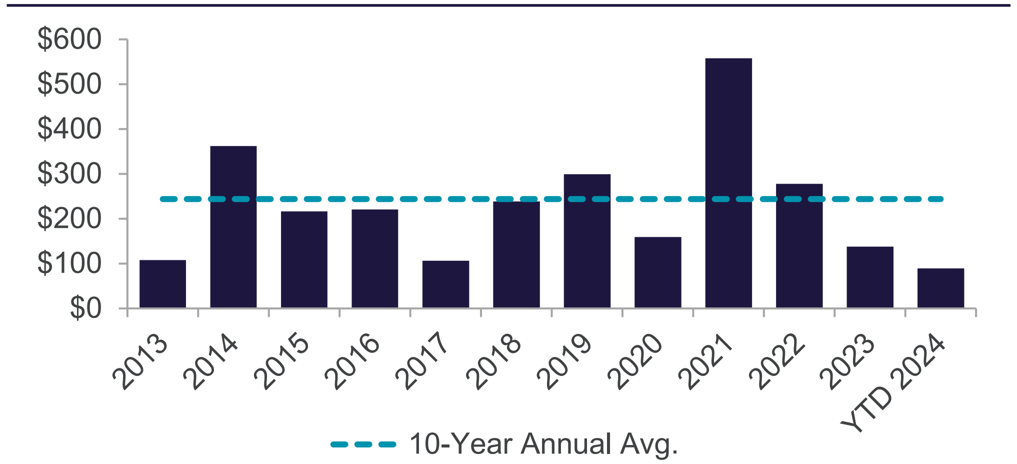
Q3 2024 LAND VALUES BY SIZE BRACKET ($/SQM)



YIELDS BY GRADE



ADELAIDE INVESTMENT VOLUMES ($M)



LAND VALUES

Despite elevated construction costs, land values have continued to grow in Adelaide, underpinned by increased owner-occupier demand, which has offset weaker demand from developers. In Q3 2024, 1-5 hectare land values grew by 2.1%, moderately above lots sized below 10,000 sqm at 1.7%.

At present, average land values sit at $598/sqm for lots below 10,000 sqm and $495/sqm for 1-5 hectare lots; however, this can range greatly by submarket. The highest land values are found in the West submarket at $800/sqm for 1-5 hectare lots, whereas the Outer North remains substantially lower at $250/sqm for the same size.

YIELDS

Yields remain unchanged in Q3 2024, reflecting the third straight quarter of stabilisation. Prime yields currently range between 6.25% to 6.75%, while secondary yields range between 6.75% to 7.25%.

INVESTMENT

Transaction activity for deals above $10 million in Q3 2024 was subdued with just one asset trading, and follows $65.7 million acquired in Q2 2024, taking the year-to-date 2024 total to $89.3 million. The sale to occur in the quarter was 27-45 Port Road, Thebarton, which traded for $23.6 million. Providing ~10,958 sqm of GLA, the sale reflected $2,156/sqm.

The activity below $10 million remains active, driven by local investors and owner-occupiers.

OUTLOOK

- Continued upward pressure on land values is expected as Adelaide remains a highly land constrained market.
- Over the short term, potential rate cuts and moderating bond yields highlight the value upside for capital markets. In our view, the L&I yield decompression cycle has ended and follows approximately 140 basis points of yield expansion in Adelaide since early 2022.
- Our base case is for the RBA to begin the rate easing cycle in H1 2025, which, in tandem with falling government bond yields (~3.50% 10-year yield by Q4 2025) and greater market participation, is forecast to drive yield compression from mid to late 2025.
- Improved investor sentiment is expected to result in a pick-up in investment activity in 2025, supported by favourable sector fundamentals and the ability to drive asset performance through continued income growth.

Q3 2024 ADELAIDE MARKET STATISTICS

SUBMARKET	VACANCY RATE (TOTAL MARKET)	TAKE-UP (TOTAL MARKET SQM)	AVERAGE NET FACE RENT ($/SQM P.A.)	AVERAGE OUTGOINGS ($/SQM P.A.)	AVERAGE INCENTIVES	AVERAGE YIELDS	AVERAGE CAPITAL VALUES ($/SQM P.A.)	AVERAGE LAND VALUES (1-5ha, $/SQM P.A.)
PRIME								
Outer North	3.1%	10,570	$130	$20	6.0%	6.6%	$1,962	$250
Inner North	2.7%	35,384	$155	$25	5.0%	6.3%	$2,451	$500
West	1.7%	12,020	$175	$35	5.0%	6.3%	$2,767	$800
Inner South	0.0%	0	$150	$25	5.0%	6.5%	$2,308	$700
Outer South	0.0%	0	$110	$23	8.5%	7.0%	$1,571	$225
PRIME AVERAGE	**2.2%**	**57,974**	**$144**	**$26**	**5.9%**	**6.6%**	**$2,212**	**$495**
SECONDARY								
Outer North	-	-	$80	$20	5.0%	7.5%	$1,067	-
Inner North	-	-	$105	$25	5.0%	6.9%	$1,527	-
West	-	-	$115	$30	5.0%	6.9%	$1,673	-
Inner South	-	-	$105	$20	5.0%	7.0%	$1,500	-
Outer South	-	-	$80	$18	5.0%	7.5%	$1,067	-
SECONDARY AVERAGE	**-**	**-**	**$97**	**$23**	**5.0%**	**7.2%**	**$1,367**	**-**

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