MARKETBEAT
# PERTH
## LOGISTICS & INDUSTRIAL Q4 2024

### MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **2.7%** Vacancy Rate | ▲ | ▬ |
| **6.50%** Average Prime Yield | ▬ | ▼ |
| **0.0%** Prime QoQ Rental Growth | ▲ | ▲ |

### ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **0.8%** National GDP Growth | ▼ | ▼ |
| **2.5%** State Final Demand Growth | ▲ | ▲ |
| **3.9%** National Unemployment Rate | ▲ | ▲ |

*Source: ABS*

### ECONOMIC OVERVIEW

Real GDP growth released for Q3 2024 is at 0.3%, taking the year-on-year growth rate to 0.8% as cost-of-living pressures continue to impact consumer consumption levels. As a result, the RBA has held the cash rate at 4.35% throughout 2024 to ease heightened underlying inflation. Net overseas migration has reached historic highs through mid-year, helping offset productivity challenges by stimulating economic activity.

Forecasts for Western Australia's gross state product remained modest through 2024, showing a 1.4% annual increase. However, the future outlook remains very strong, forecasted to significantly increase by 4.0% through 2025 and 3.7% through 2026.

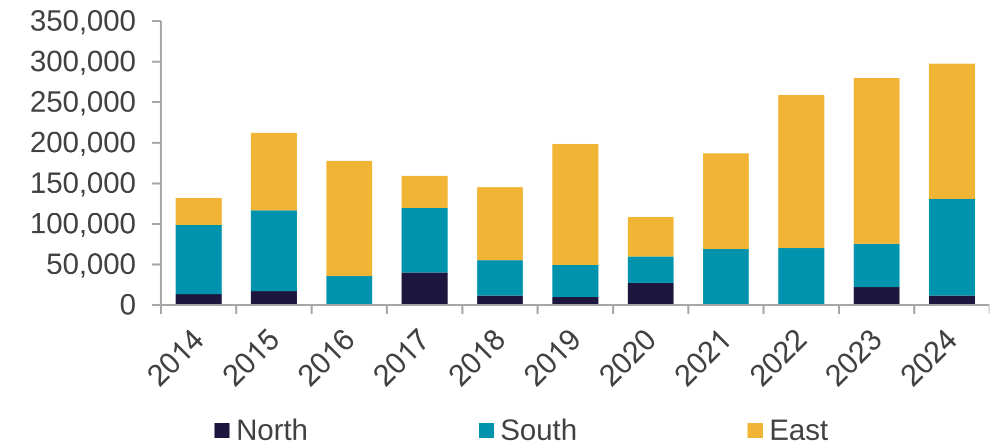
### DEMAND

Perth continued to record above-average take-up levels with over 120,000 sqm leased during Q4 2024 for deals above 3,000 sqm (excluding renewals). On an annual basis, gross take-up reached its highest level since 2013 with almost 300,000 sqm leased. For context, gross take-up has averaged closer to 200,000 sqm per annum over the past decade.

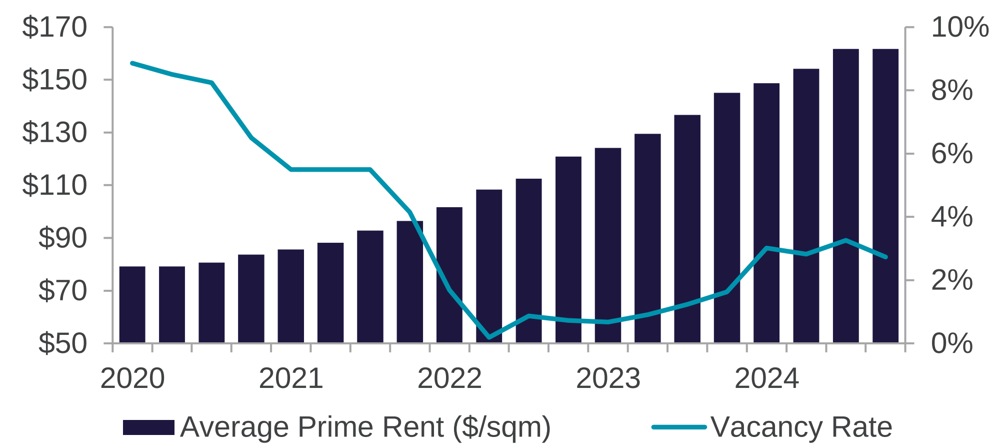
The East submarket remained the most active, accounting for almost 60% of take-up in 2024. Alternatively, minimal supply additions in the North submarket have continued to restrict take-up volumes. Major deals over the past quarter include CEVA Logistics leasing over 37,000 sqm at Hazelmere, while Nutrien Ag Solutions leased 24,750 sqm at the Alumina Industrial Park in East Rockingham.

Despite these larger deals, the 3,000 – 10,000 sqm size bracket remains the sweet spot for demand, representing almost 70% of deals by number over the past quarter. The 10,000 sqm + segment is showing signs of improvement, led by a pick-up in enquiry from the transport and logistics sector; however, it remains patchy, reflecting more national-based occupiers taking a more cautious approach.

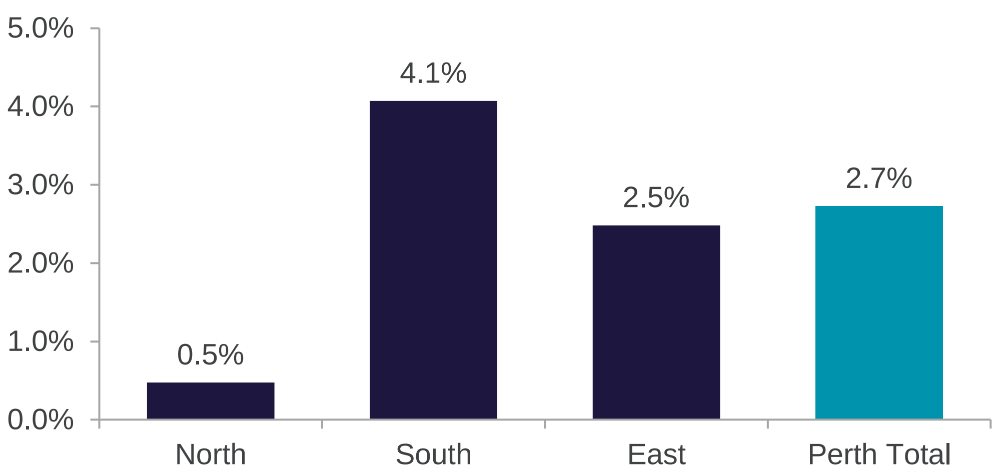
### GROSS TAKE-UP (SQM)



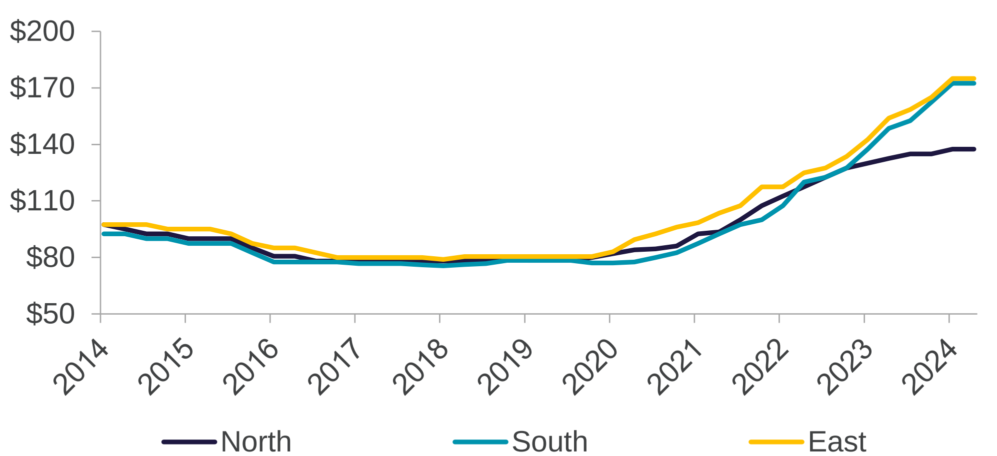

### VACANCY & AVERAGE PRIME RENTS



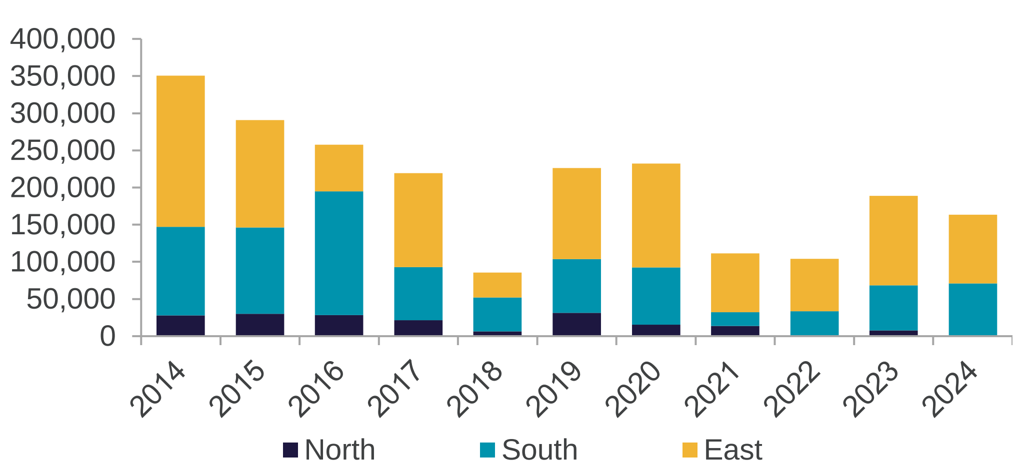
### Q4 2024 VACANCY RATES BY SUBMARKET




### PRIME NET FACE RENTS BY SUBMARKET ($/SQM)




### SUPPLY BY SUBMARKET (SQM)




## VACANCY

Perth's L&I vacancy rate saw a decrease to 2.7% in Q4 2024, down from 3.3% in the quarter prior. Similar to previous trends, the bulk of vacancies exist at the larger end of the market, with 62% of GLA being for buildings above 10,000 sqm. The vacancy rate in the sub 10,000 sqm size bracket is substantially tighter at just 1.7%.

Given speculative stock additions, the South submarket accounts for over half of Perth's vacant stock, while the North is the tightest, with a vacancy rate of just 0.5%.

## RENTS & INCENTIVES

Despite the vacancy rate decreasing, Perth rents across both prime and secondary grades held steady in Q4 2024, albeit it follows sharp growth recorded earlier in 2024. On an annual basis, prime rents increased by 11.5%, led by the East and South submarkets off the back of recent deal evidence where rents in excess of $200/sqm net have been recorded.

By size, rental growth for small to medium-sized facilities (sub 6,000 sqm) is outperforming, owing to the limited availability and limited supply within this size range, particularly in core precincts.

Incentive levels continued their upward trajectory in Q4 2024 and currently range between 7.5% to 17.5% across both prime and secondary assets.

## SUPPLY

Warehouse completions in Perth this quarter totalled almost 30,000 sqm, underpinned by two facilities from Fife Capital in Canning Vale. On an annual basis, there was over 160,000 sqm of stock added to the market in 2024, the majority of which was speculative.

Looking to 2025, the supply pipeline is expected to moderate, with the potential for almost 130,000 sqm to come online at this stage. Already, 72% of this pipeline is committed, and as a result, the same impacts on vacancy as what was recorded in 2024 are not expected. Further, there are several projects that are only likely to proceed once a pre-commitment is secured so it is likely some of this supply pipeline is pushed into 2026.

## OUTLOOK

- Tenant demand is expected to remain healthy, supported by the outperformance of the Western Australian economy. Demand in the sub 6,000 sqm size range is likely to remain the sweet spot, driven by the transport and logistics and manufacturing sectors.
- The Perth vacancy rate is expected to moderate further over the next six months as the impact of speculative additions has already filtered through to current metrics. With lease renewal rates remaining elevated, limited backfill opportunities are expected to come to market.
- Mid-single-digit rental growth is forecast over the next 12 months; however, there will be variances across size ranges. The sub 6,000 sqm market is forecast to record more elevated levels of rental growth, while growth for tenancies above 10,000 sqm will vary more across precincts. Institutional presence is skewed towards the 10,000 sqm + size bracket, and incentives for this range are expected to remain higher.

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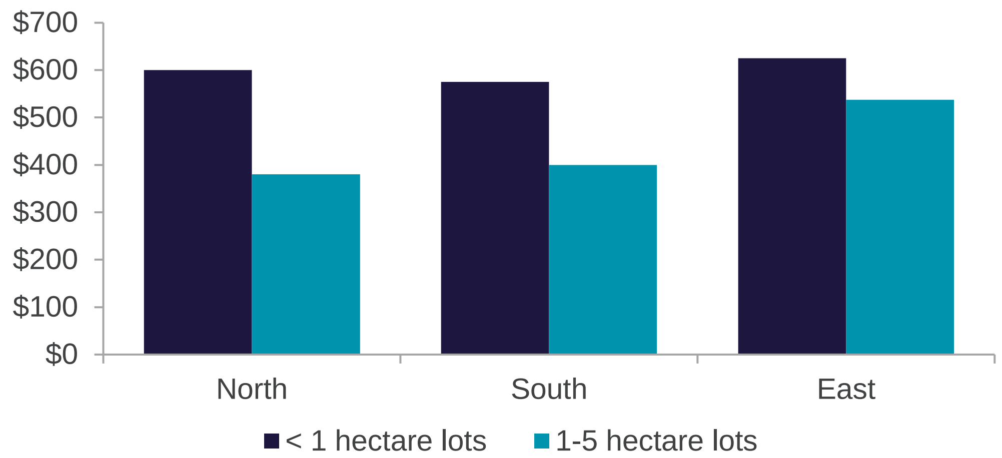
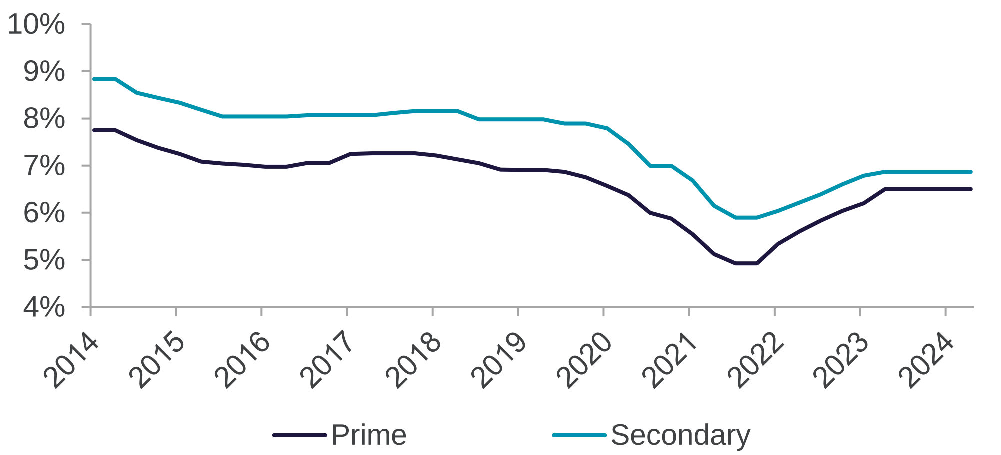
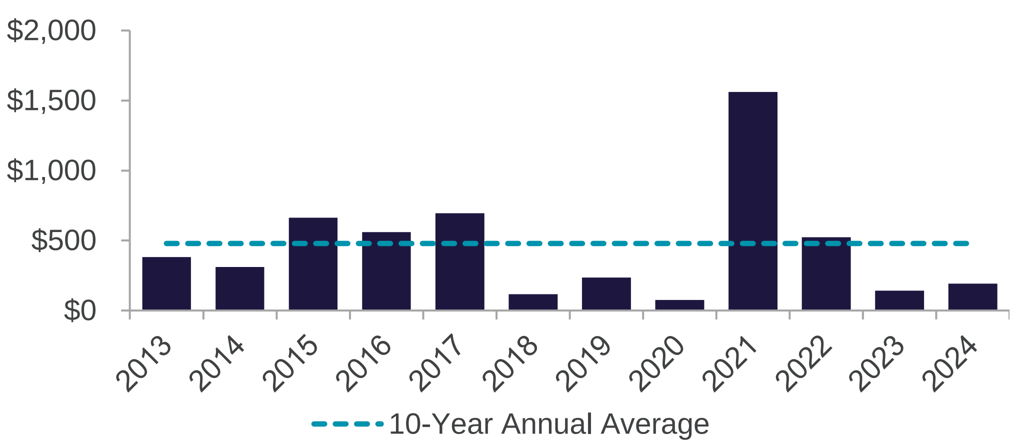
### Q4 2024 LAND VALUES BY SIZE ($/SQM)




### YIELDS BY GRADE




### INVESTMENT VOLUMES ($M)




### LAND VALUES

Industrial land values have remained unchanged this quarter, although appetite remains strong, led by both institutions and local developers who are still focused on land banking core infill sites to maintain their development pipeline for their customers.

Industrial land values in Perth in Q4 2024 are averaging $600/sqm for <1 hectare lots and $439/sqm for 1-5 hectare lots, while land in the East continues to attract a premium given the acute shortage of land availability

### YIELDS

Yields have continued to hold steady over the past quarter and remain unchanged in 2024. Prime yields currently range between 6.25% to 6.75%, while secondary yields range between 6.75% to 7.25%. Recent transaction evidence supports these ranges, which is approximately 80-100 basis points above the Sydney and Melbourne markets which is supporting strong interest from investors seeking higher yield.

### INVESTMENT

Transaction activity in Perth for 2024 improved from 2023 with just over $190 million trading for deals above $10 million. Notwithstanding this, this level of activity remains well below the 10-year average of approximately $480 million, albeit this is being skewed higher by 2021 when over $1.5 billion traded for the year.

Activity below $10 million has remained active, driven by local investors and owner-occupiers.

More broadly, there remains a strong interest in the Perth market, which is led by institutional, syndicator, and high-net-worth buyer pools. The continued buffer to borrowing costs and outlook for further rental growth is driving this appetite.

### OUTLOOK

- New land supply is limited, particularly in core locations, and as a result, price pressure is expected to continue to occur. Development feasibilities will be supported by continued rental growth, despite construction costs remaining elevated.
- 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 160 basis points of yield expansion in Perth 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.

## Q4 2024 PERTH 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 | | | | | | | | |
| North | 0.5% | 7,980 | $138 | $30 | 11.3% | 6.5% | $2,115 | $380 |
| South | 4.1% | 42,454 | $173 | $30 | 12.5% | 6.5% | $2,654 | $400 |
| East | 2.5% | 72,084 | $175 | $30 | 12.5% | 6.5% | $2,692 | $538 |
| **PRIME AVERAGE** | **2.7%** | **122,518** | **$162** | **$30** | **12.1%** | **6.5%** | **$2,487** | **$439** |
| SECONDARY | | | | | | | | |
| North | - | - | $120 | $30 | 11.3% | 7.0% | $1,714 | - |
| South | - | - | $120 | $30 | 12.5% | 6.9% | $1,745 | - |
| East | - | - | $123 | $30 | 12.5% | 6.9% | $1,782 | - |
| **SECONDARY AVERAGE** | **-** | **-** | **$121** | **$30** | **12.1%** | **6.9%** | **$1,747** | **-** |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