INDUSTRIAL LAND SUPPLY RESEARCH

Prepared for:

PROPERTY COUNCIL OF AUSTRALIA

November 2022

Urbis staff responsible for this report were:

Director	Shane Robb, Mark Dawson
Associate Director	Dylan Gray
Consultant	Kanwal Singh
Research Analyst	Michail Schneider
Assistant Valuer	Massimo Di Bennardo
Project code	P0042700
Report number	Final

Urbis acknowledges the important contribution that Aboriginal and Torres Strait Islander people make in creating a strong and vibrant Australian society.

We acknowledge, in each of our offices, the Traditional Owners on whose land we stand.

CONTENTS

INTRODUCTION

Urbis have been engaged by the Property Council of Australia to undertake research into the current state of land supply in Victoria for the Industrial and Residential sectors.

This report aims to address the key issues including the scarcity of land for developers in the region, its impacts to the economy and future recommendations through the below process:

INDUSTRIAL

- Examining the zoned supply information extracted from DELWP's latest Urban Development Program (UDP) industrial data and adjusted for factors including regions of market activity, delays due to infrastructure or topographical constraints and account for the status of estate commencements.
- Measuring the consumption of industrial land in the region, identifying the scale and location of development and constraints posed by lack of suitable sites.
- Assessing the impact on demand and its distribution from emerging technologies in the sector.
- Analysing historical trends in land consumption by industry type and built form comparison between Melbourne and Sydney.
- Identifying key issues originating from the risk of relocation and subsequent loss of investment in the region due to land scarcity.

RESIDENTIAL

- Examining the total, consumed and remaining capacity for residential lots through analysing the Precinct Structure Plans (PSP) in the various growth corridors.
- Measuring the consumption of land lots through analysing lots sold annually in the growth corridors and also determining a range for land lot consumption for our scenario analysis.
- Analysing the price and volume of sales occurring in the growth corridors to assess the relative affordability issues in the region.
- Assessing the supply of apartments through the developments pipeline including resident allocation to these development in the inner regions of Melbourne.
- Identifying key issues around delivery constraints that have an impact on how residential land is zoned.

This report therefore presents evidence-based research into land supply assessment for the residential and industrial sectors, increased level of consumption, responses to the changing market conditions, and ensuring delivery of a feasible and suitable outcome.

EXECUTIVE SUMMARY – INDUSTRIAL

Between 2015 and 2021, the proportion of e-commerce to all retail trade increased from 5.6% to 12.7%. This has translated into exponential growth in demand for industrial floorspace with automation and technological advancement exclusively targeting greenfield industrial estates and land.

To understand the level of supply and associated consumption in the industrial market, the Victorian Government, through the Department of Environment, Land, Water and Planning (DELWP) undertakes an assessment of industrial land supply in the region. The most recent Urban Development Program report for 2021 quoted 7,856ha of vacant and underutilised land, amounting to **26.1 years of supply**, based on an average consumption rate of 301ha.

In significant contrast, Urbis concludes that there is only **4 years of zoned industrial supply** remaining in Metropolitan Melbourne. These results are based on our methodology of identifying regions of market activity, analysing and classifying sites within those regions on their physical attributes and engaging with the wider industry through case studies to gauge the actual quantum of active zoned supply available.

The reduction in land supply is also a consequence of a recent uptick in construction in the various industrial corridors of Melbourne with 2.2 million sq.m of new developments added between 2020 and 2022. This development has pushed recent industrial activity to the edge of the Urban Growth Boundary in the Western and South-Eastern corridors. This has been driven largely by a need for larger floorplates to accommodate the emerging technologies in the market, including last mile logistics and automation.

As a follow-on impact, the industrial market has witnessed an upward shift in rents and land values while incentives continue to trend downwards. This has also resulted in a repricing of rents and land values between Melbourne and Sydney, with rents in some regions of Melbourne increasing by 8% p.a. and land values by 35% p.a. This is higher than growth witnessed in the Sydney industrial market and consequently, the price gap for land acquisition and warehouse development between the two markets has reduced.

Until recently both markets were witnessing a scarcity in land supply to a degree, Sydney more than Melbourne. Size of warehouse development was therefore constrained with tenant demand contained within the respective markets. However, with the recent zoning in excess of 4,000ha of industrial / employment land in the Aerotropolis State Environment Planning Policy (SEPP) and the wider Western Sydney market, there is now a potential risk that tenants will move to Sydney as the cost difference between these markets closes. Investments and the associated employment possibilities in turn could be lost to other regions.

To avoid such a consequence, Urbis, in consultation with the wider industry, has provided some recommendations to unlock further industrial land supply in Melbourne. These include refining the UDP dataset and engaging with the wider industry to provide a more holistic view of industrial supply, releasing more land supply in key locations with a greater emphasis on infrastructure planning and delivery, along with a more coordinated approach to industrial planning.

These, in the opinion of Urbis, are some methods towards reducing the market's increased costs pressures as well as continuing to fulfill industry requirements, generate 28,000 – 35,000 jobs* and promote economic expansion in Victoria.

*Estimated jobs created on a 4,000ha industrial estate.

01 REVISITING THE PAST AND LOOKING AHEAD

BLAST FROM THE PAST

Urbis was commissioned by the Property Council in 2017 to test market sentiment regarding scarcity of industrial sites and to demonstrate that an informed position on industrial land supply requires both Government data and industry intelligence.

Urbis had undertaken further analysis on Department of Environment, Land, Water and Planning (DELWP)'s Urban Development Program (UDP) data available at that time and concluded that there was only 5.3 years of supply remaining instead of the 23 years implied in the UDP 2017 report.

Based on UDP's 2017 results, there was 23 years of industrial supply. However Urbis concluded that only available industrial land supply was **5.3 years at that time.**

APPROACH UNDERTAKEN BY URBIS

23.0 YEARS 6,672 HA	**Raw UDP Data at Q2 2017.**
12.7 YEARS 3,678 HA	**Adjusted for Market Activity Line** (i.e., where businesses have chosen to locate, informed by major industrial construction activity).
11.7 YEARS 1,980 HA	**Refinement of dataset to adjust for Time to Market** (e.g., sites requiring remediation) and irregular sites (e.g., retarding basins, road reservations, powerline easements, public open space and other).
6.8 YEARS 1,980 HA	**Adjusted to recognise sites' true development status using case study examples of Active Estates Actual Supply vs UDP Supply.**
5.3 YEARS 1,545 HA	**Move forward to Q4 2018** (i.e., 18 months since UDP 2017 study date)

Results based on historical 3 years (2014-2017) average annual take-up of 290ha.

Source: Urban Development Program 2017, Urbis

PRESENT DAY AND LOOKING FORWARD

The Property Council has again engaged Urbis to determine the current status of the demand and supply of industrial zoned land in Melbourne. In consultation with other industry groups, Urbis has taken a consistent approach to analysing the Urban Development Program (UDP) data for 2021, prepared by the Department of Environment, Land, Water and Planning (DELWP) and concluded that, based on our approach, there is only 4.0 years of zoned supply remaining in the region.

These results represent a similar timeframe to what was concluded in our previous report, however, are driven by some important observations that impact how these results should be interpreted:

The 2021 UDP data for vacant zoned supply includes 2,221ha of 'underutilised' land which refers to sites which are industrially zoned and have structures on them but are used for agricultural and/or residential use, or low intensity industrial use. Underutilised was considered as 'occupied' in 2017.

In our view, industrial activity at present has reached the edge of the Urban Growth Boundary in some directions which was not the case in 2017.

The market activity line has been revised to reflect recent infrastructure improvements and development activity.

Based on UDP's 2021 results, there is 26.1 years of industrial supply, however Urbis concludes that current zoned and available industrial land supply is **4.0 years.**

APPROACH UNDERTAKEN BY URBIS

20.3 YEARS 7,856 HA	**Raw UDP Data at Q2 2021.**
11.4 YEARS 4,430 HA	**Adjusted for Market Activity Line** (i.e., where businesses have chosen to locate, informed by major industrial construction activity).
8.2 YEARS 3,180 HA	**Refinement of dataset to adjust for Time to Market** (e.g., sites requiring remediation) and irregular sites (e.g., retarding basins, road reservations, powerline easements, public open space and other).
5.3 YEARS 2,040 HA	**Adjusted to recognise sites' true development status using Case Study examples of Active Estates Actual Supply Vs UDP Supply.**
4.0 YEARS 1,560 HA	**Move forward to Q4 2022** (i.e., 15 months since UDP 2021 study date)

Broken down by regions, the numbers are:

South-East Region	Western Region	Northern Region
1.1 YEARS	3.8 YEARS	11.1 YEARS
120 HA	740 HA	695 HA

Results based on our average consumption rate between 2017 and 2021.

Source: UDP 2021, Urbis

FAST FORWARD TO 2021

The latest industrial insights from the UDP for 2021 highlight 7,856ha of zoned vacant land, including 2,221ha of underutilised zoned land across metropolitan Melbourne.

The inclusion of “underutilised land” as vacant land was one of the recommendations made by Urbis in our previous report.

Of the 7,856ha of vacant supply, 4,557ha is located in the State Significant Industrial Precincts (SSIPs), as identified in the Plan Melbourne 2017 to 2050 report published by the Department of Environment, Land, Water and Planning (DELWP).

Average consumption was recorded at 273ha in 2021 in the UDP data, comparatively lower than the previous year’s consumption of 306ha.

Our analysis of consumption levels however indicate a higher rate of consumption at 387ha for the last four years versus the recorded 281ha per annum for the same period according to the UDP. A more detailed analysis of how we calculated our consumption rate is provided in the following sections.

The 7,856 hectares of zoned vacant and underutilised UDP 2021 supply equates to **20.3 years** based on the last four years average annual take-up of 387 hectares.

INDUSTRIAL ZONED VACANT LAND SUPPLY - MELBOURNE

	2017			2021		
Regions	**Lots size < 5Ha**	**Lots size >= 5Ha**	**Total**	**Lots size < 5Ha**	**Lots size >= 5Ha**	**Total**
Western	792	1,877	2,669	738	1,787	2,525
Eastern	86	71	157	56	65	120
Inner Metro	11	-	11	5	22	26
Northern	399	971	1,370	370	1,284	1,654
Southern	750	1,715	2,465	858	2,671	3,529
Inner South East	2	0	2	2	0	2
Total Zoned Vacant & Available Land Supply	**2,041**	**4,633**	**6,674**	**2,028**	**5,829**	**7,856**

Note- Zoned vacant supply includes underutilised
Note that there is proposed future supply of unprogrammed PSP in the region but due to uncertainty around delivery timelines, our analysis only focuses on zoned and available supply.
Source: Urban Development Program 2021, Urbis

MELBOURNE'S MARKET ACTIVITY LINE EXTENDS FURTHER

The Market Activity Line (MAL) provides an enclosed area of implied demand in the Melbourne region, established through analysing industrial construction activity extracted from Urbis' construction database over the 2017 to 2021 period.

The Market Activity Line has been extended outwards in several directions since 2017 to include the areas including but not limited to Tarneit, Merrifield and Cranbourne West which have witnessed recent industrial activity.

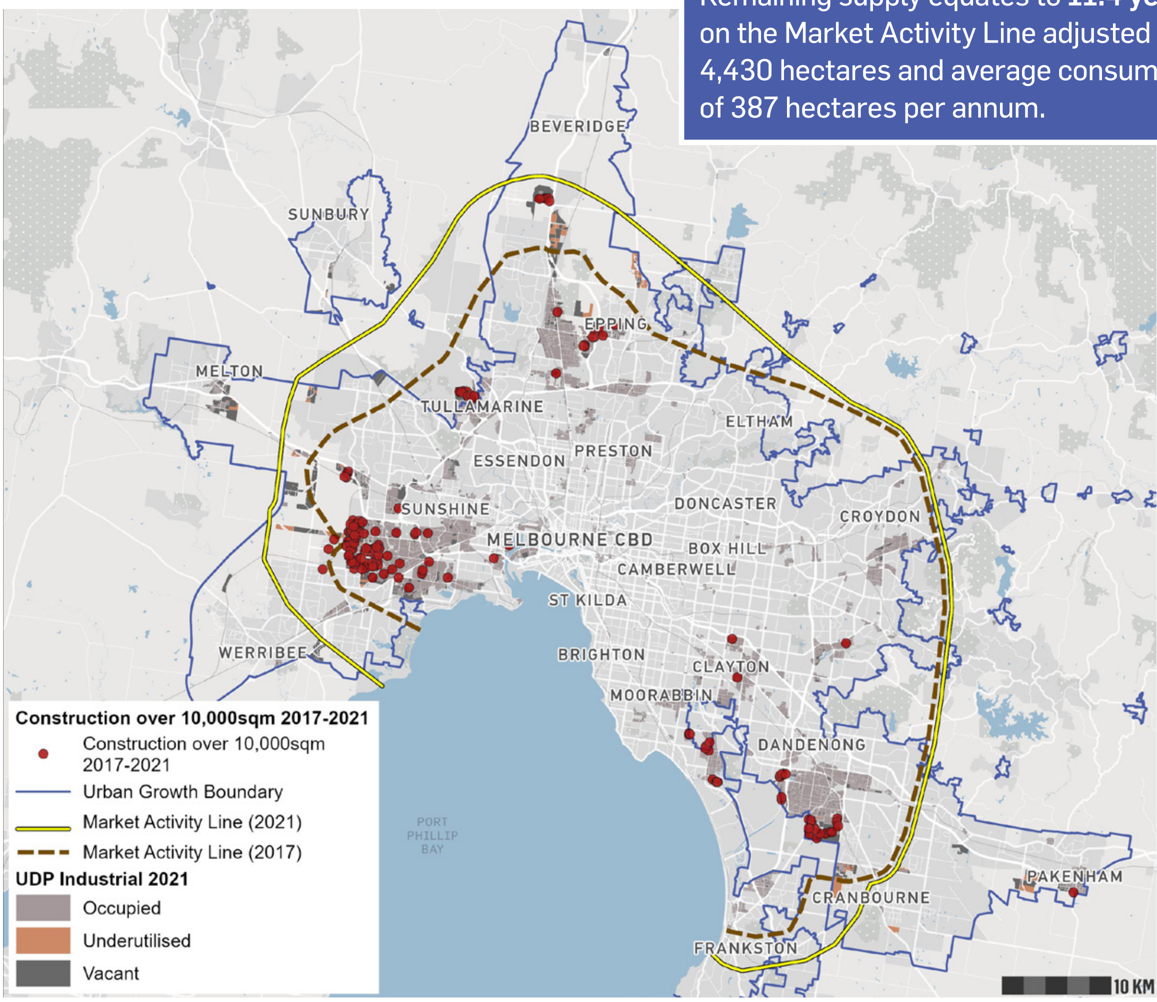
We note that areas outside the Line of Activity requires extensive infrastructure investments to be considered for major industrial use. It is also evident that the MAL is now bordering the Urban Growth Boundary, particularly in the West and part of the South East corridors.

Regions	UDP Land Supply (Ha)	Supply inside Market Activity Line (HA)	Enclosed MAL Supply As a % of Total
Western	2,525	1,986	79%
Eastern	120	108	90%
Inner Metro	26	26	100%
Northern	1,654	1,553	94%
Southern	3,529	755	21%
Inner South East	2	2	100%
Total Vacant Land Supply	**7,856**	**4,430**	**56%**

Source: Urban Development Program 2021, Urbis

MARKET ACTIVITY LINE AND IMPLIED DEMAND

Remaining supply equates to **11.4 years based** on the Market Activity Line adjusted supply of 4,430 hectares and average consumption rate of 387 hectares per annum.



Source: Urbis Industrial Occupier Survey, Urban Development Program 2021, Urbis

TIME TO MARKET ANALYSIS

This analysis involves assessing the viability of vacant land lots depending on attributes including but not limited to civil infrastructure, site location, topography, easement and inundation overlays which might impact suitability for industrial development.

The UDP Industrial data for 2021 shows 5,002 properties as vacant and underutilised, 3,374 of which fall within the market line. In the previous report, we analysed sites of 2.5ha or larger, which still account for more than 80% of the total area within the data set.

The 2.5ha sites have been classified into the availability timeframes as noted below:

0 – 2 years: Sites adjacent to land already developed or underdevelopment, with existing infrastructure in place to support development.

2 – 5 years: Sites having infrastructure or site attributes in place for development however delayed due to an unwillingness to develop by the owner.

5+ years: Includes sites that have physical barriers that hinder development including sites that are retarding basins making development unlikely to occur.

Given the barriers on delivery of sites with a timeframe of 5 years+, 397ha is removed from the data, resulting in a remaining total of 3,178ha of vacant and underutilised land.

Remaining years of supply equates to **8.2 years** based on the Time to Market adjusted supply of 3,178 hectares and average consumption rate of 387 hectares per annum.

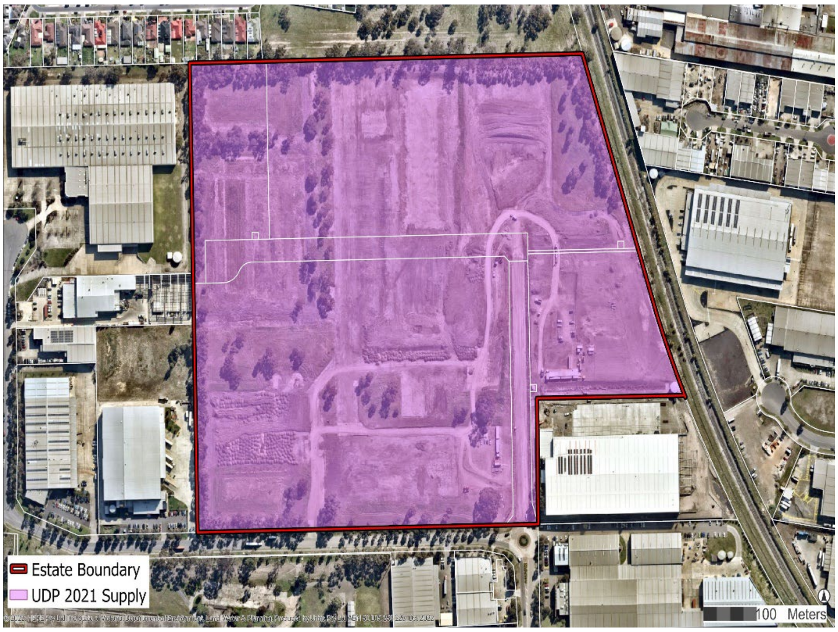
TIME TO MARKET – 2.5 HECTARES PLUS SITES

Regions	MAL Zoned Supply (Ha)	0-2 Years (HA)	2-5 Years (HA)	5+ Years (HA)
Western	1,576	838	630	108
Eastern	69	26	6	38
Inner Metro	22	22	0	0
Northern	1,355	594	523	239
Southern	553	478	62	13
Inner South East	0	0	0	0
Total Zoned and Available Land Supply	**3,575**	**1,957**	**1,221**	**397**

Note- Vacant supply includes underutilised.
Source: Urban Development Program 2021, Urbis

ESTATE CASE STUDIES - NORTHERN REGION

Further to our analysis on remaining years of supply and to also illustrate the disconnect between market activity and the estimates of total supply within the UDP report, we have also completed six case studies of industrial developments active during the UDP study period at Q3 2021 with results of our findings summarised at the end.



ESTATE CASE STUDY
Broadmeadows Logistics Park

UDP Supply 2021: 22.49Ha

The estate is located in Melbourne's North and is close to major road networks including the Western Ring Road, Tullamarine Freeway and the Hume Highway interchange.

ESTATE CASE STUDY
Broadmeadows Logistics Park

Remaining Supply Q3 2021: 11.36Ha

UDP's 2021 data indicates a vacant supply of 22.49ha at this site, however Urbis estimates that there is only 11.36ha available. Urbis' engagements with LOGOS indicate that LOGOS has secured two major pre-leases to the land not highlighted in the image on the left.

ESTATE CASE STUDIES - NORTHERN REGION

ESTATE CASE STUDY
Amaroo Logistics Park

UDP Supply 2021: 7.2Ha

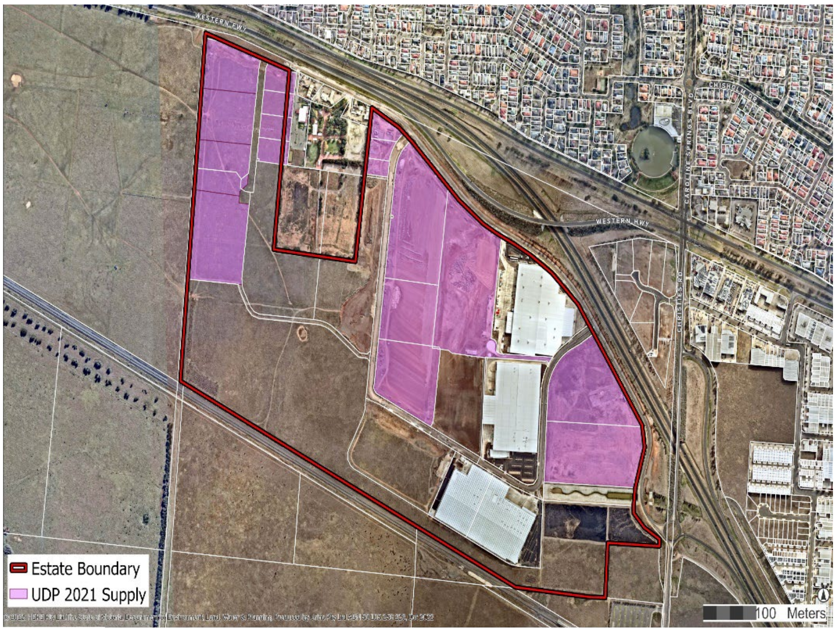
Amaroo Business Park is located approximately 25kms north of Melbourne's Central Business District

ESTATE CASE STUDY
Amaroo Logistics Park

Remaining Supply Q3 2021: 0Ha

UDP's 2021 data indicates a vacant supply of 7.2ha at this site, however Urbis estimates that there is no vacant land available. Goodman Group had secured Amazon to this land with a sorting facility to be located on the estate.

ESTATE CASE STUDIES - WESTERN REGION



ESTATE CASE STUDY
Horizon 3203

UDP Supply 2021: 45.6Ha

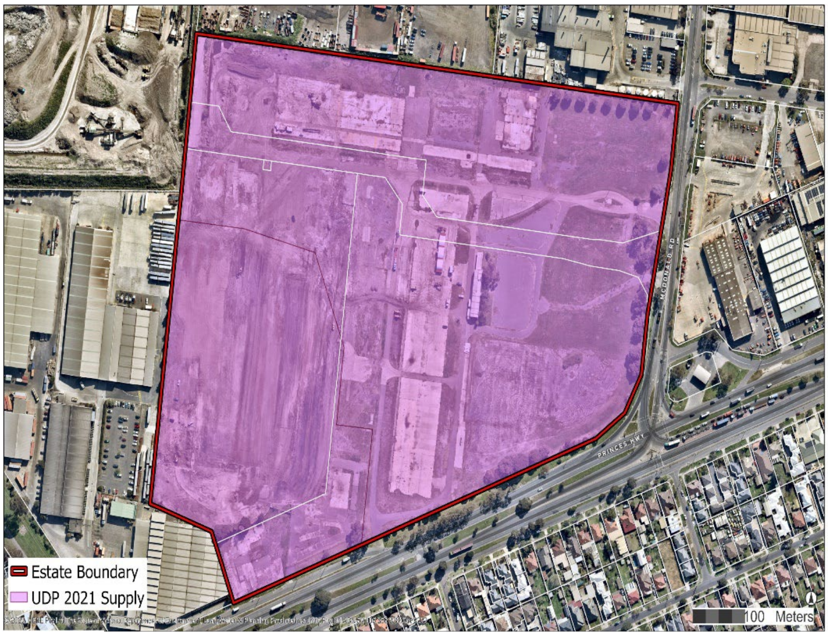
Positioned within Melbourne's Western Growth Corridor, Horizon 3023 is approximately 25 minutes from Melbourne's Central Business District.

ESTATE CASE STUDY
Horizon 3203

Remaining Supply Q3 2021: 26.4Ha

UDP's 2021 data indicates a vacant supply of 45.6ha at this site, however Urbis estimates that there is only 26.4ha available. The estate will be home to companies such as Amazon and HelloFresh with Dexus securing various pre-commitments to land not highlighted in the image on the left.

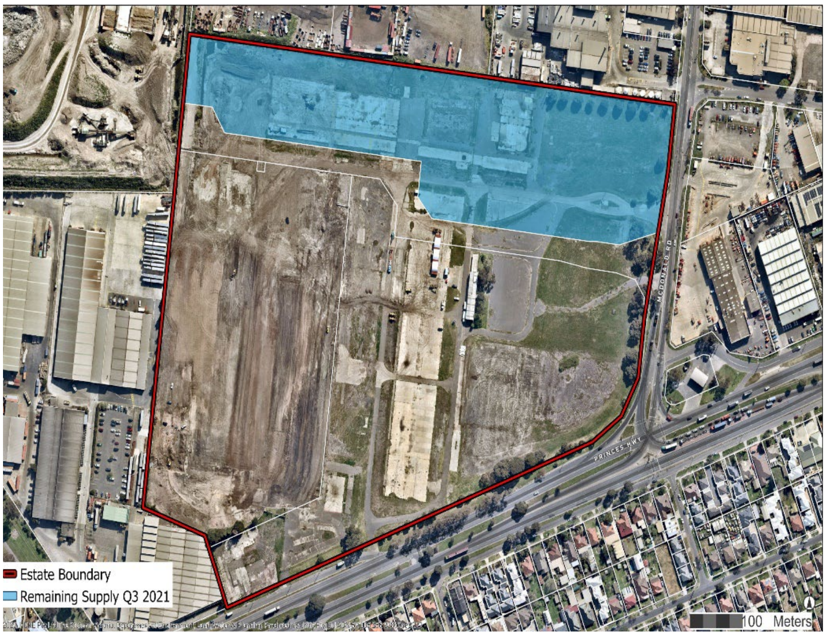
ESTATE CASE STUDIES - WESTERN REGION



ESTATE CASE STUDY
598B Geelong Road /
9A McDonald Road Brooklyn

UDP Supply 2021: 19Ha

The estate is located 10km West of Melbourne's Central Business District and is within close proximity to major arterials including the West Gate Freeway, Princes Freeway and the Western Ring Road.

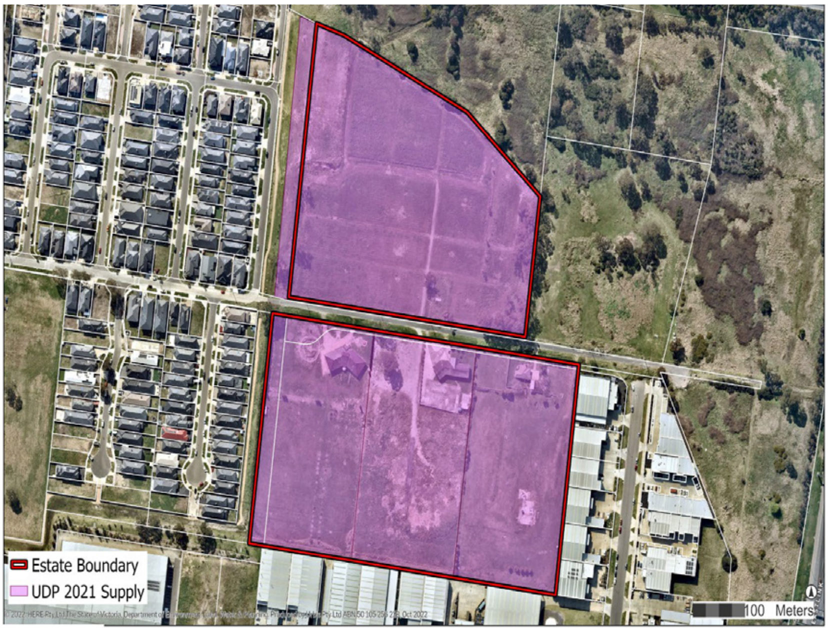


ESTATE CASE STUDY
598B Geelong Road /
9A McDonald Road Brooklyn

Remaining Supply Q3 2021: 5.12Ha

UDP's 2021 data indicates a vacant supply of 19.4ha at this site, however Urbis estimates that there is only 5.12ha available based on our research of land taken-up at the site.

ESTATE CASE STUDIES - SOUTH EAST



ESTATE CASE STUDY
Keylink Estate Keysborough

UDP Supply 2021: 10.9Ha

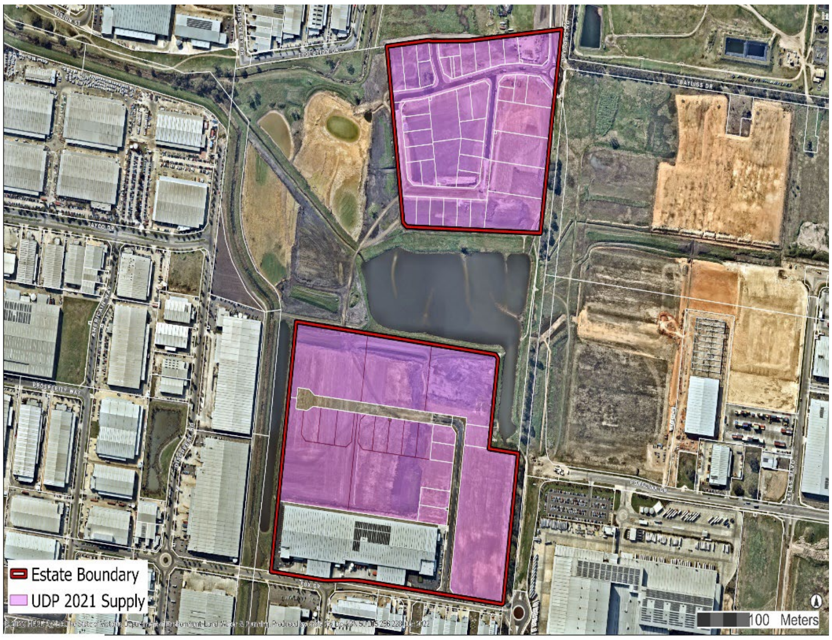
The estate is located 10km West of Melbourne's Central Business District and is within close proximity to major arterials including the West Gate Freeway, Princes Freeway and the Western Ring Road.

ESTATE CASE STUDY
Keylink Estate Keysborough

Remaining Supply Q3 2021: 0Ha

UDP's 2021 data indicates a vacant supply of 10.9ha at this site, however Urbis estimates that there is no vacant land available. Cadence Property Group had concluded a fund-through development with GPT for both the sites.

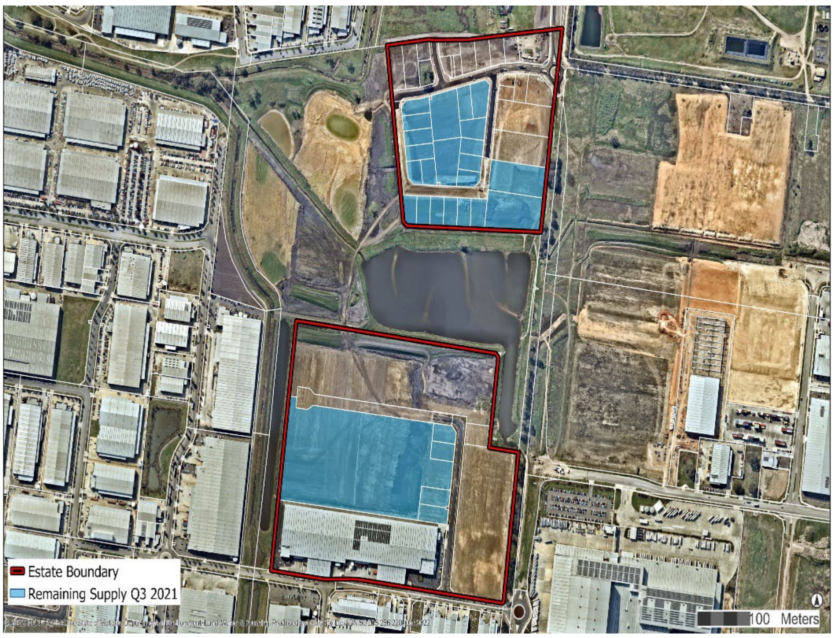
ESTATE CASE STUDIES - SOUTH EAST



ESTATE CASE STUDY
Rubix Connect

UDP Supply 2021: 32.8Ha

The Estate is located in Dandenong South, which forms part of the South-East SSIP and is approximately 34km South-East of Melbourne's Central Business District.



ESTATE CASE STUDY
Rubix Connect

Remaining Supply Q3 2021: 14.6Ha

UDP's 2021 data indicates a vacant supply of 32.8ha at this site, however Urbis estimates that there is only 14.6ha available. Frasers Property Group had pre-sold small industrial sites in the northern component and secured multiple pre-commitments to the southern portion of the site.

ESTATE CASE STUDIES SUMMARY AND "TO DATE' ADJUSTMENT

The total variation or overstated supply between UDP supply and industry supply within the same timeframe equates to approximately 80.9ha, as evidenced by our case studies. Only 57.5ha (or 42%) of the total supply of 138ha in these estates is available supply.

A variation of estimated supply to this extent emphasises the significance of industry participation in combining market site knowledge with UDP data.

Given the above, Urbis considers it reasonable to discount the amount of land available in the 0-2 years category calculated through the Time to Market analysis in the previous sections (i.e. 1,868ha). Although the case studies show a rate of land take up of 58%, given a review of the balance of the data we believe this is an appropriate ratio.

Therefore, adjusting 0-2 years zoned and available supply of 1,957ha by our industry supply to UDP supply ratio of 58%, reduces it by 1,140ha to approximately 820ha. Then adding the remaining 2-5 years zoned supply of ~1,220ha equates to approximately 2,040ha.

The remaining zoned and available supply also needs to be adjusted to reflect consumption that has occurred between the UDP data release (end of Q2-2021) and the date of this report (Q4-2022) totaling 15 months and 480ha, resulting in approximately 1,560ha in remaining zoned and available supply.

ESTATE CASE STUDIES

Regions	Estate / Address	UDP Zoned Supply (Ha)	Industry Supply (HA)	Overstated Supply (HA)
North	Broadmeadows Logistics Estate	22.5	11.4	11.1
	Amaroo Business Park	7.2	0.0	7.2
West	Horizon 3023	45.6	26.4	19.2
	590B Geelong Rd, Brooklyn	19.4	5.1	14.3
South East	Keylink	10.9	0.0	10.9
	Rubix Connect	32.8	14.6	18.2
	Total Zoned and Available Land Supply	**138.4**	**57.5**	**80.9**

Note- Vacant supply includes underutilised.
Source: Urban Development Program 2021, Urbis

Remaining years of zoned and available supply equates to 5.3 years based on the Estate Case Studies analysis adjusted supply of 2,040 hectares and average consumption rate of 387 hectares per annum.

Remaining years of zoned and available supply equates to 4.0 years based on "To Date" adjusted supply of 1,560 hectares and average consumption rate of 387 hectares per annum.

02
THE PACE OF INDUSTRIAL DEVELOPMENT

INDUSTRIAL CONSUMPTION ACCELERATES

Industrial consumption has increased drastically in the last couple of years across all regions of Melbourne. Based on our estimate, a total of 1,547ha has been consumed in the period between 2017 and 2021, with the western region accounting for more than half of total consumption.

Majority of the land consumed in the region was under 5ha, with only 19% of land consumed was over the size of 5ha between 2017 and 2021. Of the land consumed under 5ha, 246ha was consumed in Wyndham followed by 215ha in Greater Dandenong.

Wyndham had the highest consumption rate of land over 5ha at 160ha, while the Hume LGA consumed 45ha in the same period.

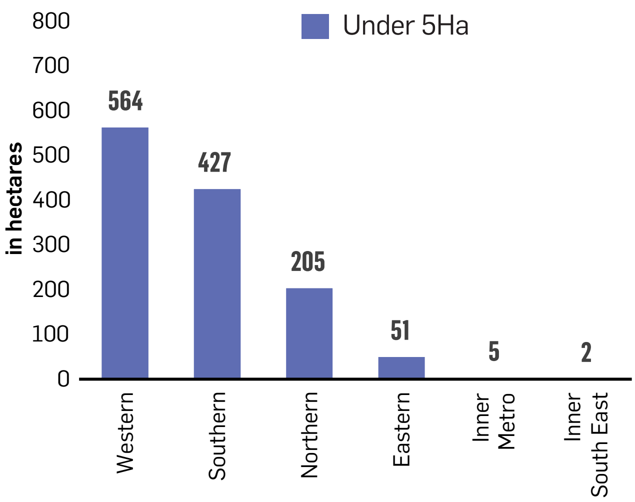
1,547 HA*
TOTAL CONSUMPTION

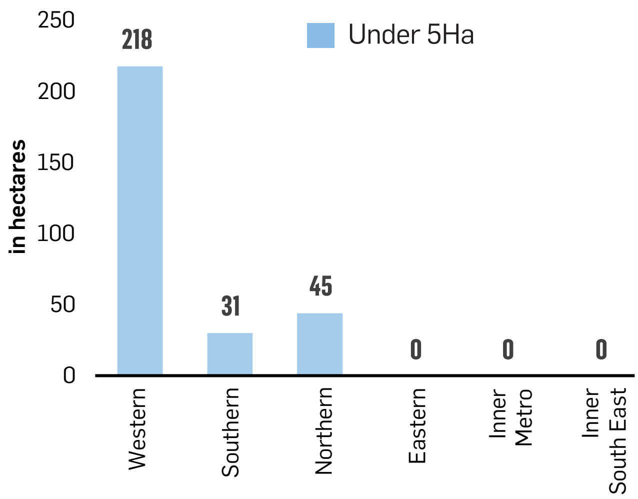
387 HA*
AVERAGE YEARLY CONSUMPTION

1,254 HA*
UNDER 5HA OF LAND CONSUMED

*Urbis consumption rates are based on the difference between UDP's vacant land in 2017 and consecutively occupied in 2021 on an LGA level, to account for additional zoned land supply and changes to underutilised land between 2017 and 2021.
Source: UDP 2021, Urbis

INDUSTRIAL LAND CONSUMPTION 2017-2021





Source: Urban Development Program 2021, Urbis

AVERAGE YEARLY CONSUMPTION PER ANNUM (2017-2021)

South-East Region	Western Region	Northern Region
120HA	200HA	60HA

Note: The eastern, inner metro and inner south-east region account for 12.8ha, 1.1ha and 0.5ha of zoned land consumption between 2017 - 2021.

PRECINCTS OF MARKET DEMAND

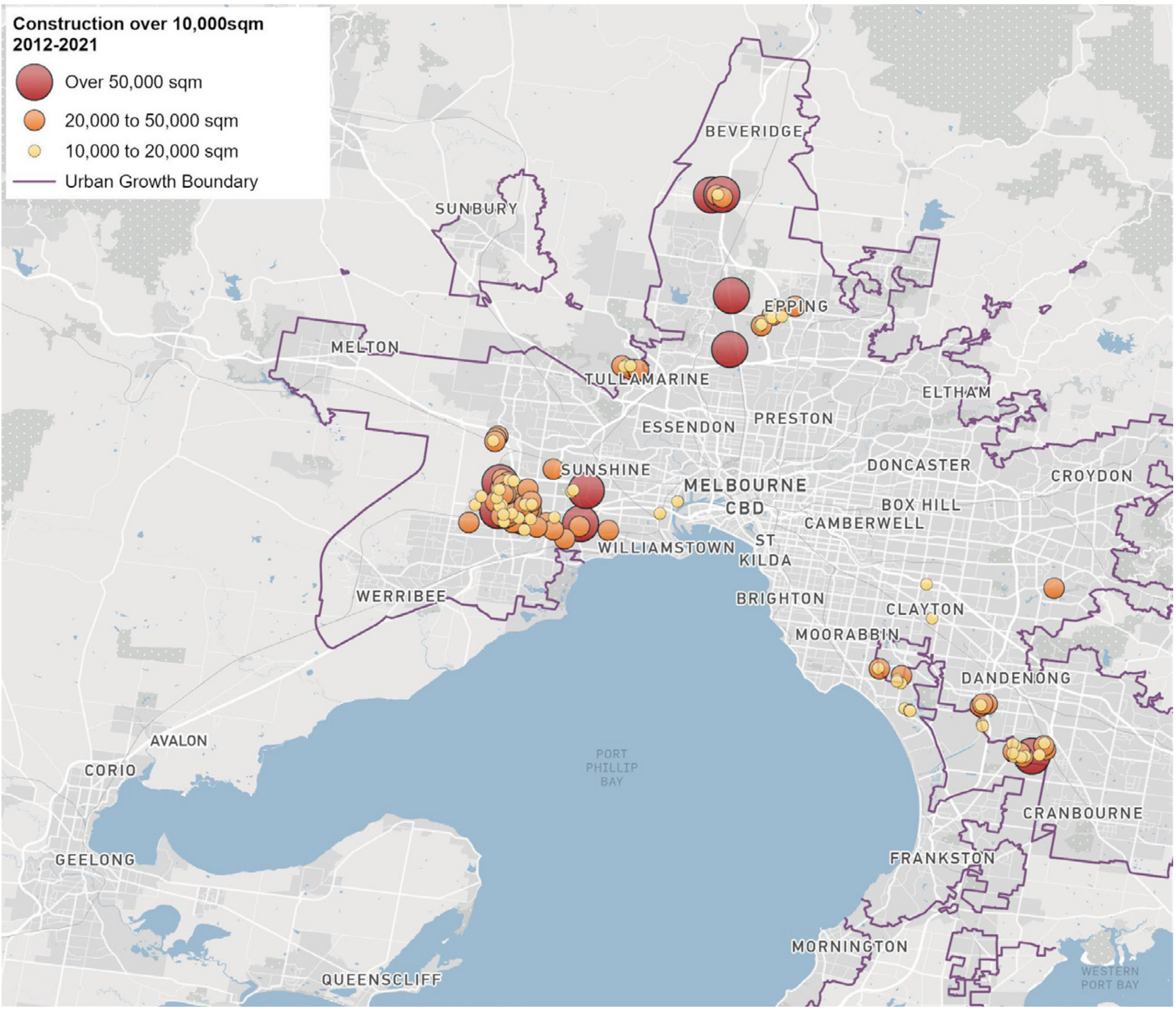
Industrial activity in the Melbourne market has been predominantly confined to the urban growth boundary and centred around specific locations. Development has mainly occurred in areas which fulfill specific site attributes and have established transport and other infrastructure to support industrial activity.

Areas including Laverton, Altona North and Sunshine / Brooklyn have traditionally been the industrial hubs of the western region. However development in the last 5 years has pushed further west into Truganina and Tarneit as zoned land, particularly englobo lots, have become increasingly scarce in this region.

Similarly, activity has centred around Dandenong and Dandenong South, Springvale and Keysborough in the southern region. With no new land proposed in the Southern SSIP (State Significant Industrial Precinct), potential occupiers have shifted focus further south to the Cranbourne and Cranbourne West areas.

The northern region in contrast has witnessed limited development historically in comparison to the other areas, with development limited in the peripheral of the Hume Freeway. However, development activity has recently witnessed an uptick in Mickleham and Broadmeadows, with these areas providing an alternative to the reducing land supply in the west, to gain further from the delivery of the proposed intermodal terminal in Beveridge.

HISTORICAL INDUSTRIAL DEVELOPMENT

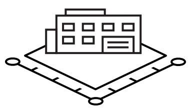


DEVELOPMENT COMPLETION VOLUMES PEAK

Development activity between 2012 and 2017 had been rising gradually, driven mainly by the slow expansion as well as transition of businesses toward accommodating online shopping volumes, and establishing ancillary manufacturing and storage facilities.

However, the recent expansion of e-commerce demand and a shift from 'just in time' to 'just in case' inventory storage, propelled development to peak in all areas but predominantly the western and south eastern corridors.

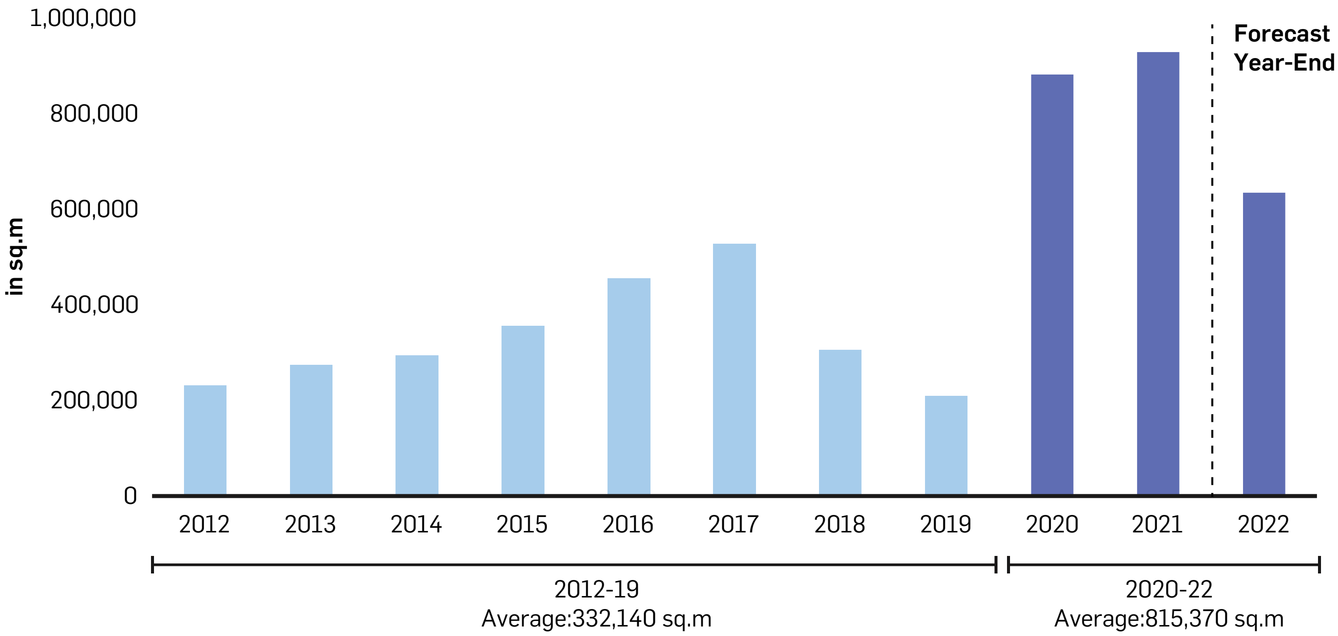
Volumes have since started to trend downwards, however not due to a lack of demand but due to headwinds from rising construction costs and increased cost of borrowing. A lack of suitable land availability is also hindering the construction of large format development in the region.



+2.2 MIL SQ.M

INDUSTRIAL SPACE DELIVERED 2020-22

VIC INDUSTRIAL DEVELOPMENT PIPELINE



Note- Buildings over 10,000 sq.m
Source: Urbis Industrial Occupier Survey

LAND SHORTAGE IMPACTING ECONOMIC COST OF DEVELOPMENT

The adjacent table and chart illustrate the economic impacts of constraints in zoned land availability..

Industrial rents have been impacted by depleting land supply in the employment corridors as increased demand for warehouses outstripped the release of additional zoned land in the regions.

A similar outcome has been witnessed in Industrial land prices, where prices have increased in recent years as a result of constrained land supply in these areas.

Increased development and operational expenditure, due to the above factors, adds to overall business costs of operators in the sector, translating to higher output costs and business relocations.

Supply shortages are synonymous with periods of higher prices and rents. There are signs of the impacts of constrained supply in Melbourne's industrial areas already. More land needs to be made available to avoid increasing costs reducing the competitiveness of Melbourne's industrial markets.

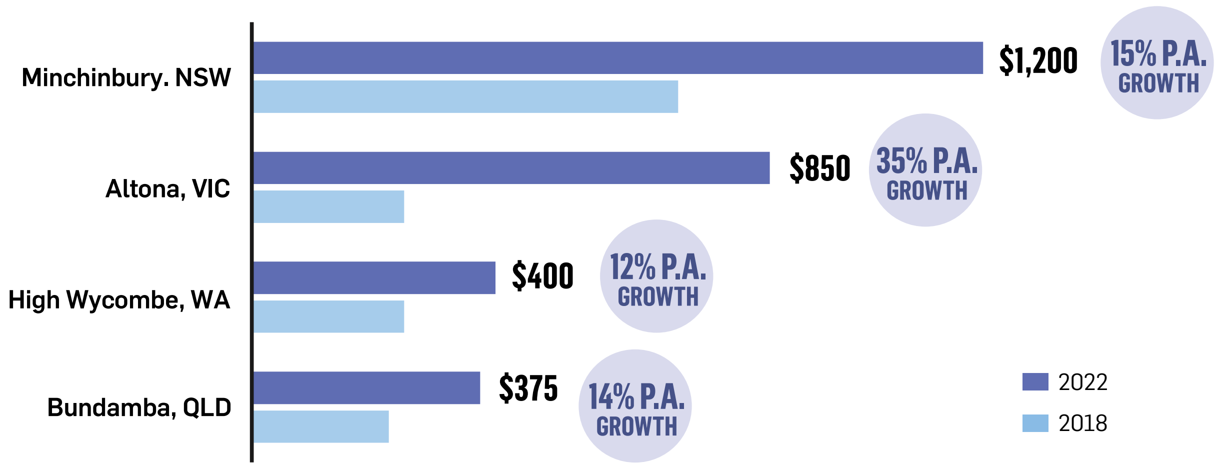
Another consequence of the recent rise in land values and face rents in Melbourne has resulted in a "narrowing of the gap" in pricing in the two industrial markets of Sydney and Melbourne. Comparing Truganina in Victoria to Eastern Creek in NSW, effective rents have grown by 19.5% compared to 8.2% for the two regions between 2019-2022. In terms of land values, Altona in Victoria has recorded a growth of 35% p.a. compared to 15% p.a. in Minchinbury in NSW.

INDUSTRIAL FACE RENTS AND RENTAL

	2019		2022		Compound Growth (2019-22)	
Regions	**Face Rents**	**Incentives**	**Face Rents**	**Incentives**	**Face Rents**	**Incentive Rents**
Eastern Creek, NSW	$125	17.5%	$145	10.0%	5.1%	8.2%
Richlands, QLD	$105	20.0%	$125	15.0%	6.0%	8.2%
Truganina, Vic	$75	35.0%	$95	12.5%	8.2%	19.5%
Jandakot, WA	$90	20.0%	$115	10.0%	8.5%	12.9%

Source: Urbis Research / Database

INDUSTRIAL LAND VALUES



Source: Urbis Research / Database

DEMAND GENERATED FROM DEVELOPING TECHNOLOGIES

The demand and take-up of industrial land has evolved from traditional manufacturing, warehousing and transport users. New and emerging industries i.e., Data centers, biomedical manufacturing, storage and distribution are also seeking industrial land, accelerating the rate of 'take-up'. As technology advances for these users, their demand for next generation premises is being driven by one of the below advances:

AUTOMATION

- The Industrial asset class has become increasingly sought after due to the growth of e-commerce and need for shorter delivery timeframes.
- Australian shoppers now spend almost 13% online and this is expected to grow.
- Coles and Woolworths are leaders in the sector and have made significant shifts toward automated warehousing deploying over $1 billion of collective capital. The facilities will utilise modern technologies such as robotics and sorting systems.
- Anecdotally, automation costs are falling, which is likely to drive further demand.

BIOTECH MANUFACTURING

- Australians require faster access to next-generation medical treatments and demand for flu vaccines grow year-on-year.
- Seqirus builds $800m vaccine manufacturing in Melbourne's North.
- More than 192 life sciences companies are listed on the ASX and represent a market capitalisation of approximately $233 billion, a 37% increase from 2019.
- Over 40% of national medical funding is directed to Melbourne, which is home to two out of every five Australian life sciences businesses.

HIGHBAY

- Increased storage capacity allows for greater volume, which enables higher production.
- Occupiers save on imputed costs as a result of the reduced footprint and storage space.
- Most importantly Highbay enables a greater efficiency of land use.

RENEWABLES

- Australia is gradually moving towards a carbon-neutral environment.
- Charter Hall Group to power its operations with 100% renewable energy.
- Wind farms in Victoria generated approximately 16.5% of the state's electricity in 2021.
- A wind farm precinct can require at least 25 hectares of land.

DATA CENTRES

- Data centres have been a growing theme in the backdrop of the covid era, with cloud computing and artificial intelligence driving storage solutions.
- NEXTDC, Equinix, Telstra and AirTrunk continue to drive growth in this space in Australia with NEXTDC recently opening a $1.5billon facility in West Footscray, Melbourne.

03
COMPARING THE MARKETS, KEY CHALLENGES AND RECOMMENDATIONS

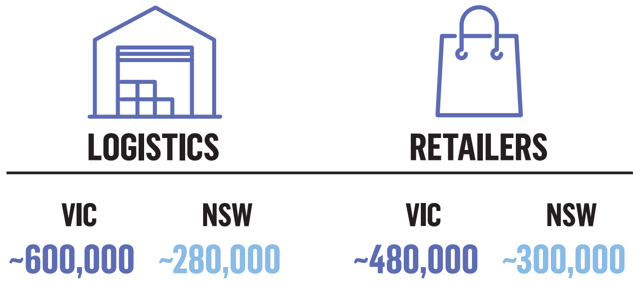
MAJOR USER COMPARISON

While both regions experienced an uptick in activity, Melbourne's retail trade and logistics industries expanded at a faster rate as evidenced by the quantum of space leased.

Demand for industrial land has increased significantly in the last three years due to the proliferation of e-commerce and the impact of supply chain constraints. This has resulted in unprecedented demand for space in the industry, mainly driven by logistics and retail trade businesses. Both sectors increased their warehouse footprints to facilitate a shift from 'just in time' to 'just in case' inventory storage in order to cater to increased demand.

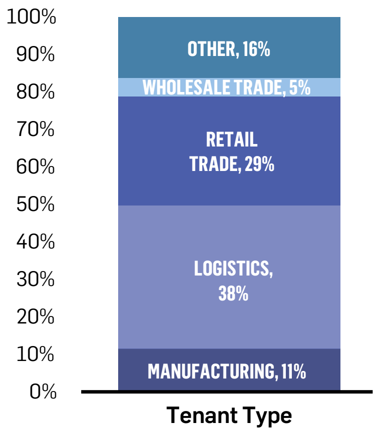
Tenant demand in Victoria, where COVID-19 restrictions were more pronounced, was higher when compared to NSW due to the longevity of restrictions placed on the state.

INDUSTRIAL LEASING 2020-2022 (IN SQ.M)



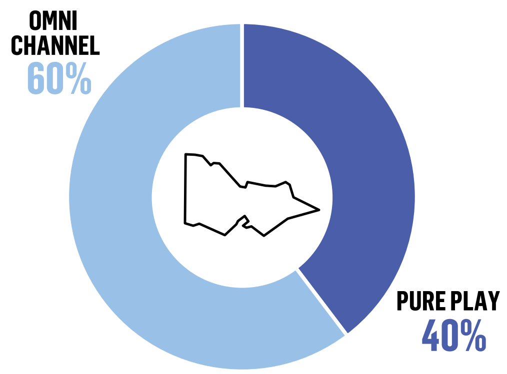
Source: Urbis Industrial Occupier Survey

VIC SECTORAL DEMAND



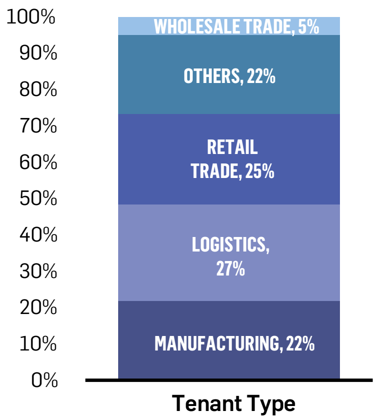
Note – Constructed between 2017 to YTD-22 with GBA of >20,000 sq.m. Others inclusive of construction, healthcare, TMT, other services and undisclosed.
Source: Urbis Research / Database

VIC E-COMMERCE RELATED DEMAND



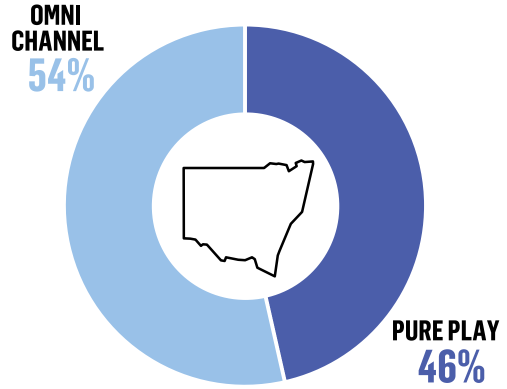
Note – Constructed between 2017 to YTD-22 with GBA of >20,000 sq.m.
Source: Urbis Research / Database

NSW SECTORAL DEMAND



Note – Constructed between 2017 to YTD-22 with GBA of >20,000 sq.m. Others inclusive of TMT, other services and undisclosed.
Source: Urbis Research / Database

NSW E-COMMERCE RELATED DEMAND



Note – Constructed between 2017 to YTD-22 with GBA of >20,000 sq.m.
Source: Urbis Research / Database

MAJOR BUILT FORM COMPARISON

With the recent rezoning of industrial land in NSW, the Sydney market might mirror similar development activity to that occurring in Victoria, with a future possibility of large format tenant demand shifting to that region.

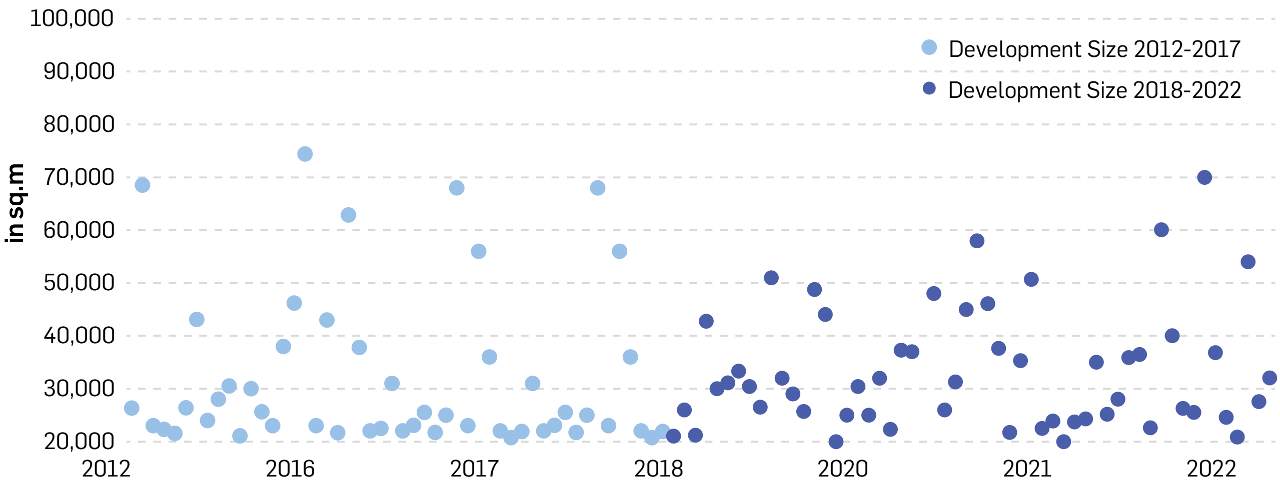
Between 2012 and 2017, more than 60% of the industrial development in the Victorian market was sized under 30,000 sq.m. Space utilisation was limited to pallet racking, operational floor and hardstand for vehicle access and loading.

However, the advent of single day delivery and last mile logistics particularly in the last three years, has resulted in the need for process automation. This has resulted in occupiers opting for robotic fulfilment which requires larger floor space for installation and efficient operation. This has also resulted in higher land consumption rates and scarcity of bigger land lots.

Prior to 2018, development trends in Sydney have been similar to Victoria. However, between 2018 and 2021 the size of warehouse development has shifted toward the lower end of the spectrum as evident by the chart to the right. Market feedback suggests this was in part due to scarce availability of land lots in the key regions capable of accommodating large format warehousing.

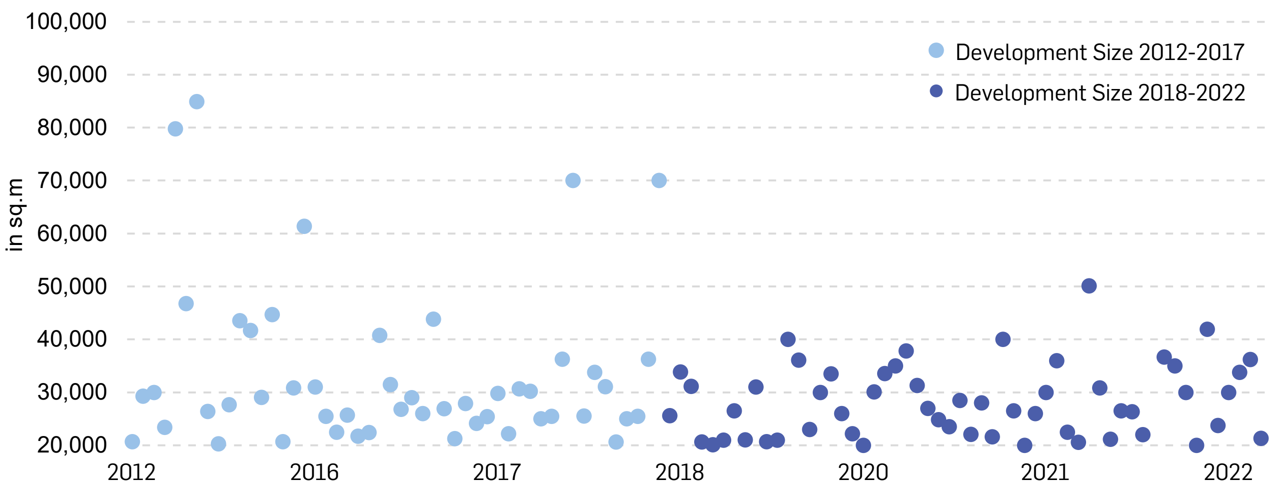
Projecting beyond 2022, the recent rezoning of industrial land in Sydney could provide the catalyst for industrial demand to shift back to that region given the relative similar operational outlays for both markets.

VIC INDUSTRIAL DEVELOPMENT



Source: Urbis Industrial Occupier Survey

NSW INDUSTRIAL DEVELOPMENT 2012-2022



Source: Urbis Industrial Occupier Survey

INCREASED LAND SUPPLY IN SYDNEY

The zoning of additional industrial land essentially in the land constrained market of Western Sydney in the Aerotropolis economic centre would provide the impetus for accelerated land consumption in the region and is an incentive for Melbourne businesses to potentially relocate to Sydney.

Unlike the Melbourne industrial market, the Sydney industrial market has recently received an injection of zoned land in the key outer western locations. A total of 4,744ha of land was rezoned to employment land in 2020, driven by land rezoning under the Western Sydney Aerotropolis SEPP.

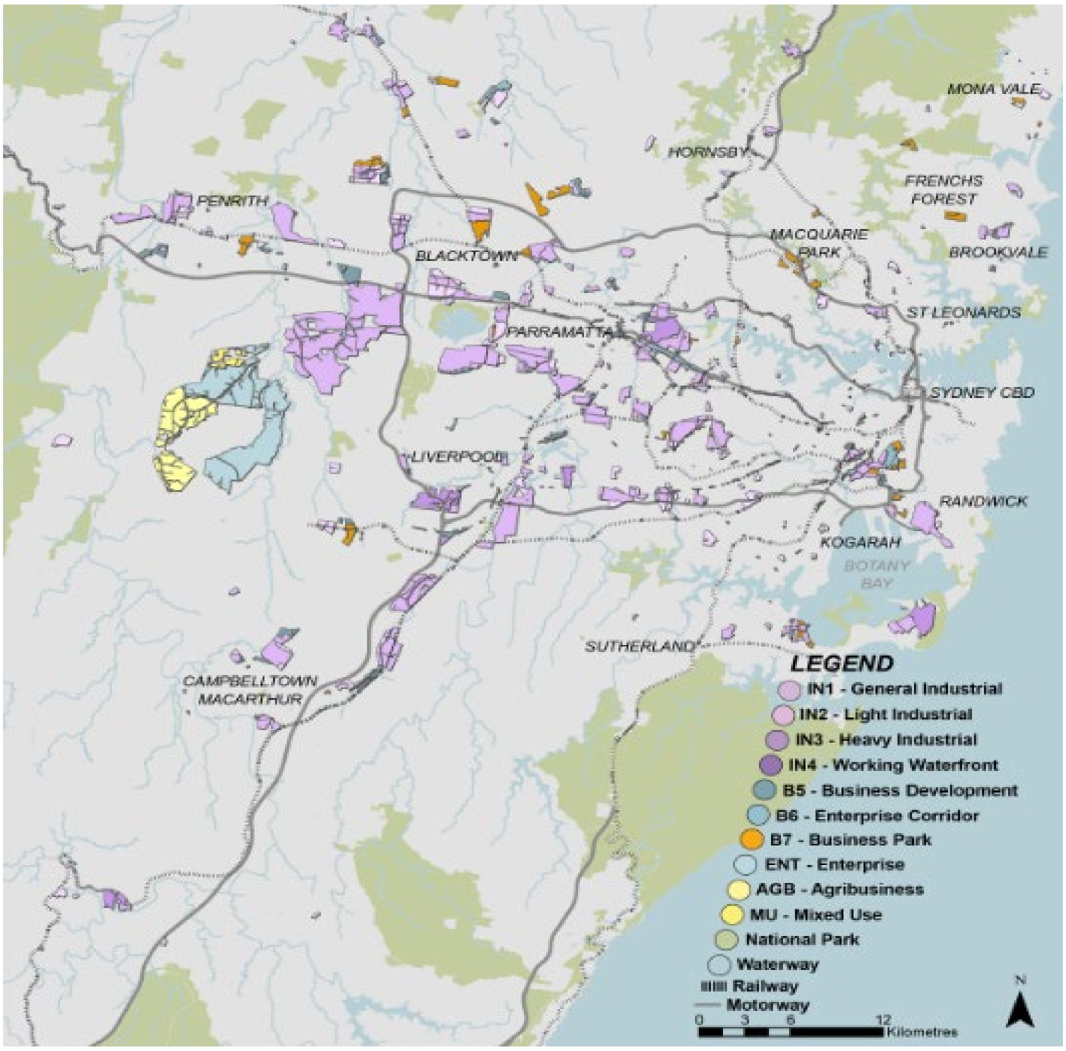
Take-up of employment land for industrial development was 86ha in 2020. This was lower compared to 140ha in 2019 and the long-term historical average of around 150ha. This decline in land consumption was however not due to a lack of demand but due to the unavailability of employable land in key precincts.

SYDNEY INDUSTRIAL ZONED LAND SUPPLY

	2021			2020		
Sydeny Regions	Undevel-oped	Devel-oped	Total	Undevel-oped	Devel-oped	Total
Central	1,058	3,545	4,604	1,030	3,545	4,575
Eastern	57	1,424	1,480	61	1,425	1,486
North	37	520	557	38	520	558
South	186	1,468	1,655	147	1,513	1,660
Western	5,716	4,351	10,067	1,415	4,009	5,423
Total	7,054	11,308	18,363	2,691	11,012	13,703

Source: Employment Lands Development Monitor, Urbis

SYDNEY INDUSTRIAL ZONED LAND 2021



Source: Employment Lands Development Monitor

BUSINESS RELOCATION A REAL POSSIBILITY

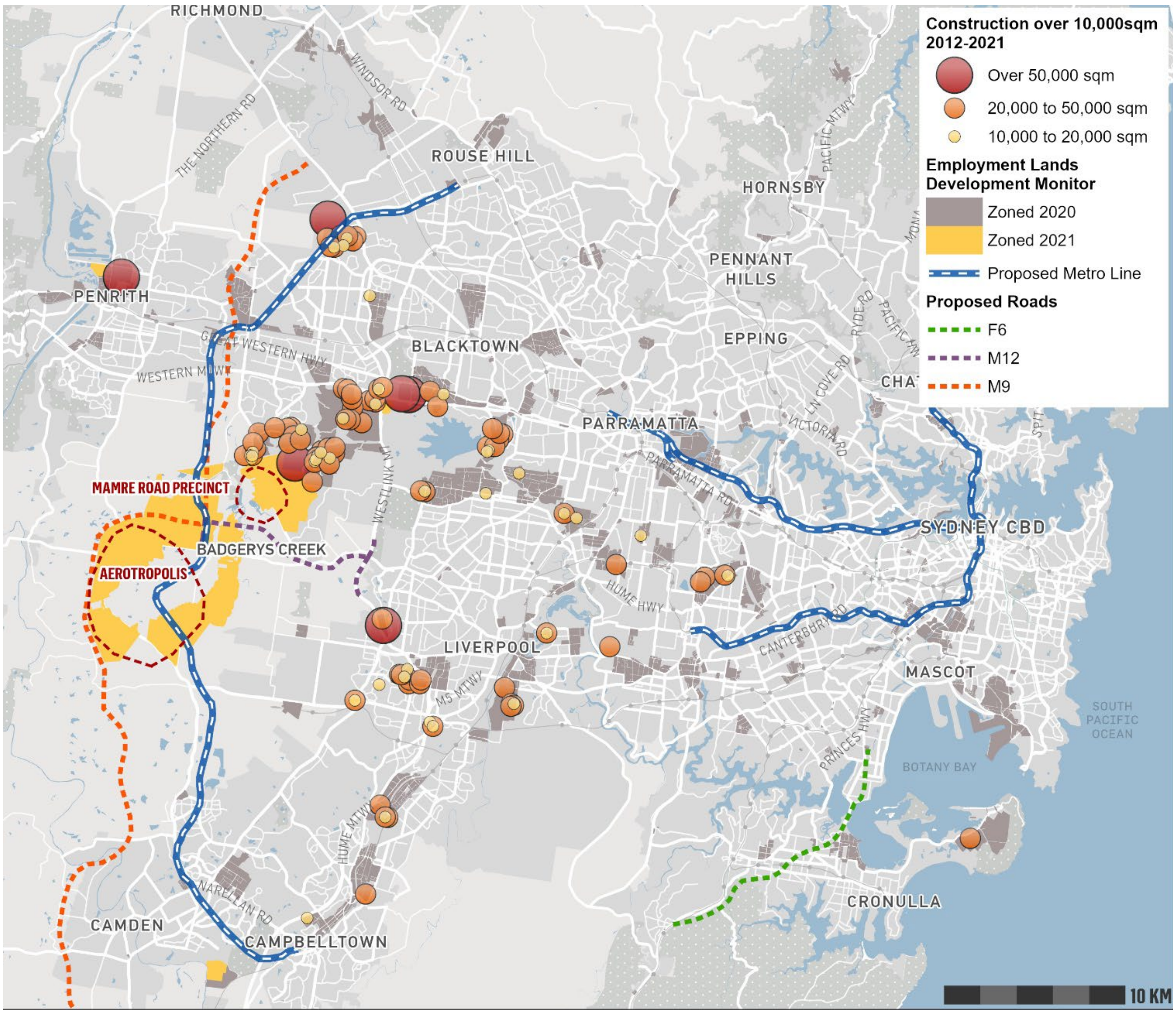
Vacancy in the Sydney Industrial market was recorded at historical lows of 0.3% as of Q1-22*. This has had a cascading effect on rents and land values in the region, which have witnessed a steep increase recently. The impact was more severe in areas of high industrial demand including the Western Sydney corridor, due to their location and accessibility to infrastructure.

With the recent rezoning of industrial land in the precinct, the extent of which is highlighted in the map in yellow, the corridor is expected to get a much-needed increase in available land capacity. The corridor is also expected to gain from Government investment in the new airport as well as Sydney Metro - Western Sydney Airport Line and road infrastructure.

The recent land rezoning and impending infrastructure investment in Sydney would also provide an impetus for prospective businesses in Melbourne to reconsider their locational objectives, which are predominantly guided by land size availability, transport links, locational synergies and proximity to clients.

This highlights an urgent need for the Victorian Government to expedite additional land release with supporting road and rail infrastructure.

SYDNEY INDUSTRIAL SUPPLY AND PROPOSED INFRASTRUCTURE



Source: Employment Lands Development Monitor, Urbis

CHALLENGES FOR MELBOURNE'S INDUSTRIAL SECTOR

The rezoning of industrial land in Sydney will provide the required reprieve on land supply shortage in that region. However, Melbourne's industrial market remains land-constrained, and the sector is coping with the various challenge listed below that have an impact on how effectively it can operate and pose a threat to its competitiveness relative to Sydney.

Industrial land has become highly constrained in the south-east and west regions due to delays in zoning of proposed land through future PSPs and delivery of infrastructure required to sustain development. This is exerting pressure on existing zoned land which is unable to cater to the evolving needs of industrial users. Limited additional supply available in state-significant precincts elevates the importance making undeveloped zoned land serviceable through improved planning controls and delivery of road and rail links.

Land consumption has seen a significant uptick due to an unprecedented demand from logistics and retail operators buoyed by e-commerce and supply chain re-configuration headwinds. The land consumption rate has peaked in the last couple of years and is expected to remain high as demand for space increases to accommodate additional storage capacity and automated order fulfilment. Demand is also driven by a renewed focus on onshore manufacturing resulting from the bottlenecks witnessed in the wake of the pandemic, more apparent in the health and life science sectors.

Increased land values and rents are adding to cost of business as a constrained market pushes lot prices higher. Land values in Melbourne's key industrial precincts have continued to rise recently on the back of lack of land supply and pent-up demand. While the impact of this growth has varied for the different regions in Melbourne, the market overall has witnessed a shift towards higher costs. Industrial rents have also trended upwards as a result of this tightly held market, adding to the operational costs of businesses in the region.

Additional **industrial or employment land is required to relieve the existing cost pressures** and also drive employment growth. While some PSPs have been gazetted to provide part of the supply of land required, many remain inactive and delayed. A high focus on supporting infrastructure makes it impossible for the land to be further developed for its intended use. An expedited delivery of the infrastructure projects earmarked for development including the proposed intermodal terminals (WIFT and BIFT) would go a long way in providing certainty for businesses to prioritise further expansion in the region.

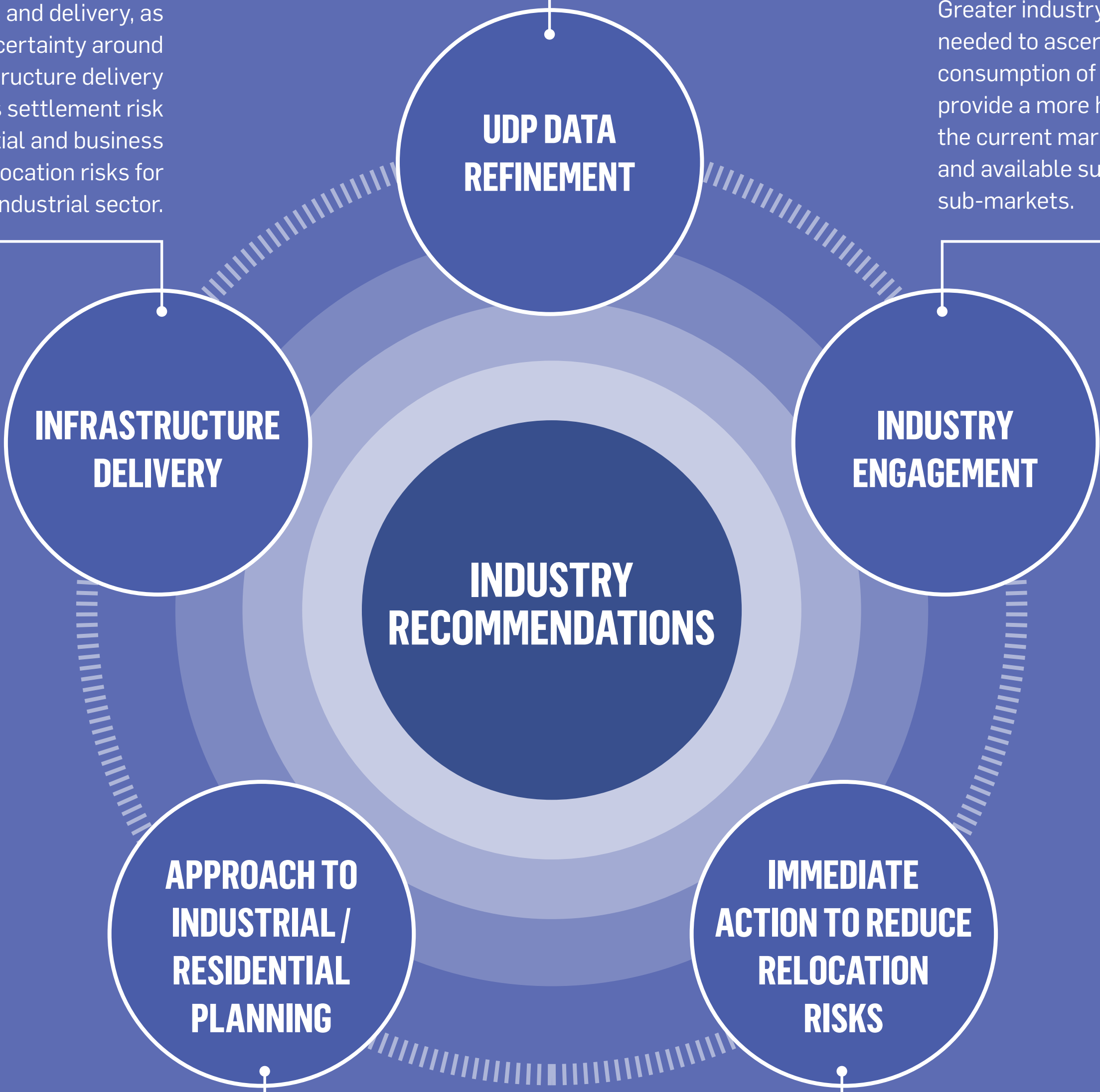
The spread of industrial development has **reached the edge of the Urban Growth Boundary**, which was set out by the VPA in 2002 ,in several industrial corridors in the region. This is further impacting the ability of businesses to find suitable locations to set up operations. While there is still zoned land available in the northern corridor, lack of infrastructure, distance from the key ports and major consumer clusters hinder some businesses' ability to efficiently operate from their preferred region.

INDUSTRY ENGAGEMENT FEEDBACK

Industrial sites that are constrained due to existing topographical barriers should be excluded from the supply component of the UDP data. Further insights are also needed to understand residential supply opportunities.

Clear timeframe and sequence for infrastructure planning and delivery, as continued uncertainty around infrastructure delivery heightens settlement risk for residential and business relocation risks for industrial sector.

Greater industry engagement is needed to ascertain the level of consumption of sites. This will provide a more holistic view of the current market conditions and available supply in the sub-markets.



To ensure optimum utilisation of brownfield / infill opportunities in industrial, a more concerted planning approach is needed to give occupiers and developers confidence to act. Stretching out of approval timeframes is also a key concern for the residential sector.

The recent zoning of land in the Western Sydney region requires immediate action through activating Melbourne PSPs. This will ensure that sufficient land supply is available for development to lower the potential risk of business relocation.

INFRASTRUCTURE NEEDED TO PROPEL THE SECTOR

The key projects that are anticipated to deliver efficiencies in the sector are:

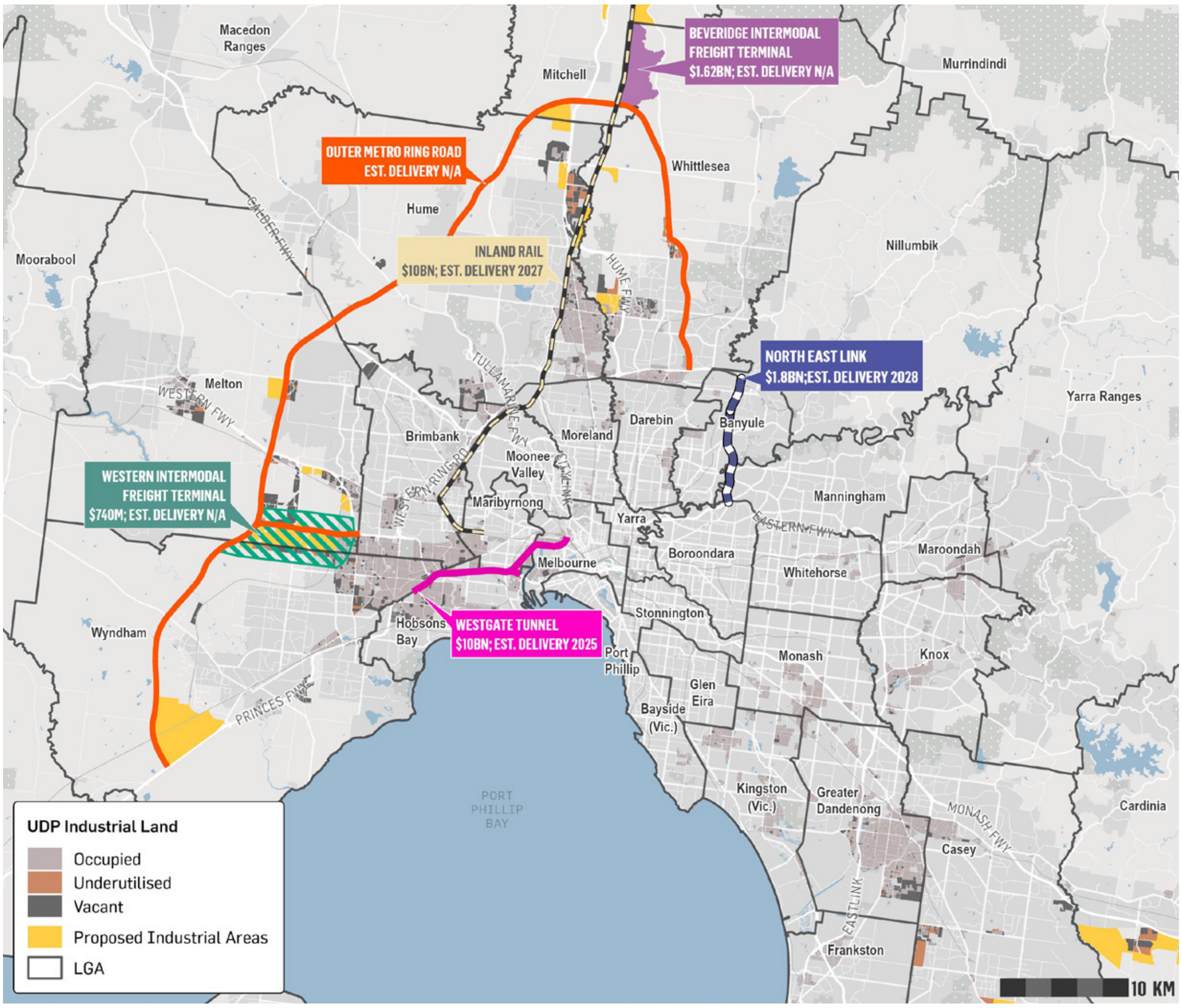
Proposed:

- **Beveridge Intermodal Freight Terminal (BIFT) and Western Intermodal Freight Terminal (WIFT)** – Proposed to provide the rail connections required for moving freight interstate. However, the terminal and surrounding land does not have a clear timeline for delivery and is expected to be many years of planning and construction.
- **Outer Metropolitan Ring (OMR)** – Proposed to accommodate 100 kms of high-speed transport link, connecting the western and northern transport corridors through the two proposed intermodal terminals. This will drastically reduce internal truck movements, while providing greater connectivity.

Under-Construction:

- **Inland Rail** – With estimated completion by 2027, the rail network will be 1,700kms in length, connecting regional Victoria, NSW and Queensland and significantly reducing transport freight costs. A further link between the Port of Melbourne, the proposed rail network and the intermodal terminals is also under consideration, with a business case to commence mid-2022.
- **North East Link** – Building the missing link between the North and East freeway network, with upgrades to the M80 Ring Road and the Eastern Freeway. Tunnel works started in 2022 with construction expected to complete by 2028.

VICTORIAN INFRASTRUCTURE PROJECTS



URBIS