Market Profile and Prospects – Industrial

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Executive summary

- The industrial Corporate Real Estate (CRE) sector has been re-rated in Australia and globally; this represents a permanent change relative to other CRE sectors – principally office and retail assets.
- The key driver of industrial re-rating has been changes in the underlying demand for industrial space – inventories, storage, fulfilment, manufacturing; many of these changes are long-term but the COVID-19 pandemic illuminated and accelerated these changes in inventory management, shopping habits and supply chain management.
- Sharp rises in industrial rents and low vacancy are stimulating a construction cycle in many industrial markets; while additions to supply is already moderating rental growth and providing relief in very tight leasing markets, a scarcity of land for industrial development is emerging across Australia, reflected in sharp rises in land values.
- Tightening yields driving market values as well as additions to stock has lifted the industrial market weighting in Australia's CRE stock, indicatively from 20% to 30%; some investors in CRE markets are therefore reviewing their portfolio weightings in favour of increased exposure to the industrial sector.
- Bank lending has responded by a reweighting towards industrial assets; lending by Australian banks to industrial assets has risen by 17.8% p.a. (2020 to 2024) compared with 5.4% p.a. (office) and 8.0% p.a. (retail); however, bank lending for all three sectors is now at 93% of CRE exposure limits, suggesting little flexibility in the event of a market slow-down or correction.
- Sales volumes of institutional grade industrial assets were estimated at around $11 billion in 2024 and the ten-year average is $6 billion with considerable year-to-year variation; Madigan suggests that the ten-year average sales volume represents a reasonable long-term benchmark for liquidity in this market.
- The profile of Australia's industrial market described here reveals a market in the process of transition; exposure to this market is an opportunity to participate in the next phase of this maturing market with global links.

1. Introduction – Industrial Repositioning

Historically a market weighted Australian CRE portfolio would have comprised office/retail/industrial assets in a 40/40/20 ratio. However, the COVID-19 pandemic has driven a major change in the value and market weight relativities of the three major CRE sectors. The Office sector has declined from > 40% (2018) to 30% (2024). The Industrial sector has risen from 10% to >20%.[1]

This re-weighting reflects *both* an increase in the *number* of industrial assets held in institutional portfolios *and* a re-rating of the industrial sector to align *valuation metrics* (yields and capitalisation rates) with the office and retail sectors.

Post-COVID-19 the Industrial sector has attracted high levels of investor and owner-occupier interest, both domestic and cross-border, reflected in transaction volumes, valuation metrics and an emerging construction cycle. Low vacancy rates and an emerging scarcity of land for development complete the picture of a sector in transition.

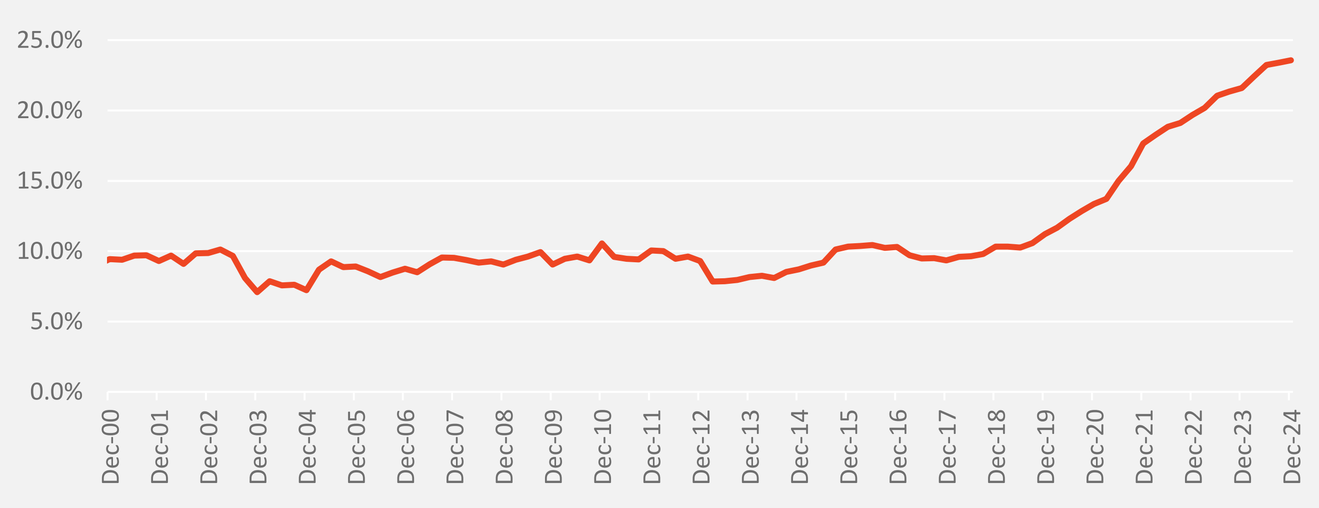
Madigan believes that this represents a long-term shift in favour of the Industrial sector, previously valued at a discount to the office and retail sub-sectors. Accordingly, in recent years Madigan has actively weighted its client portfolios to the Industrial and Logistics sectors, predominantly on the eastern seaboard in key markets of Sydney, Melbourne and the Brisbane Gold Coast corridor.

[1] Based on value weightings in the PCA/MSCI Australia All Property Index.

2. Size, Structure, Performance – Industrial Re-Weighting

To the extent that this elevation in the rating of industrial assets reflects *cyclical factors* (such as the downturn of office market values in response to WFH trends and pressure on retail assets arising from on-line shopping) some reversion can be anticipated towards the pre-COVID-19 status. However, the rise in the *number of assets* included in the PCA/MSCI Index suggests a *permanent* change in institutional portfolio weightings. Between December 2018 and December 2024, the *number* of Office assets in the Index declined from1,540 to 1,390. The *number* of Industrial assets rose from 447 to 630.

FIGURE 2.1: INDUSTRIAL: WEIGHTING (%) BY VALUE OF AN INSTITUTIONAL PORTFOLIO



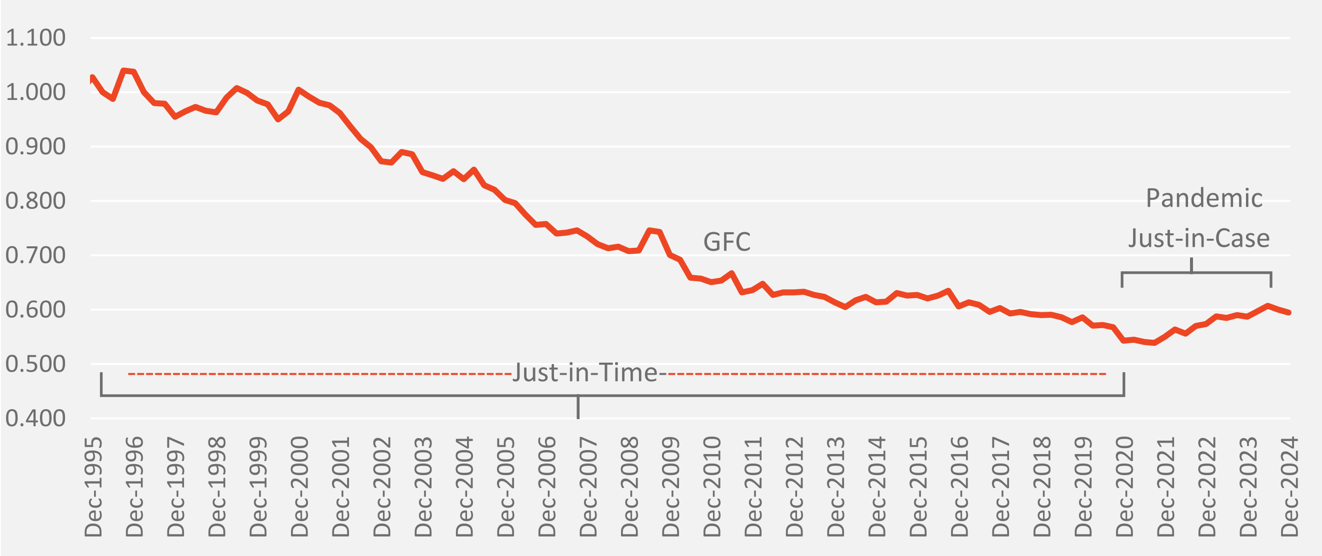
Source: PCA/MSCI Australia All Property Digest

Supporting this trend is the emergence and growth of new industrial specialised formats – Data Centres, Backup Facilities and, supporting the rapid growth in suburban home delivery, smaller fulfillment warehouses close to transport and suburban locations.

3. Why Now? Shifting Demand for Space

Underlying this structural shift in the investment market is what appears to be a long-term change in behaviour by manufacturers, retailers and their customers. Disruption of global supply pipelines and transport (particularly air transport) during COVID-19, scarcity of drugs, pharmaceutical equipment and hospital capacity has stimulated a review of inventory management by retailers, wholesalers and, probably, households.

FIGURE 3.1: STOCK TO SALES RATIO



Source: 5296.0 Australia National Accounts Table 24

The long-term decline is the stock-to-sales ratio in Australia (1995 to 2019) appears to have reversed post-2019 (Figure 3.1). The structural decline was driven by investment in IT inventory systems, containerisation, declining transport costs and a deregulated and more competitive financial environment supporting the "Just-in-Time" inventory concept. Therefore, while the *quality* of industrial warehouse space has been improving, the *gross area* required per unit of sales has been declining.

Post-Covid-19 an increased focus on security ("Just-in-Case") combined with a sharp (probably permanent) rise in on-line shopping and home delivery implies an increase in specialised logistics capacity, as well as a premium on locations close to transport hubs and consumer markets.

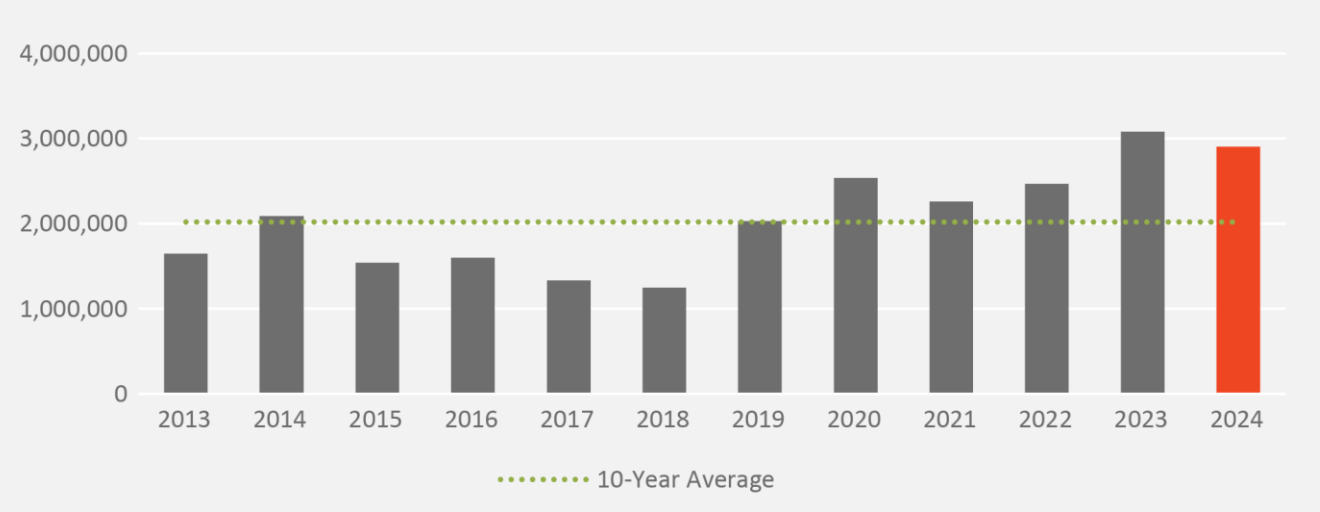
Inventory management is a particularly important decision variable in Australia because distances are large and population concentrations relatively small. Therefore transport and holding costs are key variables driving financial performance for many businesses.

Madigan believes this is a long-term structural shift in inventory management. It implies a permanent increase in demand for high quality and efficient industrial warehouse space.

3. Physical Industrial Market Statistics

NATIONAL SUPPLY AND TAKE UP

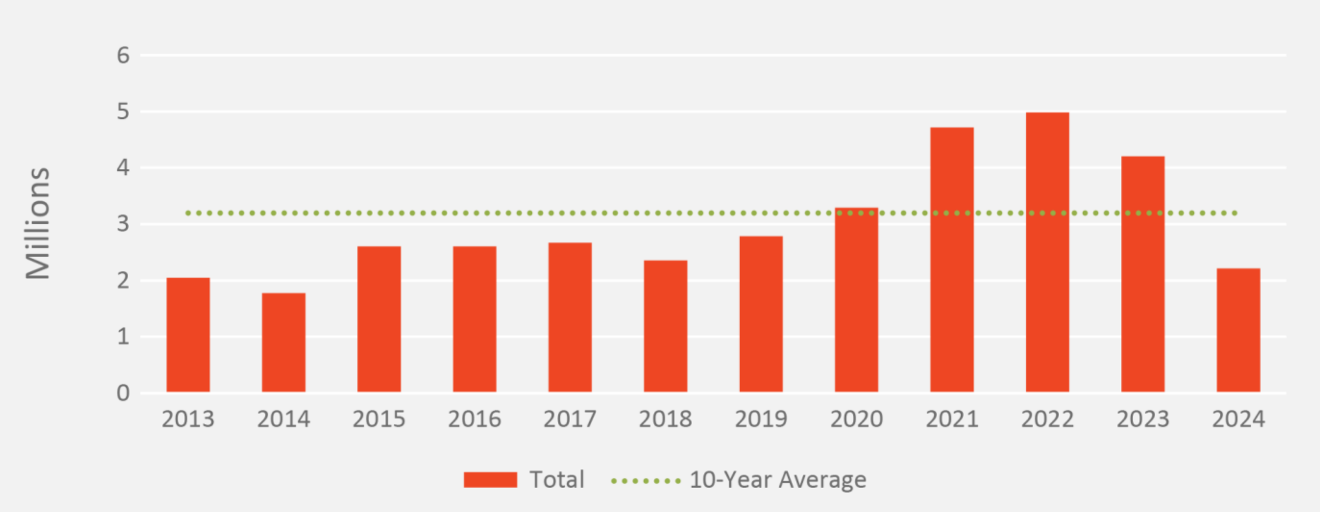
FIGURE 4.1: AUSTRALIAN INDUSTRIAL AND LOGISTICS SUPPLY (2013 TO Q3 2024)



Source: Colliers 3Q 2024 Industrial Snapshot

Full year forecast national supply is forecast to exceed the 2023 level. An estimated 40% of the additional space is pre-committed.

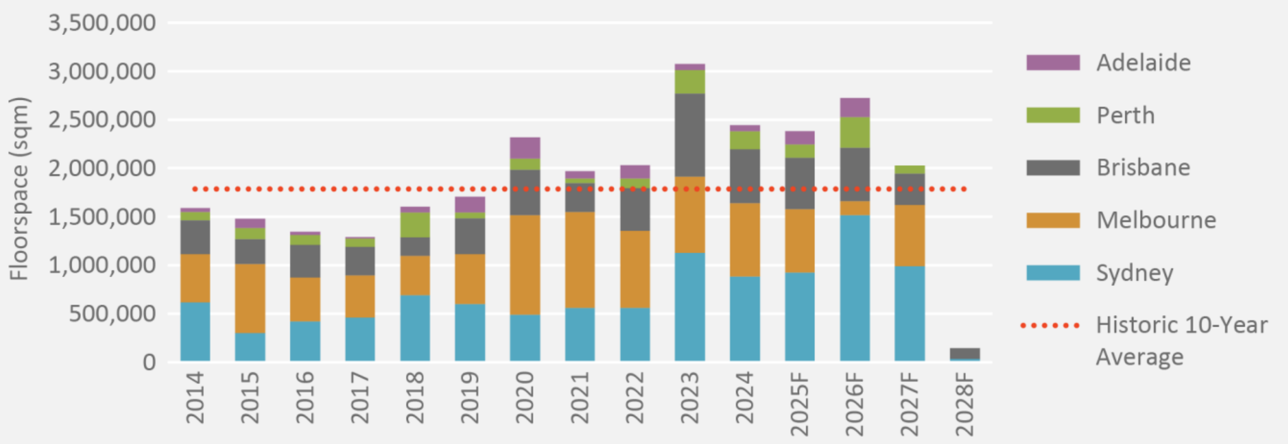
FIGURE 4.2: AUSTRALIAN INDUSTRIAL AND LOGISTICS GROSS TAKE-UP (2013 TO Q3 2024)



Source: Colliers 3Q 2024 Industrial Snapshot

As a result, vacancy rates are rising in the major industrial markets.

FIGURE 4.3: DEVELOPMENT SUPPLY PIPELINE BY CITY



To note: reflects new projects >5,000 sqm for Sydney and Melbourne, projects >4,000 sqm for Brisbane and Perth, projects >3,000 sqm for Adelaide.

Source: CBRE Research Q4 2024

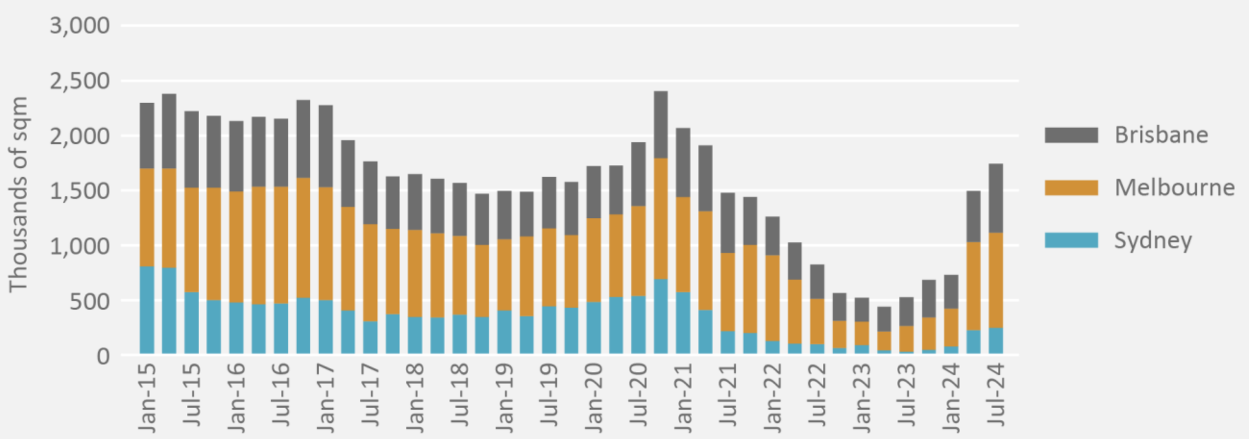
An estimated 2.4 million sqm of new floor space was added to the market in 2024, 27% above the long-run average. Sydney accounted for 36% of the additions to space followed by Melbourne 31% and Brisbane, 22%.[2]

The 2025 completion pipeline, c.2.4 million sqm, is similar to 2024 completions and is 40% pre-committed. Speculative developments account for an estimated 60% of 2025 new builds, similar to 2024.

VACANCY

For the past three years take-up of Industrial and logistics (I&L) space has exceeded supply on a national basis. However, supply is now accelerating, supporting the view that rents will stabilise beyond 2024 as vacancy moderate, probably long-term in the 5% to 8% range. Supply in 2024 exceeded take-up resulting in a moderate rise in vacancy nationally. Estimates of industrial vacancy rates vary. Knight Frank estimates Eastern seaboard vacancy to be 7%, slightly above the ten-year average in Q2 2024.[3] Colliers estimated Q2 2024 national industrial vacancy to be 2.5%. The differences probably reflect different sample parameters and definitions of "vacancy" (physical vacancy vs unleased space for example).

FIGURE 4.4: EASTERN SEABOARD INDUSTRIAL VACANCY ('000 SQM, 5,000SQM+)



Source: Knight Frank

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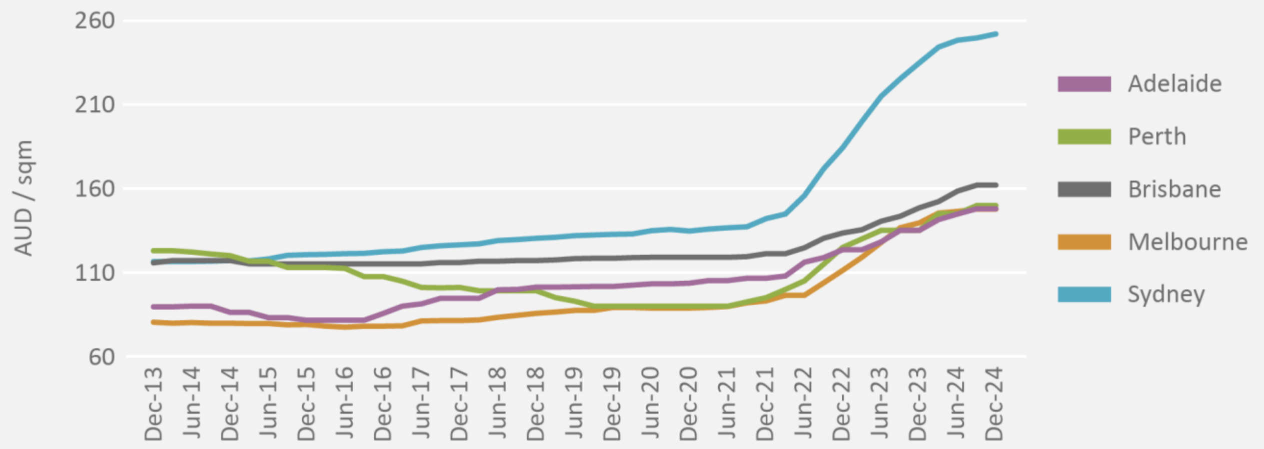
[2] Source: CBRE Research. 2025.

[3] Knight Frank Australian Industrial Review Q2 2024.

RENTS

FIGURE 4.5: SUPER PRIME NET FACE RENT BY CITY

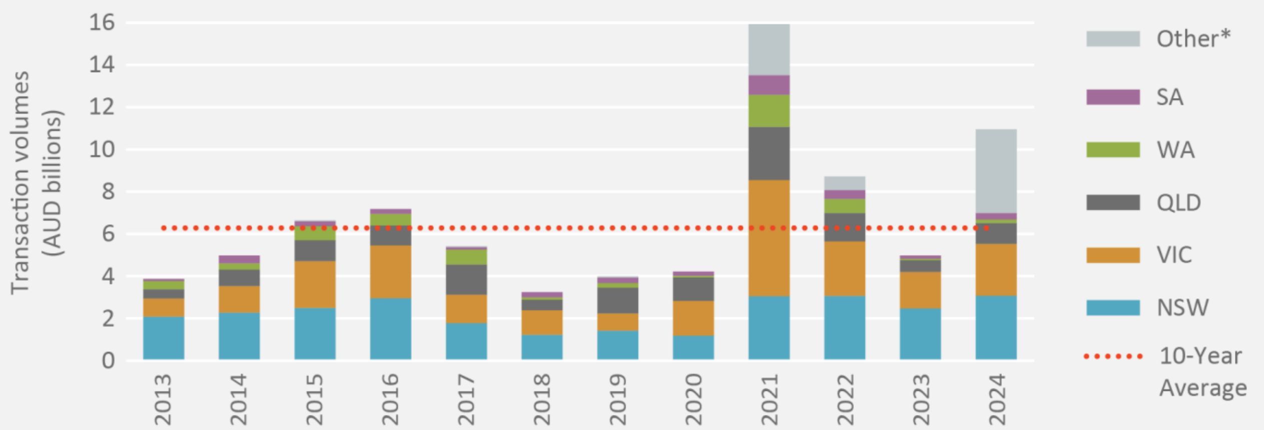


Source: CBRE Research Q4 2024

Industrial prime face rents are stabilising in all major industrial markets in response to rising supply. It should be noted that rent-free incentives are in the range 10% to 15% in most markets, Melbourne being an exception where incentives of 20% to 25% are reported. In assessing investment performance therefore published yield (or capitalization rate) statistics should be assessed accordingly. (See Section 5.1)

SALES VOLUMES/LIQUIDITY

FIGURE 4.6: INDUSTRIAL INVESTMENT SALES, INCOME PRODUCING ASSETS (>AU$10 MILLION)



To note: Reflects investment sales of income producing assets AUD 10 million and greater.
*Other reflects portfolio sales across multiple cities where individual asset price has not been disclosed.

Source: CBRE Research

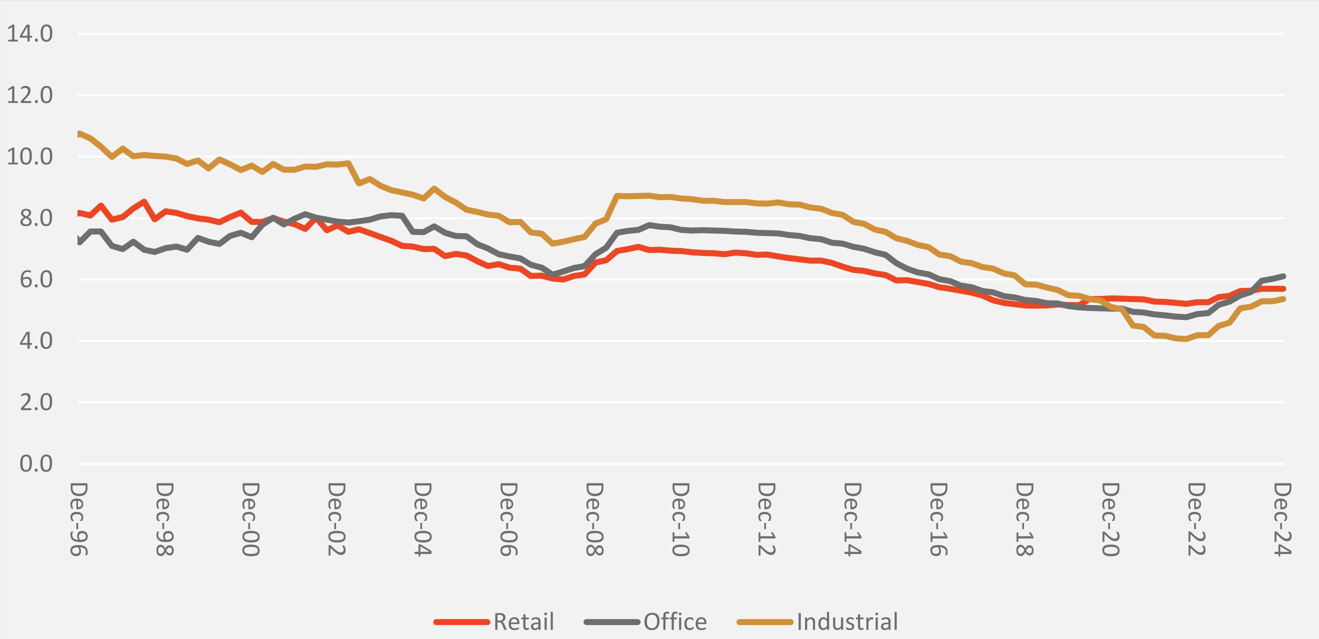
Transaction volumes fell sharply in 2023 but have rebounded in 2024.

Madigan anticipates that the ten-year average sales volume provides a fair benchmark for prime industrial market liquidity going forward. In the key Sydney and Melbourne markets the underlying market activity will be supported by growth in demand for prime and super prime industrial and logistics facilities.

4. Industrial Financial Market Metrics – Permanent Re-Rating

CAPITALISATION RATES CONVERGING

FIGURE 5.1: COMMERCIAL SECTORS CAPITALISATION RATES



Source: PCA/MSCI Australia All Property Digest

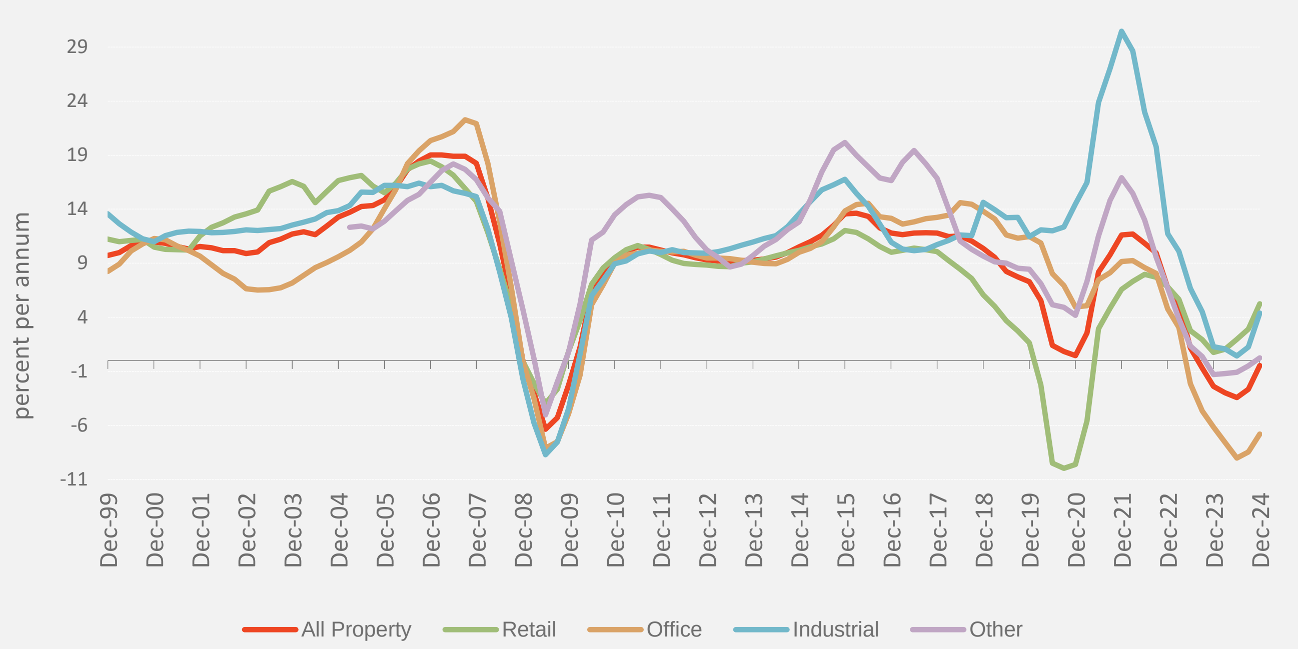
The industrial institutional grade sector has been re-rated in Australia and globally. During 2020-22 there were signs of over-shooting, compounded by cyclical weakness in office and retail markets. Rising construction and a stabilisation of inventory levels point to an end to Industrial sector extreme out-performance. The national average mid-point yield for super prime grade assets is estimated at 5.9%[4].

Madigan believes that the rating shift to align prime grade industrial assets with retail and office (as is also the case in the US for example) is permanent.

[4] CBRE Research Q4 2024.

INVESTMENT PERFORMANCE: OUT-PERFORMANCE CYCLE MATURING

FIGURE 5.2: TOTAL RETURN, ROLLING ANNUAL % P.A.



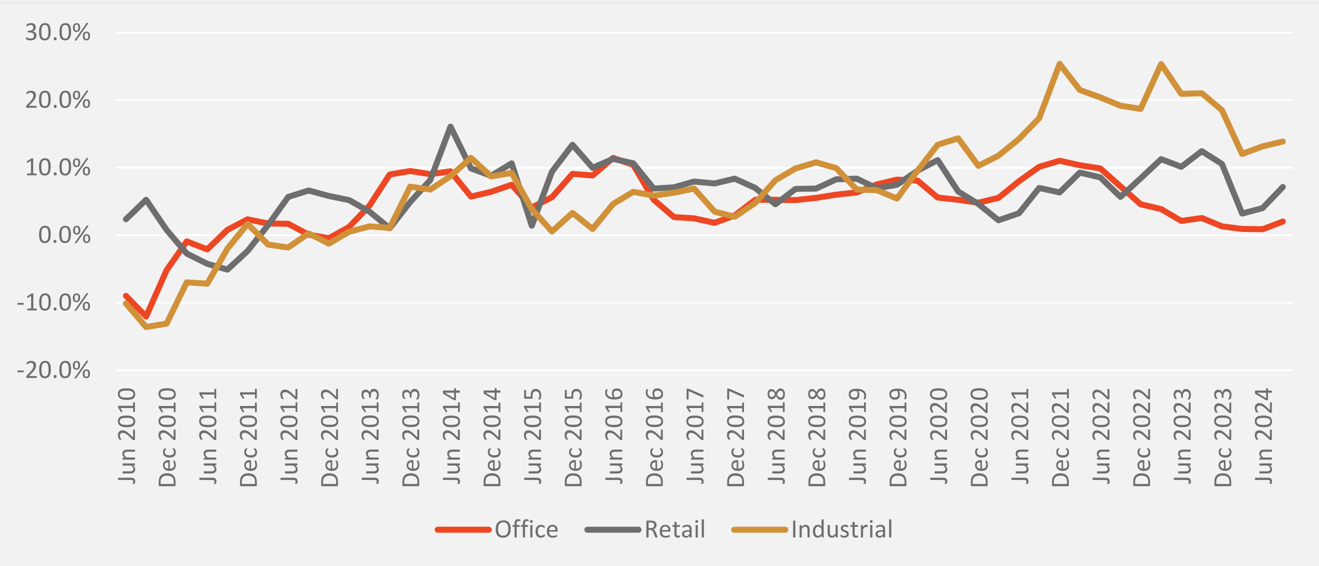
Source: PCA/MSCI Australia All Property Digest

The cyclical (and temporary) out-performance by the industrial sector has clearly ended.

Madigan anticipates that permanent structural shifts will emerge as a permanent re-rating across the major CRE sectors in favour of industrial assets.

5. Financing – Bank exposure to Industrial has been growing rapidly

FIGURE 6.1: ALL BANKS EXPOSURE TO CRE SECTORS (% GROWTH PER ANNUM)



Source: APRA

Exposure to the Industrial sector by Australian banks has been growing at 17.8% p.a. (Q3 2020 to Q3 2024)[5] outpacing office and retail exposures. Industrial exposure now accounts for 18.4% of total bank CRE exposure. This compares with exposure of 27.3% (office) and 25.0% (retail). Actual bank exposure to all three of these major CRE sector is at 93% of bank exposure limits (Q3 2024) – also an all-time high and with limited scope in the event of a CRE market downturn or cap rate decompression.

[5] APRA Quarterly authorised deposit taking institution property exposures, September 2024.

6. Land Availability – An Emerging Challenge

The growth in demand for industrial land, and the premium attached to particular locations accessible to markets and transport facilities is reflected in increased focus on land availability. The important Western Sydney market (35 million sqm) has been identified as being particularly land constrained.

Based on the average industrial land take-up over the past three years (c.190 ha p.a.) CBRE Research estimates a land supply deficit of 91 ha over the period 2025-2030. A high take-up scenario implies a deficit of 319 ha (2025-2030) [6]. The Sydney average industrial vacancy rate is currently estimated at 2.1%. While the forward pipeline in the Sydney industrial market exceeds the ten-year average, a pre-commitment level of 40% implies continuing tightness in this market.

Other markets also face challenging conditions. Brisbane, for example, Q2 2024 vacancy rate 2.8%, recorded industrial land price increases of 26% (0.25 ha lots) and 39% (1.6 ha lots) during CY2024. The mid-2024 Perth industrial vacancy rate was estimated at 1.4% by CBRE Research and through CY2024 lot values rose 8.0% (1.6 ha. Lots) and 14.1% (0.25 ha. Lots).

[6] CBRE Research Sydney Industrial and Logistics Supply, February 2025.

ABOUT MADIGAN CAPITAL:

Formed in 2016, Madigan Capital is an Australian real estate debt asset management firm. Madigan is known for its expertise in providing investors with access to high-quality, direct credit exposures secured by underlying real estate assets and associated strategies.

Madigan Capital is majority owned by its senior executives thus ensuring critical alignment of interest with its institutional investors. A strategic stake in the firm is owned by European based CC Real GmbH

The company manages funds on behalf of various sophisticated local and offshore institutional investors and partners, with investments across all real estate and social infrastructure sectors in all stages from asset creation to mature income producing stabilised investments.

Madigan seeks to differentiate itself in the Australian alternative real estate debt market through a strong focus on real estate fundamentals alongside more traditional credit assessment, and benefits from the team's extensive hands-on experience of managing loan books through various market cycles and via a wide range of strategies and structures, both local and offshore/cross-border.

OUR PEOPLE - LEVERAGING REAL ESTATE AND FINANCIAL SERVICES KNOWLEDGE

Madigan Capital has been driving growth through multiple financial cycles. Our dedicated end-to-end senior management team has an average 29 years' experience across both real estate and financial markets.

Name	Responsibilities	Career Years / Commencing		Madigan Years / Commencing		Selection of Previous Experience (Years)
Michael Wood	Founder, Executive Chairman	43	1982	8 / 2016	2016	Quadrant REA (10) Lendlease (10)
Chris Wilson	CEO	27	1998	2	2023	Future Fund (14) KWM (3)
Eliza Chan	CFO	23	1998	8	2017	Macquarie (5) Deutsche Bank (4)
Justin Pelly	General Counsel	39	1986	6	2019	Freehills (Partner 22)
Luke Briscoe	Head of Capital and Investor Solutions	29	1996	1	2024	AMP Capital (6) GPT (8), ISPT (2)
Peter Crawford	Head of Investments Origination & Transactions	17	2008	7	2018	CBA (2), Deloitte (4)
Kristopher Staltare	Funds Management	18	2006	4	2021	Hostplus (6), PWC (2)
Christine Bayadi	Asset Management	35	1988	8	2017	Challenger (4) Westpac (10)

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