

BEYOND THE WAREHOUSE

Examining Australia's Industrial Outdoor Storage Overview | April 2025



What is IOS?

IOS refers to designated outdoor areas used for a wide range of storage purposes, including containers, industrial equipment, vehicles, materials, and other goods. IOS properties are generally located in well-located precincts with easy access to major transport routes and ports, and can include container-rated hardstand space, concrete yards or crushed rock sites.

Global Context

The US is the most mature IOS market, with specialist institutional groups operating in the space. This includes the likes of Realterm, Alterra IOS and B&D Holdings. The large capital appetite has underpinned several large trades across the market, including portfolio acquisitions. Notably, this included the Peakstone acquisition of an Alterra IOS fund in 2024 (US \$490 million across 51 sites).

The market in Europe is less mature than in the US; however, development feasibility challenges have resulted in a pivot of investment strategy from select institutional groups. However, a 50%+ jump in rents in recent years has resulted in several specialist players including Realterm, Roebuck and NW1 Partners having active mandates.

IOS Sector Dynamics

Diverse Demand Drivers

- Strong baseline fundamentals supporting demand, including increased trade volumes, e-commerce, construction and economic conditions.
- Broad tenant pool to include transport and logistics (including containers), building materials, equipment and machinery.

High Barriers to Supply

- Australia is a highly land-constrained market, particularly in high-demand infill precincts or major logistics hubs. Less than 20% of active industrial land supply is in infill markets.
- Existing IOS stock is being reduced each year due to redevelopment or rezoning due to competing land uses for a higher and better use.

Large and Highly Fragmented Sector

- Globally, the sector is valued at US\$215 billion.
- There are very few investors that have active mandates in this space, Minimal institutional ownership with users and privates accounting for a large share of stock.
- Mature market in the US; however, IOS as an investment-grade sector in Australia remains in its infancy.

Asset & Operational Profile

- Typically 1-5 hectare sites with low site coverage.
- Rental growth outperformance when benchmarked against ambient warehouses.
- IOS offers lower capital expenditure and management intensity.

IOS

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Tenant Profile

IOS sites were historically utilised for temporary storage needs; however, they have now become a long-term component for many distribution networks. Similarly, long-dated infrastructure projects require material and equipment storage needs for five or more years in some cases, supporting the investment thesis for investors.

The tenant profile has become much more varied, with sites now being used for a broad mix of purposes, including car parking, machinery and large fleet storage, multi-faceted storage, last-mile distribution, waste processing, electric vehicle (EV) charging, and recreational use. Not all goods and materials need to be stored undercover, and as a result, occupiers with weather-resistant storage needs can achieve substantial operational savings from such sites.

The transport and logistics sector is the largest user of IOS space, where these facilities are utilised for container storage, truck terminals and overflow storage. Inbound and

outbound transport costs can account for 70% of total supply chain costs, and as a result, demand has been most pronounced adjacent to ports and key arterial road networks where business and customer reach can be maximised.

For occupiers storing containers, there is a clear preference for container rated hardstand space, which provides the ability to stack five or more containers.

Construction-related occupiers are one of the more traditional IOS users, with sites utilised for storing bulk and specialised construction materials, housing heavy machinery and smaller tools, and serving as staging areas for preassembly and organising deliveries.

Longer term, the use of IOS sites for electric commercial vehicle fleet charging is expected to add another layer to demand, albeit site specific given the need for ample power access. Similarly, demand for car storage sites, particularly from Chinese EV imports, has grown sharply with several large requirements currently in the market.

What do occupiers look for in a site?



Surface

Depending on the use and weight of goods being stored, the surface material represents a key criteria for occupiers. A concrete surface is the most common criteria for a site of higher operational quality, while container storage operators prefer a container-rated hardstand surface where greater density can be achieved. Alternatively, machinery or equipment storage operators typically prefer the lower cost associated with a crushed rock surface.



Access

Beyond the surface, the site's location is a major driver of tenant demand. For most, access to major transport hubs such as ports, airports, intermodal terminals, and arterial road networks reduces transit times and costs. Easy access is important for the smooth movement of large vehicles and equipment. Locations with multiple points of ingress and egress help minimise delays and improve operational efficiencies for businesses.



Utilities & Security

Given the value of goods or equipment being stored on a site, there is a clear preference for security fencing, and the ability to provide CCTV subject to the occupier's needs. Similarly, access to services, including power, water and drainage, is important for business efficiencies, noting that the exact utility requirements can vary substantially from one occupier to the next.

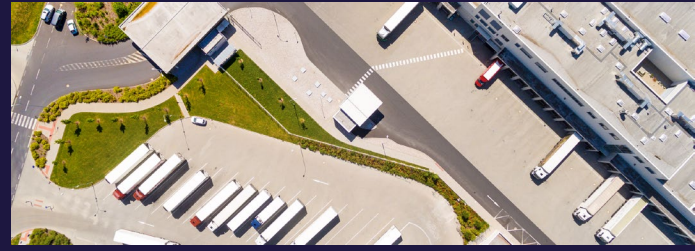


Lease Structures

Occupiers often prefer leases that offer flexibility in terms of duration and renewal options. Short-term leases or leases with options for extensions can be attractive, especially for businesses with fluctuating storage needs. Occupiers tied to longer-term contracts often prefer a minimum lease term of three years, particularly if the site has been earmarked for development as it provides operational certainty.

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Shrinking Land Supply

The pick-up in warehouse supply over the past decade has led to the redevelopment of many IOS sites. This trend is compounded by IOS often being a temporary use on sites earmarked for alternative purposes.

The scarcity of viable land for IOS is particularly pronounced in high-barrier infill markets within the East Coast capital cities. These locations have seen extensive rezonings occur over the past decade, reducing the pool of available sites. For Sydney, over 250 hectares of industrial land have been rezoned for alternative uses in infill markets since 2012, while Melbourne has seen an estimated 450 hectares rezoned over the same period, predominately in Port Melbourne and the City Fringe.

The supply and availability of IOS sites will remain a challenge for occupiers, given the competing pressures on existing industrial land and the intense competition with residential and other employment uses. Ambitious housing targets from all tiers of Government means the rezoning of industrial land in infill locations will likely remain a theme.

Rental Growth

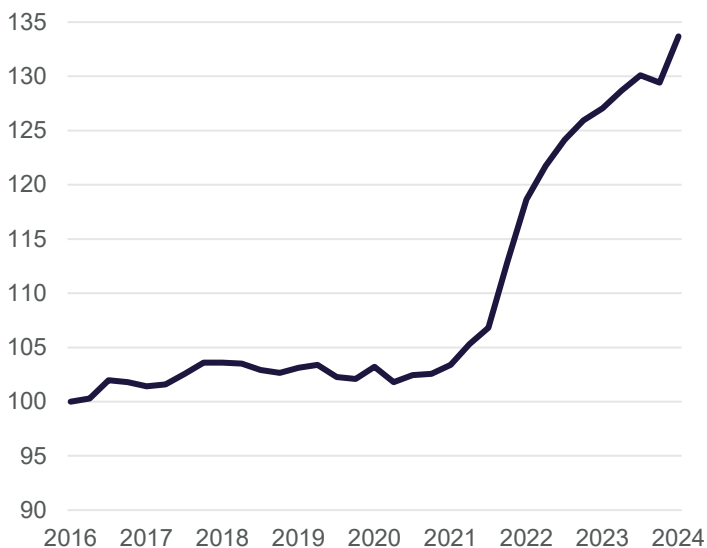
A combination of increased concrete costs (higher economic rents) and a scarcity of land has underpinned a sharp rise in rents across the country in recent years.

Our analysis shows that IOS rents have doubled since 2020 across the East Coast (101.8%), which has outpaced the rate of growth for prime industrial rents over the same period (80.1%). While this partly reflects the lower starting base, a significant factor has been the broadening of the demand pool and diminishing land supply.

Despite the stronger levels of rental growth for IOS, the gap to warehouse space remains in the order of 40%, which is prompting additional demand from occupiers whose storage needs are not limited to indoors. For these operators, IOS is seen as a cost-effective solution for their storage needs.

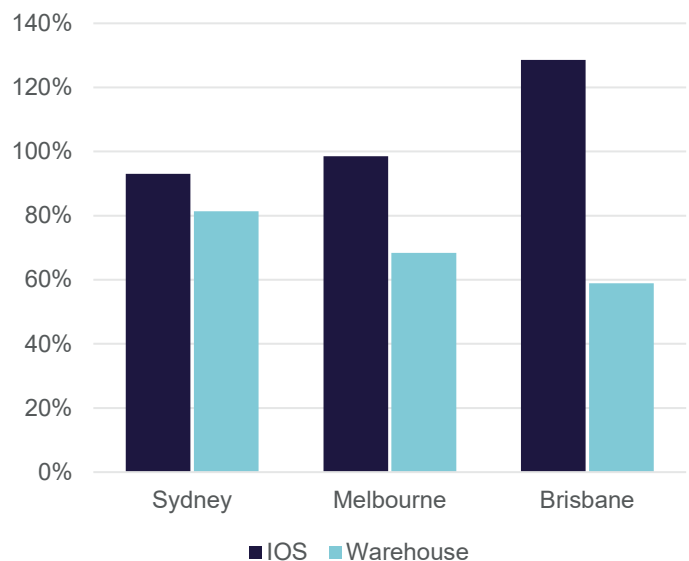
Nationally, IOS rents currently average \$90/sqm for container-rated hardstand, \$72/sqm for concrete sites and \$50/sqm for crushed rock sites, noting there is a large variance across cities and submarkets.

Australian Concrete Cost Index



Source: Cushman & Wakefield
Indexed to 100 in Dec-16

2020-2024 Rental Growth, IOS vs. Warehouse



Source: Cushman & Wakefield

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Investment Environment

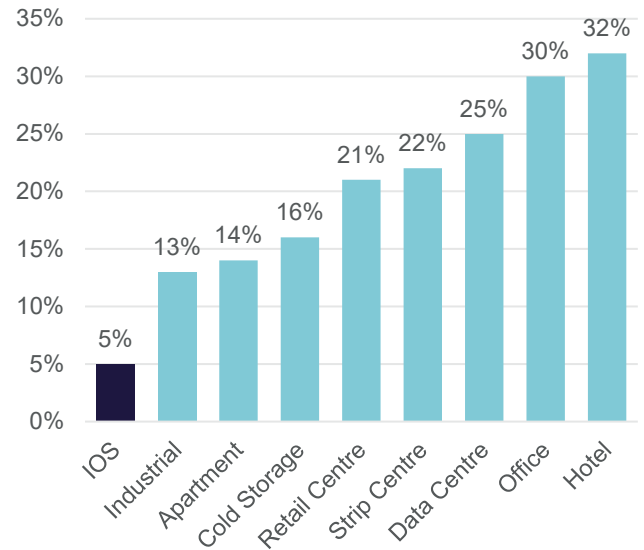
The IOS sector has generally been an overlooked asset class and ownership has been skewed to owner occupiers or developers. However, solid fundamentals and the structural undersupply of appropriate land supply have meant that capital appetite from more passive institutional investors has grown.

The investment thesis for IOS sites is supported by value preservation through the land value and multiple exit strategies, which support investment flexibility.

The challenge, however, stems from the fragmented nature of the sector and generally smaller lot sizes, which means obtaining scale in the sector is difficult. However, the sector's fragmentation and less institutional presence means there is usually significant upside in income growth, which can be enhanced by small value-add initiatives.

IOS yields are typically on par with the broader industrial market at 5.25% to 6.25%, noting that lower capital expenditure requirements support the total return profile.

Capital Expenditure as % of NOI



Source: Green Street

Investor Recommendations

- Target existing or under-utilised IOS sites in core locations. Such a strategy would provide multiple exit strategies for investors, including redevelopment at a point in time or change of use rezoning, subject to planning. Further, industrial land values in infill locations have grown by almost 10% per annum on average over the past two decades, supporting embedded long-term value growth.
- For investors with existing sites, understand the return metrics for IOS as development feasibility remains challenging as economic rents exceed market rents in many submarkets. IOS may provide a short to medium term solution, or, in fact, provide a superior risk-adjusted return to development.
- Investors should seek diversity of lease tenure by pursuing both long-term lease agreements with larger operators and short-term storage solutions for businesses requiring temporary space. This strategy can help maximise income growth and reduce risk.
- Consider value add initiatives such as container rated hardstand or integration with other industrial facilities, including a small warehouse/maintenance facility or refuelling stations. These value-add initiatives will support persistent tenant demand and maintain 'sticky' tenants.
- As environmental considerations become more prominent, investors should embrace green technologies such as solar-powered systems, sustainable construction materials, or environmentally-friendly drainage solutions.



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