

ADELAIDE

INDUSTRIAL MARKET BRIEF NOVEMBER 2017

Key Facts

Yields currently range between 7.75-8.75% for prime stock, with minimal change over the previous six months.

Sales to sitting tenants have been prevalent over the previous year, continuing the strength of the owner occupier market.

Holden's closure in Elizabeth presents challenges to the state, however much of the uncertainty has already been priced into the market.

Year to date sales volumes stand at \$119.8 million (for transactions over \$5 million), marginally surpassing the 2016 total of \$110.85 million.

The cost of capital and the progressive phase out of stamp duty in South Australia has benefited purchasers, with many tenants choosing to become owner occupiers.

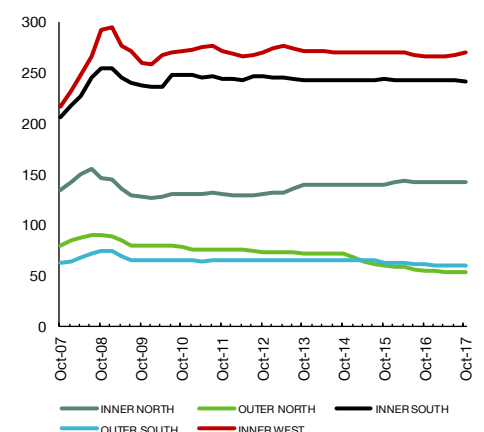
Development & Land Activity

Existing levels of available stock continues to impact the feasibility of developments, with ample inventory limiting the supply pipeline and multiple smaller projects expected to be completed over the forthcoming months. While most precincts were unchanged, the value of small (<5,000m²) and medium sized (1-5 ha) development sites in the Inner West increased by 1.2% and 1.3% respectively in the 12 months to October 2017.

In July 2017, an interstate purchaser acquired Lot 9 Naweena Road, Regency Park in the Inner North for \$4.89 million, reflecting a rate of \$189/m². It's understood the purchaser intends to construct a distribution facility on the 25,840m² Industry zoned site and was attracted by the centralised location and the profile of the surrounding facilities, including those for Coopers Brewery, ALDI and Northline.

by Commercial and General for \$12.88 million, reflecting a rate of \$297/m² of site area. The 43,372m² site has approximately 31,900m² of warehousing and was utilised by Toyota Gosei (Bridgestone) for manufacturing automotive components. It's understood Commercial and General intend to demolish the existing improvements to

FIGURE 1
Adelaide Industrial Land Values
\$/m², by sub market - 1-5 hectare lots



Source: Knight Frank Research

construct a purpose-built Bunnings Warehouse store. The sale price reflects the necessity to remediate the site.

The former Holden Manufacturing facility in Elizabeth (Outer North) is understood to be under contract to an interstate purchaser following an expression of interest campaign. Speculation is that the improvements are to be converted to a business park, however future announcements will be carefully monitored by the market.

Occupier Demand & Rents

In the six months to October 2017, there was minimal movement in average prime industrial rents. Leasing activity has been improving though, notwithstanding the continuing preference for tenants to become owner occupiers with a myriad of transactions to sitting tenants over the past year. The cost of capital and the progressive phase out of stamp duty on commercial transactions has benefited purchasers, with the second phase of the stamp duty reduction occurring on 1 July 2017. The final phase, and full abolishment is to occur at the end of the 17/18 financial year.

One recent notable lease occurred in Gillman (Inner North) to a confidential international corporation who committed to occupying approximately 4,800m². The deal was structured at a rate of circa \$80/m² of GBA for a term of 3+3 years.

In the 6 months to October 2017, average prime industrial face rents within the Inner West experienced a 3.7% decrease, falling from \$130/m² p.a. to \$125/m² p.a.

TABLE 2
Recent Leasing Activity Adelaide

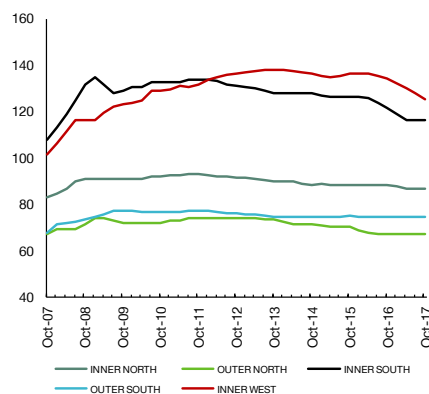
Address	Region	Net Rent \$/m ²	Area (m ²)	Term (yrs)	Tenant	Date
Gillman	IN	80	4,800	3	Confidential	Dec-17
10-14 Millers Road, Wingfield	IN	88	1,198	3	Vacuum Waste Man.	Dec-17
Graham Road, Export Park	IW	77	584	3	Stenhoj	Sep-17
14 Islington Court, Dudley Park	IN	89	1,014	5	Private	Aug-17
16-18 Waddikee Rd, Lonsdale	OS	63	2,457	5	Private	Jul-17
483 South Rd, Regency Park	IN	86	1,561	5	Club Assist	Jun-17
10 Brian Road, Lonsdale	OS	72	2,000	5	Private	May-17
6 Oldham Rd, Elizabeth South	ON	32	2,154	4	AFL Services	Apr-17
397 South Rd, Mile End South	IW	98*	2,000	5	Displayline	Mar-17

IW Inner West IN Inner North OS Outer South ON Outer North *Net Equivalent
Source: Knight Frank Research

In the Inner South, average prime net face rents decreased marginally by 0.8% from \$117/m² p.a. to \$116/m² p.a. Despite this, properties within inner metropolitan areas with good access to

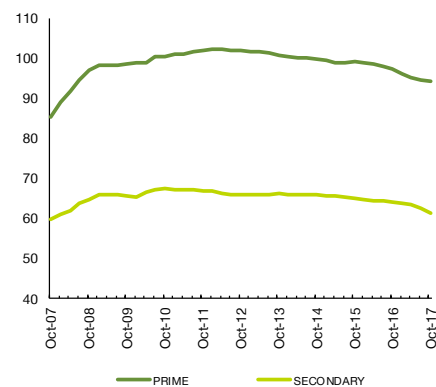
major transit routes have continued to be met with steady leasing demand. Average prime incentives remained unchanged at approximately 10% (six months rent on a five year term).

FIGURE 2
Adelaide Industrial Prime Rents
\$/m² net face, by sub market



Source: Knight Frank Research

FIGURE 3
Adelaide Industrial Rents
\$/m² net face, Prime vs Secondary



Source: Knight Frank Research

TABLE 1
Adelaide Industrial Market Indicators as at October 2017

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields %		Avg Land Values			
	\$/m ² net	(%p.a)	\$/m ² net	(%p.a)	Prime	Secondary	<5,000m ²		1-5 ha	
							\$/m ²	(%p.a)	\$/m ²	(%p.a)
Inner West	125	-6.7	79	-1.5	7.25 - 8.25	8.75 - 9.00	430	1.2	270	1.3
Inner North	87	-1.7	60	-8.0	7.25 - 8.75	9.00 - 10.00	215	-	142	
Inner South	116	-4.6	70	-	7.75 - 8.50	8.50 - 9.50	365	-0.6	241	0.8
Outer North	68	-	49	-7.5	8.50 - 9.25	9.75 - 10.75	80	-	54	-2.3
Outer South	75	-	50	-	8.25 - 9.25	9.75 - 10.50	105	-5.0	60	-2.4
Adelaide	94.2	-3.2	61	-4.1	7.75 - 8.75	9.00 - 9.75	239	-0.2	154	-0.2

Source: Knight Frank Research

Investment Activity & Yields

Total transaction volumes for properties over \$5 million currently stand at \$119.75 million for the 2017 year to November 2017. This figure is tracking marginally above both the 2016 total of \$110.85 and the 10 year average of approximately \$115.00 million (see Figure 4).

Over the previous six months, significant investment transactions were limited to the sale of 6-10 Senna Road, Wingfield (Inner North) in August. The property was purchased via Western Australian based Ascot Capital following off market negotiations for \$21.0 million. The sale reflected a core market yield of circa 7.4% and sold fully leased to GPC Asia Pacific (Repc) with a term certain of 8.4 years.

Industrial yields experienced minimal change over the previous six months, albeit with a tendency for a firming bias. As has been the case within the market for an extended period of time, the deciding factor has been the quality of the tenancy profile. As at October 2017, prime yields averaged 8.27% across all precincts. Secondary yields were also

largely unchanged, with tightening in the Inner West due to the higher underlying land value.

In September 2017, notable owner occupier transactions were recorded in North Plympton (Inner West) and Gillman (Inner North). In North Plympton, the leasehold interest of 240-280 Morphett Road sold for \$7.75 million. The 19,245m² facility was purpose-built by owner occupier Manuele Engineering in 2010 and was purchased by the West

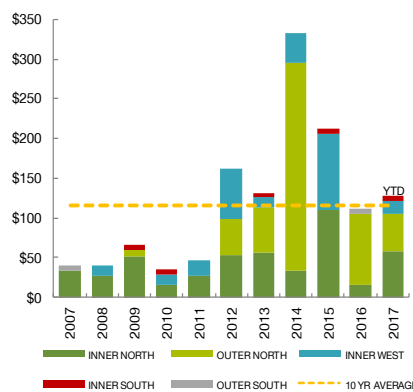
Torrens local council to occupy as a city works depot. The property was offered to market following the closure of Manuele Engineering and the sale price (\$403/m² of GBA) reflects the leasehold nature of the property and lack of overhead sprinkler system.

In Gillman, 95A-95B Bedford Street was purchased by the sitting tenant, AEM Unicore, for \$4.0 million. The property was purpose-built for AEM Unicore and sold following off market negotiations.

FIGURE 4

Adelaide Industrial Sales

\$million, by sub-market, >\$5 million

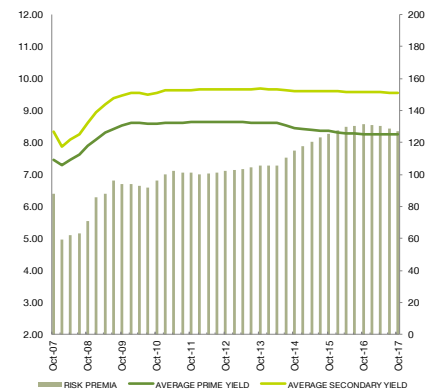


Source: Knight Frank Research

FIGURE 5

Adelaide Blended Yields

% Core market yields (LHS) & bps spread (RHS)



Source: Knight Frank Research

TABLE 3

Recent Land/Development Sales Activity Adelaide

Address	Region	Price (\$ mil)	Area (m ²)	\$/m ² of site area	Zone	Vendor	Purchaser	Sale Date
1028-1042 South Road, Edwardstown	IS	12.88	43,372	297	IND	Toyoda Gosei	Commercial & General	Jul-17
Allotment 9 Naweena Rd, Regency Park	IN	4.89	25,840	189	IND	SA Government	Confidential	Jul-17
Lot 25 Schumacher Road, Wingfield	IN	2.81	21,650	130	IND	Renewal SA (SA Govt)	CT Group	Jun-17
495 Waterloo Corner Road, Burton	ON	2.15	79,900	27	UE	Private	BH Burton	Mar-17

Recent Improved Sales Activity Adelaide

Address	Region	Price (\$ mil)	Bldg Area (m ²)	Core Mkt	WALE (yrs)	Vendor	Purchaser	Sale Date
240-280 Morphett Rd, North Plympton	IW	7.75	19,245	VP	VP	Manuele Engineering	City of West Torrens	Sep-17
95A-95B Bedford Street, Gillman	IN	4.00	3,942	VP	VP	Platypus Properties	AEM Unicore*	Sep-17
6-10 Senna Road, Wingfield	IN	21.00	29,330	7.40	8.4	Kyren Group	Ascot Capital	Aug-17
71-75 Woomera Avenue, Edinburgh	ON	4.05	3,800	VP	VP	Private	Private	Aug-17
23-25 Birralee Road, Regency Park	IN	4.00	3,411	VP	VP	Private	Private	Jul-17
32-54 Kaurna Avenue, Edinburgh	ON	9.70	12,115	VP	VP	KJM	Private	Jun-17
18-20 Waldaree Street, Gepps Cross *	IN	4.45	1,766	7.59	5.5	Private	Private	May-17
8-16 Vater Street, Dry Creek ±	IN	20.51	18,068	#	#	Goodman	Blackstone	Apr-17

Source: Knight Frank Research

IW Inner West IN Inner North ON Outer North IN Inner South OS Outer South IND Industry UE Urban Employment
 VP Vacant Possession * Sitting Tenant ± Part of a national portfolio # Undisclosed

Outlook

The outlook for South Australia over the next 12 months is generally positive. Resilient retail spending, an improvement in employment and growth in tourism have benefited the state, however stumbling blocks are faced from energy costs and sluggish population growth.

The closure of Holden's manufacturing presence in Elizabeth and wider Australia presents further challenges to both indirect and direct jobs. Despite this, the extensive lead in time has meant much of the uncertainty has been priced into the market. Considerations post-sale of the facility include the potential for significant stock becoming available for lease.

Major infrastructure activity including the Torrens to Torrens Project, the Darlington Upgrade project and the Northern

Connector project are all well underway or in the initial stages. These components of the overarching North-South Corridor plan will assist in reducing travel times, congestion and improve access in some key industrial areas to the north and south of the CBD as stages of construction progress.

Yields are likely to continue to show some firming bias, particularly given the value proposition on offer to investors. Demand for prime investments with secure and stable tenancy profiles will remain buoyant, with a dearth of stock brought to market.

The tendency for tenants to become owner occupiers is also expected to persist, with increased prevalence for sales to sitting tenants, as well as for owner occupiers to continue to feature as the predominant purchaser group.

Definitions:

Prime: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

Core Market Yield: The percentage return/yield analysed with the assessed fully leased market income is divided by the adopted value/price which has been adjusted to account for property specific issues (ie rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives etc).

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