

- Owner occupiers buying vacant land in the Outer North precinct
- YTD 2020 sales volume (>\$5mill) were 35% higher compared to last year
- Prime industrial assets with strong lease covenants show resilience during COVID-19

Adelaide Industrial

Market Report, August 2020



INVESTORS ARE SNAPPING UP STRONG INDUSTRIAL ASSETS

Industrial assets such as cold storage and distribution facilities with strong lease covenants have shown resilience through COVID-19 and are becoming the preferred assets class for investors nationally.

INFRASTRUCTURE & DEFENCE

Industrial owners and occupiers are enjoying the flow on effect from the major North to South corridor infrastructure upgrade.

The North to South Corridor is starting to come together with the majority of projects completed. Projects such as the Northern Connector and Darlington Upgrade have recently been completed, improving access to key industrial precincts. The Regency Road to Pym Street project has commenced with expected completion date in H2 2022. The remaining section yet to commence is the River Torrens to Anzac Highway. On completion, the 78-kilometre North-South Corridor will reduce travel times by providing a continuous non-stop carriageway from Gawler to Old Noarlunga.

The defence infrastructure development at Osborne South shipyard has recently completed. The facilities will house the \$35 billion frigates project which will kick off with prototypes before the first production in 2022. Meanwhile, phase 1 of the Osborne North shipyard is underway and will support the \$50 billion submarine project which is scheduled to commence in 2023. The outlook for Adelaide defence sector is positive as the federal government announced a commitment to invest \$270 billion nationally over the next decade in new and upgraded defence capabilities with SA likely to get a slice of it.

The mining sector is likely to remain buoyant with the Olympic Dam expansion being fast-tracked by the federal government as part of a \$1.5 billion plan to boost employment. The state government has estimated around 1,800 jobs will be created during construction and 600 additional ongoing jobs at the mine.

ONLINE SHOPPING BOOM

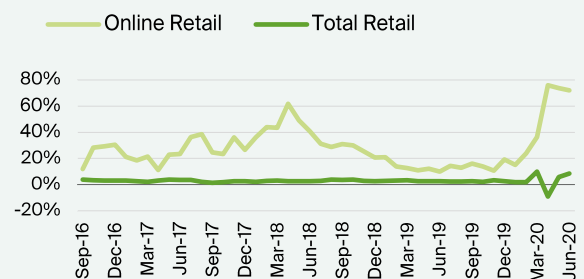
COVID-19 has reshaped the retail landscape as consumers buying habits are shifting towards online shopping.

The pandemic has pushed businesses to expand their e-commerce platforms as consumer buying habits are continuing to shift towards online shopping. In June 2020, online retail sales surged to \$2.77 billion, reflecting an annual increase of 72%. The increased in online retail sales have created demand for automated warehousing/dark stores, particularly in the east coast. Whilst SA has not seen this progression of technology yet, there has been demand for generic space from the logistics sector.

The outlook for e-commerce is positive as consumers continue to adapt to the ease of online shopping and as businesses implement more effective ways to improve delivery times and other supply chain efficiencies.

Australia Retail Turnover Growth Rate

Online vs total retail YoY % growth rates (year to)



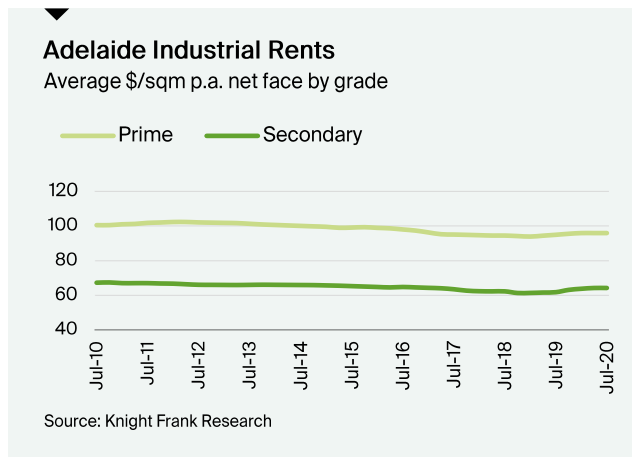
Source: Knight Frank Research, ABS

LACK OF ACTIVITY IN LEASING

Owner occupation trends are impacting leasing markets with owner occupiers capitalising on low interest rates & no stamp duty.

Leasing activity has remained limited as a result of the uncertainty of COVID-19 with some businesses delaying relocation decisions and the continuing trend of owner occupation in SA, where in lieu of leasing their property requirements, occupants are favouring to purchase their facilities. Evidence has shown that over the past 12 months, there has been an increase of owner occupiers purchasing properties in the Northern precinct, particularly vacant land at Outer North such as Direk and Edinburgh. Anecdotal evidence suggests this is due to the historically low cash rate, coupled with the abolition of the stamp duty in SA which further encouraged tenants to become owners.

Despite this, the leasing demand for the smaller market (sub 1,000m²) has received a good level of enquiry, particularly from the local market, however national/corporate occupiers appear to have adopted a wait and see approach regarding leasing decisions.



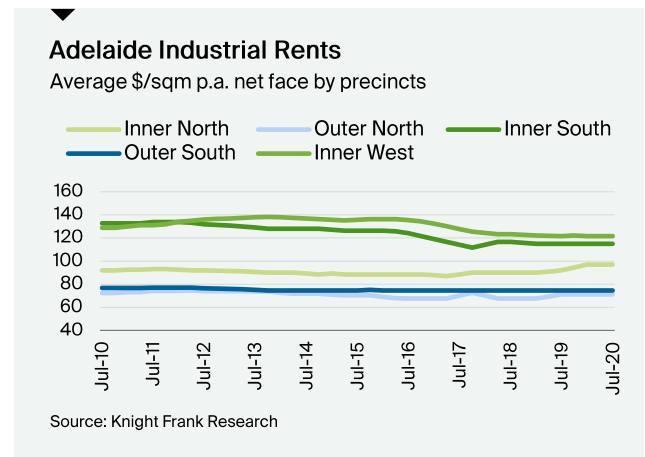
LIMITED RENTAL GROWTH

Rental growth has remained static over the past year with average blended prime net face rents remained between circa \$70/m² and \$120/m².

Industrial rents have remained steady over the past year. As at July 2020, the average blended prime industrial net face rents range from circa \$70/m² p.a. to \$120/m² p.a. Meanwhile, secondary net face rents range from circa \$45/m² p.a. - \$75/m² p.a.

While face rents have remained relatively constant, the impact of COVID-19 coupled with the lack of activity in leasing is anticipated to push incentives up slightly. As at July 2020, the average prime incentive remained at circa 10% based on a 5 year initial term which is considerably lower than majority of the east coast markets due to limited speculative development in Adelaide.

The short term outlook for rental growth is likely to remain static. However, rents are likely to grow over the medium to long term given the increase in demand for new/modern accommodation coupled with limited speculative supply.



Recent leasing activity

OCCUPIER	PROPERTY	REGION	SIZE SQM	RENT \$/SQM	TERM	DATE	TYPE
Fastway Logistics	Building F, Port Adelaide Distribution Centre	IN	4,348	71 (Gross)	-	Jul 20	New
Fisher & Paykel	9-13 Caribou Drive, Direk	ON	7,027	97.5 (Net)	5	Jan 20	New
Spring Gully	184 Cavan Road, Dry Creek	IN	3,833	77 (Net)	12	Jun 20	Leaseback
PFM Logistics	Portion, 113 Ledger Road, Beverley	IW	1,780	87 (Net)	5	Dec 19	New

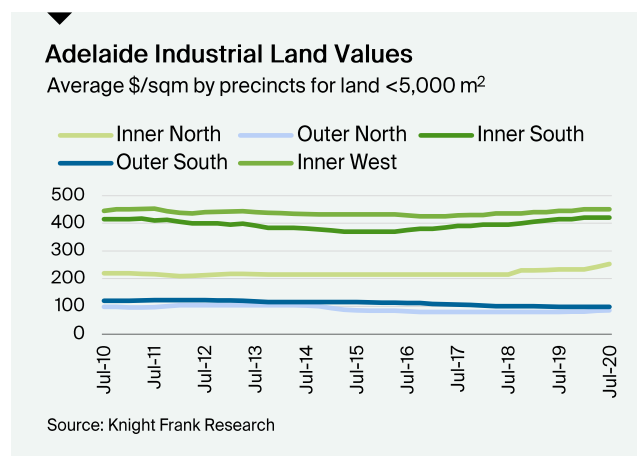
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LAND VALUES UP

Land values have increased in the Inner & Outer north precincts driven by improving infrastructure and occupier amenity.

The North to South Corridor infrastructure development and increasing density in the Inner North precinct has positively impacted land values in the Inner & Outer North precincts. Over the past six months, average land values for properties below 5,000m² have increased approximately 8.6% in the Inner north and approximately 6.2% in the Outer North. As at July 2020, average land values below 5,000m² in the Inner North are circa \$250/m² - \$260/m² and for the Outer North circa \$60/m² - \$120/m². Land values for all other precincts (Inner West, Inner South and Outer South) remained relatively constant.

Over the past 6 months, there has been an uplift in sales activity for vacant land in northern areas with majority of the transactions located at Outer North precincts such as Edinburgh and Direk. Buyers to date have been predominately owner-occupiers with plans to purpose build facilities.



PRE-COMMITTED SUPPLY

Majority of prime supply pipeline pre-committed or owner occupied. Pressure on secondary stock with backfill space created by relocations

Industrial supply has been strong over the past 12 months with the majority of the developments being logistics or temperature controlled distribution centres. However, unlike some markets in the eastern states, all of the supply noted is either pre-committed or purpose built for owner occupiers.

New supply has been driven by expansion and relocation to better quality accommodation. Recent complete developments include the 94,000m² expansion of Woolworths Adelaide Regional Distribution Centre at Gepps Cross, O-I Glass distribution centre (33,980m²) at Kilkenney, Drakes supermarkets distribution centre (48,400m²) at Edinburgh North, Pacific Marine Batteries (12,000m²) at Osborne, Sigma Health Care (10,390m²) at Pooraka and Huhtamaki (8,280m²) at Pooraka. Other notable underway projects are Metcash (68,000m²) at Gepps Cross, SA Health (11,000m²) at Gepps Cross and Cochrane's (7,500m²) at Gillman.

The outlook remains positive with a high volume of owner occupiers including new entrants to SA purchasing vacant land in the northern precinct. This is evident in Vicinity Industrial Estate at Direk, with affordable land in close proximity to rail freight line and major road such as the Northern Connector which recently completed.

10-18 Mirage Road, Direk was purchased by an owner occupier (Grove Group) and reflects a rate of \$68/m², slightly lower than recent comparable sales, reflective of an easement which may frustrate future development. Another vacant site along Research Road & Foster Street, Pooraka was purchased by an owner occupier which reflects a rate of \$176/m². The purchaser (SlumberCorp - WA based) is a new entrant to SA and intends to purpose build their facility to manufacture mattresses.

Land/development sales

PROPERTY	REGION	PRICE \$M	LAND AREA SQM	\$/SQM	ZONING	PURCHASER	DATE
32-38 Mirage Road, Direk	ON	1.15	14,240	81	UE	Owner Occupier	Under Contract
40-42 Mirage Road, Direk	ON	1.15	14,240	81	UE	Owner Occupier	Under Contract
10-18 Mirage Road, Direk	ON	1.36	20,000	68	UE	Owner Occupier	Apr 2020
Research Road & Foster Street, Pooraka	IN	1.95	11,064	176	IND	Owner Occupier	Feb 2020
140-144 Purling Avenue, Edinburgh	ON	2.73	40,556	67	UE	Pelligra Group	Dec 2019

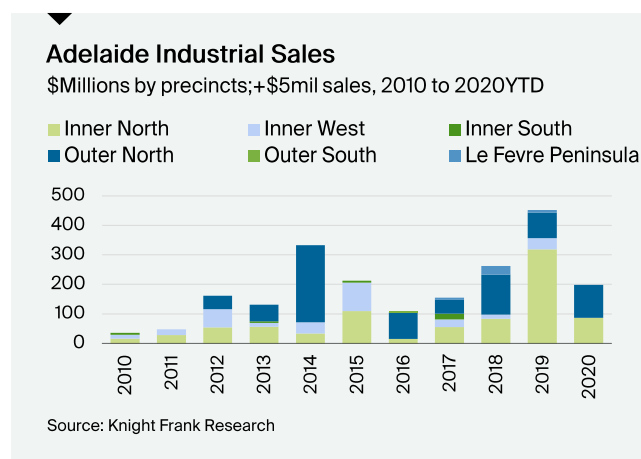
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STRONG SALES VOLUMES

Industrial assets with strong lease covenants have shown resilience through COVID-19 and becoming the preferred assets class for investors.

Nationally, industrial property has been the preferred asset class for many investors as it has shown resilience during the COVID-19 pandemic. There has been increased appetite from institutional investors for fully leased industrial property, particularly long WALE assets with strong lease covenants reflected in the strong metrics shown in recent transactions. As at July 2020, industrial sales volume were \$198.24 million for properties above \$5 million, while same time last year was \$146.55 million, reflecting an increase of around 35%. However, sales activity reduced compared with last year (properties above \$5 million), resulting from limited institutional grade opportunities.

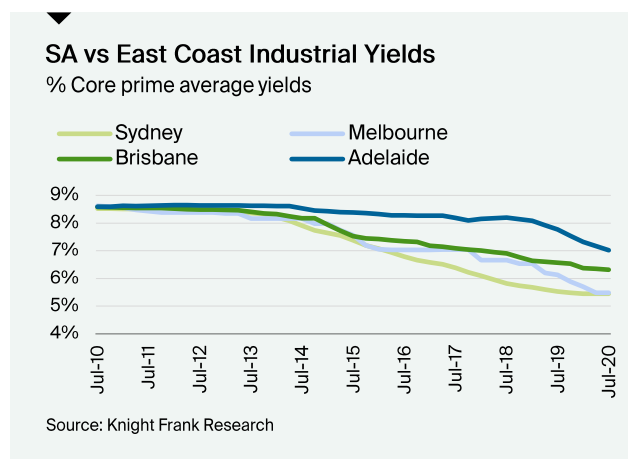
The Rand cold storage facility located at Direk contracted for \$63.05 million at a circa 19% premium to its 2019 book value (excluded from sales volumes until settlement). The record low market yield of circa 4.63%, reflects its 14.7 year WALE and strong demand for prime grade logistics assets nationally.



Interstate fund, Primewest continued to show confidence in the Adelaide industrial market with two transactions above \$10 million in less than 12 months. The first purchase was 76-86 West Avenue, Edinburgh in December 2019 via off-market campaign. The asset sold with a 17 year leaseback to Mastec which reflects a market yield of 6.79%. The second purchase (July 2020) is located along Cross Keys Road, Salisbury South. The property sold off-market with a 5 year leaseback to Border Express, reflecting a slightly firmer market yield of 6.54%.

A 52% interest in the Coles Distribution Centre in Edinburgh has also transacted in July 2020, following a 15 year lease extension in late 2019. The transaction represents an internal transfer between two Charter Hall funds. The transfer price of \$111.8 million reflects a market yield of 5.27%, which is inline with recent sales evidence. Charter Hall have been a strong player nationally, also having purchased an O-I Glass portfolio a 20 year triple-net leaseback, with assets in SA, VIC & NSW. The SA asset, Port Road, West Croydon, was apportioned at circa \$59.0 million which reflects a core market yield of 6.12%.

SA's value proposition and an increasing national appetite for institutional grade stock continued to show a firming bias in industrial yields. As at July 2020, the average blended yields stood at circa 6.50% to 7.25% for prime assets, representing a 75 to 150 basis point spread to prime east coast yields.



Recent improved sales

PROPERTY	PRICE \$M	SIZE SQM	\$/SQM	PURCHASER	VENDOR	MARKET YIELD %	WALE
16-26 Caribou Drive, Direk	63.05*	11,113	5,673	Moelis Australia	Cromwell Funds	c4.63	c14.7
30-32 Park Avenue, Woodville North	5.35*	4,317	1,239	Interstate Investor	Local Private	7.33	3.7
114 Cross Keys Road, Salisbury South	21.995	19,020	1,156	Primewest	Border Express	6.54	5.0
617-625 Port Road, West Croydon	c59.00	c50,000	c1,182	Charter Hall	OI Glass	6.12	20.0
2 Sturton Road, Edinburgh	215.00^	67,944	3,164	Charter Hall Retail REIT	Charter Hall (CDC Trust)	5.27	14.5

* Under Contract c Circa ^ 52% interest only (equivalent to \$111.80 million)

PRECINCT HIGHLIGHTS

KEY METRICS

INNER WEST

LAND

AVERAGE BLENDED <5000 (SQM)

\$440/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$270/m²

RENTS

AVERAGE PRIME

\$122/m²

AVERAGE SECONDARY

\$77/m²

YIELDS

AVERAGE PRIME

6.00% - 7.25%

AVERAGE SECONDARY

7.75% - 8.50%

INNER NORTH

LAND

AVERAGE BLENDED <5000 (SQM)

\$253/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$145/m²

RENTS

AVERAGE PRIME

\$97/m²

AVERAGE SECONDARY

\$70/m²

YIELDS

AVERAGE PRIME

6.00% - 7.00%

AVERAGE SECONDARY

7.50% - 8.50%

OUTER NORTH

LAND

AVERAGE BLENDED <5000 (SQM)

\$86/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$61/m²

RENTS

AVERAGE PRIME

\$71/m²

AVERAGE SECONDARY

\$48/m²

YIELDS

AVERAGE PRIME

6.50% - 8.00%

AVERAGE SECONDARY

8.00% - 9.50%

PRECINCT HIGHLIGHTS

KEY METRICS

INNER SOUTH

LAND

AVERAGE BLENDED <5000 (SQM)

\$425/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$253/m²

RENTS

AVERAGE PRIME

\$115/m²

AVERAGE SECONDARY

\$75/m²

YIELDS

AVERAGE PRIME

6.75% - 7.50%

AVERAGE SECONDARY

8.00% - 9.00%

OUTER SOUTH

LAND

AVERAGE BLENDED <5000 (SQM)

\$98/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$60/m²

RENTS

AVERAGE PRIME

\$75/m²

AVERAGE SECONDARY

\$50/m²

YIELDS

AVERAGE PRIME

7.00% - 8.25%

AVERAGE SECONDARY

8.00% - 9.00%

LE FEVRE PENINSULA

LAND

AVERAGE BLENDED <5000 (SQM)

\$130/m²

AVERAGE BLENDED 1 TO 5 (HA)

\$100/m²

RENTS

AVERAGE PRIME

\$100/m²

AVERAGE SECONDARY

\$70/m²

YIELDS

AVERAGE PRIME

7.00% - 8.00%

AVERAGE SECONDARY

8.75% - 9.75%

DATA DIGEST

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

Secondary Grade: 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 when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

WALE: Weighted Average Lease Expiry

Vacancy Methodology:

This analysis collects and tabulates data detailing vacancies (3,000m²+) within industrial properties across all of the Brisbane Industrial Property Market. The buildings are categorised into 1) Existing Buildings – existing buildings for lease. 2) Speculative Buildings – buildings for lease which have been speculatively constructed and although have reached practical completion, still remain vacant. 3) Spec. Under Construction – buildings for lease which are being speculatively constructed and will be available for occupation within 12 months.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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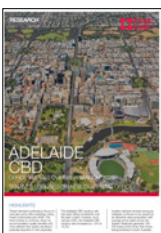
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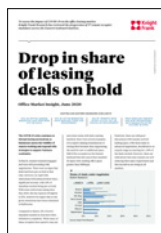
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