

- *Adelaide yields continue to firm into 2021*
- *Tenants displaying demand for new generation office space*
- *Incentives rise due to an increase in the vacancy rate*

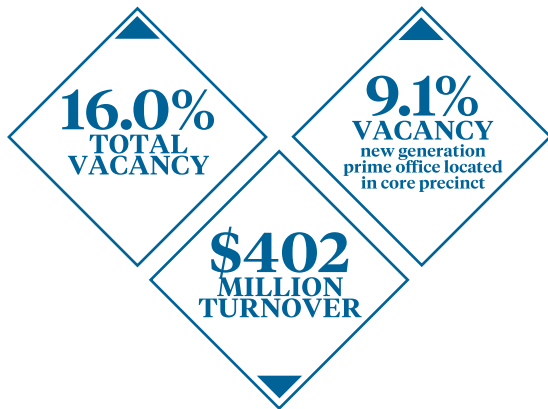
Adelaide CBD Office

Market Report, April 2021



CONSISTENT DEMAND FOR QUALITY PRIME STOCK

Demand focus within the CBD has a greater shift toward new generation prime office buildings as the ongoing 'flight to quality' trend continues.



“We are witnessing unprecedented amounts of new capital circling Adelaide as we witness genuine economic drivers and population growth.”



GUY BENNETT

PARTNER, HEAD OF INSTITUTIONAL SALES, VIC & SA

The Key Insights

The Adelaide CBD vacancy rate has increased from 14.2% to 16.0%. The increase is primarily attributed to the development of a 14 storey A grade office tower on Wakefield Street.

Tenants seeking to align lease expiry dates with the period of increased supply, to potentially provide greater options in 2023/2024.

Average prime incentives have increased slightly to 31.8%. Forecasted increase in supply is expected to place upward pressure on incentives.

Charter Hall secure Services Australia (former Department of Human Services) as anchor tenant for construction of their \$450 million, 43,000m² office tower development at 60 King William Street.

Prime asset yields within the Adelaide CBD continue to firm and currently range between 5.50% and 6.50%. Stronger demand remains for properties offering long term lease covenants, particularly for government tenants.

Adelaide CBD Office Market Indicators – January 2021

GRADE	TOTAL STOCK SQM	VACANCY RATE %	SIX MONTH NET ABSORPTION SQM	SIX MONTH NET ADDITIONS SQM	AVERAGE GROSS FACE RENT \$/SQM	AVERAGE INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY	AVERAGE CORE MARKET YIELD %*
Prime	623,496	13.0	-763	14,490	553	30.0-35.0	2.45	5.50-6.50
Secondary	840,790	18.2	-8,508	2,317	394	32.5-37.5	1.42	6.75-8.25
Total	1,464,286	16.0	-9,271	16,807				

Source: Knight Frank Research/PCA *assuming WALE 5.0 years

INCREASED OPTIONS FOR TENANTS

Tenant demand concentrated on new generation prime office buildings

In the 12-18 months prior to COVID-19, the Adelaide office leasing market was rapidly improving as a result of demand from new tenants entering the market. In years preceding this, building owners were reliant more on tenant relocations or renewals, whereas the majority of the demand throughout 2018/19 stemmed from new entrants to the market, particularly tenants associated with the defence sector.

One of the most prevalent trends in the leasing market is a sustained divergence in demand dependant on product type and location. There is strong appetite for new generation prime assets (completed post 2006) in the core and much weaker demand for older and secondary floorspace.

New generation buildings generally provide improved accommodation and more efficient floor plates and as a result can pave the way for savings in rent and enable longer lease terms to be secured. As at January 2020, the total vacancy for new generation prime office buildings in the core precinct was approximately 9.1%, whereas older prime office buildings recorded a vacancy rate of approximately 24.4%.

Since July 2020 the new generation prime market recorded a 5.0% increase in vacancy due to the development of 108 Wakefield Street. If we hypothetically exclude this increase in supply we observe that prime office vacancy would have fallen to 3.3%.

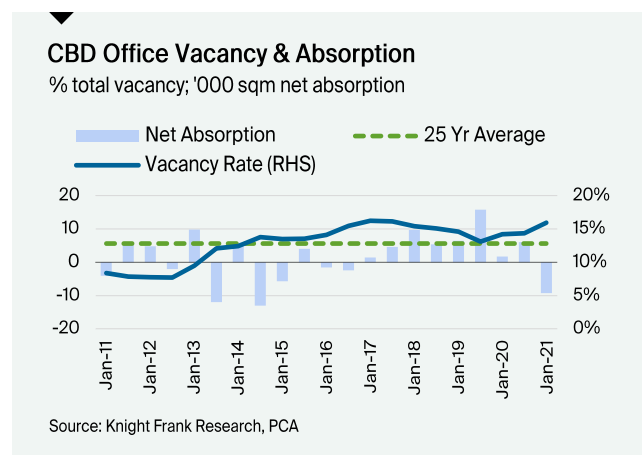
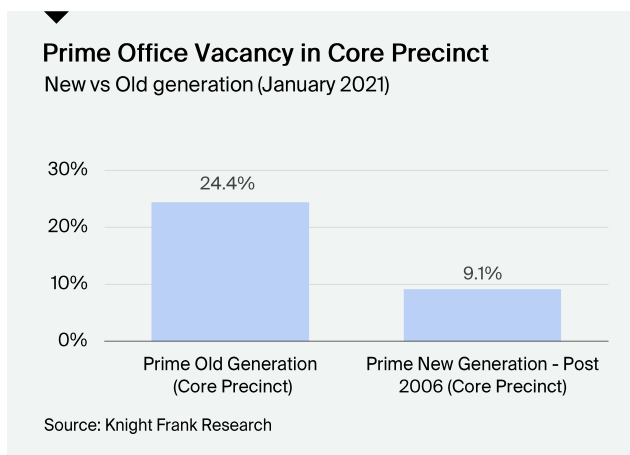
As tenant demand continues to shift toward higher quality office space, there is the strong prospect of a significant ongoing impact upon the secondary market, and a

corresponding reduction in effective rents. We anticipate, that in an effort to combat the shift toward prime stock, secondary building owners will need to reposition their assets through refurbishment and restorations. We are likely to see landlords of older prime buildings also offering incentives and refurbishments to compete with the quality newer stock. Optus and Telstra are two examples of major tenants, currently in older prime buildings (constructed pre 2006) that are actively seeking over 5,000m² each of leasable space.

Net absorption in decline

In the six months leading to January 2021, Adelaide CBD absorption is at the lowest level since July 2016 recording a negative net absorption of 9,271m². Prime CBD office space recorded negative net absorption of 763m² and the secondary space recorded a negative net absorption of 8,508m².

The negative net absorption rates support the continuing flight to quality trend by tenants. Tenants are seeking more efficient tenancy sizes whilst improving workplace through better facilities available in new generation prime stock and maintain a similar cost to the business with incentives covering a new fit-out. This combined with the post-COVID realisation that workplace productivity can be maintained with current technology and working from home capabilities, is likely to further drive tenants to seek smaller but higher quality space. We note there is active requests from Super SA, and Commonwealth Bank for 3,000m² of A grade office space, NAB for 3,000-6,000m² and GPA Engineering for approximately 2,200m² of office space, highlighting that major tenants still require large proportions of NLA.



ADELAIDE IS SUPPLY CENTRAL

Supply being driven to record heights

In the six months leading into January 2021, the Adelaide CBD observed an increase in net office supply of 16,807m², comfortably surpassing the 25 year average of 6,807m². The increased net supply is largely due to the recent completion of the 14 level A grade office tower located at 108 Wakefield Street, a vacant building of circa 14,000m².

The Adelaide CBD has a number of developments committed and marked for the supply of A grade office space. Two major office developments approved with retail space that are awaiting tenant commitment include; Le Cordon Bleu & Commercial General's 29,000m² tower at 200 North Terrace and Walker Corporation's 48,136m² tower at Festival Plaza. Other major developments awaiting tenant commitment include Kyren Group's 21,000m² tower at 42-56 Franklin Street and Leyton Group's 7,500m² office building at 120 Frome Street.

Charter Hall secure Federal Government Agency

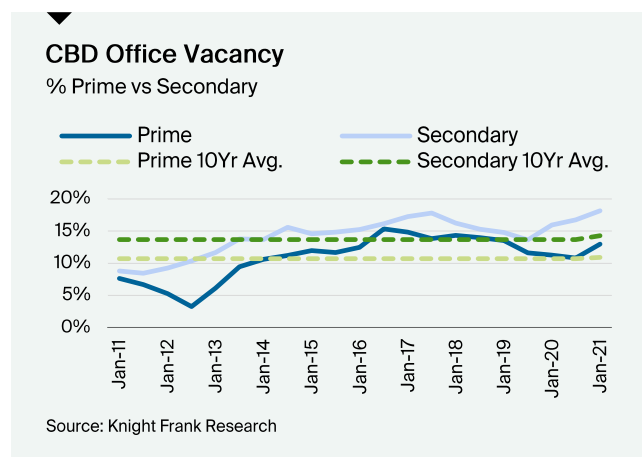
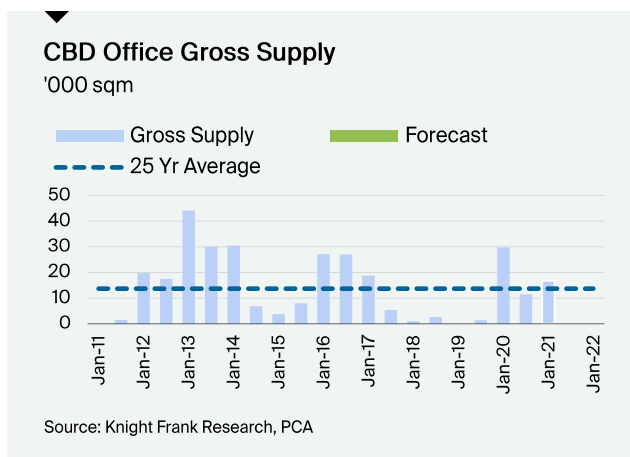
Charter Hall has recently secured Services Australia as the anchor tenant to its \$450 million office tower development located on 60 King William Street. The A grade 14 storey tower is to comprise approximately 40,000m² of office space and 3,600m² of retail space and will further increase supply within the Adelaide CBD. Upon completion in late 2023, the office tower will be the largest by NLA in the state. The pre commitment to Services Australia will be for around 10 storeys covering approximately 28,500m². The deal was struck for an initial 10 year term.

Growth within the city fringe sector

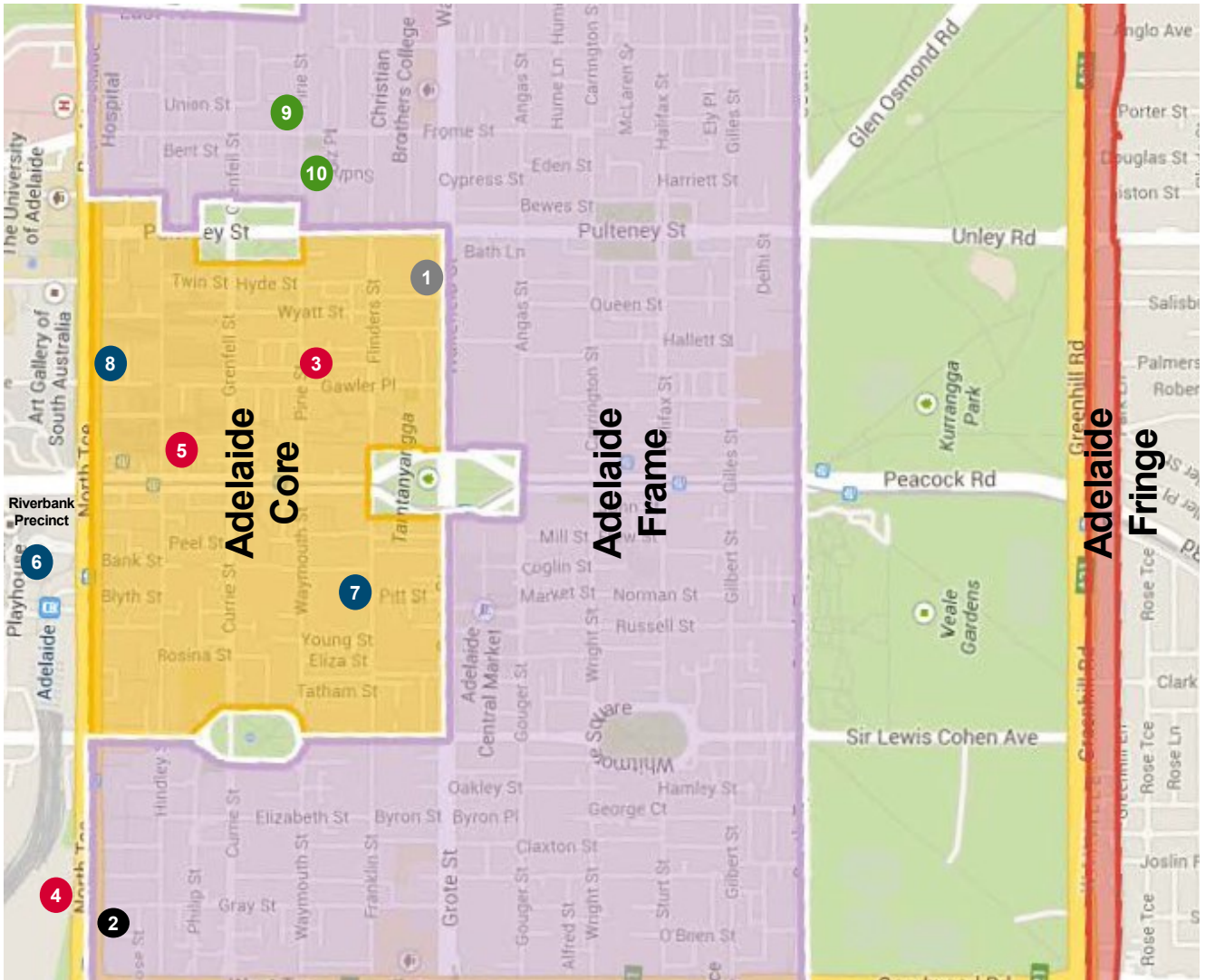
The Adelaide City fringe has recorded a decrease in vacancy rate, from 14.4% to 11.6%. Half the reduction was due to a withdrawal of B and C grade stock. We emphasise that due to the size of the fringe market, smaller changes in supply have a greater impact on the vacancy rate. Prime effective rents throughout the Fringe precinct have increased to \$279/m² p.a. (net), while incentives remained steady at 20.5%.

Sublease vacancy on the turnaround for prime and secondary markets

While a few of the eastern states experienced a spike in sublease vacancy, Adelaide's market incurred a steady decline throughout the entire core and fringe market. In the 6 months leading into January 2021, the Adelaide CBD office market observed a decrease in prime and secondary market sublease vacancy by 0.6%. Sublease vacancy within the prime market decreased from 4.22% to 3.85% and from 0.77% to 0.54% within the secondary market. As landlords continue to increase incentives, we expect tenants will shuffle and relocate between available space to take advantage of the attractive incentives on offer.



MAJOR CBD OFFICE SUPPLY



RECENTLY COMPLETED

1. 108 WAKEFIELD STREET—15,586 SQM (OFFICE) & 452 SQM (RETAIL)
KYREN—0% COMMITTED Q4 2020

MAJOR REFURBISHMENTS

2. 21 NORTH TERRACE—3,500* SQM (OFFICE/ MEDICAL)
LUCA GROUP—0% COMMITTED Q2 2021

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

3. 73-85 PIRIE STREET—30,000 SQM [SA GOVERNMENT—DPTI]
CBUS—58% COMMITTED. 2022+
4. SAHMRI 2, NORTH TERRACE—20,000* SQM (OFFICE) [SA GOVERNMENT & SAHMRI]
COMMERCIAL & GENERAL—2023
5. 52-66 KING WILLIAM STREET—40,000 SQM (OFFICE) & 3,000 SQM (RETAIL)
CHARTER HALL— 71.25% COMMITTED. 2023

DEVELOPMENT APPROVED

6. FESTIVAL PLAZA—43,636 SQM (OFFICE) & 4,500 SQM (RETAIL)
WALKER CORPORATION-2022+
7. 42-56 FRANKLIN STREET—21,000 SQM
KYREN
8. 200 NORTH TERRACE—26,000 SQM (OFFICE) & 3,000 SQM (RETAIL)
COMMERCIAL & GENERAL

DEVELOPMENT APPLICATION/MOOTED/ EARLY FEASIBILITY

9. 120 FROME STREET—7,310 SQM
LEYTON—2022+
10. 185 PIRIE STREET — 6,300 SQM
PALUMBO-MOOTED

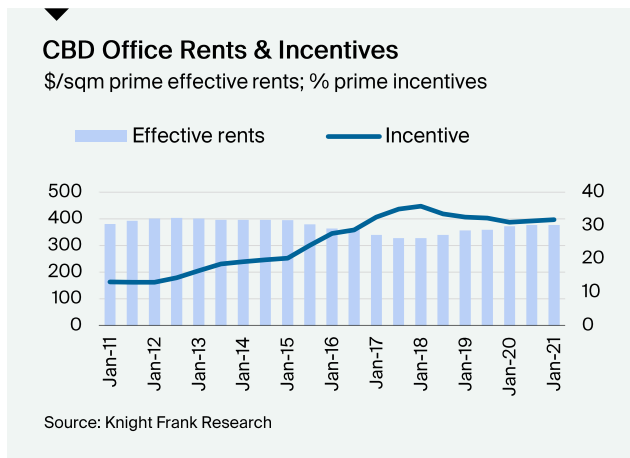
NB Dates are Knight Frank Research estimates
Major tenant commitment in [brackets] net to NLA
* approximate

UPWARD PRESSURE ON INCENTIVES

Incentives subdue the rising gross face rent

In the six month period to January 2021, the Adelaide CBD experienced broadly stable prime and secondary average gross face rents at \$553/m² and \$394/m² respectively. However, the average prime net effective rents in the Adelaide CBD reduced from \$263/m² to \$258/m² and the secondary net effective rents reduced from \$159/m² down to \$157/m².

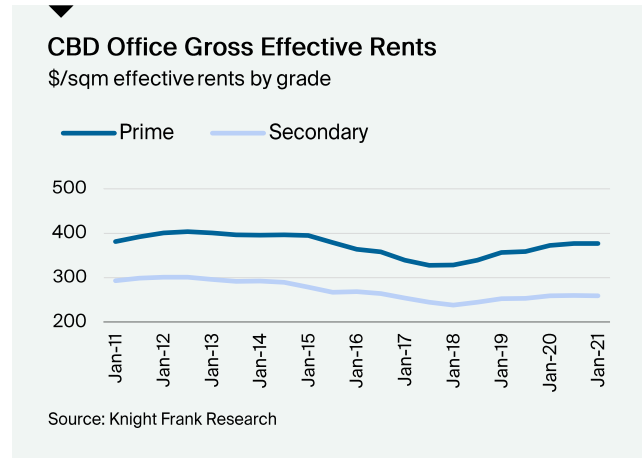
The reduction in net effective rent is associated with an increase in incentives and outgoings observed across all stock. Prime stock saw a sharp increase in outgoings of 4.82% and secondary stock of 1.05%. The driving force behind the increase in outgoings is due to the rising tenant expectations for higher quality stock with services like end of trip facilities and efficient floor plates.



Incentives anticipated to increase even further

Over H2 2020, average incentives for prime and secondary stock within Adelaide CBD observed an increase to 31.8% and 34.2% respectively. The sharp increase observed is conceivably landlords' attempt to secure tenants and defer potential transitions to prime stock. The data reports average incentives for Core Prime stock at 33%, compared to stock in the Frame at 27.50%. Secondary stock displays the same trend at 35% and 31.8% for Core and Frame respectively. The variation is due to the greater amount of competing vacant stock within the Core.

Rising incentives are assisting leasing activity albeit tenants are taking advantage of attractive incentives to expand into more prestigious office spaces, reflecting the 'flight to quality' trend.



Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	FACE RENT \$/SQM	TERM YRS	START DATE
SA (DHS)	60 King William Street	Core	28,500	N/A	10	Circa 2023
D.I.T	73-85 Pirie Street	Core	17,500	N/A	10	Circa 2023
AIB	1 King William Street	Core	2,296	530g	5	March 2021
Commonwealth Govt	80 Grenfell Street	Core	810	525g	10	August 2020
Finlaysons Lawyers	43 Franklin Street	Core	2,417	507g	10	July 2020

Pre-commitment - undisclosed g Gross n Net *approximate (r) renewal

DEMAND REMAINED STRONG FOR CORE ASSETS

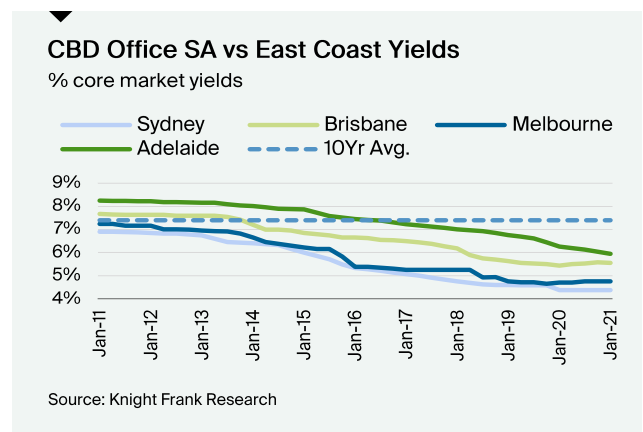
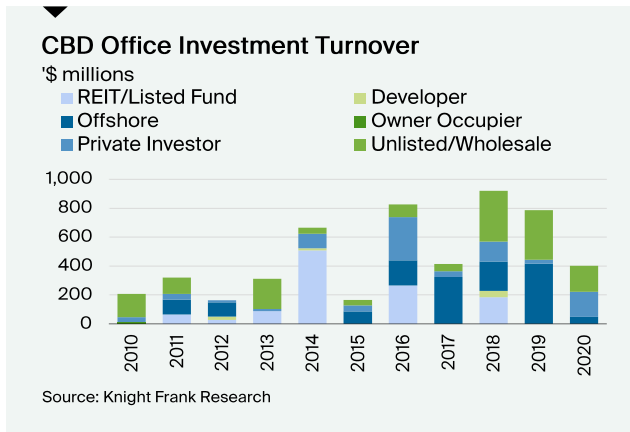
Strong demand for quality investment assets

The Adelaide office market continues to attract interest from a range of purchasers including local private investors, wholesale funds/syndicates as well as Australian Real Estate Investment Trusts (A-REIT's) and international institutional investors.

CY2020 year saw total office sale volumes of \$402.05 million for properties above \$10 million in Adelaide CBD. This does not include sales of properties currently under construction such as \$446.2 for SAHMRI 2 and a reported \$80 million for 33 Richmond Road, Keswick as both will settle on completion. This compares with \$921.8 million and \$787.49 million for 2018 and 2019 respectively. Highlighting that despite the pandemic, major transactions still occurred throughout 2020. Adelaide's office market has typically been influenced by national trends and significant inflows of capital. In spite of

Yield compression continues in Adelaide

Reflecting the weight of demand, the average prime yield in Adelaide CBD has compressed by a further 9 basis points since July to stand at 5.95%, which ranges from 40-160 basis points above the major eastern capital cities. The continued firming of yields comes in spite of economic disruption due to COVID-19, and shows that in the case of Adelaide, the impact of lower interest rates has more than offset the impact of uncertainty over within the occupier market. In this, Adelaide is benefitting from a more uniform economic outlook across the major cities than previously displayed when Sydney and Melbourne have shown faster growth, and this is contributing to the narrowing of the yield differential across markets.



Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
60 Wakefield Street & 21 Divett Place	51.00	c6.44	4,500	11,333	6.7	Charter Hall	Private Investor	Oct-20
75 Hindmarsh Square	40.50	c6.15	4,662	8,687	3.8	Harmony Property	Private Investor	Oct-20
22 King William Street	47.02	c6.93	9,604	4,896	2.7	Intergen Property Partners	Southern Cross Equity Group	Oct-20
50 Flinders Street	174.65	6.15	21,745	8,032	5.3	Nikos Property	Cbus Property	Aug-20

c Circa * 50% of \$200.00 million # portfolio includes 141-149 Rundle Mall, 100 Pirie Street, 169 Pirie Street (all Adelaide) and 186 Greenhill Road, Parkside

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



Research

Tristan Mellett
+61 8 8233 5217
Tristan.Mellett@au.knightfrank.com.au



Institutional Sales

Guy Bennett
+61 8 8233 5204
Guy.Bennett@au.knightfrank.com



Office Leasing

Martin Potter
+61 8 8233 5208
Martin.Potter@au.knightfrank.com



Research

Ben Burston
+61 2 9036 6756
Ben.Burston@au.knightfrank.com



Capital Markets

Oliver Totani
+61 8 8233 5210
Oliver.Totani@au.knightfrank.com



Valuations & Advisory

Nick Bell
+61 8 8233 5242
Nick.Bell@au.knightfrank.com.au

Recent Publications



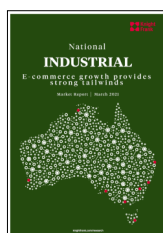
Sydney CBD Office Market
March 2021



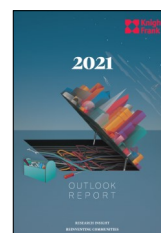
Melbourne CBD Office Market
March 2021



Brisbane CBD Office Market
April 2021



National Industrial Report
March 2021



2021
OUTLOOK REPORT
Australian Outlook Report
2021



Active Capital
2020 Report

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.



Important Notice © Knight Frank Australia Pty Ltd 2021 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.