

# ADELAIDE

## INDUSTRIAL MARKET BRIEF JUNE 2017

### Key Facts

**Obsolete properties are providing the opportunity for development**, prompted by rezoning, gentrification and aged improvements.

**Year to date sales for 2017 stand at \$91.01 million (for properties >\$5.00 million)**, on track to surpass the 2016 total of \$110.85 million.

**Net face rents in the Inner West and Inner South have declined**, instead of preserving rental levels and increasing incentives.

**Average land values decreased by -1.6% for medium sized (1-5ha sites)**, and the pipeline of new facilities is modest.



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Increased owner occupier activity is emerging in the Adelaide Market, with high availability and sluggish tenant demand boosting vacant possession sales.

### Occupier Demand & Rents

The leasing market has remained lethargic, with sluggish rental growth continuing to be a factor across all industrial precincts. Over the 12 months to April 2017, average industrial rents remained generally unchanged in both the Outer North and Outer South markets. Within inner metropolitan areas, average prime face rents decreased by -4.6%. The Inner West and Inner South were the primary contributors to the fall.

In the 12 months to April 2017, average prime industrial face rents within the Inner West experienced a -4.5% decrease, falling from \$136/m<sup>2</sup> p.a. to \$130/m<sup>2</sup> p.a. In the Inner South, the decrease was more pronounced, with average prime net face rents decreasing by -7.7% from \$126/m<sup>2</sup> p.a. to \$117/m<sup>2</sup> p.a.

Downward pressure on rents in the Inner West and Inner South has resulted from a combination of changing tenant trends and the existing level of stock available across

the market. Tenants which are not anchored to their current location by the necessity for access to the airport or the requirement for a showroom component, have the option of comparably cheaper rents available in the Inner North at an average of \$87/m<sup>2</sup> net and Outer North at an average of \$68/m<sup>2</sup> net. For properties located in key Outer North areas, the Northern Connector will also assist in improving access.

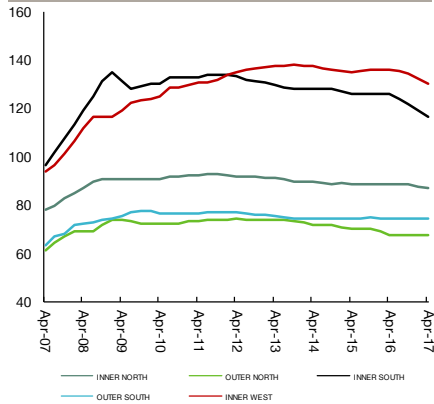
Additionally, net face rents in the Inner West and Inner South have experienced price discounting, rather than the preservation of rental levels and the increase of incentives across the market. Average incentives for both precincts have remained unchanged at approximately 10% (6 months incentive on a 5 year term), however some properties have experienced both a reduction in face rents and an increase in incentives.

The growing tendency for tenants to become owner occupiers continued, facilitated by the relatively low cost of capital and the progressive phase out of stamp duty on commercial transactions. The second phase of the stamp duty reduction will commence at the end of the financial year.

FIGURE 1

**Adelaide Industrial Prime Rents**

\$/m<sup>2</sup> net face, 2007-2017  
by sub market



Source: Knight Frank Research

**Development & Land Activity**

Development activity has been limited and driven by owner occupiers or dependent on tenant pre-commitment. The supply of existing vacant facilities is affecting the feasibility of new developments and the pipeline of new facilities is modest.

In February, Commercial and General (C & G) purchased Allotment 500 Ocean Steamers Road, Port Adelaide (Inner North) for \$2.30 million, reflecting \$64/m<sup>2</sup>. It's understood C & G will construct a purpose built warehouse and office on the 34,990m<sup>2</sup> Industry zoned site, following work required for flood prevention.

In March, the Holden Manufacturing facility in Elizabeth (Outer North) was offered via an off market sales campaign. The property is being sold with the option

TABLE 2

**Recent Leasing Activity Adelaide**

Address	Region	Net Rent \$/m <sup>2</sup>	Area (m <sup>2</sup> )	Term (yrs)	Tenant	Date
397 South Rd, Mile End South	IW	98*	2,000	5	Displayline	Mar-17
151 Ryans Rd, Parafield Gardens	ON	65	1,918	5	Aussie Move	Jan-17
127 Ryans Rd, Parafield Gardens	ON	76	1,546	6	Chep Palleanon	Dec-16
17 Stock Rd, Cavan	IN	80	1,867	5	Leartek	Nov-16
262 Marion Rd, Netley	IW	61	3,814	2	Haneco Lighting	Nov-16
605 South Rd, Regency Park	IN	110	2,097	5	Private	Oct-16
30 Bedford St, Port Adelaide	IN	34*	10,296	7	Chemist Warehouse	Sep-16
608 Grand Junction Rd, Regency Park	IN	75*	2,935	5	Our United Food	Sep-16

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

for vacant possession or a partial leaseback to Holden. It's understood potential purchasers are currently being shortlisted.

Elsewhere, the construction of the 10,440m<sup>2</sup> Northline Transportation and Warehouse facility located at Gallipoli Drive, Regency Park is now largely complete.

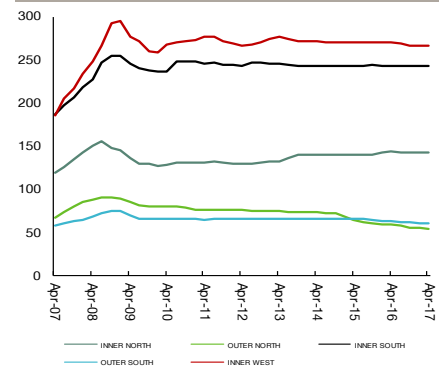
Obsolete industrial properties located within inner metropolitan locations are providing the opportunity for residential development. In January, the former E. S. Wigg & Son building located at 79 Port Road, Thebarton sold for \$9.95 million. The property was purchased by a developer that intends to construct a mixed use development. The highest and best use for sites within close proximity to the city is being challenged, prompted by a mixture of rezoning, gentrification and obsolete improvements. Sites such as 33-43 Port Road, Thebarton (Coca-Cola Amatil), and 76 Magill Road, Norwood (Caroma) have been speculated as locations for future redevelopment.

In the 12 months to April 2017, the value of medium sized (1-5 ha) development sites experienced declines, particularly in both the Outer North and Outer South markets. Medium sized Outer North sites decreased from \$59/m<sup>2</sup> to \$54/m<sup>2</sup> and Outer South from \$63/m<sup>2</sup> to \$60/m<sup>2</sup>, contributed by modest demand and abundant supply in Edinburgh (ON) and Seaford (OS) respectively.

FIGURE 2

**Adelaide Industrial Land Values**

\$/m<sup>2</sup>, 2007-2017  
by sub market - 1-5 hectare lots



Source: Knight Frank Research

TABLE 1

**Adelaide Industrial Market Indicators as at April 2017**

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields %		Avg Land Values			
	\$/m <sup>2</sup> net	(%p.a)	\$/m <sup>2</sup> net	(%p.a)	Prime	Secondary	<5,000m <sup>2</sup>	(%p.a)	1-5 ha	(%p.a)
Inner West	130	-4.5	80	-	7.25 - 8.25	8.75 - 9.50	425	-1.5	267	-1.2
Inner North	87	-1.7	64	-3.8	7.25 - 8.75	9.00 - 10.00	215	-	142	-1.4
Inner South	117	-7.7	70	-3.5	7.75 - 8.50	8.50 - 9.50	367	-	243	-
Outer North	68	-	54	-	8.50 - 9.25	9.75 - 10.75	80	-4.5	54	-7.3
Outer South	75	-	50	-	8.25 - 9.25	9.75 - 10.50	107	-5.3	60	-4.0
<b>Adelaide</b>	<b>95</b>	<b>-3.5</b>	<b>64</b>	<b>-1.6</b>	<b>7.75 - 8.75</b>	<b>9.00 - 10.00</b>	<b>239</b>	<b>-1.4</b>	<b>153</b>	<b>-1.6</b>

Source: Knight Frank Research

## Investment Activity & Yields

The 2016 calendar year saw transactions totalling approximately \$110.85 million for properties over \$5 million. The result is only marginally below the 10 year average of \$115.00 million (see Figure 3). Year to date sales for 2017 currently stand at approximately \$91.01 million.

The Outer North experienced the largest concentration of activity over the previous 18 months, with ten of the fifteen sales above \$5 million occurring within the precinct, particularly within the suburb of Edinburgh. Edinburgh appeals to potential purchasers due to the relatively newer construction of improvements and the value proposition, with many properties selling at or below replacement cost. The construction of the Northern Connector will also decrease travel time and is likely to encourage further investment in the area.

Recent sales transactions have shown increasing activity in the owner occupier market. One example is a private SA company which is understood to be vacating from their existing premises in the Inner North, and amalgamating to a larger facility at 32-54 Kaurna Road,

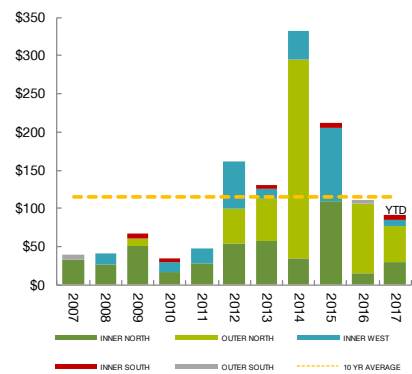
Edinburgh, under contract for circa \$10.00 million. In March, the Grace Removals Group purchased 25 Hewittson Road, Edinburgh North for \$9.50 million. The property sold off market and Grace Removals will occupy the site at the end of a 1 year leaseback.

Recent investment sales include 9 Mab Eastern Promenade in Tonsley (marketed as Lot 102, 1284 South Road, Clovelly Park) which sold for \$6.76 million in March, reflecting a core market yield of 7.07%. The property was purpose built by C & G for global technology firm Siemens, which committed to a 10+5+5

year lease commencing April 2015. Siemens utilise the site for maintaining turbine machinery equipment.

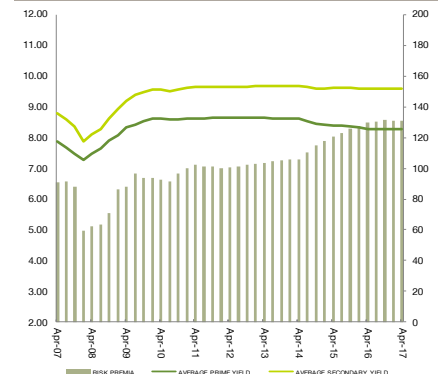
Currently under contract is a property located at Woomera Avenue, Edinburgh for circa \$20.00 million, reflecting a core market yield of approximately 6.50%. The property is subject to a 15+10+10 year leaseback to the vendor, which recently undertook significant capital upgrades to the building. The firm yields of 9 Mab Eastern Promenade, Tonsley and the contracted sale at Woomera Avenue, Edinburgh are reflective of their strong lease covenants.

FIGURE 3  
Adelaide Industrial Sales  
2007 - 2017 by sub-market - >\$5 million



Source: Knight Frank Research

FIGURE 4  
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 <sup>2</sup> )	\$/m <sup>2</sup> of site area	Zoning	Vendor	Purchaser	Sale Date
97-99 West Avenue, Edinburgh	ON	1.34	24,300	55	UE	Renewal SA	Haulmark Trailers	May-17
495 Waterloo Corner Road, Burton	ON	2.15	79,900	27	UE	Private	BH Burton	Mar-17
500 Ocean Steamers Road, Port Adelaide	IN	2.30	35,990	64	IND	Flinders Ports	Commercial & General	Feb-17
79 Port Road, Thebarton	IW	9.95	6,968	1,428	UC	E.S. Wigg & Son	Private	Jan-17

### Recent Improved Sales Activity Adelaide

Address	Region	Price (\$ mil)	Bldg Area (m <sup>2</sup> )	Core Mkt	WALE (yrs)	Vendor	Purchaser	Sale Date
32-54 Kaurna Avenue, Edinburgh	ON	c10.00	12,115	VP	VP	KJM	Private	U/C
Woomera Avenue, Edinburgh	ON	c20.00	4,963	c6.50	15.0	Private	Private	U/C
8-16 Vater Street, Dry Creek ±	IN	20.51	18,068	#	#	Goodman	Blackstone	Apr-17
35-45 Woomera Avenue, Edinburgh	ON	6.70	13,756	VP	VP	ZF Lemforder	Precision Components	Apr-17
31-33 Jonal Drive, Cavan	IN	8.30	8,280	VP	VP	Visy Packaging	Borg Group	Mar-17
9 Mab Eastern Promenade, Tonsley	IS	6.76	2,810	7.07	8.1	Commercial & General	Clark Group	Mar-17
25 Hewittson Road, Edinburgh North	ON	9.50	20,423	VP	1.0^	Hiretec Group	Grace Removals	Mar-17
330-344 Grange Road, Kidman Park	IW	8.26	7,353	VP	VP	Birega	Australian Gas*	Feb-17

IW Inner West IN Inner North ON Outer North IN Inner South OS Outer South UE Urban Employment IND Industry UC Urban Corridor  
c Circa VP Vacant Possession U/C Under Contract ± Part of a national portfolio # Undisclosed \* Sitting Tenant ^ subject to a 1 year leaseback

Source: Knight Frank Research

## Outlook

It's expected that the propensity for tenants to become owner occupiers will continue to increase. Looking forward, this will primarily be assisted by the availability of stock, and to a lesser extent, the cost of capital and phase out of stamp duty on commercial transactions. This is anticipated to maintain downward pressure on rents across industrial precincts, especially for secondary stock and space which is considered specialised.

In the short term, average prime yields may show some limited firming, however this is more reflective of general capital market trends rather than improving market fundamentals. Prime grade properties offered for sale with attractive tenancy profiles and long WALE's will still continue to be well received by the market

and attract a range of purchaser groups both locally, interstate and offshore. Investor appetite for investment in secondary properties will continue to remain subdued, with properties offered for sale with vacant possession attracting a larger pool of potential purchasers.

The recent decision by the Federal Government to upgrade the Osborne shipbuilding facility and to establish a naval shipbuilding college provides confidence for shipbuilding in South Australia going forward. Over \$1 billion in infrastructure upgrades have been earmarked for the site.

On the supply side, the pipeline for industrial development is limited and directed towards owner occupiers or requiring pre-commitment. Speculative construction is expected to continue to be infrequent.

### 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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