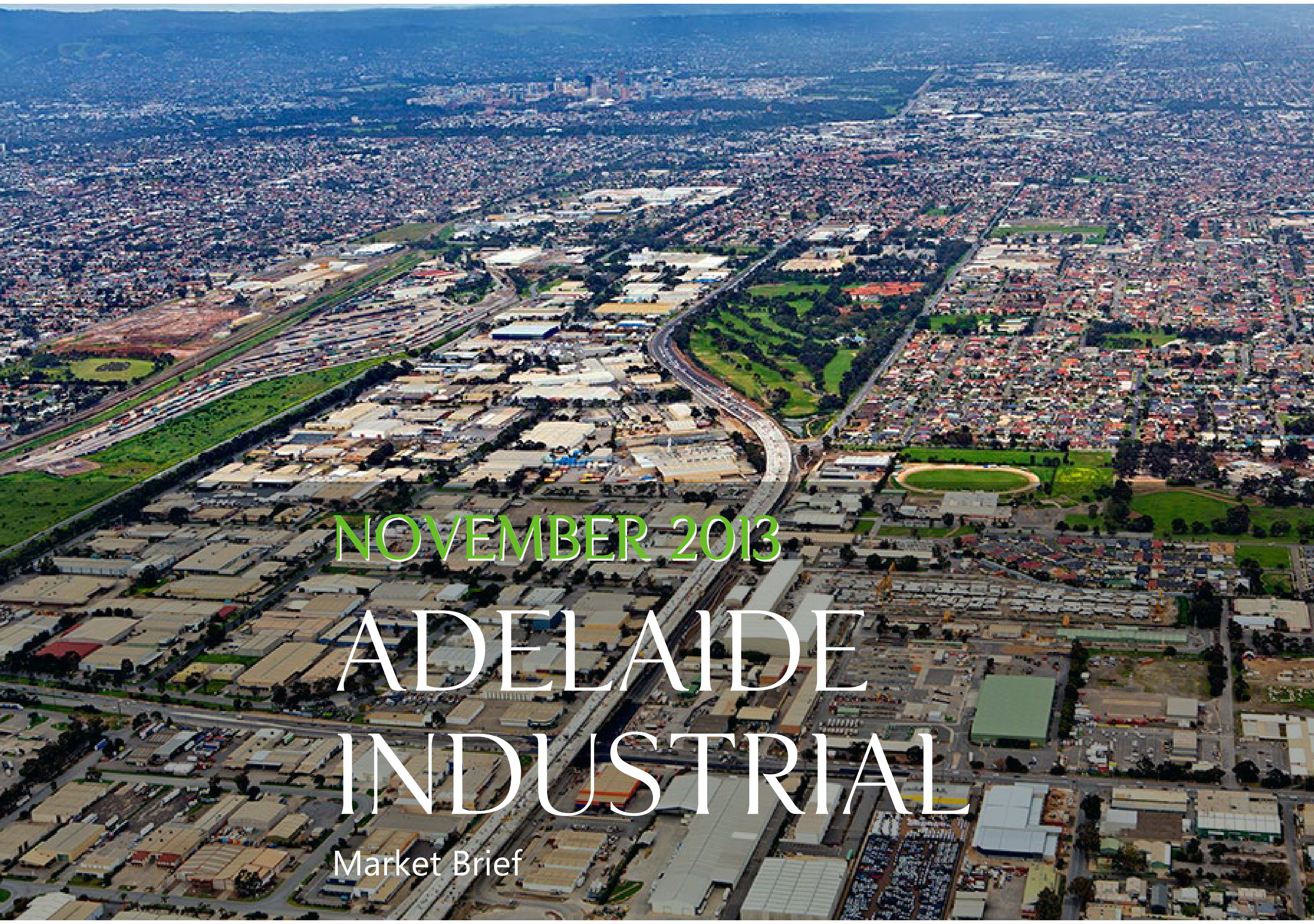
RESEARCH

Knight Frank



NOVEMBER 2013

ADELAIDE INDUSTRIAL

Market Brief

HIGHLIGHTS

- Rental growth over the past 12 months has been unresponsive across most industrial regions. The Inner West was the only region to show an increase in prime rents by 1.3%, currently averaging $138/m² net. The Inner South experienced the largest decrease of 2.5% across all regions, achieving an average of $128/m² net.
- The $842 million South Road Superway project will stimulate interest for the Inner North industrial precinct, as it will improve transport access from the Port River Expressway (PREXY) to Regency Road, with an expected completion date of December 2013.
- To date, the highest value industrial sale in 2013 is a 10,314m² purpose built office and cold storage facility currently under construction at Lot 902 Caribou Drive, Direk. Purchased by Cromwell Property Group for $32.75 million in August, the sale was subject to a 20 year lease to Rand Transport AHG, reflecting a core market yield of 8.20%.

Table 1
Adelaide Industrial Market Indicators as at October 2013

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value <5,000m²		Avg. Land Value 1 – 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(% p.a)	$/m²	(% p.a)
Inner West	138	1.3	81	1.1	7.75 – 8.75	9.00 – 9.75	447	1.0	277	2.2
Inner North	90	-1.9	68	-	8.25 – 9.25	8.75 – 10.25	217	0.9	132	0.6
Inner South	128	-2.5	77	-0.3	8.00 – 8.50	9.00 – 9.50	408	-1.6	243	-0.1
Outer North	74	-0.5	56	-0.1	8.25 – 9.50	9.50 – 10.50	104	-0.2	73	-1.7
Outer South	75	-2.3	50	-0.3	8.75 – 9.75	9.75 – 10.75	120	-0.8	65	-0.8
Adelaide Average	**101**	**-1.1**	**66**	**0.1**	**8.20 – 9.15**	**9.20 – 10.15**	**259**	**-0.1**	**158**	**0.6**

Source: Knight Frank
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 when 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)

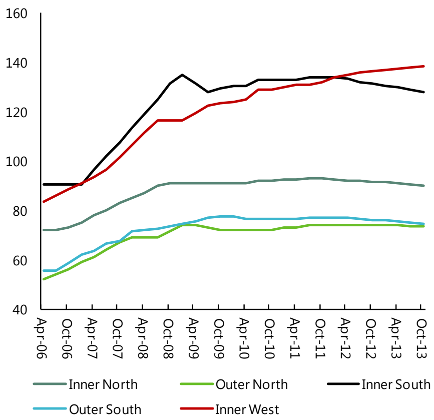
Occupier Demand & Rents

Industrial rental growth over the past 12 months has remained unresponsive, due to the uncertainty surrounding the long term viability of the car manufacturing industry and the pending State Election in March 2014.

As seen in Figure 1, the Inner West was the only region to experience an annual increase in prime rents of 1.3%, achieving an average rate of $138/m² net. While the Inner South shows the largest rental decrease of 2.5%, resulting in an average rate of $128/m² net.

Secondary rents experienced little-to-no change, due to limited tenant demand for older facilities as well as landlords accepting nominal increases in rent in order to retain existing tenants. Leasing enquiries are low due to a lack of confidence in the market; and we anticipate incentives on average to continue to track around 7.5% to 10% in the short term.

Figure 1
Adelaide Prime Industrial Rents
2006-2013 by sub-market – net $/m²



Source: Knight Frank

The Inner West continues to be most favourable amongst tenants in comparison to the Inner South, given superior accessibility to major transport routes and the Adelaide CBD.

In the past 12 months whilst enquiry levels have been thin, the majority of enquiries have been from the transport and logistics sector, due to the Northern Expressway (NEXY) development improving access to the Outer North industrial precinct. This actively has resulted in either purpose built pre-lease deals or facilities for owner occupiers who require innovative and larger premises to accommodate their expansion and consolidation needs. Examples include companies such as Rand Transport (10,314m²), Cameron Interstate (6,255m²), Blackwoods (9,200m²), KJM Transport (14,000m²) and Mainfreight (3,000m² extension). Table 2 highlights that Blackwoods and Rand Transport's leases reflect significantly higher rental rates as a result of specialised cold storage facilities and considerably large hardstand.

Table 2
Major Industrial Leasing Transactions Adelaide Region

Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
3 Naweena Rd, Regency Park ^	IN	128	9,200	12	Blackwoods	Dec-13
Lot 902 Caribou Dr, Direk ^	ON	260	10,314	20	Rand Transport	Aug-13
25-31 Tappa Rd, Edinburgh Park	ON	84	6,255	10	Cameron Interstate	Jun-13
13-43 Webb St, Port Adelaide *	IN	59	15,520	12	OneSteel	Jun-13
2-10 Brock St, Port Adelaide	IN	48	9,000	5	Adega P/L	Apr-13

Source: Knight Frank IN Inner North IS Inner South OS Outer South ON Outer North
* vendor leaseback ^ D&C/pre commitment

Development Activity

As a result of the expansion of access routes from the NEXY and PREXY projects, owner occupiers and investors are relocating to the Inner North region, in particular Regency Park. Construction is also continuing for the duplication of the Southern Expressway, allowing for two-way traffic and an upgrade of the transport corridor between Bedford Park (IS) and Old Noarlunga (OS); and is anticipated to be completed mid 2014.

The $842 million South Road Superway is SA's largest and most complex road projects; expanding transport access from the PREXY to Regency Road (IN), completion for December 2013. Significant rail upgrades and infrastructure projects have been a major focus this year, including the Goodwood Junction Underpass and the Seaford Rail Extension.

The Federal Government has also invested $7 million into a new intermodal freight export precinct at Penfield. This precinct will connect the state's wine, food processing, mining and manufacturing sectors with new export markets.

Sales & Investment Activity

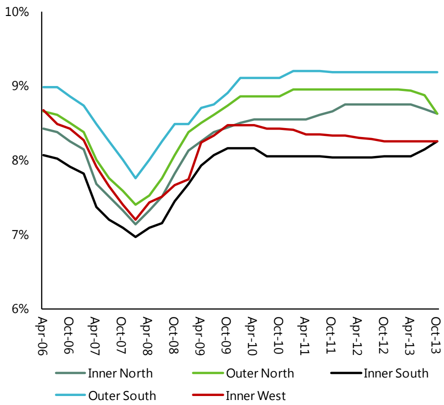
Over the past 12 months private investors have been dominant in the market, seeking long term leases to quality tenants (refer to Table 3).

Owner occupiers continue to be active in the sub $10 million price bracket for the right quality product. The sales of 13-43 Webb St Port Adelaide ($9.43m) and 65-85 Deeds Rd North Plympton ($12.72), reflect the national trend towards owner occupiers optimising lease-back arrangements due to high investment demand and to eliminate debt.

The sale of Lot 902 Caribou Dr Direk selling for $32.75 million and reflecting a yield of 8.20%, highlights that institutional investors are actively seeking assets with strong cash flow profiles.

Figure 2 shows a softening in prime yields in the Inner South, due to limited sales and high level of dated stock.

Figure 2
Adelaide Prime Industrial Yields
2006-2013 by sub-market



Source: Knight Frank

However, secondary investments with weak lease covenants continue to be discounted to allow for the "worst case" scenario. As a result, purchasers are paying more attention to the flexibility of the accommodation and ability to adapt to alternate uses and smaller tenancies.

Outlook

The outlook for Adelaide's industrial market in the short to medium term is unlikely to experience considerable growth. This is as a result of the uncertainty surrounding the long term viability of car manufacturing in Adelaide and Australia (in particular Holden's facility at Elizabeth). Negotiations are currently underway for further Government assistance for Holden with their current assistance set to expire in 2016.

Investment activity is unlikely to see substantial growth until mid 2014, due to local investors adopting a risk-averse role. However institutional investors will continue to be active in the market for the right asset with a strong cash flow.

We anticipate that building owners will try to retain face rents by undertaking works to improve their facilities.

As transport routes and infrastructure projects continue to be constructed, we expect they will encourage development in some key industrial areas such as the Outer North.

We expect building owners will continue to hold their assets in the interim until the market gains further strength.

Table 3
Major Land / Development Sales Adelaide Region

Address	Region	Price ($ m)	Area (m^2)	$/$m^2$ of site area	Zoning	Vendor	Purchaser	Date
10-14 Toogood Ave, Beverley	IN	3.10	20,450	152	Industry	Morganite Aust	Private Investor	Aug-13

Major Improved Sales Activity Adelaide Region

Address	Region	Price ($ m)	Bldg Area (m^2)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
25-31 Tappa Rd, Edinburgh Parks	ON	6.50	1,039	8.11	-	Local Private	Private Investor	Oct-13
519 Cross Keys Rd, Cavan	IN	7.10	8,063	9.35	-	Centuria Capital	Private Investor	Oct-13
16 Drury Tce, Clovelly Park	IS	4.75	6,402	VP	VP	Timbale Pty Ltd	Private Investor	Oct-13
65-85 Deeds Rd, North Plympton *	IW	12.72	12,037	9.63	6.5	Metcash	Ascot Capital	Sep-13
Lot 902 Caribou Dr, Direk	ON	32.75	10,314	8.20	-	Local Private	Cromwell Property Group	Aug-13
32-50 Weaver St, Edwardstown	IS	3.75	2,720	8.36	5.8	Local Private	Private Investor	Jul-13
13-43 Webb St, Port Adelaide *	IN	9.43	15,520	9.66	-	Arrium	Quintessential	Jun-13
600 Main Nrth Rd, Gepps Cross #	IN	21.35	19,176	10.72	1.7	Bianco	Private Investor	May-13

Source: Knight Frank IN Inner North ON Outer North IS Inner South IW Inner West
* vendor leaseback VP vacant possession # property included additional development land

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