

# ADELAIDE

## INDUSTRIAL MARKET BRIEF NOVEMBER 2014

### Key Facts

**The Inner West continues to achieve the highest prime rental rate of \$136/m<sup>2</sup> net, due to greater access.**

**Prime core market yields have experienced modest firming, to average 7.95% - 8.90%.**

**\$407.5 million duplication of the Southern Expressway is complete.** Improved access for Outer South.

**Outer North land values experienced the largest annual fall (-2.4%), averaging \$101/m<sup>2</sup> for sites <5,000m<sup>2</sup>.**



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Transactional activity in the Adelaide industrial market for the 2014 CY (>\$5 million) has reached \$244.3 million, already well above the \$131 million recorded in 2013.

### Economic Snapshot

General Motors announced in December 2013 that they will cease manufacturing of motor vehicles in Australia from 2017. In South Australia, this comprises the manufacturing plant at Elizabeth along with local vehicle component suppliers. This is likely to have a significant negative impact on market confidence as the closure date approaches.

Confidence in the manufacturing sector has suffered further following the recent announcement by the Federal Government that other international prospects were being considered in relation to building 12 more submarines. To date this contract has previously been carried out by ASC at Techport, Osborne, within a \$120 million facility. If the reported \$40 billion contract was moved offshore, it is likely there would be significant job losses. A final decision by the Federal Government as to the extent of the local involvement in the shipbuilding contract is yet to be announced.

### Occupier Demand & Rents

Industrial rental growth over the past twelve months has remained relatively stable, with the Outer North region experiencing the largest decrease of 2.7%. The imminent closure of General Motors has resulted in prime net rents averaging \$72/m<sup>2</sup> (refer to Table 2) due to the lack of tenant demand and confidence within the region. The Inner West and Inner North regions continue to be the most active, due to access to major transport routes and proximity to CBD and Adelaide Airport.

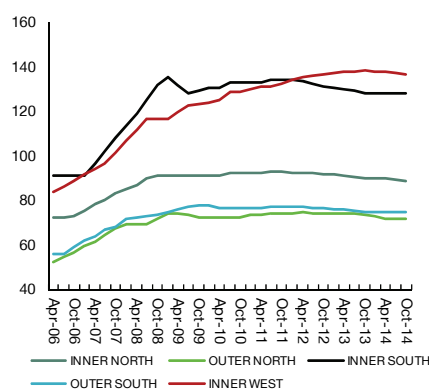
Secondary rents have remained unresponsive, due to limited tenant demand for older facilities and landlords accepting nominal increases in rent at renewal in order to retain existing tenants.

Incentives remain unchanged historically, averaging 7.5% to 10%, as owners are more likely to accept lower face rents than increase incentives as reflected in the rental decreases in Table 2.

Even though enquiry levels are thin, there are tenants in the market who require modernised and larger premises for their expansion or consolidation needs. An example of this is Australand, who is in the process of constructing three new purpose built office warehouse facilities with a total area of 14,396m<sup>2</sup>, located within the Beverley Industrial Estate, on a site of 25,667m<sup>2</sup>. The three buildings are made up of a 5,551m<sup>2</sup> facility pre-leased to Alspec who specialise in the design and distribution of aluminium products, 5,290m<sup>2</sup> pre-leased to K.W. Doggett who is an independent paper merchant, and a speculative building of 3,555m<sup>2</sup>.

Auto Nexus's recent three year lease deal at 210-212 Eastern Parade, Gillman highlights that quality tenants are actively seeking space, however in some cases are unwilling to commit to a long term lease, due to the uncertainty surrounding the industrial market outlook.

FIGURE 1  
Adelaide Prime Industrial Rents  
2006-2014 by sub-market - net \$/m<sup>2</sup>



Source: Knight Frank

TABLE 1  
Recent Leasing Activity Adelaide

Address	Region	Net Rent \$/m <sup>2</sup>	Area	Term (yrs)	Tenant	Date
26 Circuit Ct, Hendon	IW	116	3,700	5.5	Rivergum Group	Aug-14
210-212 Eastern Pde, Gillman	IN	211*	926	3	Auto Nexus	Aug-14
68 Hardys Rd, Torrensville	IW	62	2,105	5	Aquaport	Aug-14
9 Maxwell St, Pooraka	IN	57	2,174	3	Envirobank	Jul-14
1754 Main North Rd, Salisbury	ON	65	6,904	6	Pickles Auctions	Jul-14
340 Hanson Rd, Wingfield	IN	63	1,357	5	Peter Stevens	May-14
5 Indama St, Regency Park	IN	53*	4,802	2.4	Confidential	Apr-14
18-20 Hakkinen Rd, Wingfield	IN	86	2,083	5	Artcraft Pty Ltd	Apr-14

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

## Development Activity

The completion of the \$407.5 million duplication of the Southern Expressway project in August 2014, has the potential to increase interest from owner occupiers and investors for the Outer South region due to improved access.

Approval has been granted for the \$110 million Port Bonython Fuel Terminal project, located in the upper Spencer Gulf. This project will enhance fuel security for the state and create a diesel fuel import, sales and distribution business in Australia. Expected completion date is mid 2016.

The \$253 million Tonsley redevelopment project, which is part of the State Governments master plan for the future of manufacturing, is set to create 6,300 jobs for South Australia over 20 years. The project already has major pre-

commitments from tenants such as Tier 5, Siemens, Basetec, Signostics, Zen Industries, Man Diesel and Turbo Aus.

The Northern Connector project remains mooted, for a 31km rail track and 15km road connecting the Northern Expressway to the Port River Expressway, which would create 1,662 jobs over the three year phase and improve access for the Outer North.

The \$49.7 million upgrade of South Road still remains in the preliminary stages, with no commencement date as yet. The expansion would support growth for the Inner and Outer South industrial regions.

Construction of Costco's new purpose built retail facility of 14,000m<sup>2</sup> located in Kilburn is underway, with an expected completion date of 2015. Aldi has also commenced construction of their new \$70 million purpose built distribution facility of 30,000m<sup>2</sup>, located in Regency Park, with completion expected in 2016.

TABLE 2  
Adelaide Industrial Market Indicators as at October 2014

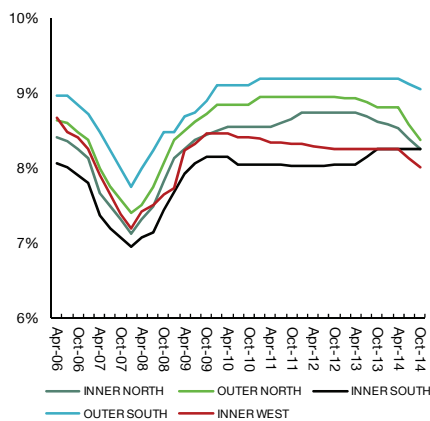
Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields		Avg Land Values			
	\$/m <sup>2</sup> net	(%p.a)	\$/m <sup>2</sup> net	(%p.a)	Prime	Secondary	<5,000m <sup>2</sup>	(%p.a)	1-5 ha	(%p.a)
Inner West	136	-1.4	80	-	7.75-8.25	9.00-9.50	432	-1.3	270	-0.4
Inner North	89	-1.7	67	-1.5	7.75-8.75	9.00-9.75	215	-0.2	140	-0.3
Inner South	128	-	77	-	8.00-8.50	8.75-9.50	378	-1.3	243	-
Outer North	72	-2.7	56	-	8.00-8.75	9.50-10.50	101	-2.4	72	-0.7
Outer South	75	-	50	-	8.75-9.50	9.75-10.75	115	-0.9	65	-
<b>Adelaide Average</b>	<b>100</b>	<b>-1.2</b>	<b>66</b>	<b>-0.4</b>	<b>7.95-8.90</b>	<b>9.20-10.05</b>	<b>248</b>	<b>-1.2</b>	<b>158</b>	<b>-0.1</b>

Source: Knight Frank

## Sales & Investment Activity

Transactional activity for 2014 CY (> \$5 million) has reached \$244.3 million, across eight transactions, already well above the \$131 million recorded in 2013. This increase in total sales is due to the acquisition of the Coles Distribution Centre for \$153 million, Adelaide's largest industrial sale on record, by Charter Hall.

FIGURE 2  
Adelaide Prime Industrial Yields  
2006-2014 by sub-market - %



Source: Knight Frank

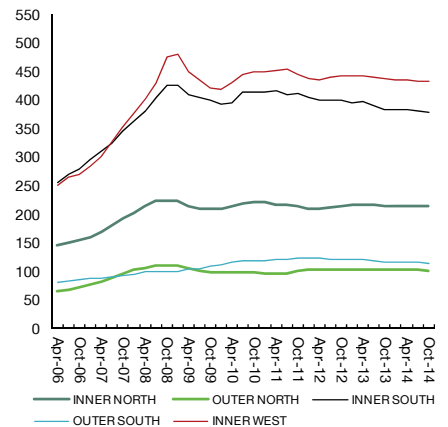
Another significant sale was Adelaide-based Harmony Property Syndicators purchase of Netley Commercial Park for \$30.25 million, reflecting a core market yield of 7.47%. The property sold subject to a leaseback to the Minister for Transport and Infrastructure, until June 2024, on a large land parcel of 13.5 ha.

In addition, Charter Hall (CPIF) purchased a facility located at 103-109 West Avenue, Edinburgh for \$14.75 million. The property is 100% leased to MTU Detroit Diesel Australia Pty Ltd until March 2024, reflecting a core market yield of 7.93%.

Enquiry from institutional investors remains strong for larger modern facilities (>\$10 million) with long term lease covenants. Over the past two years Charter Hall funds have purchased circa \$216.7 million worth of industrial assets in Adelaide, making them the most active institutional buyer. However, activity is being constrained by lack of quality stock available. Private investors and owner occupiers continue to be the most active purchasers in the market for well located assets in the sub-\$5 million price range.

Average core market yields have

FIGURE 3  
Adelaide Industrial Land Values  
\$/m<sup>2</sup>, 2006-2014 by sub market - <5,000m<sup>2</sup> lots



Source: Knight Frank

experienced modest firming over the past six months and now range between 7.95% - 8.90% for prime and 9.20% - 10.05% for secondary (refer to Figure 2). Stronger capital flows coupled with limited investment opportunities will likely see core market yields continue to tighten, particularly for prime assets with long WALEs.

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
Lt 11 Pt Wakefield Rd, Gepps Cross	IN	2.80	20,000	140	INBU	Private Investor	Private Investor	Jun-14
24-30 Merchant Cres, Pooraka*	IN	1.15	6,699	172	LI	Private Investor	Private Investor	Jun-14
32-38 Kaurna Ave, Edinburgh	ON	1.38	21,790	63	UE	Urban Renewal	Private Investor	Apr-14

### Recent Improved Sales Activity Adelaide

Address	Region	Price \$ mil	Bldg Area m <sup>2</sup>	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
32-44 Jonal Drive, Cavan	IN	10.20	8,323	8.18	9.7	Mirvac Group	Altis Property	Nov-14
11-15 Woomera Avenue, Edinburgh	ON	3.70	5,286	12.02	5.1	Private Investor	Private Investor	Oct-14
5-9 Woomera Avenue, Edinburgh	ON	4.70	10,610	VP	VP	360 Capital Industrial	Owner Occupier	Oct-14
103-109 West Avenue, Edinburgh	ON	14.75	5,980	7.93	9.6	Goodman Group	Charter Hall (CPIF)	Aug-14
7-19 Tikalara Street, Regency Park	IN	3.90	4,638	VP	VP	Private Investor	Owner Occupier	Jul-14
2 Sturton Road, Edinburgh Parks	ON	153.0	67,900	7.22	12.6	Goodman Group	Charter Hall^	Jul-14
300 Richmond Road, Netley	IW	30.25	42,112	7.47	10.0	SA Government	Harmony	Jun-14
113 Ledger Road, Beverley	IW	7.32	8,194	9.07	0.3	Motor Accident Comm.	Private Investor	Jun-14
5-17 Taminga Street, Regency Park	IN	9.00	17,150	VP	VP	Hills Limited	Private Investor	Jun-14

LI Light Industry UE Urban Employment INBU Industry/Business VP Vacant Possession \*Sold off market ^Direct CDC (52%) and DIF 2 & 3 (24% each)

Source: Knight Frank

## Outlook

The outlook for the Adelaide industrial market in the short to medium term is likely to remain stable. However the imminent closure of General Motors is likely to continue to weigh negatively on market confidence as tenants and investors prepare for worst case scenario. This would be further exacerbated in the event that the Federal Government award part, or all of the ADF submarine contract offshore.

It is expected that over the next two years more quality space will become available to the market as component manufacturers close their doors, and as a result land values will likely decrease further in the northern areas. This will continue to limit the feasibility of pre-construct developments, as current stock will be available at very competitive rates.

If the option that Adelaide Capital Partners has over a 400ha site at Gillman until December 2014 proceeds the subsequent development is likely to have a positive impact on both the local economy in regards to creating jobs, as well as the anticipated growth for land values and leasing in the Inner Northern precinct. As major transport infrastructure continues to be constructed, this will encourage further development in some key industrial areas such as the Inner and Outer North.

There is unlikely to be any material growth in investment activity for secondary assets, due to local investors continuing a risk-averse mindset in light of the major changes in manufacturing confidence and the long term viability of the sector. However institutional investors will continue to be active in the market for the right asset with a strong cash flow and tenant covenant.

### Definitions:

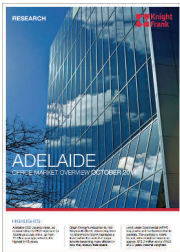
**Prime:** Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

**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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