

# ADELAIDE

## INDUSTRIAL MARKET BRIEF NOVEMBER 2015

### Key Facts

**Investment Sales >\$5 million have been slow over the past six months**, following a record \$333 million worth of sales in 2014.

**Repricing in the Outer North is providing opportunities** for owner occupiers and speculative investors.

**The SA government will progressively phase out commercial property stamp duty by 2018**, to stimulate investment activity.

**Average prime market yields have firmed modestly by nine basis points**, offset by Outer North prime market yields softening by 18 basis points.



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The Tonsley development is a leading example of the successful and adaptive redevelopment of older style manufacturing facilities, attracting quality tenants.

### Economic Snapshot

Economic confidence and sentiment remains weak across Adelaide's industrial market. In the six months to October 2015 additional stock has come to the market in the Outer North as manufacturers associated with General Motors Holden close their doors. The decline in South Australia's mineral resource sector has been headlined by the announcement of the closure of Alinta Energy's Leigh Creek Coal mine and associated Port Augusta power stations in November of this year.

Falling commodity prices have affected the feasibility of the \$4.5 billion Central Eyre Iron Ore Project and the \$3.2 billion Arckaringa open cut coal mine and these projects remain mooted. Large scale development is instead being led by road and infrastructure projects, concentrated around the upgrade of the North-South Corridor. In a move to promote investment activity the State Government has committed to removing stamp duty on commercial property transactions progressively by 2018, reducing the charge by one third annually.

### Development & Land Activity

The existing supply of improved facilities in core locations being met with weak development and leasing demand is affecting the feasibility of new design and construct projects.

Development and land activity remains the most active for parcels under \$5 million, evidenced by the number of transactions in the six months to October 2015. It is likely that any new developments will be subject to major tenant pre-commitment. In the Outer North, the availability of land is providing the opportunity for investors to purchase land speculatively at reduced prices.

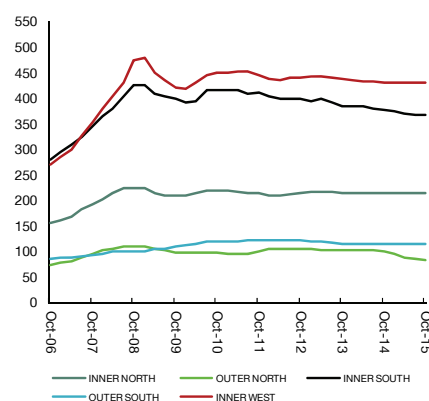
Land values for sites 2,000m<sup>2</sup>-5,000m<sup>2</sup> remain largely unchanged in the Inner West, Inner North and Outer South. Land values in the Outer North decreased significantly by -17.3% (see Table 2) over the year to October 2015 and now average \$84/m<sup>2</sup>, as the future viability of the area remains uncertain.

The South Australian Government has released 15 hectares of land named "East Grand Trunkway" (EGT), adjoining Adelaide Capital Partners 407 hectare Lipson Estate development. Lipson Estate and EGT will have options for lease, purchase and design construct. Lipson Estate will be the largest tract of industrial land available when it comes to market, being strategically located with excellent access to air, road, rail and shipping ports.

In July 2015, Siemens opened a \$5 million facility in Tonsley in Adelaide's Inner South. The specialised facility will service the oil, gas and wind turbine industry.

Tonsley comprises the \$253 million redevelopment of the former 61 hectare Mitsubishi car plant into a technological mixed-use hub. The development is a good example of the adaptive reuse of redundant manufacturing facilities and

FIGURE 1  
**Adelaide Industrial Land Values**  
\$/m<sup>2</sup>, 2006-2015 by sub market - <5,000m<sup>2</sup> lots



Source: Knight Frank Research

TABLE 1  
**Recent Leasing Activity Adelaide**

Address	Region	Net Rent \$/m <sup>2</sup>	Area	Term (yrs)	Tenant	Date
Charles Sturt Industrial Estate	IN	82	2,904	5	Toll	Sep-15
1-5 Pope Street, Beverley	IW	111	5,576	7	Alspec	Jul-15
Butler Bv, Adelaide Airport	IW	140	2,859	4	Toyota	Jun-15
1 Meyer Court, Beverly	IN	125	1,200	7	Indico Pty Ltd	Jun-15
2/2B Cardiff Court, Cavan	ON	88	1,895	3	Tecalemit Pty Ltd	Jun-15
Lum Street, Adelaide Airport	IW	112	1,380	7	Flinders Clinical	May-15
4-8 Johansson Road, Wingfield	IN	107	3,286	3	Toll	Mar-15

Source: Knight Frank Research IN Inner North IW Inner West ON Outer North

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

The State and Federal Government have committed to the Northern Connector infrastructure project. The \$945.6 million project includes a new 15 kilometre stretch of road connecting the South Road Superway and Northern Expressway. This will reduce travel times and improve B-Double access to and from Adelaide's northern industrial areas.

## Occupier Demand & Rents

Prime industrial rental growth remains stable with little movement in rents in the six months to October 2015. Overall growth in prime face rents has been flat. Core locations such as the Inner West and Inner North remain the most active due to their relative proximity to the CBD and airport. Properties that are located with good access to arterial roads and major transit routes have continued to be met with steady leasing demand.

An example of this is Toyota who have recently leased 2,859m<sup>2</sup> from Industria REIT at Burbridge Business Park, 5 Butler Boulevard, Adelaide Airport.

Over the past year, Outer North prime net face rents experienced a modest decrease of -1.7% to \$70/m<sup>2</sup> as a result of declining confidence in the region. Average Inner South secondary net face rents experienced a more significant movement contracting by -5.4% to \$73/m<sup>2</sup>. This is partially a result of tenants consolidating and relocating from pockets of traditional older style manufacturing facilities found in the area to more modern and efficient, higher clearance clear span workspace. The Inner South is a comparatively small market comprising only three suburbs and therefore susceptible to fluctuations in market indicators.

Further contributing to the decrease in secondary rents is the limited demand for older facilities and landlords that are willing to accept nominal adjustments to rent at lease renewal in order to retain existing tenants.

TABLE 2  
**Adelaide Industrial Market Indicators as at October 2015**

Precinct	Avg Prime Rent		Avg Secondary Rent		Core Market Yields %		Avg Land Values <5,000m <sup>2</sup> 1-5 ha			
	\$/m <sup>2</sup> net	(%p.a)	\$/m <sup>2</sup> net	(%p.a)	Prime	Secondary	\$/m <sup>2</sup>	(%p.a)	\$/m <sup>2</sup>	(%p.a)
Inner West	136	-	80	-	7.50-8.25	9.00-9.50	432	-	270	-
Inner North	89	-	67	-	7.50-8.75	9.25-10.00	215	-	140	-
Inner South	126	-1.3	73	-5.4	8.00-8.50	8.75-9.50	367	-3.1	243	-
Outer North	70	-1.7	56	-	8.50-9.25	9.50-10.50	84	-17.3	60	-17.0
Outer South	75	-	50	-	8.25-9.50	9.75-10.75	115	-	65	-
<b>Adelaide Average</b>	<b>99</b>	<b>-0.6</b>	<b>65</b>	<b>-1.3</b>	<b>8.00-9.00</b>	<b>9.25-10.00</b>	<b>242</b>	<b>-2.3</b>	<b>156</b>	<b>-1.5</b>

Source: Knight Frank Research

## Investment Activity & Yields

Investment activity for properties >\$5 million has been slow in the six months to October 2015 with \$60.37 million worth of sales recorded. This comes after a record \$333 million worth of sales in the latter part of 2014 (refer to Figure 3), aided by Charter Hall's acquisition of the Coles Distribution Centre for \$153 million, Adelaide's largest industrial sale on record and Ingham's Edinburgh facility for \$49.2 million.

Recent investment sales have been headlined by Australia Post's purchase of 519 Grand Junction Road, Wingfield for \$21 million. The property sold leased to StarTrack Express, Fletcher Insulation and Global Metals representing a core market yield of 8.58% and a WALE of approximately two years by income.

Growthpoint's July 2015 purchase of the Point West Industrial Estate for \$20.815 million is a good example of the type of industrial property that attracts institutional interest. The property is tenanted by Alspec, Pro-Pac and K.W. Doggett across three units, totalling 14,459m<sup>2</sup>. The property is well located and sold for a core market yield of 7.74%

and a WALE of 5.3 years by income.

Institutional grade investments are well received when bought to the market however these properties are tightly held and don't transact often. The volume of transactional activity has been greater in the secondary market at the sub \$5 million price point, appealing mostly to owner occupiers and private investors. This is evidenced by the recent transactions recorded in the six months to October 2015 (see Table 3).

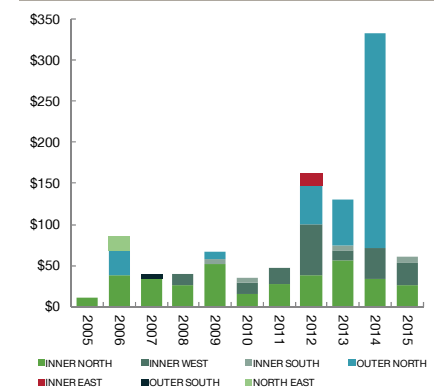
Average prime core market yields experienced modest firming over the past year, with yields for prime assets firming by nine basis points, averaging 8.36% across Adelaide (refer to Figure 2). Any significant movement in average prime yields have been offset by Outer North prime yields softening by 18 basis points to an average of 8.81%, over the same period to October 2015, highlighting the low level of confidence, increased risk and further repricing occurring within the area.

FIGURE 2  
**Adelaide Region Yields**  
% Core market yields (LHS) & bps spread (RHS)



Source: Knight Frank Research

FIGURE 3  
**Adelaide Industrial Sales**  
2005-2015 by sub-market - >\$5 million



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
Lt 93 Beafield Road, Para Hills West	IN	0.95	9,070	105	IND	Undisclosed	Advanced	Aug-15
91-95 West Avenue, Edinburgh	ON	0.82	21,600	37	IND	Lot 107 West Av Pty Ltd	Loong Phoong	Jul-15
11 Williams Circuit, Pooraka	IN	3.60	14,711	245	IND	Nimrod Investments	Kelios Downer	May-15

### Recent Improved Sales Activity Adelaide

Address	Region	Price \$ mil	Bldg Area m <sup>2</sup>	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
519 Grand Junction Road, Wingfield	IN	21.00	17,449	8.58	1.9	Southwing Pty Ltd	Australia Post	Aug-15
101 Port Wakefield Road, Cavan	IN	5.55	12,113	N/A	N/A	Cavan Land Pty Ltd	CP Cavan Pty	Aug-15
23-27 Woomera Avenue, Edinburgh	ON	4.015	4,778	VP	VP	BW & V Martin Properties	YourDC	Aug-15
461 Grand Junction Road, Wingfield	IN	3.30	4,004	8.48	0.6	Undisclosed	F&S Nominees	Jul-15
1-5 Pope Street, Beverly	IW	20.815	14,459	7.74	5.3	Australand*	Growthpoint	Jul-15
54 Jose Street, Melrose Park	IS	7.20	12,254	9.31	12	Big Bucket Car Wash	Private Investor	Jun-15
280 Cormack Road, Wingfield	IN	2.80#	3,263	VP	VP	Undisclosed	Owner Occupier	May-15
17-21 Woomera Avenue, Edinburgh	ON	3.50	5,412	VP	VP	Tonic Pty Ltd	Owner Occupier	May-15
256 Cormack Road, Wingfield	IN	3.10	5,101	N/A	N/A	Bayuna Pty Ltd	Undisclosed	May-15

IND Industry VP Vacant Possession \*C&I Land Holdings Pty Ltd N/A Not Available #Under Contract

Source: Knight Frank Research



## Outlook

Changing macro economic conditions and high labour costs are likely to continue to challenge traditional blue collar manufacturing in South Australia. It is possible that additional quality industrial facilities will come to the market with the imminent closure of General Motors in 2017. This could provide more opportunities for the adaptive reuse and innovative redevelopment of existing facilities, encouraging growth in other service based and logistics industries, evidenced by the recent sales of 17-21 and 23-27 Woomera Avenue, Edinburgh.

It is expected that over the next two years there will be further repricing in the northern areas surrounding the General Motors facility. This will continue to limit the feasibility of new developments, as existing stock will be available at very competitive rates.

Whilst uncertainty exists around key manufacturing contracts and the future viability of some industries, such as the construction of Australian Defence Force Submarines in Osborne, the Federal Government is assisting elsewhere.

### 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).

Forthcoming major transport infrastructure projects, concentrated mostly on improving the North-South Corridor, will reduce travel times, congestion and improve access in some key industrial areas to the north and south of the CBD. In addition, The progressive phase-out of stamp duty on commercial property transactions by 2018 will have a positive affect on the investment market, accommodating local and foreign investment.

It is anticipated that sales and investment activity will remain concentrated within the Inner West and Inner North regions due to ease of access. There is unlikely to be any material growth in activity in the Outer North due to local investors continuing a risk-averse mindset in light of the major changes in manufacturing and the long term viability of the sector, albeit counter cyclical opportunities may exist.

Institutional investment is likely to continue to be active for property (>\$5 million) with secure, stabilised tenancy profiles and long term leases. As a result it is likely that that the appetite for investment will remain healthy for properties of this type.

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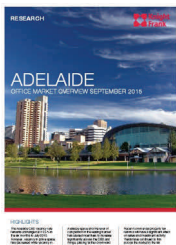
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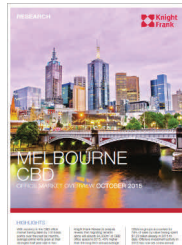
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