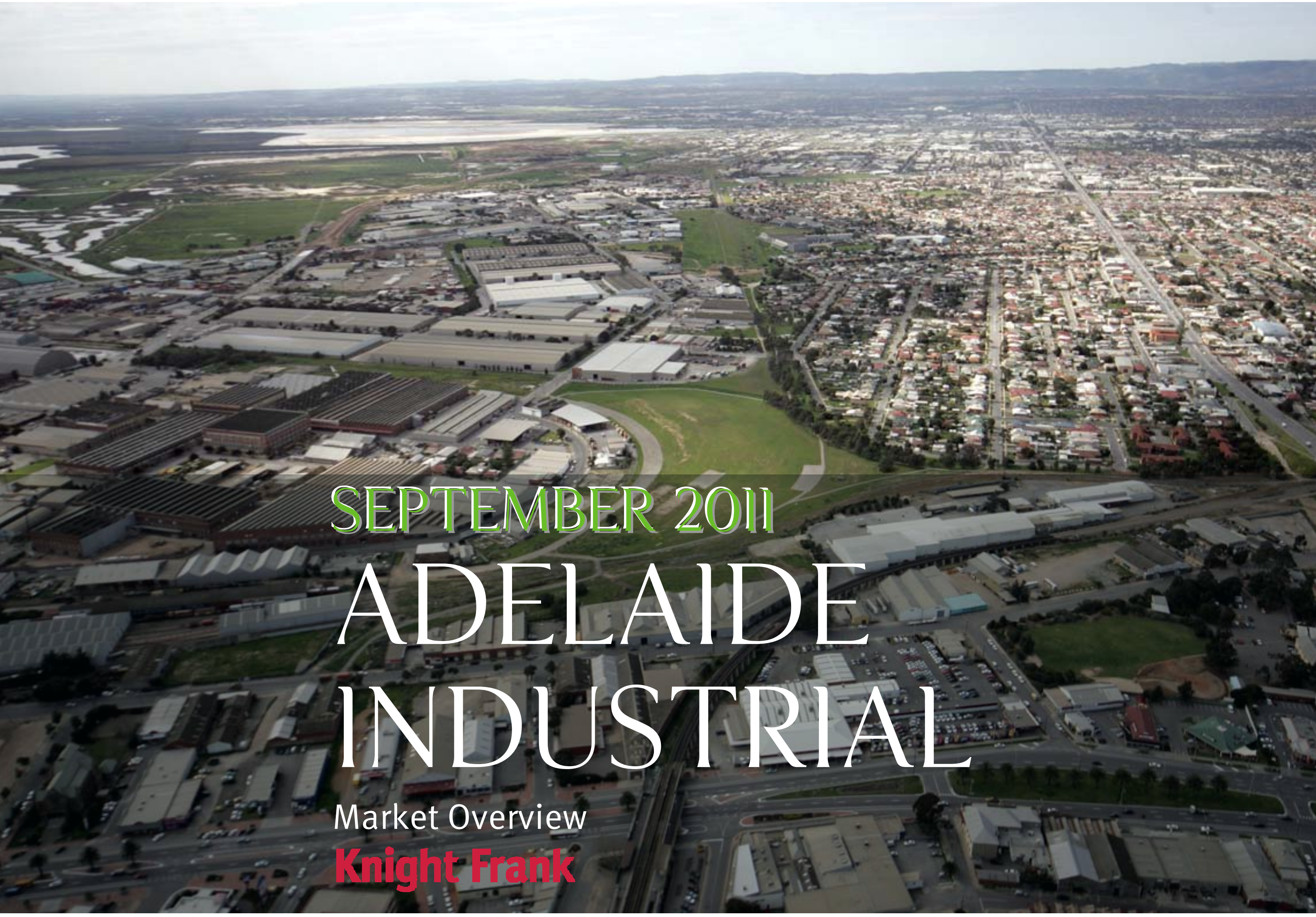
RESEARCH



SEPTEMBER 2011

ADELAIDE INDUSTRIAL

Market Overview

Knight Frank

HIGHLIGHTS

- The Adelaide Industrial market has been relatively resilient since the bottom of the market in late 2009. With a number of global economic factors having an impact on confidence, the Adelaide industrial market will face challenges, however tenant enquiry has positive momentum and opportunistic buying will eventuate for investors over the next 12 months.
- Traditional inner industrial regions continue to dominate both leasing and sales market activity. There is however a lack of transactional evidence, especially at the larger end of the investment scale. The activity over the past 12 months has mainly been in the sub $2-$3 million bracket, driven predominantly by owner occupiers.
- Over the past six months to July 2011 prime yields in traditional industrial inner precincts have stabilised with secondary yields and yields in outer precincts remaining relatively soft.

INDUSTRIAL OVERVIEW

Table 1
Adelaide Industrial Market Indicators Q3 2011

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 North	98	2.1%	70	-	8.25 - 9.00	9.25 - 10.00	208	1.0%	132	0.8%
Outer North	75	2.7%	53	-1.9%	9.00 - 9.50	9.75 - 10.75	92	-3.0%	67	-3.6%
Inner West	129	1.6%	80	0.5%	8.00 - 8.50	8.75 - 9.50	466	-	286	-
Inner South	118	0.9%	77	-	8.00 - 8.75	9.00 - 9.75	416	-	256	-
Outer South	78	-1.3%	49	-2.0%	8.75 - 9.50	9.75 - 10.50	106	-	66	-
Adelaide Average	**100**	**1.2%**	**66**	**-0.5%**	**8.25 - 9.25**	**9.25 - 10.25**	**257**	**-**	**161**	**-**

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%.

Economic Snapshot

The underlying economic conditions, both in Australia and across the global market have faced increasingly stronger headwinds over the past few months, following a steady improvement in conditions for the most part of 2010 and early 2011. Volatility can be expected as a result of the divergent growth profiles and state of public finances of Europe, the United States and China (and Asia more broadly). This will be further exacerbated by any interest rate rises in Australia, although a handful of economists are now talking of a rate cut, supported by the current futures market pricing.

Confidence and the level of transactions has been dented by a confluence of factors including the European debt issues, the US debt ceiling political debate and inconsistent and somewhat incoherent political debate in Australia. This uncertainty has led to delays in the decision making process and protracted lease negotiations and minimal sales activity.

Despite a number of factors likely to threaten the global economic recovery, the Australian economy has continued to prove resilient. Much of this can be attributed to strong growth in China, who continue to demand high volumes of Australian exports. There are concerns however that should Asian markets, particularly China, experience an economic downturn, the negative implications for Australia would be significant. However Chinese authorities have been gradually tightening monetary policy and most indications suggest only a mild slowdown thus far, which bodes well for Australia.

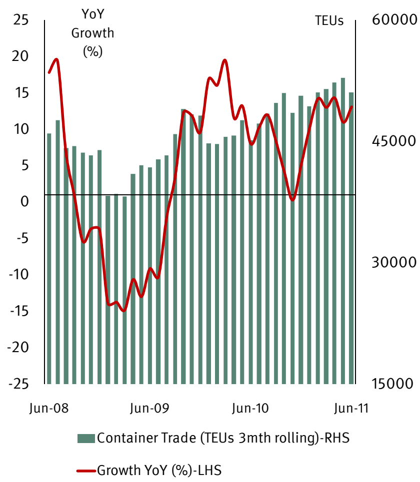
Australia continues to experience a two-speed economy with the commodities boom resulting in a divergence in output and employment growth between the mining sector states and the traditional manufacturing centres and retail sector.

State Economic Snapshot

The South Australian (SA) economy faces ongoing challenges with a sluggish manufacturing industry, a significant decline in commercial construction approvals and soft retail turnover figures. Manufacturing has traditionally been one of the main contributors to South Australia's Gross State Product (GSP).

As the State begins to transform itself from a manufacturing base to a resource region, much will depend on the further development of BHP Billiton's Olympic Dam expansion project. BHP Billiton has moved closer to ramping up the $US1.1 trillion copper, uranium and gold deposit project, releasing responses to over 4,000 queries concerning its environmental impact statement about a huge expansion plan. Half of South Australia's known expansionary projects are in this one project. The project is an important factor in SA's future growth potential.

Figure 1
Adelaide Ports Container Trade
3 month rolling growth in TEUs – Port Adelaide



Source: Knight Frank, Flinders Ports data

Container trade throughput at the Adelaide Port has been steadily rising over the past 12-18 months, with the rolling 3 month total of TEUs up 13% over the past year. This is a strong sign and indicative of increased demand for warehousing as the logistics sector increases its footprint.

Adelaide Industrial Overview

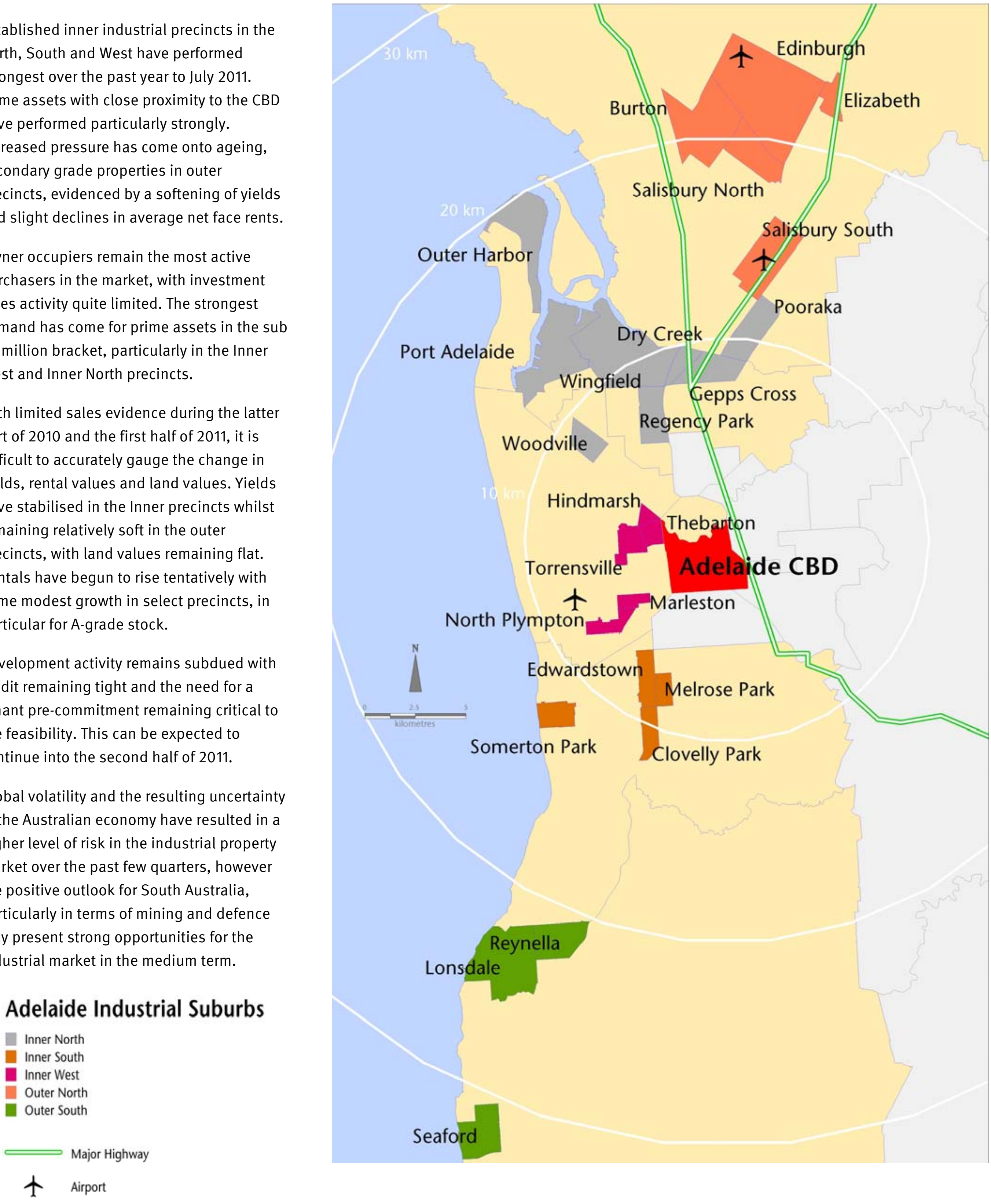
Established inner industrial precincts in the North, South and West have performed strongest over the past year to July 2011. Prime assets with close proximity to the CBD have performed particularly strongly. Increased pressure has come onto ageing, secondary grade properties in outer precincts, evidenced by a softening of yields and slight declines in average net face rents.

Owner occupiers remain the most active purchasers in the market, with investment sales activity quite limited. The strongest demand has come for prime assets in the sub $3 million bracket, particularly in the Inner West and Inner North precincts.

With limited sales evidence during the latter part of 2010 and the first half of 2011, it is difficult to accurately gauge the change in yields, rental values and land values. Yields have stabilised in the Inner precincts whilst remaining relatively soft in the outer precincts, with land values remaining flat. Rentals have begun to rise tentatively with some modest growth in select precincts, in particular for A-grade stock.

Development activity remains subdued with credit remaining tight and the need for a tenant pre-commitment remaining critical to the feasibility. This can be expected to continue into the second half of 2011.

Global volatility and the resulting uncertainty in the Australian economy have resulted in a higher level of risk in the industrial property market over the past few quarters, however the positive outlook for South Australia, particularly in terms of mining and defence may present strong opportunities for the industrial market in the medium term.

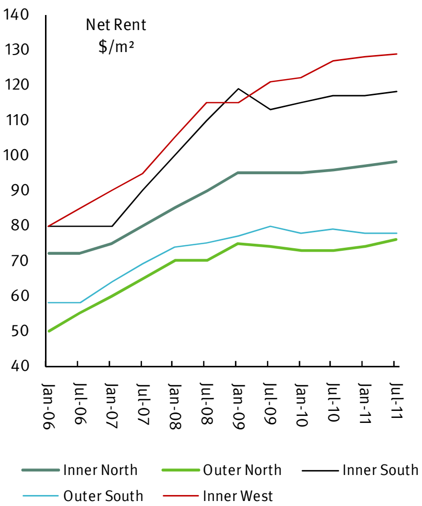


OCCUPIER DEMAND & RENTS

Demand for quality, well located stock up to 2,000m² has remained particularly strong however interest for larger buildings is starting to come back into the market albeit with prolonged transactions. Construction picked up through 2010 with several large projects being completed during the year - Toll HQ (8,100m²), Allsons Transport (10,000m²), Manuele Engineering (17,000m²), Kimberly-Clark (7,052m²) and NQX (6,762m²).

The Outer North is slowly coming back with a handful of larger requirements currently active. The limited supply of new stock should keep rents and prices from falling any further in the secondary market, with some slight growth starting to occur in the A-grade segment. Furniture retailer Nick Scali recently announced they have pre-committed to a 3,000m² distribution facility at the Vicinity Estate in the Outer North suburb of Direk, to service its four retail stores.

Figure 2
Adelaide Industrial Rents
Net Rents by Precinct



Source: Knight Frank

Average net rents across most regions have remained relatively stable over the past 6-12 months. Demand for quality assets in traditional industrial areas, being Inner West and North, has continued to attract higher levels of interest and hence rentals have outperformed the broader market. Average Prime rents in the Inner North have risen by 2.1% over the year to July 2011 to be $98/m² net, while Inner North Prime rents grew by 1.6% to average $129/m² net. The Outer North has begun to see some growth, albeit from the lowest base in the market, growing 2.7% to be $75/m² as at July 2011.

20 Butler Boulevard, Adelaide Airport - 5,607m² leased to TNT Australia in late 2010 at a blended rate of $106/m² net.

Incentives continue to be a feature of the market, currently ranging from 5% - 12% in Adelaide across the total market. Slightly stronger demand for A-grade stock is placing downward pressure on incentives, which average circa 5% - 10%. Demand for smaller warehouses in Inner precincts (sub 2,000m²) remains strong hence may see a reduction in incentives in the near term. Secondary incentives are trading in an average range of 8% - 12% and are likely to remain at similar levels over the short term.

In September 2010, 5,607m² of space was leased at 20 Butler Boulevard, Adelaide Airport to TNT Australia. The lease was negotiated for a ten year term (with two five year options), reflecting a net face rent of $106/m² p.a.

In December 2010 P&O Trans Australia leased 6,880m² of space at 171 Eastern Parade Gillman. The lease was negotiated for a 15 year term (with two five year options) and reflecting a net face rent of $130/m² p.a.

171 Eastern Parade, Gillman - 6,880m² leased to P&O Trans Australia in December 2010 at a blended rate of $130/m² net.

Table 2
Major Leasing Activity Adelaide Industrial

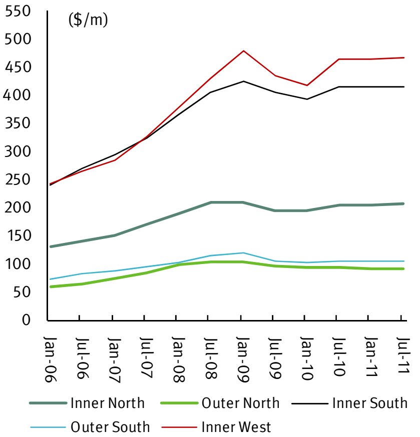
Address	Region	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
171 Eastern Pde, Gillman	IN	130	6,880	15+5+5	P&O Transport Australia	Dec-10
26 Butler Boulevard, Adelaide Airport	IW	158	6,800	10+5+5	Boart Longyear	May-11
20 Butler Boulevard, Adelaide Airport	IW	106	5,607	10+5+5	TNT Australia	Oct-10
41-45 Davis St, Wingfield	IN	142	4,600	15+5+5	Allied Pickford's	Mar-11
461 Grand Junction Rd, Wingfield	IN	84	3,900	5+5	Transfield Services	Apr-11
694 South Rd, Wingfield	IN	n/a	3,400	n/a	Toll	May-11
37 Aldershot Rd, Lonsdale	OS	72	3,200	6+6	AdelaideAqua	Jun-11
Vicinity Estate, Direk	ON	n/a	3,000	n/a	Nick Scali	Aug-11
8 Transport Ave, Netley	IW	77	2,863	5+3	Kema Plastics	Dec-10

Source: Knight Frank

DEVELOPMENT & LAND VALUES

Land values have bottomed, but results remain patchy depending upon size and location of the land parcel. Land values for smaller lots (<5,000m²) range from as high as $400-$450/m² in the Inner precincts (Inner South & Inner West) down to $90-$100/m² in the Outer regions. Industrial supply has remained limited in inner areas but there is still a reasonable land bank with institutional developers. Strong demand in tightly held traditional inner regions is expected to underpin future development.

Figure 3
Adelaide Industrial Land Values
Small lots <5,000m² by Precinct



Source: Knight Frank

There has been substantial infrastructure development by the State and Federal Governments over the past few years, with the Port River Expressway and recently completed Northern Expressway enhancing accessibility in the Adelaide industrial market. The North will benefit the most from infrastructure, with the Northern expressway opening up the northern industrial markets right through to Gawler. As further road upgrades are completed over the next few years, namely the South Road Superway and the duplication of the Southern Expressway, the Outer Southern regions of Lonsdale, Reynella and Seaford will begin to grow in popularity which will lead to a return to growth in the value of land in these precincts.

One of the largest land sales to occur over the past few years occurred in June, with Australian pasta manufacturer San Remo purchasing 164-168 Cavan Road, Dry Creek for $8.03 million in an off-market transaction. San Remo will redevelop the 58,200m² site, however the vendor, Rocla Concrete, have entered into a leaseback on the site until May 2012 with a six month option. This highlights the confidence which exists in the Inner Northern precinct, with its close proximity to the Port of Adelaide in addition to its links to the major new road infrastructure.

Other major land sales over the past year include a 28,280m² parcel of land at Lot 104 Pelican Point Road, Osborne sold in November 2010 for $5.4 million, which represented a rate of 191/m². Another major land sale occurred in June 2011 at the Vicinity Estate, Direk with Walker Corporation selling down an 18,500 m² parcel of land for $1.475 million to Cahill Transport. The transport company will develop a design and construct office/warehouse facility at the site in Walker Corporation's 100ha Vicinity industrial estate. More recently, Emmett Property purchased lot 10 at the estate from Walker's, where a 3,000m² distribution facility has been pre-leased by furniture retailer Nick Scali.

164-168 Cavan Road, Dry Creek – sold for $8.03 million in an off-market deal, which represented a rate of $158/m² of site area.

There remains very little speculative activity as construction finance is still difficult to obtain without tenant pre-commitment. With limited industrial supply in inner areas, institutional developers with landbanks will attempt to capture the relatively strong demand in the inner suburbs. Strong demand in these tightly held traditional inner regions is expected to underpin future development, however the viability of new construction will largely be dependent on the level of rental growth that flows through to the market over the coming quarters.

Table 3
Major Land Sales Activity Adelaide Industrial

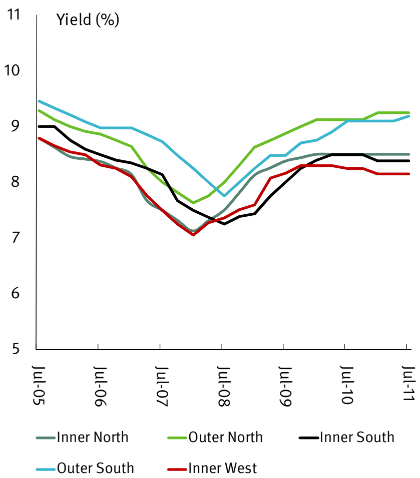
Address	Region	Price ($ m)	Area (m²)	$/m² of site area	Vendor	Purchaser	Date
Vicinity Ind Estate - Lot 10, Mirage Rd, Direk	ON	0.545	5,733	95	Walker Corp	Emmett Property	Aug-11
164-168 Cavan Road, Dry Creek #	IN	8.03	50,820	158	Rocla Concrete	San Remo (Yamada)	Jun-11
Vicinity Ind Estate - Mirage Road, Direk	ON	1.475	18,500	80	Walker Corp	Cahill Transport	Jun-11
132 Ryans Road, Green Fields	ON	1.69	8,420	200	Private	T&J Construction	Feb-11
Lot 104 Pelican Point Road, Outer Harbor	IN	5.40	60,230	90	Minister for Economic Development - SA	Pelican Point Terminals Group	Nov-10
Lot 101-104 White Road, Gepps Cross	IN	3.13	12,501	250	Trust Co Ltd	Stratco Properties	Nov-10
Lot 105 White Road, Gepps Cross	IN	2.03	8,909	228	Trust Co Ltd	White Road Holdings	Oct-10

Source: Knight Frank #under contract

SALES & INVESTMENT YIELDS

The limited amount of sales activity that characterised the industrial property market through 2010 continued into 2011, with minimal sales activity occurring, particularly in the $5 million plus bracket. Most active purchasers are currently owner occupiers with strongest demand coming for quality assets in the sub $2-$3 million market. Secondary assets in secondary locations remain the most difficult to divest.

Figure 4
A-grade Average Core Market Yields
Adelaide Industrial Precincts



Source: Knight Frank

The owner occupier demand is keeping the market for stock below $3 million reasonably tight. Investors remain cautious with minimal larger investment transactions occurring in the Adelaide market over the past year. Prime assets in traditional inner industrial precincts remain the most sought after, particularly in the Inner North and Inner West precincts which accounted for approximately 75% of total industrial sales >$1 million in the 12 months to July 2011. Sales of properties over $2.5 million however remain limited and as a result selling periods have increased.

Yields have remained relatively stable over the past year following the yield softening of circa 125-150 basis points between January 2008 and July 2010, although the outer precinct yields have remained soft, particularly for secondary assets.

Following the limited activity in the market over the past six months, there is the expectation of increased investor demand, with the Inner precincts being the key focus. The risk premium is now perceived to have stabilised in the industrial market which will lead to greater investor confidence and some opportunistic buying.

The largest sale recorded over the past year transacted in late 2010 at 171 Eastern Parade, Gillman. The 24,088m² site, which also had improvements of approximately 6,880m² sold for $10.226 million reflecting a core market yield of 8.75%. The sale was a 'fund through' transaction, with a transfer price of approximately $4.8 million and the vendor responsible for construction works of $3.2 million resulting in some stamp duty savings.

171 Eastern Parade, Gillman sold in November 2010 for $10.226 million which represented an improved rate of $1,486/m²

Another large sale was also recorded in late 2010 (settling in May 2011) when a 14,716m² site at 26 Butler Boulevard, Adelaide Airport sold for $7.78 million. Upon completion the property will comprise a purpose built office and research and development centre for Boart Longyear.

26 Butler Boulevard, Adelaide Airport sold in May 2011 for $7.78 million which represents an improved rate of $1,144/m²

Table 4
Major Sales Activity Adelaide Industrial

Address	Region	Price ($ m)	Bld Area (m²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
775 South Road, Black Forest #	IW	2.650	1,567	VP	VP	Deluxe Motors P/L	Building Solutions	Jun-11
4 Cord Street, Dudley Park	IN	2.300	2,043	7.12	2.8	DB Rainsford P/L	Dudley Park P/L	Jun-11
26 Butler Boulevard, Adel. Airport	IW	7.780	6,800	9.99	10	Australand	Private	May-11
65 Langford Street, Pooraka	IN	3.050	2,811	VP	VP	Guiliani Nominees	Elmeade P/L	Apr-11
2-18 Gray Street, Kilkenny	IN	6.025	15,167	10.14	0.7	Palview Pty Ltd	Yesir Pty Ltd	Dec-10
528 Cross Keys Road, Cavan	IN	3.600	3,361	VP	VP	J McPhee & Son	Benclutch	Dec-10
171 Eastern Parade, Gillman	IN	10.266	6,880	8.75	15	CIP ALZ (Gillman) P/L	Eastern Parade Adelaide P/L	Nov-10
15 Alfred Street, Beverley	IW	5.273	11,670	VP	VP	Nylex Properties	Abbey May	Nov-10
19 Manton Street, Hindmarsh	IW	4.850	7,517	7.89	2.1	Wolf Blass	Various	Nov-10

Source: Knight Frank #under contract
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)

OUTLOOK

The two-speed (multi-speed) economy pressures are likely to continue in the medium term with mining investment and labour/wages growth in the mining sector states likely to intensify over the coming years. Meanwhile the sectors exposed to the high $AUD and higher interest rates such as the manufacturing, tourism, education and retail sector's will continue to face headwinds into 2012. To highlight this divergence, over the past 8 years employment growth in the mining sector has been 140%, compared with manufacturing which has reduced its employment base by 7%. With the $AUD and interest rates likely to remain relatively high, the outlook for the manufacturing industry remains bleak, in particular in the clothing & textiles sector, food sector, car makers and car parts manufacturers.

SA has long been a manufacturing hub, although in recent times there has been a desire and an expectation that it would become a "resource state" and capture the overflow of the mining boom. There has not been enough capital spent on expanding capacity over the past few years, however the huge potential in the coming decade will of course be the Olympic Dam expansion.

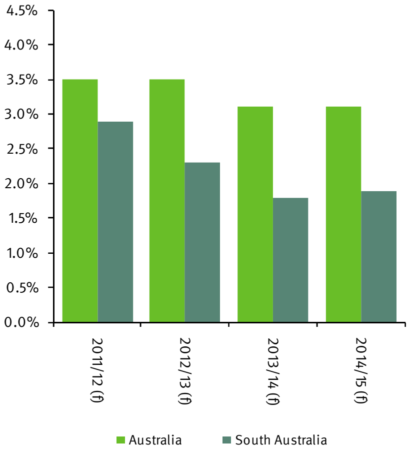
As the State begins to transform itself from a manufacturing base to a resource region, BHP Billiton's Olympic Dam expansion project is an important factor in SA's future growth potential. BHP Billiton has moved closer to ramping up the $US1.1 trillion copper, uranium and gold deposit project, releasing responses to over 4,000 queries concerning its environmental impact statement about a huge expansion plan. Half of South Australia's known expansionary projects are in this one project.

The demand for quality assets in traditional industrial areas being Inner West and North has continued to attract higher levels of demand and hence rentals. Demand for quality stock up to 2,000m² has remained particularly strong and will see downward pressure on incentives. Interest for larger buildings is starting to come back into the market, albeit with prolonged transactions. The transport and logistics sector tenants have dominated the demand for space, reflected in the steady growth in container trade throughput at the Port of Adelaide.

Figure 5

Australia & SA Economic Growth

Aust. GDP & SA GSP pa forecast growth rates



Source: Deloitte Access Economics - June qtr 2011

The Outer North slowly coming back with a handful of larger requirements currently active, with the Northern expressway opening up northern industrial markets right through to Gawler. Secondary rents will likely continue to remain under pressure in the near term as tenants rationalise their property needs and seek to consolidate and relocate to sites on the major transport nodes.

With limited industrial supply in inner areas, institutional developers with landbanks are likely to capture the relatively strong demand in tightly held traditional inner regions, which is expected to underpin future development, however the viability of new construction will largely be dependent on the level of rental growth. Land Values have bottomed, but results remain patchy and generally speaking we expect minimal growth in land values over the next 6-12 months until pre-lease activity increases significantly and banks become more willing to finance development projects. The North has benefitted the most from infrastructure.

Most active purchasers are currently owner occupiers with strongest demand coming for quality assets in the sub $2-$3 mill market. Investor demand is picking up, with the Inner precincts being the key focus, however secondary assets in secondary location remain the most difficult to move. The spread between prime and secondary yields is now at its widest since the GFC, hence investment opportunities exist for repositioning and re-leasing well located secondary assets, which would trade on attractive yields of over 10% in most cases.

BHP Billiton's Olympic Dam expansion project is an important factor in SA's future growth potential.

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