

- *New generation prime stock records historically low vacancy*
- *Adelaide CBD yields continue to firm in 2022*
- *New entry global tenants seeking space in Adelaide CBD*

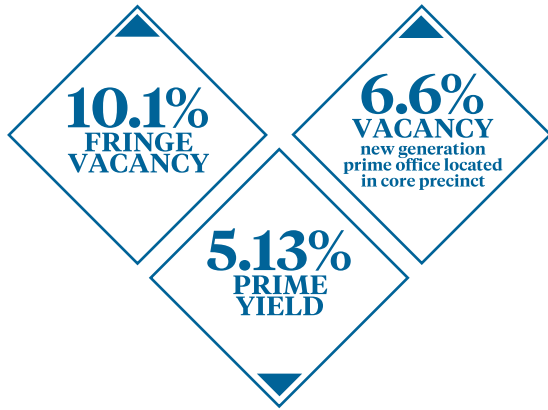
Adelaide CBD Office

Market Report, March 2022



INVESTORS CAPITALISE ON ADELAIDE STOCK

There remains strong demand for new generation office development, as lease terms are aligned with forecasted completion dates for major projects in 2022-2023+



“We are observing a continued demand for new generation prime stock, with minimal vacancy in prime buildings.”

MARTIN POTTER

PARTNER, HEAD OF OFFICE LEASING SA

The Key Insights

The vacancy rate within the Adelaide CBD has decreased from 15.7% to 14.5%, with a firm decline evident in new generation prime buildings (built 2006+).

The Adelaide fringe market is anticipated to benefit in line with the recent withdrawal and planned refurbishment of secondary stock.

Gross effective rents are steadily on the rise for both prime and secondary assets, recording a year on year increase of 2.9% and 1.7% respectively.

The Adelaide CBD observed over \$500 million in sales in the 6 months leading into January 2022, with domestic unlisted funds accounting for approximately 57% of the total sales volume.

Adelaide CBD prime asset yields continue to firm, primarily with properties benefitting from favourable lease covenants and long Weighted Average Lease Expiries.

Adelaide CBD Office Market Indicators – January 2022

GRADE	TOTAL STOCK SQM	VACANCY RATE %	SIX MONTH NET ABSORPTION SQM	SIX MONTH NET ADDITIONS SQM	AVERAGE GROSS FACE RENT \$/SQM	INCENTIVE %	EFFECTIVE RENTAL GROWTH % YOY	CORE MARKET YIELD %*
Prime	623,496	10.6	8,428	0	578	25.0 - 35.0	2.90	4.75-5.75
Secondary	836,550	17.4	6,178	270	420	30.0 - 40.0	1.71	5.75-6.75
Total	1,460,046	14.5	14,606	270				

Source: Knight Frank Research/PCA *assuming WALE 5.0 years

TENANTS SEEK NEW GENERATION PRIME STOCK

New generation prime stock records record low vacancy rates

The Adelaide office market has proven itself as being COVID resilient, experiencing little disruption, with the recent spike in COVID cases scarcely deterring the strong demand for new generation prime stock. There remains a continued divergence in demand, dependant on stock quality and age. Specifically, we are seeing a reduction in vacancy and incentives within new generation prime grade space.

Since August 2021 the new generation prime market recorded a 1.9% decrease in vacancy, with the majority of vacant space attributable to Kyren Groups 13 storey office tower situated at 108 Wakefield Street. If we hypothetically exclude this building as an outlier (due to having no major leasing pre-commitment prior to construction) we observe that prime office vacancy would have fallen by approximately 2.0% to stand at 0.6%.

We anticipate that as tenants continue to shift toward quality stock, secondary building owners will attempt to compete with prime stock and future developments through major restorations and refurbishments. We expect that incentives within secondary stock will persist at current levels as building owners continue to compete with the superior quality stock.

Positive net absorption recorded in prime and secondary stock

Net absorption within the Adelaide CBD increased sharply in the six months leading into February 2022 sitting at 14,606m² well above the 10 year average of 2,126m². In the past 6

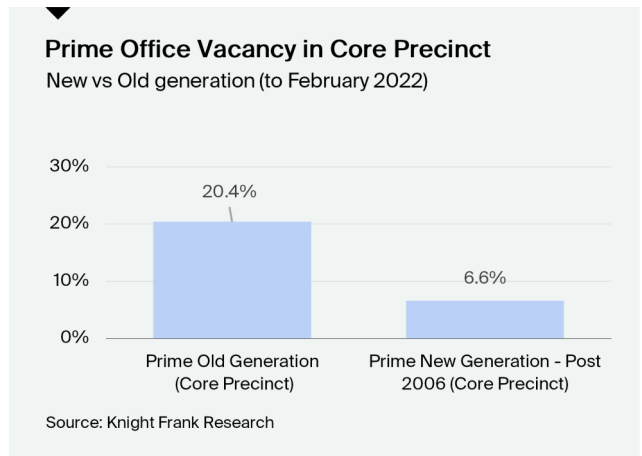
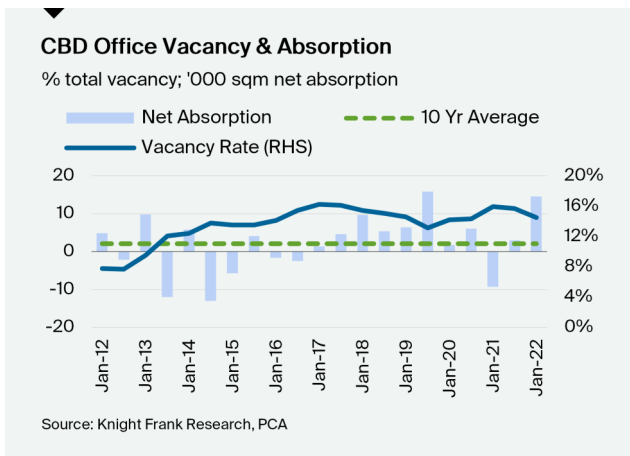
months both the prime and secondary stock recorded positive net absorption of 8,428m² and 6,178m² respectively. The breakdown of the absorption data supports that, although there is rising demand for office space, tenants are preferring to occupy smaller more efficient floor plates within prime office buildings.

However there remains active requirements from Core Logic for 1,050-1,450m² of office space, Nexia Edwards Marshall for 1,500m², WSP/Golder for 2,500-3,000m², and BDO for 2,500-3,000m², highlighting that there remains a reasonable level of demand for larger tenancies.

Adelaide leasing market receiving interest from international companies

Leading into February 2022, Adelaide CBD continues to receive substantial interest from blue chip companies, global enterprises and government entities, with large portions of NLA in prime office buildings being occupied. Global wine company Accolade Wines has relocated to a CBD office, transferring approximately 160 staff occupying 1,462m² on Level 10, 10 Franklin Street. Furthermore the Department for Infrastructure and Transport has secured Levels 4-14, and will occupy 18,524m² of NLA on a 10 year term at 83 Pirie Street, upon its completion in Q1 2023.

The vacancy rate in older generation prime buildings is also expected to reduce in the short term due to the limited available space in new generation prime buildings until new supply is completed in late 2022 and early 2023. On a industry segmented level the Adelaide CBD is receiving strong interest from consulting, cyber security, engineering and commonwealth departments.



LARGE FUTURE SUPPLY FORECAST FOR 2023+

Supply forecast for late 2022 to 2023+

The Adelaide CBD office market recorded no new supply as at January 2022. However, there are currently three major office developments under construction and four mooted developments. This equates to a forecast supply of 116,500m² in 2023, 20,000m² in 2025 and a total of 77,610m² mooted, subject to tenant pre-commitment and hence no completion date.

Two major developments that have secured tenant pre-commitment are Charter Halls 14 storey A grade tower with 40,000m² of office space and 3,600m² of retail space, at 60 King William Street (71.25% precommitment lease to Services Australia) and CBUS' 17 storey A grade tower comprising 30,000m² of office space, 360m² of retail space and 120 onsite car parking bays (58% pre-commitment lease to DFIT).

Melbourne based ICD Property Group's development of three towers incorporating 15,000m² of office and 6,000m² of retail space at The Adelaide Central Market is currently awaiting major pre-commitment before commencing construction. Other major developments mooted and subject to tenant commitment include Kyren Group's 21,000m² tower at 42-56 Franklin Street and Le Cordon Bleu & Commercial General's 30,000m² tower at 200 North Terrace.

Flinders emerge into the Adelaide CBD

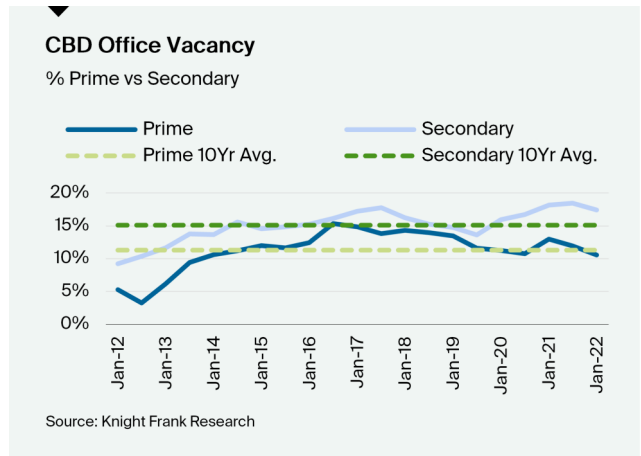
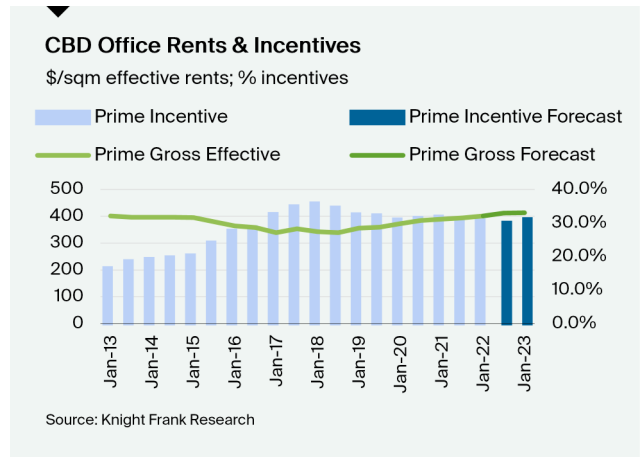
The third major development referred to is Walker Corporation's 44,500m² tower in Festival Plaza, after approximately 5 years of planning construction is underway. A lease pre-commitment has been made by Flinders University for 12,000m² over eight levels. The remaining

8,000m² has reportedly been leased to unconfirmed tenants. The deadline to build Festival Plaza has been extended until 2023, with Walker Corporation applying to make "minor changes" to the towers design.

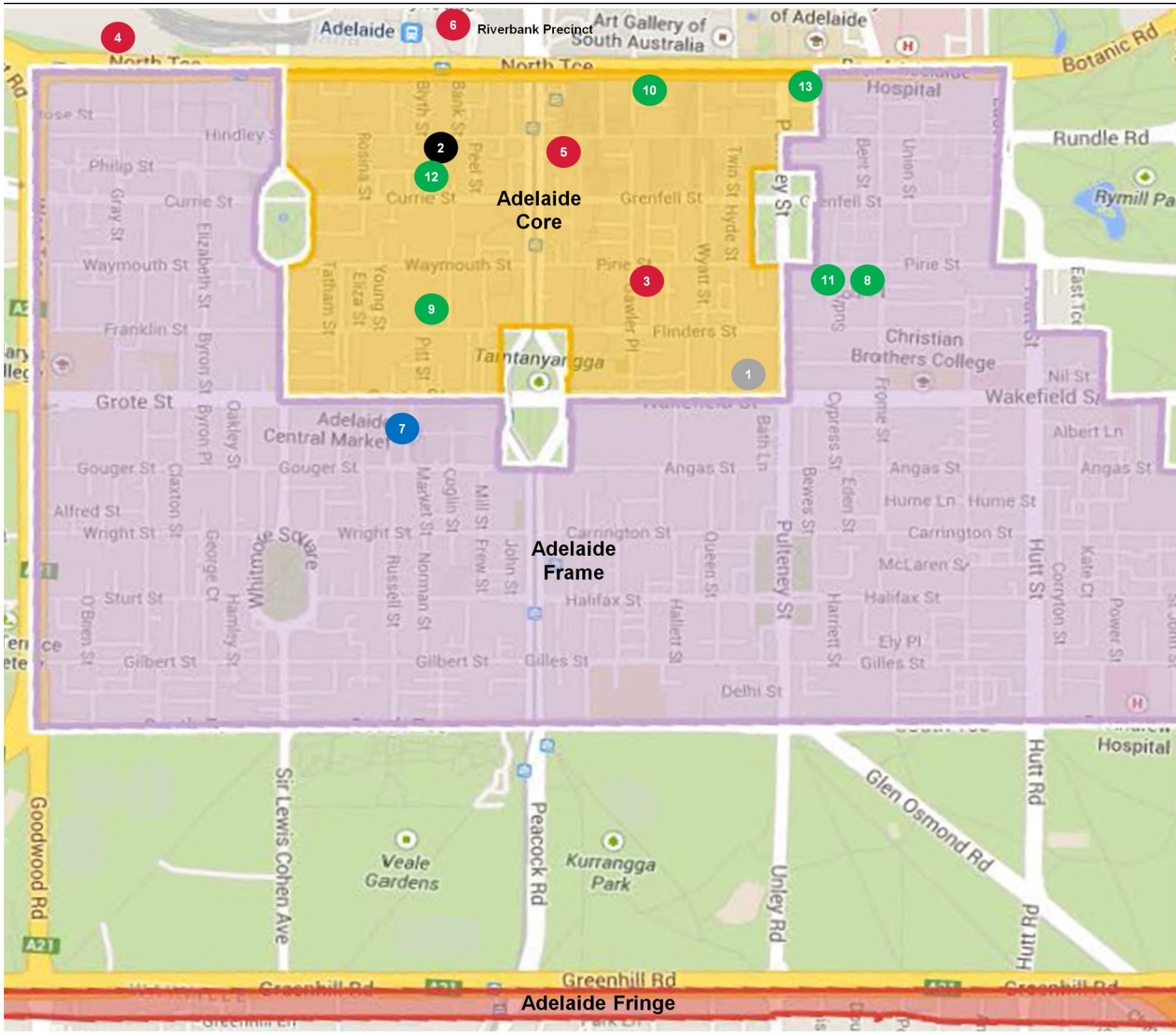
Rents remain stable into 2022

As at February 2022, the average gross effective rents for prime and secondary stock within the Adelaide CBD observed an increase from \$394/m² and \$264/m² to sit at \$401/m² and \$273/m² respectively. The increase in gross face rents within prime new generation are significantly greater than that of the older generation counterparts, associated with the much higher demand for better quality accommodation.

The prime and secondary average incentives have remained stable leading into January 2022 at 30.7% and 35.5% respectively.



MAJOR CBD OFFICE SUPPLY



RECENTLY COMPLETED

- 1. 108 WAKEFIELD STREET—15,586 SQM (OFFICE) & 452 SQM (RETAIL)
KYREN—0% COMMITTED Q4 2020

MAJOR REFURBISHMENTS

- 2. 5 LEIGH STREET—1,730* SQM (OFFICE/RETAIL)
GINOS HOLDINGS—WORKS COMMENCED

UNDER CONSTRUCTION/ MAJOR PRE-COMMITMENT

- 3. 83 PIRIE STREET—32,000 SQM [SA GOVERNMENT—DPTI]
CBUS—58% COMMITTED. 2023
- 4. SAHMRI 2, NORTH TERRACE—20,000* SQM (OFFICE) [SA GOVERNMENT & SAHMRI]
COMMERCIAL & GENERAL—2025
- 5. 60 KING WILLIAM STREET—40,000 SQM (OFFICE) & 3,000 SQM (RETAIL)
CHARTER HALL— 71.25% COMMITTED. 2023

- 6. FESTIVAL PLAZA—44,500 SQM (OFFICE) & 4,500 SQM (RETAIL)
WALKER CORPORATION-2023

DEVELOPMENT APPROVED

- 7. CENTRAL MARKET—15,000 SQM (OFFICE) & 6,000 SQM (RETAIL)
ICD PROPERTY

DEVELOPMENT APPLICATION/MOITED/ EARLY FEASIBILITY

- 8. 211-217 PIRIE STREET— 10MW TIER IV DATA CENTRE
NEXTDC LTD—EARLY FEASIBILITY
- 9. 42-56 FRANKLIN STREET—21,000 SQM
KYREN - MOOTED
- 10. 200 NORTH TERRACE—26,000 SQM (OFFICE) & 3,000 SQM (RETAIL)
COMMERCIAL & GENERAL - MOOTED

- 11. 185 PIRIE STREET — 6,300 SQM
PALUMBO-MOOTED

- 12. 62 - 80 CURRIE STREET— (OFFICE/HOTEL)
PRIVATE DEVELOPER —2023+

- 13. FREEMASONS HALL— 33,000 SQM | 2,000 SQM (OFFICE) 1,000 SQM (RETAIL)
FREEMASONS BRANCH-2023+

NB Dates are Knight Frank Research estimates
Major tenant commitment in [brackets] net to NLA
• approximate

DEMAND REMAINS STRONG FOR CORE ASSETS

Strong demand for quality investment assets

The six months to February 2022, the Adelaide CBD observed a surge in sales in assets above the \$10million price point, concluding 2021 with a total sales volume of \$682 million. This excludes the sale of properties currently under construction such as \$43.0 million for the land component at 60 King William Street and a reported \$446.2 million for SAHMRI 2, both settling upon completion. This compares with \$402.05 million and \$787.49 million in total sales for 2020 and 2019 respectively.

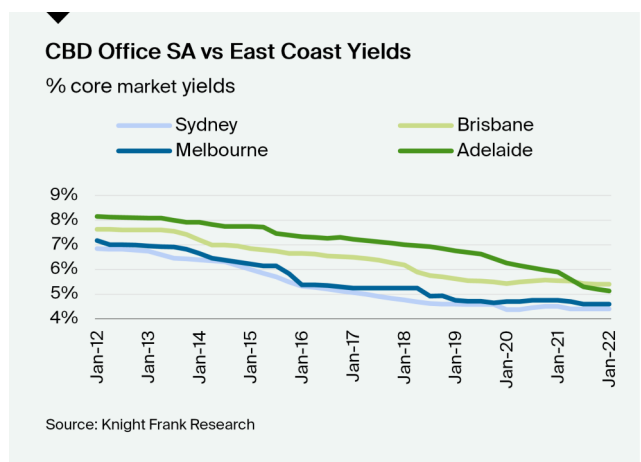
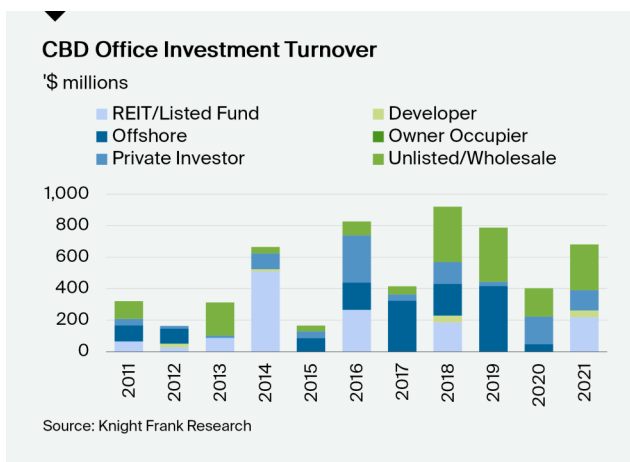
Notable sales include a 24 level, A grade office tower at 25 Grenfell Street in a joint venture by MA Financial and Centuria Capital for \$166.6 million, and the purchase of a high C grade office tower situated at 80 King William Street by Pelligra group for \$25.5million. The recent high volume of major transactions in Adelaide, has highlighted the City as a COVID resilient market, despite more limited enquiry from international and interstate investors throughout the year.

The high amount of available capital in 2021 emphasised the demand for South Australian assets and the ongoing strength of the state economy. We expect the market will remain strong in line with state infrastructure upgrades and job prospects associated with long term Defence related investments .

Yield compression continues in Adelaide

Reflecting the availability of capital and strong demand for property as an investment class, the average prime yield in Adelaide CBD compressed by a further 17 basis points since August 2021 to stand at 5.13%. The ongoing firming bias of yields has shown that in the case of Adelaide, lower interest rates have offset the impact of uncertainty within the occupier market.

Investors are focusing on assets with appealing lease covenants, particularly with government tenants.



Recent significant sales

PROPERTY	PRICE \$M	CORE MARKET	NLA SQM	\$/SQM NLA	WALE	PURCHASER	VENDOR	SALE DATE
25 Grenfell Street, Adelaide	166.60	c6.38	24,887	5,880	4.27	Centuria Capital & MA Financial	Soilbuild Business Space REIT	U/C
21-25 Nile Street, Port Adelaide	62.75	c4.68	6,423	9,770	11.3	Centuria Capital	Charter Hall	Dec-21
80 King William Street, Adelaide*	25.5	c7.29	8,474	3,009	0.9	Southern Property Group	Pelligra Group	U/C
28 Franklin Street, Adelaide	12.19	c4.71	1,553	7,848	3.1	Private Interstate	Private Syndicate	Dec-21

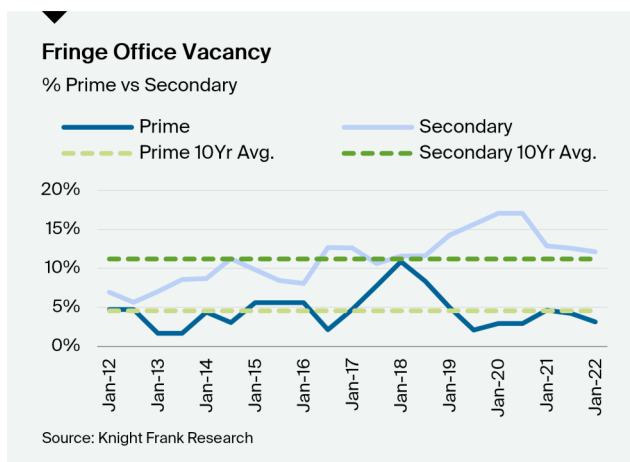
c Circa *Not Settled **Knight Frank Assessment

STRONG INVESTMENT POTENTIAL IN THE FRINGE

Vacancy on the decline within fringe market

In the past 6 months Adelaide City Fringe recorded a decrease in the vacancy rate, from 10.9% to 10.1%. The prime vacancy rate fell by 0.9% to 3.15% and secondary vacancy rate fell by 0.23% to 12.13%. The decrease in the secondary vacancy rate is attributed toward the withdrawal of 1,139m² of C grade stock. Due to the smaller size of the total fringe market, changes in occupancy can have a greater impact on the vacancy rate as compared with the larger CBD market.

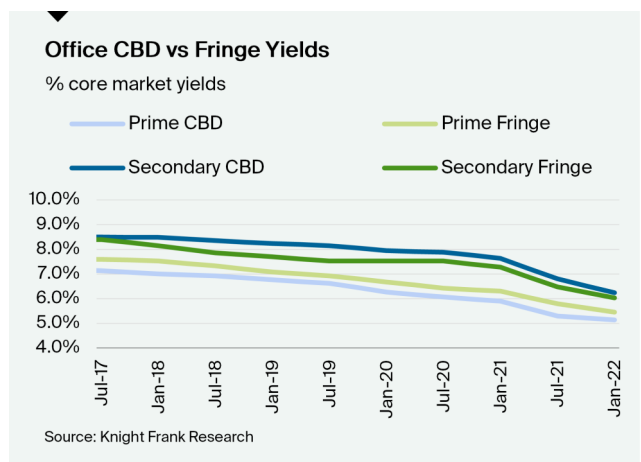
The popularity associated within the Fringe market is typically due to tenants who prefer the high traffic, corporate exposure, with ease of accessibility and ample car parking availability near a city presence. Recent negotiations include JF Hillebrand occupying 498m² at 169 Fullarton Road and Blackbird IT occupying 502m² at 164 Fullarton Road with both leases negotiated on 5 year terms.



Rent remains firm as yields continue to firm.

Prime and secondary gross effective rents in the Fringe as at January 2022 are \$371/m² and \$265/m² respectively, compared with \$374/m² and \$262/m² in the six months prior to January 2022. Similarly incentives have remained steady at 20.5% and 27.5% respectively. Outgoings have increased significantly within the past 6 months, largely due to material increases in Site and Capital Value assessments undertaken by the Valuer General, and in particular, significant land tax charges.

The yields within the Fringe have experienced a slight firming within the past six months of 35 basis points to sit at 5.45% and 6.03% for prime and secondary assets respectively. 187 Fullarton Road, Dulwich and 10 Greenhill Road comprise two secondary grade assets that recently sold for \$4.21million & \$10.78million reflecting yields of 5.58% and 5.21% respectively. Both properties were sold with relatively short term WALE's.



Recent significant tenant commitments

OCCUPIER	PROPERTY	PRECINCT	SIZE SQM	FACE RENT \$/SQM	TERM YRS	START DATE
Commonwealth Govt. Services Australia	60 King William Street	Core	28,500	N/A	10	Circa 2023
Telstra	60 King William Street	Core	6,000	N/A	10	Circa 2023
SA Government (D.I.T)	73-85 Pirie Street	Core	18,520	N/A	10	Circa 2023
Renewal SA	11 Waymouth Street	Core	1,452	575g	10	July 2021
Honeywell	100 Pirie Street	Core	2,050	495g	5	July 2021

g Gross n Net *approximate (r) renewal

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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