



MARCH 2014

ADELAIDE OFFICE

Market Brief

70 Franklin Street, Kyren Group

HIGHLIGHTS

- The PCA's January 2014 vacancy results reflect an increase over the 12 month period to 12.4% for the Adelaide CBD up from 9.5% as at January 2013. Approximately 60% of Adelaide's prime CBD vacancy is concentrated within three prime assets, 70 Franklin Street (11,097m²), 100 Waymouth Street (9,135m²) and the former ATO space at 81-97 Waymouth Street (16,378m²).
- The subdued level of tenant demand in late 2013 is reflected in the stagnant rental growth in prime and secondary buildings over the last six months. Correspondingly, average incentives for new leases are increasing from 16% to 20% in the Core precinct, resulting in prime gross effective rents declining by 2.2% over the past 12 months.
- Whilst the supply of quality investment stock remains tight, there has been a noticeable increase in demand nationally from institutions seeking to invest capital in the Adelaide market as investment opportunities in other interstate markets are being exhausted and buyers are being priced out.

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Table 1
Adelaide Office Market Indicators as at January 2014

Grade	Market	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Gross Face Rent (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	CBD	569,515	10.6	17,198	45,363	489	19.0	8.15
	Fringe	37,297	4.4	1,637	2,700	434	10.5	8.23
Secondary	CBD	809,021	13.7	-23,336	-7,607	367	19.0	9.28
	Fringe	182,871	8.7	393	3,725	334	12.0	8.88
Total Precincts	CBD	1,378,536	12.4	-6,138	37,756			
	Fringe	220,168	8.0	2,030	6,425			
Total Market	Adelaide	1,598,704	11.8	-4,108	44,181			

Source: Knight Frank/PCA

Supply & Development

Gross supply in the Adelaide CBD has increased in the last six months by 1.7%, resulting in 30,566m² of gross additions entering the market. The majority of this supply is due to the recent completion of 80 Grenfell Street, a 22,000m² building which was pre-committed to Bendigo and Adelaide Bank, although 6,300m² is currently available for sub-lease. In addition to this, the newly constructed 149 Flinders Street, introduced 2,014m² of A-Grade space to the market, of which approximately 1,380m² remains vacant. The remainder of supply additions include refurbished backfill space in 321 South Terrace (1,592m²) and a partial refurbishment at 14-16 Grote Street (652m²).

With growing vacancy levels, particularly amongst secondary stock, it is expected that refurbishment activity will increase throughout 2014. At this stage there are staged refurbishment programmes underway within 167-175 Flinders Street (1,700m²), 81-95 Wymouth Street (16,378m²), 2-12 King William Street (4,820m²) and 169 Pirie Street (7,920m²).

Construction has commenced at 50 Flinders Street, which will provide 21,431m² of A-Grade accommodation by late 2015, with only two floors remaining after pre-commitments from People's Choice Credit Union and Santos. The development of the new courts precinct at 301-317 King William Street, potentially introducing new office accommodation of 20,000m², is in the early feasibility stages with a completion date for 2018+. The project was announced in the 2013/14 state budget providing \$2 million to complete concept planning.

Net Absorption & Vacancy

Over the last 12 months there has been a significant increase in CBD vacancy rates from 9.5% at January 2013 to 12.4% as at January 2014 - its highest level since January 2000. In terms of quality grades, vacancies rose in all grades in the 12 months to January 2014. Approximately 60% of Adelaide's prime CBD vacancy is concentrated within three prime grade assets, the mid-2013 completed 70 Franklin Street (11,097m²), the refurbished 100 Wymouth Street (9,135m²) and the former ATO space at 81-95 Wymouth Street (16,378m²) which is currently being refurbished.

Table 2
Adelaide CBD Vacancy Rates By Grade

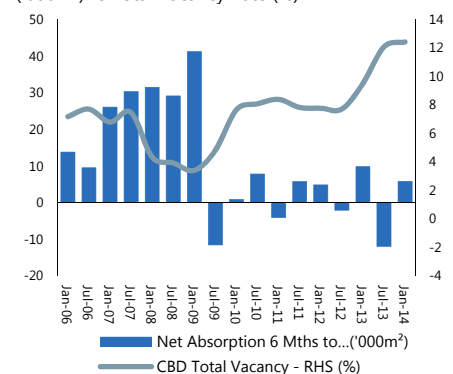
Precinct	Jan 2013	Jan 2014
Premium	3.2%	6.3%
A Grade	6.4%	11.0%
B Grade	10.8%	14.0%
C Grade	11.0%	11.5%
D Grade	15.1%	17.2%
Total	9.5%	12.4%

Source: PCA

The Adelaide Fringe precinct has also seen an increase in overall vacancy, rising to 8.0% from 6.1% in January 2013. On a national level Adelaide has the 3rd highest CBD vacancy rate and the 4th highest Fringe vacancy rate in comparison to all other states. The Adelaide CBD market recorded a positive net absorption of 5,818m² for the six months to January 2014, of which approximately 4,593m² is prime stock and 1,225m² is secondary. These figures are reflective of tenants relocating to take

advantage of elevated incentives being offered in the current competitive leasing market.

Figure 1
Adelaide CBD Net Absorption ('000m²) vs Total Vacancy Rate (%)



Source: Knight Frank/PCA

Tenant Demand & Rents

The subdued level of tenant demand in late 2013 is reflected in the stagnant rental growth in prime and secondary buildings over the last six months. Correspondingly average incentives for new leases are increasing from 16% to 20% in the Core, resulting in prime gross effective rents declining by 2.2% over the past 12 months. As a result, tenants will relocate to high quality premises, as a "flight to quality". Lower A-Grade and refurbished stock will benefit from improved demand from smaller tenants seeking affordable leasing options.

Average CBD prime gross face rents as at January 2014 were \$489/m² (\$388/m² net) with gross incentives 19% (vs 16.5% Jan 13). The spread between prime incentives for lease renewals and new leases is relatively

large with renewal incentives averaging 10% to 15%. Current average secondary gross face rents are \$367/m² (\$273/m² net) with gross incentives also 19% (vs 18.0% Jan 13).

Throughout 2014 there are a number of large leases nearing expiry, which is anticipated to increase enquiry levels as tenants seek to "flight to quality". It is anticipated that approximately 24,000m² of stock is expected to become available as major tenants such as Flight Centre, Aurecon, Suncorp, Viterra, PWC and Safecom look to relocate. The new speculative development at 70 Franklin Street is attracting quality tenants with their new benchmark incentives of 20% plus and efficiently designed space. Within the last six months they have signed PWC, Austereo and Marsh achieving an average gross face rental rate of \$500/m² (\$390/m² net) (refer to table 3).

Leasing activity in the Fringe is mostly size driven, around the 600m² to 1,000m² range. Due to major lease expiries in 2014, tenants for the first time will have the opportunity to move to larger office spaces and take advantage of the current market. Average Fringe prime gross face rents as at January 2014 measure \$434/m² (\$340/m² net) with gross incentives 10.5% (vs 9.8% Jan 13). Current average secondary gross face rents as at January measure \$334/m² (\$255/m² net) with gross incentives remaining relatively steady at 11.6% (vs 12.0% Jan 13).

Investment Activity & Yields

Transaction activity in excess of \$10 million within the Adelaide office market picked up in 2013, recording \$311.8 million worth of sales, well above the \$162.9 million achieved in 2012. This increase was partly driven by two prime, core assets 50 Flinders Street and

Table 3
Recent Leasing Activity Adelaide

Address	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Incentive (%)	Tenant	Start Date
70 Franklin St	1,300	500g*	10	20.0%*	Austereo	Sep-14
70 Franklin St	1,950	500g*	10	20.0%*	PWC	Jun-14
108 North Tce	6,072	480g	5	18.0%	Hewlett Packard	Mar-14
182 Victoria Sq	1,030	385g	5	16.0%	Flinders Uni	Mar-14
70 Franklin St	1,136	500g*	10	20.0%*	Marsh Mercer	Mar-14
212 Pirie St	2,317	375g	7	4.0%	Red Cross Society	Sep-13

Source: Knight Frank g gross *circa

45 Pirie Street being brought to the market and acquired by institutional investors for a total of \$227 million.

44 Waymouth Street was the first transaction above \$10 million for 2014, selling for \$14.1 million to an adjoining owner who plans to re-position the building in the market with a major refurbishment program as the building is 55% vacant. Due to the limited number of high quality assets brought to the market, the sales evidence is not conclusive of any significant shift in prime yields, ranging from 7.50% to 8.75%.

Charter Hall's CPOF has announced their 50% acquisition of the new Tower 8, a 17 level "A" Grade office tower built in 2012, leased to the ATO and Australia Post. The transaction involves a conditional agreement for Franklin Street Property Trust (FSPT) to acquire the adjoining Adelaide GPO and surrounding development land, known as City Central, for \$12 million. The price has not been disclosed for the 50% interest in the building, as it was a purchase of units in the FSPT. We note however that the reported book value for 100% interest was \$199 million. Whilst the details are limited at this time, this transaction highlights the increase in demand nationally from institutions seeking to invest capital in the Adelaide

market as investment opportunities in other interstate markets are being exhausted and buyers are being priced out.

Outlook

Car park owners and tenants need to be aware of the potential cost that the "Transport Development Levy" imposed on car parks within the Adelaide CBD under the current Government will have. From July 2014, the levy will require car park owners to pay \$750 p.a. per car park space. The levy will apply to off-street car parks and ticketed on-street car parks. The current opposition Government have vowed to scrap the tax if elected in the State Election on March 15th 2014. In the short term, face rental growth is not expected to show any significant change and incentives are likely to remain elevated in certain buildings at 20% to 25%. A decrease in sub-lease space and a widening in the differential between incoming and renewing tenant incentives will be required for any sustained effective rental growth. If CBD secondary building owners want to remain competitive in the market, significant refurbishments will be vital as tenant priorities become more selective. Tenants are more aware of the benefits of high NABERS rating, seeking greater efficiencies and consolidation of space.

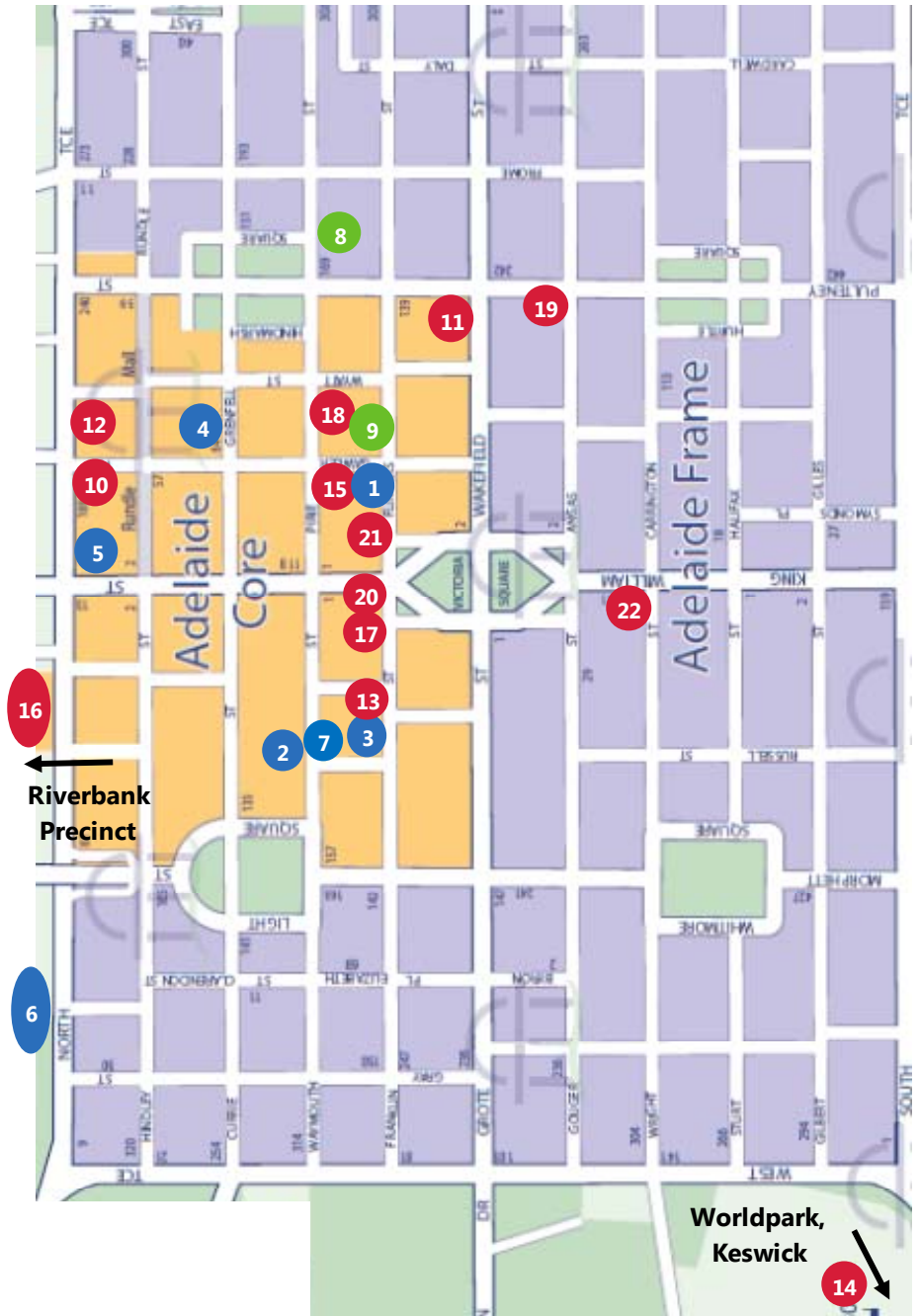
Table 4
Recent Sales Activity Adelaide

Address	Grade	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
141 King William St	-	12.0	-	-	-	-	Aspen	Core Plus Office Fund	Apr-14
12-26 Franklin St	A	TBA	-	37,350	-	13.5	Aspen	Core Plus Office Fund	Apr-14
44 Waymouth St	B	14.10	10.50	7,220	1,953	0.5	Indigenous Business Aus	Private Investor	Feb-14
165 Grenfell St	B	9.65	10.08	3,096	3,117	2.6	NorelCo Investments	Private Investor	Nov-13
33 Pirie St*	B	6.10	-	5,497	1,110	-	Mortgagee in Possession	Private Investor	Nov-13
70 Light Square	B	14.50	8.47	3,348	4,331	4.2	Ambitio Pty Ltd	Luna & Valk Pty Ltd	Aug-13

Source: Knight Frank *development site - zoning regulations allow potential for a 40,000m² building TBA to be advised

MAJOR OFFICE SUPPLY

- 1 30 Flinders St # - 13,126m² [SA Gov't]
Flinders Central - 2012 - 80% committed
 - 2 100 Wymouth St # - 12,750m² [Community CPS C.U.]
Cromwell - Jan 2013 - 28% committed
 - 3 70 Franklin St - 19,363m² [Piper Alderman]
Kyren - April 2013 - 43% committed
 - 4 80 Grenfell St - 22,000m² [Bendigo & Adelaide Bank] *
Pacific Shopping Centre Grp - Dec 2013 - 100% committed
 - 5 2 King William St # - 4,820m²
Private - Q2 2014
 - 6 North Terrace "SAHMRI" ^ - ~25,000m²
S.A. Gov't - Q3 2014
 - 7 81-95 Wymouth St (ex ATO) # - 16,378m²
KTS Properties - Nov 2013 - 100% vacant
 - 8 169 Pirie St (ex BAB) # - 7,920m²
Australasian Property Developments - Q2 2014
 - 9 50 Flinders St - 21,431m² [People's Choice C.U. & Santos]
Cbus - Q4 2015 - 75% committed
 - 10 188 North Terrace - 5,000m²
Adelaide Development Company (ADC) - 2015+
 - 11 102-120 Wakefield St - 16,500m²
Kambitsis Group - 2015+
 - 12 200 North Terrace - ~17,000m²
Commercial & General/Maras/Le Cordon Bleu - 2015+
 - 13 42-56 Franklin St - 21,000m²
Private (Molfetas) - 2015+
 - 14 Worldpark - Richmond Rd, Keswick - 22,600m²
Axiom (Stage B & C) - 2015+
 - 15 51 Pirie St - 32,716m²
Charter Hall - 2015+
 - 16 Riverbank Precinct
Walker Corp/SA Government - 2015+
 - 17 Tower 7 - 12-26 Franklin St - 13,000m²
Aspen - 2015+
 - 18 77 Pirie St - 32,000m²
Adelaide Development Company - 2015+
 - 19 130 Angas St (Yorke Campus Stg 2) - ~25,000m²
Commercial & General - 2015+
 - 20 Tower 4 - 141 King William St - 30,000m²
Aspen - 2015+
 - 21 2-20 Flinders St - 17,500m²
Toga - 2015+
 - 22 301-317 King William St, Adelaide - 20,000m²
Supreme Court Precinct - 2018+
- Under Construction/Complete
 - DA Approved / Confirmed
 - Mooted / Early Feasibility



Source of Map: Property Council

NB. Dates are Knight Frank Research estimates

Major tenant precommitment in [brackets] next to NLA

Major refurbishment

Office NLA quoted (>5,000m²)

* 6,312m² for sublease

^ S.A. Health & Medical Research Institute

C.U. Credit Union

Americas

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Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

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Belgium
Czech Republic
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Knight Frank Research

Matt Whitby

National Director
Head of Research & Consultancy
+61 2 9036 6616
Matt.Whitby@au.knightfrank.com

Penny Davidson

Research - SA
+61 8 8233 5246
Penny.Davidson@sa.knightfrankval.com.au

Knight Frank Valuations

James Pledge

Managing Director, Valuations SA
+61 8 8233 5212
James.Pledge@sa.knightfrankval.com.au

Nick Bell

Director, Valuations SA
+61 8 8233 5242
Nick.Bell@sa.knightfrankval.com.au

Commercial Agency Contacts

Peter McVann

Managing Director – South Australia
+61 8 8233 5210
Peter.Mcvann@au.knightfrank.com

Martin Potter

Director - Office Leasing
+61 8 8233 5208
Martin.Potter@au.knightfrank.com

Tony Ricketts

Director - Agency
+61 8 8233 5259
Tony.Ricketts@au.knightfrank.com

Guy Bennett

Associate Director - Capital Markets
+61 8 8233 5204
Guy.Bennett@au.knightfrank.com

Andrew Ingleton

Associate Director - Office Leasing
+61 8 8233 5229
Andrew.Ingleton@au.knightfrank.com

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