



SEPTEMBER 2013

ADELAIDE OFFICE

Market Brief

HIGHLIGHTS

- The July 2013 vacancy results reflected an increase over the six month period to 12.1% for the Adelaide CBD up from 9.5% as at January. The Adelaide Fringe also saw an increase in vacancy, rising to 7.5% from 6.1% over the same period.
- July 2013 figures for the Adelaide CBD recorded a six month net absorption of -11,956m² and -438m² in the Adelaide Fringe, for a total of -12,394m².
- Over the last six months, there has been a noticeable upswing in purchaser demand from the institutional market, including listed Real Estate Investment Trusts. These purchaser groups are actively seeking quality assets as investors shift money from low yielding term deposits due to a record low cash rate, to chase higher yielding investments such as property.

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Table 1
Adelaide Office Market Indicators as at July 2013

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	543,515	9.5	20,988	56,463	484	17.5	8.16
	Fringe	34,597	1.7	3,037	2,077	396	10.0	8.23
Secondary	CBD	822,923	13.8	-23,103	5,892	362	18.7	9.28
	Fringe	181,761	8.6	-2,878	2,615	319	12.0	8.98
Total Precincts	CBD	1,366,438	12.1	-2,115	62,355			
	Fringe	216,358	7.5	159	4,692			
Total Market	Adelaide	1,582,796	11.4	-1,956	67,047			

Source: Knight Frank/PCA ^ as at July 2013

Supply & Development

Any new construction in the Adelaide CBD within the short to medium term will be minimal, unless fully pre-committed. This is due to an increase in refurbished backfill space derived from a "flight to quality", as tenants relocate to new buildings.

City Central Tower 8 was completed in late 2012, introducing 37,100m² of new office accommodation in to the market. 80 Grenfell Street will be completed in late 2013, 22,265m² of which is pre-committed to Bendigo and Adelaide Bank, although 6,000m² is currently available for sub-lease. Construction has commenced at 50 Flinders Street, which will provide 21,431m² of A-Grade accommodation, some 5,280m² of which is available for lease.

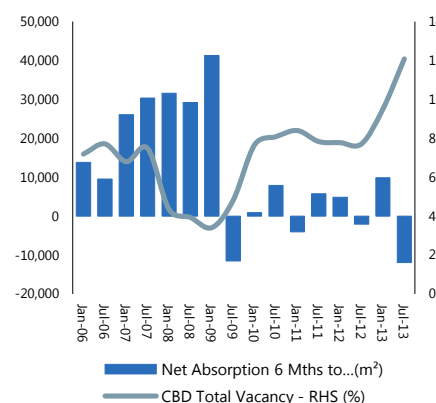
The refurbishment of 100 Waymouth Street has introduced 12,750m² of "A" Grade office space to the market, 3,365m² of which has been leased to Community CPS Credit Union. In addition to this, the recent completion of 70 Franklin Street brought 19,363m² of A-Grade space to the market, of which approximately 15,815m² remains vacant.

Following the relocation of SA Police into new purpose built premises at 100 Angas Street, their former premises at 30 Flinders Street (13,126m²) has been fully refurbished to B Grade standard, and 80% has now been leased.

Net Absorption & Vacancy

Over the last 12 months there has been a significant increase in CBD vacancy rates from 7.7% at July 2012 to 12.1% as at July 2013. The increase in vacancy is predominantly due to new supply brought to the market, which can be largely attributed to the new Tower 8 construction and the relative increase in refurbished backfill space. The Adelaide Fringe precinct has also seen an increase in overall vacancy, rising to 7.5% from 6.1% in January 2013.

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



Source: Knight Frank/PCA

Currently there is approximately 165,000m² of CBD office stock recorded by the PCA as being vacant. Some of the buildings which contribute a significant proportion of this vacant space include the recently completed 70 Franklin Street (15,815m²), the former ATO space at 50 Rundle Mall (10,000m²), the

recently refurbished 100 Waymouth Street (9,705m²), the former SA Police at 30 Flinders Street (2,800m²) and the former CPS Credit Union space at 44 Waymouth Street (3,310m²). Other major vacancies that will be brought to the market over the next two years include the former ATO space at 81-95 Waymouth Street, which is currently being refurbished (16,378m²), 169 Pirie Street (7,920m²) after Bendigo and Adelaide Bank vacate; additionally subleasing 6,000m² of their new premises at 80 Grenfell Street. As a result of pre-lease commitments to the new development at 50 Flinders Street, other pending vacancies include People's Choice Credit Union vacating 60 Light Square (7,000m²) and Santos vacating both 30 Flinders Street (2,520m²) and 89 Pirie Street (2,640m²). Therefore, unless there is a significant upswing in tenant demand, it is likely the vacancy rates will increase further in the short term.

Table 2
Adelaide CBD Vacancy Rates By Grade

Precinct	Jul 2012	Jul 2013
Prime	3.3%	9.5%
Secondary	10.4%	13.8%
Total	7.7%	12.1%

Source: PCA

Tenant Demand & Rents

Tenant demand remains soft due to prevailing economic conditions, however a common driver of "churn" is existing tenants relocating to "higher quality premises". An example is Statewide Super having recently

relocated to 211 Victoria Square, occupying two floors in the fully refurbished A Grade building at a gross rental rate of \$510/m² face. The outlook for face rental growth over the next 12 months is forecast to be modest compared with historic average rates, although still in line with the rest of the country. Whilst face rents are not expected to show any significant decline in the better quality buildings, incentives are increasing as the amount of competition increases. The limited growth which currently exists in the leasing market is being led by those few tenants actively seeking greater efficiencies through consolidation of space whereby it is proving more challenging for owners to secure tenants for smaller areas, than a single large floor plate.

Investment Activity & Yields

Investment activity in the Adelaide CBD over the last 12 months has shown an increase on the previous year in terms of the number of transactions and the sale of 45 Pirie Street and proposed tower at 50 Flinders Street confirmed that strong demand exists for quality assets. There is limited financial information relating to the transaction of 50 Flinders Street, other than headline project value of \$140 million.

The sales of 101 Grenfell Street and 400 King William Street reflected core market yields of 9.1% and 8.2% respectively, a Private Syndicate purchasing Grenfell Street and German Fund Real IS being the purchaser of King William Street. Another transaction of interest was 169 Pirie Street which was sold by Bendigo and Adelaide Bank with vacant possession, pending their relocation to Rundle Place at 80 Grenfell Street upon its completion in late 2013.

Table 3

Recent Leasing Activity Adelaide

Address	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Incentive (%)	Tenant	Start Date
108 North Tce	4,733	470g	7	16.0	Optus	Jan-15
211 Victoria Sq	2,105	510g	10	16.5	Statewide Super	Jul-13
30 Flinders St	4,368	428g	15	12.5	Minister for Infrastructure	Jul-13
70 Franklin St	2,580	430g	12	-	Piper Alderman	Mar-13
25 Franklin St	3,020	270g	5	15.0	Gallagher Bassett	Feb-13
100 Waymouth St	3,227	465g	15	15.3	Community CPS	Dec-12

Source: Knight Frank g gross

Due to the limited number of high quality assets brought to the market over the last 12 months, the sales evidence is not conclusive of any significant shift in prime yields, ranging from 7.50% to 8.75%. Whilst the supply of quality investment stock remains tight there has been a noticeable increase in demand from institutions seeking to reinvest capital in property after repairing their balance sheets post GFC.

With this and further investment activity from SE Asian Pension Funds in the Australian market, there is a strong argument to suggest that there may be further yield compression over the next 12 month period, which is driven by weight of money rather than any improvements in the office market fundamentals. Secondary yields are also relatively unchanged ranging from 8.75% to 10.00%.

The current 54 year low cash rate, together with some early signs of global economic recovery and a highly likely change in Federal Government augers well for an increase in general investment activity in the property sector.

Outlook

In a changing and competitive market the pressure escalates for owners, as tenants continue to follow the "flight to quality" trend. The repositioning of lower grade buildings will be required for owners to remain competitive, as they will need to make significant capital investments by upgrading or refurbishing these buildings. We anticipate further downward pressure on rental levels and an increase in incentives, although less pronounced for the top end grade accommodation. The current vacancy rate is high as a result of the completion of major projects and the backfill of space being brought to the market.

We have highlighted several likely pending vacancies as a result of known tenant relocation and weak tenant demand. It is therefore reasonable to anticipate the vacancy rate will continue to rise over the short term. However, we also note there is no significant new un-committed supply of space under construction, and therefore we do not anticipate the same sharp increase in the vacancy rate going forward as we experienced over the last 12 months.

Table 4

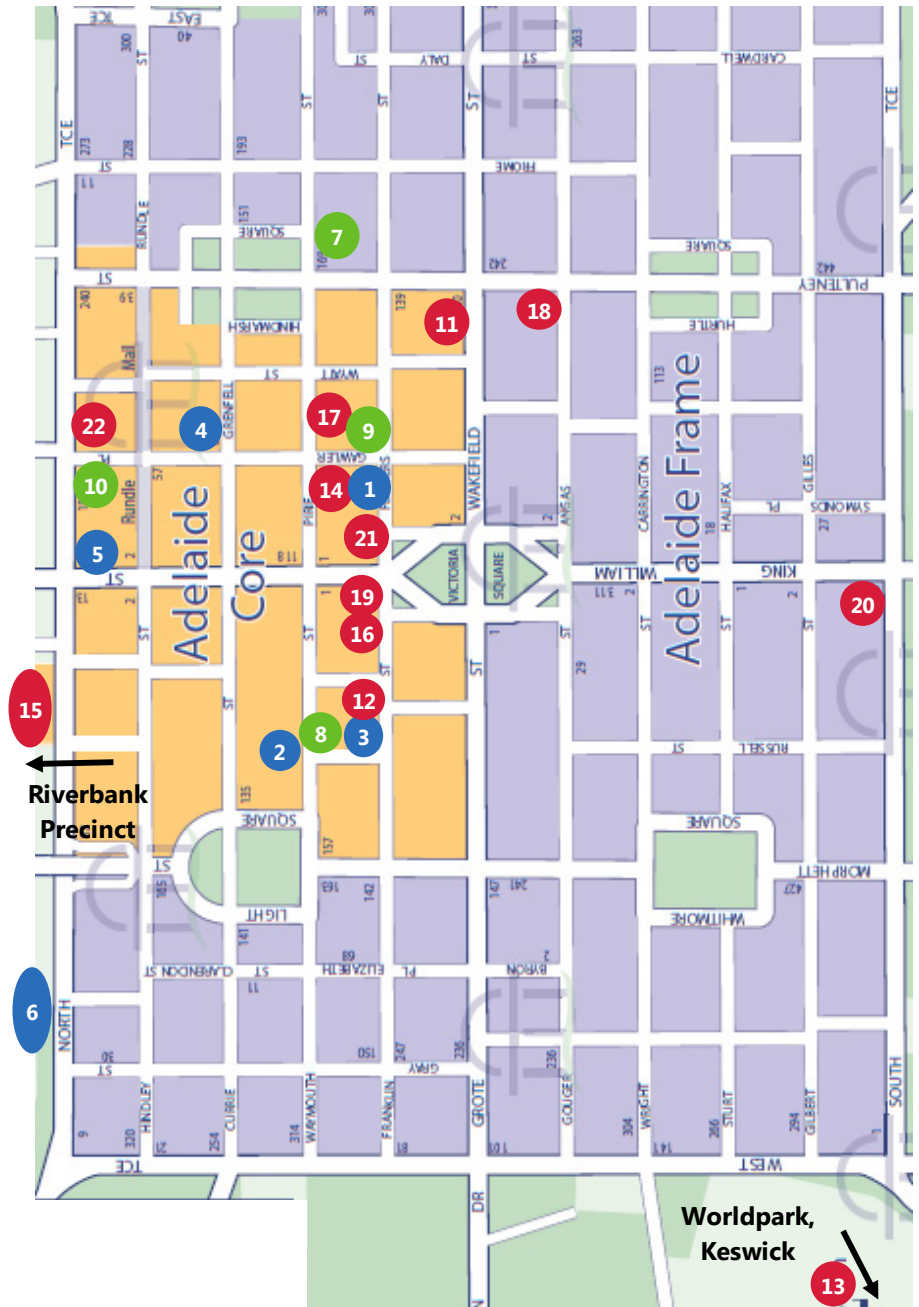
Recent Sales Activity Adelaide

Address	Grade	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
50 Flinders St	A	140.00	-	21,431	-	7.6	Commercial & General	Cbus Property Pty Ltd	Jul-13
45 Pirie St	A	87.00	8.76*	19,855	4,382	4.2	Colonial (CPA)	CorVal	May-13
101 Pirie St	B	12.00	VP	6,788	1,768	VP	Cascadale Holdings	Health Partners Ltd	Feb-13
101 Grenfell St	B	42.95	9.10	13,196	3,255	5.2	Cromwell Properties	Private Syndicate	Jan-13
400 King William St	A	97.90	8.20	22,873	4,279	7.2	Theodoras Samaras	Real IS (German Fund)	Dec-12
169 Pirie St	B	22.10	VP	7,920	2,790	VP	O/O (BAB)	Developer	Sep-12

Source: Knight Frank *yield excl. surplus land component of approx. 900m² O/O owner occupier

MAJOR OFFICE SUPPLY

- 1 30 Flinders St # - 13,126 m² [SA Gov't]
Flinders Central - 2012 - 80% committed
 - 2 100 Wymouth St # - 12,750 m² [Community CPS C.U.]
Cromwell - Jan 2013 - 24% committed
 - 3 70 Franklin St - 19,363 m² [Piper Alderman]
Kyren - April 2013 - 18% committed
 - 4 80 Grenfell St - 22,265 m² [Bendigo & Adelaide Bank] *
Pacific Shopping Centre Grp - Q4 2013 - 100% committed
 - 5 2 King William St # - 5,188 m²
Private - Q1 2014
 - 6 North Terrace "SAHMRI" ^ - ~25,000 m²
S.A. Gov't - Q3 2014
 - 7 169 Pirie St (ex BAB) # - 7,920 m²
Australasian Property Developments - Q2 2014
 - 8 81-95 Wymouth St (ex ATO) # - 16,378 m²
KTS Properties - Q3 2014
 - 9 50 Flinders St - 21,431 m² [People's Choice C.U. & Santos]
Cbus - Q4 2015 - 75% committed
 - 10 186 North Terrace - 5,000 m²
Adelaide Development Company (ADC) - 2015
 - 11 102-120 Wakefield St - 18,000 m²
Kambitsis Group - 2015+
 - 12 42-56 Franklin St - 22,000 m²
Private (Molfetas) - 2015+
 - 13 Worldpark - Richmond Rd, Keswick - 22,600 m²
Axiom (Stage B & C) - 2015+
 - 14 51 Pirie St - 33,000 m²
Charter Hall - 2015+
 - 15 Riverbank Precinct
Walker Corp/SA Government - 2015+
 - 16 Tower 7 - 2-10 Franklin St - 13,000 m²
Aspen - 2015+
 - 17 77 Pirie St - 32,000 m²
Adelaide Development Company - 2015+
 - 18 130 Angas St (Yorke Campus Stg 2) - ~25,000 m²
Commercial & General - 2015+
 - 19 Tower 4 - 141 King William St - 30,000 m²
Aspen - 2015+
 - 20 425 King William St - 14,000 m² ``
Hills/Goodman - 2015+
 - 21 2-20 Flinders St - 17,500 m²
Toga - 2015+
 - 22 200 North Terrace - ~20,000 m²
Commercial & General/Maras/Le Cordon Bleu - 2015+
- Under Construction/Complete
 - DA Approved / Confirmed
 - Mooted / Early Feasibility



Source of Map: Property Council of Australia
 NB. Dates are Knight Frank Research estimates
 Major tenant precommitment in [brackets] next to NLA
 # Major refurbishment
 `` on the market for sale

Office NLA quoted (>5,000m²)
 * 6,000m² for sublease
 ^ S.A. Health & Medical Research Institute
 C.U. Credit Union
 BAB Bendigo & Adelaide Bank

Americas

USA
Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
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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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