RESEARCH

ADELAIDE INDUSTRIAL

MARKET OVERVIEW FEBRUARY 2019

"OFFSHORE INVESTS IN SA"

HIGHLIGHTS

Investment activity has been bolstered by the abolition of stamp duty, with approximately 70% of the transactions in CY2018 ($5 million and above) contracted after July 2018.

The shift from tenants to become owner occupiers has continued in the Adelaide industrial market. This is largely due to the relatively low cost of capital.

Fully leased industrial properties with strong lease covenants continue to attract interstate and overseas buyers, particularly from the eastern seaboard and Singapore.

MARKET DRIVERS

Population Growth

Aust: 1.6% SA: 0.7%

As at June 2018

Economic Growth

Aust: 2.8% SA: 2.0%

June 17 vs Jun 18

Unemployment Rate

Aust: 5.0% SA: 5.9%

As at December 2018

Infrastructure Spending

SA State Budget

2018/19: $11.3 billion

Engineering Construction

Aust: -34.0% SA: 7.2%

Sep 17 v Sep 18

ECONOMY & DEMAND

Positive economic outlook for SA with contributions from renewable energy, defence and manufacturing

General Motors Holden site is expected to boost employment rate

The closure of the 130ha General Motors Holden (GMH) site in Elizabeth (Q2 2017) has resulted in job losses across the State. However, German battery company Sonnen recently set up its battery assembly plant in portion of the former GMH site. Sonnen currently employs about 400 people and has plans to expand further in 2019. In addition, aircraft component manufacturer Levett Engineering and Melbourne steelmaker, Genis Steel have both recently moved into the former GMH site, now owned by Melbourne based Pelligra Group, accommodating more than 250 workers. Anecdotal evidence suggests that a further three additional hi-tech companies may set up on site which would bring an extra 1,000 jobs to the site.

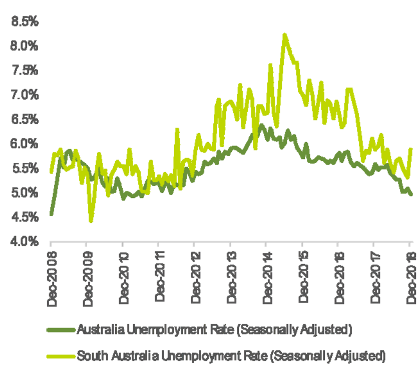
The unemployment rate in SA currently stands at 5.9% while this is 0.9% higher than the national average as of December 2018 (seasonally adjusted). This figure has improved from 7.3% in April 2017. Moving forward, this downward trend is expected to continue as a number of major projects in the defence, renewable energy, manufacturing and engineering sectors come online.

High levels of investment in renewables likely to benefit SA economy

Investments in renewable energy projects have rapidly increased throughout South Australia. Currently, there are up to 26 renewable energy projects in the pipeline. A recent project is the $450 million Solar River Project which will comprise a 400MW solar farm with a 270MWh battery on a 5,000 hectare site near Robertstown, 45km south of Burra in the mid north of SA. The project will be constructed in two stages and is expected to commence in early 2019. On completion, it will be SA's largest solar power project which will be sufficient to power up to 96,000 homes. In addition, there are an array of renewable energy and battery storage projects that are underway, including the $650 million Aurora Solar Energy Project, located 35 kilometres north of Port Augusta and the recent announcement of a $1 billion, one-gigawatt renewable energy program by SIMEC ZEN Energy. This program will comprise multiple renewable energy projects with the first being a 280MW Cultana Solar Farm. On completion, these major projects are likely to provide cheaper electricity, boost jobs and have a positive impact on the SA economy.

Over the past six months, a major infrastructure project, "Torrens Road to River Torrens" has been completed. The Darlington Upgrade and Northern Connector projects are also underway and form part of the larger North-South Corridor Plan. Upon completion, the "Torrens Road to River Torrens" project will assist in reducing travel times by providing a continuous 'non-stop' carriageway between Gawler and Old Noarlunga, a distance of 78 km. This will also improve access to some of the key industrial areas as it will be the major route for north and south bound traffic, including freight vehicles.

FIGURE 1
Unemployment Rate (Seasonally Adjusted)
Australia vs South Australia



Source: Knight Frank Research & ABS

YEE NG
Research Analyst SA

OCCUPIER DEMAND & RENTS

Rents, Incentives & Outlook

Average Prime (all regions)	$94/m² -0.84% p.a gth 10.0% incentive
Average Secondary (all regions)	$61/m² -0.03% p.a gth 9.0% incentive

Limited leasing activity over the past six months

The first half of CY2018 saw an increase in tenant demand for large office/warehouse accommodation, especially in the Inner North precinct. However, in the six months to January 2019, there has been limited industrial leasing activity. Anecdotal evidence suggests that this is due to limited stock being put on the market for lease. Furthermore, the abolition of stamp duty may have impacted tenant demand as it has further encouraged tenants to shift to become owner occupiers.

Over the past 12 months, significant leasing deals have mainly been for properties located in the Inner North. This is largely due to the size of the precinct in comparison to other precincts. The most recent lease in the Inner North occurred at Unit 3, 43-55 Produce Lane, Pooraka. The tenant Marlau Nominees will occupy an office/warehouse of 2,807m² at a rental rate of $110/m² p.a. gross of GLA.

Another leasing transaction occurred at 41 Barfield Crescent, Edinburgh North. The tenant, Wheel & Barrow has recently relocated and occupied a larger premises of approximately 2,080m², the deal was struck at a rate of circa $50/m² p.a. gross of GLA for a term of 3 years.

The outlook for tenant demand is, however, improving with anecdotal evidence suggesting that several tenants are on the market for office/warehouse accommodation.

In mid 2018, SA Health had a market request to lease an office/warehouse of approximately 11,000m² in the Inner North precinct to distribute medical supplies. We understand that SA Health have selected a site which is currently in the process of their internal approval.

TABLE 1

Recent Leasing Activity Adelaide

Address	Region	Net Rent $/m²	Area (m²)	Term (yrs)	Tenant	Date
Unit 3, 43-55 Produce Lane, Pooraka	IN	110g	2,807	3	Marlau	Mar-19
Part 41 Barfield Cres, Edinburgh North	ON	50g	2,080	3	Wheel & Barrow	Feb-19
Unit 8, 3 Selgar Avenue, Tonsley	IS	80	1,222	3	Black Mango	Dec-18
53-73 Churchill Road North, Dry Creek	IN	c65	4,319	4	Carpet Call	Jul-18
25 George Street, Green Fields	IN	70	4,096	#	Apex Steel	May-18
9-11 Playford Cres, Salisbury North	ON	52	2,304	5	AMC	Apr-18
9 Capelli Road, Wingfield	IN	74	3,695	#	G&C Enterprises	Mar-18
1/334-338 Cormack Road, Wingfield	IN	86	2,084	5	Quanta Services	Feb-18
126 Days Road, Ferryden Park	IN	85	3,125	1	Enerven Energy	Feb-18
6 Capelli Road, Wingfield	IN	89	2,315	#	Consentino	Jan-18

IW Inner West IN Inner North OS Outer South ON Outer North c Circa
Confidential g Gross

Source: Knight Frank Research

Rents have remained steady over the past six months

In the 12 months to January 2019, average prime industrial face rents within the Inner West experienced a 1.84% decrease, falling from $124/m² p.a. to $122/m² p.a. In the Inner South, average prime net face rents increased by 0.73% from $114/m² p.a. to $115/m² p.a. Despite this, properties within inner metropolitan areas with good access to major transit routes have continued to be met with steady leasing demand. Average prime incentives remained unchanged at approximately 10% (six months rent on a five year lease term).

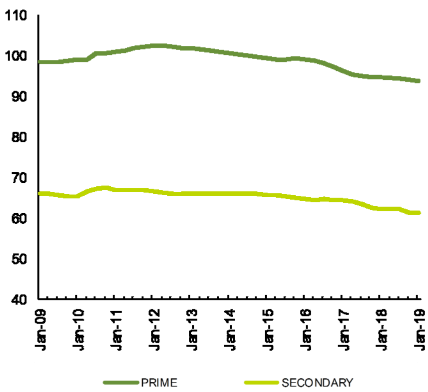
We believe that following an extended period of subdued activity, recent major projects will assist in stimulating leasing and sale activity across the key industrial markets.

FIGURE 2

Adelaide Industrial Rents

$/m² net face, 2009-2019

Prime vs Secondary



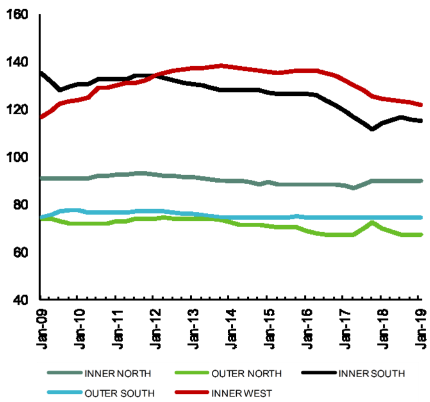
Source: Knight Frank Research

FIGURE 3

Adelaide Industrial Prime Rents

$/m² net face, 2009-2019

By precinct



Source: Knight Frank Research

DEVELOPMENT & LAND ACTIVITY

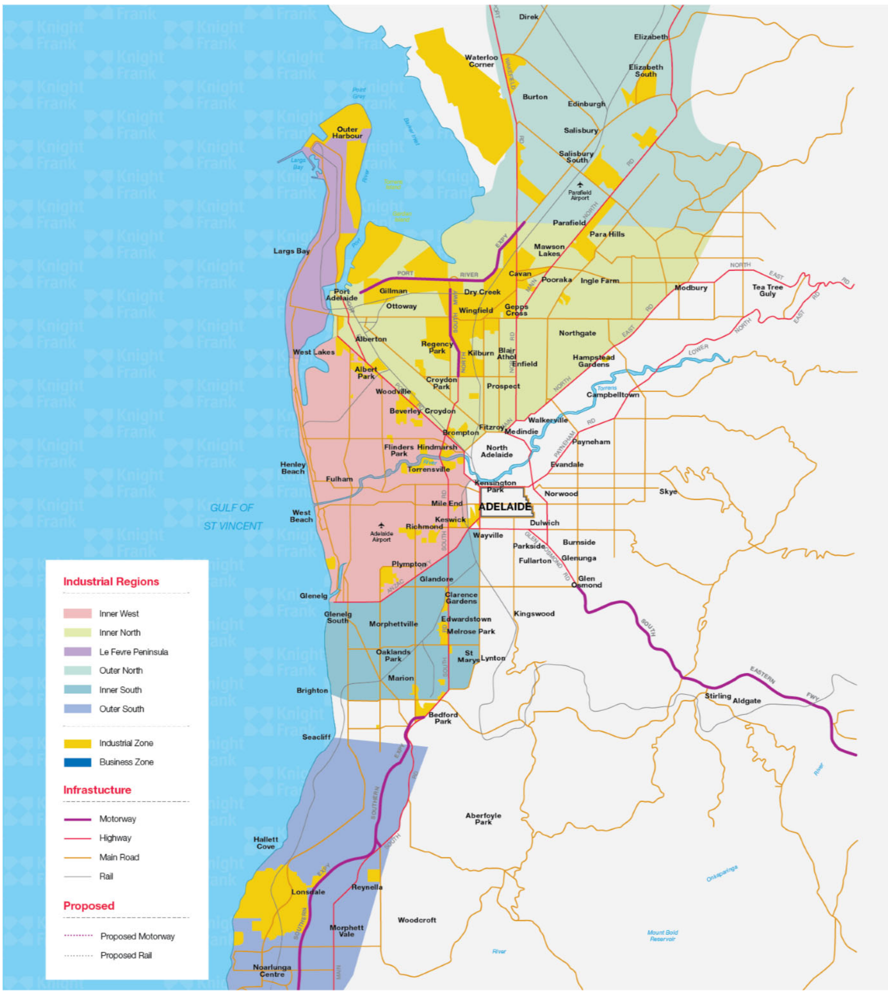
Abolition of stamp duty benefits owner occupiers

The shift from tenants to become owner occupiers has continued in the Adelaide industrial market. This is largely due to the relatively low cost of capital, notwithstanding access to finance has become more difficult to attain due to tighter lending terms by the major banks after the royal commission.

Sales such as Lot 10 & 22 Schumacher Road, Wingfield, a 44,190m² of vacant land was sold to an owner occupier for $5.30 million, with plans to develop a distribution centre. Furthermore, 21-27 Johansson Road, Wingfield has also sold to an owner occupier with the intention to develop and occupy the majority of the property.

A major investment transaction of note is the sale of Lot 34 Share Street, Kilkenny. The property was transacted 'off market' to a joint venture between Commercial & General and Singapore based Straits Real Estate as part of a national portfolio. The purchaser has proposed to demolish the existing building and construct a circa 34,000m² purpose-built office/warehouse for a national tenant.

We also note a portion of the Coca-Cola bottling plant site at Thebarton (9,500m²) has sold to Anglicare SA for $9,500,000 with the intention to develop the site into a multi storey affordable & social housing complex.



Over the last 12 to 18 months, the $50 billion submarines project and $35 billion future frigates have boosted the sales and development activities in the Le Fevre Peninsula, more particularly Osborne. Furthermore, defence related infrastructure along Le Fevre Peninsula is underway together with the $535 million shipbuilding yard which is scheduled for completion in 2020.

Renewal SA has sold 20 hectares of land (a portion of 407 hectares) to Veolia, a French transnational company for $7 million. Veolia is proposing to build new headquarters, metropolitan Adelaide's largest solar farm and a rubbish-to-energy power plant. Veolia also has a 5 year option to purchase an additional 182ha.

TABLE 2

Address	Region	Price	Area (m²)	$/m² of	Zone	Vendor	Purchaser	Sale Date
Lot 6 Schumacher Road, Wingfield	IN	3.35	23,690	141	IND	Renewal SA	Private	Nov-18
157-165 Cross Keys Rd, Salisbury South	ON	12.5	151,900	82	IND	Commercial General	Straits Real Estate	Oct-18
Lot 34 Share Street, Kilkenny	IN	11.59	50,277	230	UE	Private	Straits Real Estate	Oct-18
Lot 10 & 22 Schumacher Road, Wingfield	IN	5.30	44,190	120	IND	Renewal SA	Private	Jul-18
21-27 Johansson Road, Wingfield IN	IN	1.65	5,502	300	IND	Landra Commercial	Private	Mar-18
Lot 403 Hanson Road, Dry Creek	IN	7.00	187,000	37.4	IND	Renewal SA	Veolia	Jun-18

IW Inner West IN Inner North ON Outer North IS Inner South OS Outer South LP Le Fevre Peninsula IND Industry c Circa

Source: Knight Frank Research

INVESTMENT ACTIVITY & YIELDS

Current Yields & Outlook

Prime	7.50% - 8.50% -7bps 12 mths	
Secondary	9.00% - 9.75% 3bps 12 mths	

Highest value of industrial transactions for properties over $5 million since 2014

The CY2018 year saw total industrial sales volumes of $261.93 million for properties over $5 million, the highest figure since 2014, with the main contribution from the Inner and Outer North precincts. This figure is also significantly above the 10 year average of $141.34 million. Furthermore, the number of transactions in CY2018 for properties over $5 million increased significantly over the previous 12 month period from 14 to 21 transactions, with approximately 70% of the CY2018 transactions contracted after July 2018. This indicates that the full abolishment of stamp duty had a positive impact on sales volumes.

Eastern seaboard buyers are attracted to SA yields

Sale evidence confirms that fully leased industrial properties with strong lease covenants in well located areas continue to be highly sought after. This demand is being driven by the continued low interest rate environment together with the abolition of stamp duty on commercial properties. Furthermore, average prime yields in South Australia remains more than 100 basis points above the eastern seaboard. As such we expect Adelaide to continue to attract interstate buyers in the short to medium term.

A notable transaction to an interstate buyer is the sale of 113-117 Bedford Street, Gillman. The property was sold with a lease to TyreMax (71% of GLA) together with a rental support deed (29%) for $14.0 million. The sale reflected a core market yield of 7.08% and a W.A.L.E of 4.4 years. Furthermore, 80-92 Grand Junction Road, Kilburn has recently sold to a Melbourne based syndicate, Peak Equities with a 15 year leaseback and a core market yield of 7.73%.

Offshore buyers have shown a high level of interest in SA

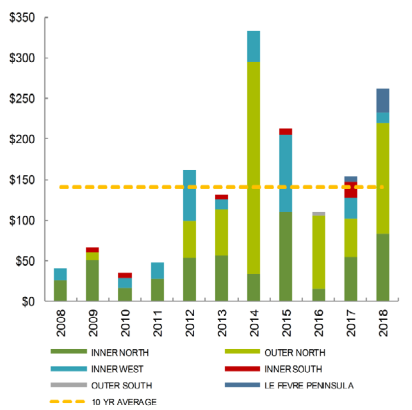
Over the last six months, there has been increased interest from offshore buyers, in particular from Singapore.
One example is the sale of 1118-1146 Port Wakefield Road, Burton. The property was transacted ‘off market’ to a Singaporean based REIT, Soilbuild Business Space for $61.25 million and achieved a core market yield of 6.28%. The property was sold fully leased to Ingham’s Property Management Pty Ltd on a “triple net” basis reflecting a lease term certain of 16.1 years.

At the same time, 33-55 Frost Road, Salisbury South has also transacted ‘off market’ for $34.00 million to a joint venture between Commercial General and Singapore based Straits Real Estate as part of a national portfolio. The property sold fully leased to Coca-Cola with a lease term certain of 5.9 years and a core market yield of 7.87%.

Slight firming in prime yields

Industrial yields experienced a slight firming over the previous six months. As at January 2019, prime yields averaged 8.08% (all precincts) with the main contribution being the Inner West, Inner North and Inner South. Yields are likely to continue firming, given the value proposition and improving demand on offer in SA.

FIGURE 4
Adelaide Industrial Sales
2008 - 2018 by sub-market - >$5 million



Source: Knight Frank Research

TABLE 3
Recent Improved Sales Activity Adelaide

Address	Region	Price	Bldg Area	Core Mkt	WALE	Vendor	Purchaser	Sale Date
80-92 Grand Junction Road, Kilburn	IN	9.31	6,889	7.73	15.0	A Noble & Son Ltd	Peak Equities	Nov-18
1118-1146 Port Wakefield Road, Burton	ON	61.25	24,324	6.28	16.1	Ascot Capital	Soilbuild Business Space	Oct-18
113-117 Bedford Street, Gillman	IN	14.00	8,844	7.08	4.4	Frasers	Trilogy	Oct-18
17-29 Watervale Drive, Green Fields	ON	4.10	8,832	8.23	9.2	Private	Private Investor	Oct-18
589-599 Torrens Road, St Clair	IN	11.50	15,011	8.09	10.0	Private	Private Investor	Sep-18
33-55 Frost Road, Salisbury South	ON	34.00	49,496	7.87	6.2	Commercial General	JV (Straits and C&G)	Sep-18
115 Cavan Road, Cavan	IN	10.10	15,680	7.25	4.6	Private	Private Investor	Sep-18
Lot 102 Coghlan Road, Outer Harbor	LP	8.75	7,340	VP	VP	Frasers Logistics	Qube Logistics	Aug-18

IW Inner West IN Inner North ON Outer North IS Inner South OS Outer South LP Le Fevre Peninsula c Circa VP Vacant Possession

Source: Knight Frank Research

PRECINCT HIGHLIGHTS

Inner West

Land

<5,000 sqm:	$430/m²
1-5 ha:	$270/m²

Rents:

Prime:	$122/m²
Secondary:	$78/m²

Yields:

Prime:	7.00% - 8.00%
Secondary:	8.50% - 8.75%

- Portion of the Coca-Cola factory site located on Port Road, Thebarton has recently sold for $9.5 million to Anglicare SA with plans to build affordable housing. The remainder of the site remains for sale.
- Sales & leasing transactions have been limited over the past six months. This is due to the market being tightly held and the high land value which is driving a change from industrial to mixed use.

Address:	33-45 & 47-49 London Road, Mile End South
Price:	$7.80 million
Sale Date:	May 2018
Vendor:	Allied Pinnacle
Purchaser:	Perpetual Trustee
Yield:	6.41%
Comment:	The property formed part of a national portfolio that was put on the market. Sold with a 30 year leaseback.

Inner North

Land

<5,000 sqm:	$230/m²
1-5 ha:	$143/m²

Rents:

Prime:	$90/m²
Secondary:	$60/m²

Yields:

Prime:	7.25% - 8.50%
Secondary:	8.75% - 9.50%

- Veolia has purchased a 20ha site (a portion of the 407 ha) from Renewal SA with plans to develop their headquarters.
- Over the past 12 months, there has been an increase in sale activity in Inner North. 115 Cavan Road, Gepps Cross has sold fully leased to Minister of Administrative Services for $10.1 million. The deal reflected a core market yield of 7.25% and a lease term certain of 4.6 years.

Address:	80-92 Grand Junction Road, Kilburn
Price:	$9.31 million
Sale Date:	November 2018
Vendor:	A Noble & Son Ltd
Purchaser:	Peak Equities
Yield:	7.73%
Comment:	Sold with a 15 year leaseback.

Outer North

Land

<5,000 sqm:	$80/m²
1-5 ha:	$56/m²

Rents:

Prime:	$68/m²
Secondary:	$49/m²

Yields:

Prime:	8.50% - 9.25%
Secondary:	9.75% - 10.75%

- Sale activity for properties over $5 million have increased. A notable transaction is the sale of 33-55 Frost Road, Salisbury South. The property was sold fully leased to Coca-Cola with a lease term certain of 5.9 years. The sale reflected a core market yield of 7.87%.
- Positive outlook for the former GMH site, with new businesses setting up on the site. This is expected to employ up to 1,600 people.

Address:	1118-1146 Port Wakefield Road, Burton
Price:	$61.25 million
Sale Date:	October 2018
Vendor:	Ascot Capital
Purchaser:	Soilbuild Business Space
Yield:	6.28%
Comment:	Sold following off market negotiation with a lease term certain of 16.1 years.

Le Fevre Peninsula

Land

<5,000 sqm:	$110/m²
1-5 ha:	$80/m²

Rents:

Prime:	$100/m²
Secondary:	$65/m²

Yields:

Prime:	7.50% - 8.50%
Secondary:	9.25% - 10.25%

- Le Fevre Peninsula is recognised as a defence precinct, in light of the submarine and frigates to be built at Osborne.
- Submarine and Frigate project has boosted the sales and development activities on the Le Fevre Peninsula precinct.
- $535 million shipbuilding yard is well underway and is scheduled to complete in early 2020.

Address:	Lot 102, Coghlan Road, Outer Harbor
Price:	$8.75 million
Sale Date:	August 2018
Vendor:	Frasers Logistics
Purchaser:	Qube Logistics
Comment:	Sold off market to the sitting tenant. The property has direct access to the national rail network via a siding agreement with ARTC.

Inner South

Land

<5,000 sqm:	$365/m²
1-5 ha:	$241/m²

Rents:

Prime:	$115/m²
Secondary:	$70/m²

Yields:

Prime:	7.25% - 8.25%
Secondary:	8.50% - 9.50%

- The 61 hectare Mitsubishi plant site closed down in 2008. Since then the area has been redeveloped into an innovation district called “Tonsley”. Tonsley currently has more than 70 business including TAFE, Flinders University, ZEN Energy and Siemens.
- Limited in significant sales, however there are high demands for industrial property under $1 million, with the majority of buyers being owner occupiers.

Address:	Unit 8, 3 Selgar Avenue, Tonsley
Rent:	$80/m² p.a. net
Start Date:	December 2018
Tenant:	Black Mango
Landlord:	Private
Term:	3 Years
Comment:	Nil

Outer South

Land

<5,000 sqm:	$100/m²
1-5 ha:	$63/m²

Rents:

Prime:	$75/m²
Secondary:	$50/m²

Yields:

Prime:	8.25% - 9.25%
Secondary:	9.75% - 10.50%

- A positive outlook as local manufacturers (Redarc Electronics and Rowlands Metalworks) located at Lonsdale have enjoyed flow on contracts for defence projects.

Address:	59-63 Moore Road, Reynella
Price:	$1.8 million
Sale Date:	September 2018
Vendor:	Private
Purchaser:	Private
Yield:	Vacant Possession
Comment:	The property was on the market for an extended period of time with an asking price of $2.1 million

Definitions:
Prime Grade: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.
Secondary Grade: 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 when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).
WALE: Weighted Average Lease Expiry

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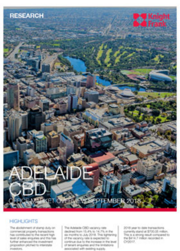
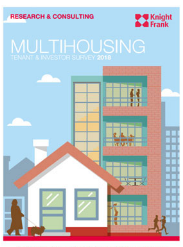


Adelaide Office Market Overview September

Australian Residential Review Q4 2018



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RESEARCH
Yee Ng
Research Analyst, SA
+61 8 8233 5217
Yee.Ng@au.knightfrank.com

Ben Burston
Partner,
Head of Research & Consulting
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

INDUSTRIAL
Garry Partington
Sales & Leasing Executive, SA
+61 8 8233 5282
Garry.Partington@au.knightfrank.com

NATIONAL
Rob Salerno
Partner,
Head of Industrial, Australia
+61 2 9761 1871
Rob.Salerno@au.knightfrank.com

Greg Russell
Partner,
Head of Industrial Investments, Australia
+61 7 3246 8804
Greg.Russell@au.knightfrank.com

VALUATIONS & ADVISORY
James Pledge
Partner,
Head of Valuation & Advisory, SA
+61 8 8233 5212
James.Pledge@au.knightfrank.com

Nick Bell
Partner,
Valuation & Advisory, SA
+61 8 8233 5242
Nick.Bell@au.knightfrank.com

Tom Walker
Associate, Industrial, SA
+61 8 8233 5239
Tom.Walker@au.knightfrank.com

SOUTH AUSTRALIA
Guy Bennett
Partner,
Head of Institutional Sales, VIC & SA
+61 8 8233 5204
Guy.Bennett@au.knightfrank.com

Bobbette Scott
Partner,
Head of South Australia
+61 8 8233 5211
Bobbette.Scott@au.knightfrank.com

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