



RESEARCH



# ADELAIDE INDUSTRIAL

MARKET OVERVIEW FEBRUARY 2020

INDUSTRIAL SALES HIT RECORD HIGH IN CY2019

## HIGHLIGHTS

CY2019 saw total industrial sales transactions of \$452.56 million for properties above \$5 million. This figure has surpassed the previous high of \$333.03 million in CY2014.

A record low cash rate, coupled with the abolition of stamp duty on commercial property has continued to have a positively impact on the property market.

Fully leased industrial property with strong lease covenants continue to attract strong interest, with prime yields across the Eastern Seaboard in excess of 100bps firmer than in SA.



## MARKET DRIVERS



### Population Growth

Aust: 1.5% SA: 0.9%  
June 2018 to June 2019



### Economic Growth

Aust: 1.7% SA: 0.2%  
Sep 18 to Sep 19



### Unemployment Rate

Aust: 5.1% SA: 6.2%  
As at December 2019



### Infrastructure Spending

SA State Budget  
2019/20: \$11.9 billion



### Engineering Construction

Aust: -8.3% SA: -0.2%  
Sep 18 to Sep 19



**YEE NG**  
Research Analyst SA

## ECONOMY & DEMAND

The defence investment on the Le Fevre Peninsula will start to ramp up in 2020 and boost the SA economy

### Land tax reform finally settled

After months of lobbying, land tax reform has finally been legislated. The outcome for great majority of property owners appears to be more favourable than what was initially proposed. However, there is some uncertainty as to the full impact, with the Valuer-General is currently revaluing every property across South Australia. Hence, there is the real possibility that the Site Values will increase at the date of the next valuation period. Mitigating potential reduction in Land Tax charge calculated on current Site Values.

### Low cost of capital continues to benefit the property market

The low interest rate coupled with the abolition of stamp duty continues to have a positive impact on the property market. In February 2020, the Reserve Bank of Australia (RBA) held the cash rate at 0.75% (historical low) and also indicate that they are prepared to ease rates further if needed. The downward trend has taken the cash rate from 4.75% (November 2010) to 0.75% (October 2019). Hence, it is likely to continue to drive the cost of capital down and attract more investment into the property market.

### North to South Corridor

The North to South Corridor is starting to come together with the majority of projects completed. Projects such as the Northern Connector are nearly complete and is scheduled to be open to traffic by March 2020. Furthermore, the Darlington Upgrade is nearly complete and is expected to be completed in mid-2020. The remaining sections are the River Torrens to Anzac Highway and Anzac Highway to Darlington. On completion, the 78-kilometre North-South Corridor will reduce travel times by providing a continuous non-stop carriageway from Gawler to Old Noarlunga. Furthermore, it

will also improve access to some of the key industrial areas such as Edinburgh Parks in the Outer North.

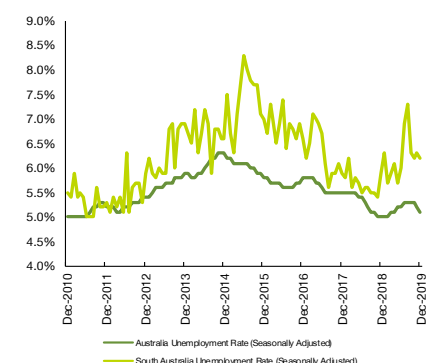
### Defence to boost SA economy

The construction of the \$535 million Naval Shipyard is well underway. On completion, BAE Systems will take over the facility and commence the prototype for the \$35 billion Hunter-class project before the first production starts in 2022.

BAE Systems have employed more than 80 graduates in 2019 and are expected to employ an additional 100 graduates in 2020 as the project ramps up. Furthermore, small & medium business such as Redarc Electronics, based in Lonsdale have benefited from contracts on defence projects.

The unemployment rate in SA currently stands at 6.2%, which is 1.1% higher than the national average as of December 2019 (seasonally adjusted). The bushfire and coronavirus are likely to have a negative impact on the economic activity and labour market over the coming months.


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




Source: Knight Frank Research & ABS

# OCCUPIER DEMAND & RENTS

## Rents, Incentives & Outlook

**Average Prime (all regions)** \$96/m<sup>2</sup>  
2.2% p.a growth  
10.0% incentive 

**Average Secondary (all regions)** \$64/m<sup>2</sup>  
3.9% p.a growth  
5.7% incentive 

### Leasing transaction volumes have been limited

Recorded leasing transaction volumes have been low over the past 12 months, which may be explained by an increasing trend toward tenants purchasing their own premises, particularly given the abolition of stamp duty on commercial property.

### Tenants are attracted to the inner north precinct

The majority of leasing transactions have been in inner north precinct. A notable example occurred at 1247-1253 Main North Road, Para Hills West. The tenant, Fleetwood Australia has recently leased an office/warehouse of 4,180m<sup>2</sup>, the deal struck at a net face rental rate of \$91/m<sup>2</sup> p.a. for an initial term of 3 years. In addition, the tenant has also leased a portion of the adjoining hardstand at circa \$6/m<sup>2</sup> p.a. net of site area.

Furthermore, a packaging manufacturer, Pro-Pac has recently renewed their lease at 579 South Road, Regency Park which comprises a GLA of 5,156m<sup>2</sup>. The deal was struck at a face net rental rate of \$106/m<sup>2</sup> p.a. of GLA for a term of 3 years.

Another leasing transaction in the western suburbs occurred at 113 Ledger Road, Beverley, where PFM logistics relocated from Myer Court, Beverley and expanded their tenancy.

TABLE 1  
**Recent Leasing Activity Adelaide**

Address	Region	Net Rent \$/m <sup>2</sup>	Bldg Area (m <sup>2</sup> )	Term (yrs)	Tenant	Date
1247-1253 Main North Rd, Para Hills West	IN	91	4,180	3	Fleetwood	Dec-19
Portion of 113 Ledger Road, Beverley	IW	87	1,780	5	PFM Logistics	Dec-19
9-11 Kaurna Avenue, Edinburgh Parks	ON	109	2,570	5	Knauf Australia	Dec-19
Portion of 39 Plymouth Road, Wingfield	IN	100	1,301	4	Drivetrain	Sep-19
579 South Road, Regency Park	IN	106 (r)	5,156	3	Pro-Pac	Aug-19
78 Pym Street, Dudley Park	IN	76	1,707	5	Bremick	Aug-19
Portion of 113-117 Bedford Street, Gillman	IN	118	2456	5	Plasdene Glass	May-19
14-16 Pambula Street, Regency Park	IN	82	1,285	5	King Furniture	May-19
30 Charles Road, Beverley	IW	75	7,135	5	Advanced Piping	Apr-19
Unit 3, 43-55 Produce Lane, Pooraka	IN	110	2,807	3	Marlau	Mar-19

IW Inner West    IN Inner North    OS Outer South    ON Outer North    c Circa  
# Confidential    g Gross    (r) Renewal/Extension

Source: Knight Frank Research

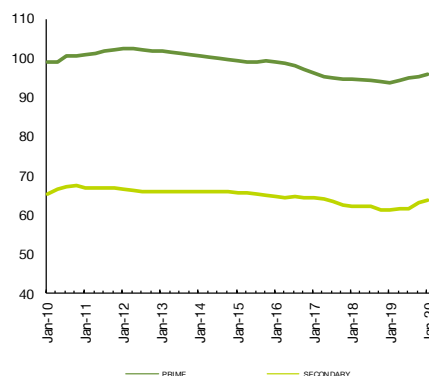
### Outlook for tenant demand

The outlook for tenant demand is positive, with several briefs for space in the market for office/warehouse accommodation ranging from 3,000m<sup>2</sup> to 15,000m<sup>2</sup>. Notable requirements are from industries such as logistics (circa 3,000 & 15,000m<sup>2</sup>), portable building manufacturer (circa 3,000m<sup>2</sup>) and steel manufacturer (circa 3,000m<sup>2</sup>).

### Rents have remained steady

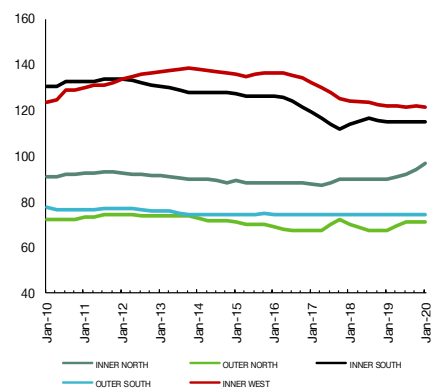
Rents have remained steady over the past 12 months. Properties within inner metropolitan areas with good access to major transit routes have continued to be met with steady leasing demand. Average prime incentives currently stood at circa 10% based on a 5 year initial term.

FIGURE 2  
**Adelaide Industrial Rents**  
\$/m<sup>2</sup> net face, 2010-2020  
Prime vs Secondary



Source: Knight Frank Research

FIGURE 3  
**Adelaide Industrial Prime Rents**  
\$/m<sup>2</sup> net face, 2010-2020  
By precinct



Source: Knight Frank Research

# DEVELOPMENT & LAND ACTIVITY

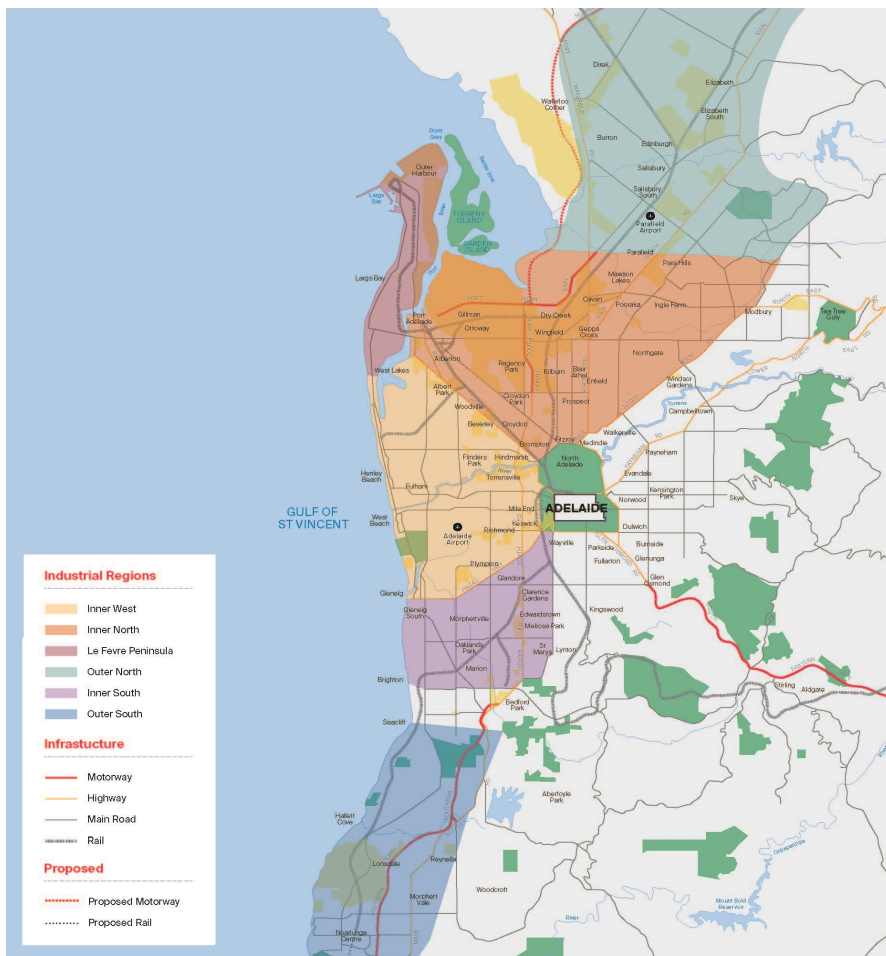
## Land values in outer north have increased

The North to South Corridor infrastructure development and increasing density in the inner north precinct has had an impact on the land value for properties located at the outer north precinct. Over the past six months, land values at outer north have increased by circa 10% for properties above 10,000m<sup>2</sup>. Meanwhile, all other precincts have remained relatively stable.

## Construction activity for new industrial facilities has increased

Over the past 24 months, there has been an increased demand for new industrial facilities. Notable recent completed developments are O-I Glass (Kilkenny), Drakes (Edinburgh North), Sigma Healthcare (Goldsborough Industrial Estate), Huhtamaki (Goldsborough Industrial Estate), Kent Removals & Storage (Wingfield), Toyota Materials Handling (Gepps Cross) and Qube Logistics (Outer Harbour).

In addition, there are also a few new developments currently under construction. A notable example is the Metcash development located at Gepps Cross. The property will comprise circa 68,000m<sup>2</sup> distribution centre and is expected to be completed in mid-2020. Furthermore, the 94,000m<sup>2</sup> expansion for Woolworths Adelaide Regional Distribution Centre (ARDC) is also underway and is scheduled to be



completed in mid-2020. The expansion is funded by the landlord under a new 15-year lease.

## Logistics companies securing new sites

The logistics sector has seen some activity, with several companies relocating premises. Notable examples such as Cochrane's have purchased a

vacant site in May 2019 with a new facility currently under construction.

Similarly, Booth Transport has purchased a vacant site at Burton with the intention to build their own facility. The company is currently leasing a portion of 101 Wilkins Road, Wingfield which was recently purchased by TRG Transport (owner-occupier).

TABLE 2

### Recent Land/Development Sales Activity Adelaide

Address	Region	Price (\$ mil)	Site Area (m <sup>2</sup> )	\$/m <sup>2</sup> of site area	Zone	Vendor	Purchaser	Sale Date
Lot 500 Gallipoli Drive, Regency Park	IN	8.25	50,000	150	IN	Pacific National	Mainfreight	Sep-19
4-16 Penner Avenue, Burton	ON	3.22	52,600	61	ON	Private	Booth Australia	Jun-19
70-86 Bedford Street, Gillman	IN	4.20	29,950	140	LIN	Kalari	Cochrane's	May-19
180 & 185 Philip Hwy, Elizabeth South	ON	55.00	122.5ha	45	IND	GM Holden	Pelligra	Jan-19
Lot 6 Schumacher Road, Wingfield	IN	3.35	23,690	141	IND	Renewal SA	Private Developer	Nov-18
157-165 Cross Keys Rd, Salisbury South	ON	12.5	151,900	82	IND	Commercial General	Straits Real Estate	Oct-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

Average Blended Prime	6.75% - 7.50% -45bps 6 mths	↘
Average Blended Secondary	8.25% - 9.00% -32bps 6 mths	↗

## CY2019 broke the highest record for total industrial sales volume above \$5m

The value proposition and demand from interstate investors to chase industrial yields have helped further strengthen demand for SA properties located in SA.

In CY2019, the total industrial sales transactions was \$452.56 million for properties above \$5 million. This figure has broken the previous record (CY2014) of \$333.03 million. Furthermore, the CY2019 figure is also well above the 10-year average of \$178.84 million.

## Increased demand & transactions for properties above \$20 million

Evidence indicates that over the past 12 months, approximately 37% of the properties have transacted above \$20 million (based on the number of the transactions), while the remaining 63% is between \$5 million and \$19.9 million. This demand is mainly driven by the attractive yields in SA and the low cost of capital environment. Currently, average prime yields across the Eastern Seaboard are generally in excess of 100

basis points firmer than in South Australia. Hence, South Australia remains attractive for investors seeking higher income returns.

A notable investment sale was the Port Adelaide Distribution Centre at 25-91 Bedford Street, Gillman. The property was purchased by Melbourne based fund, Quintessential following off-market negotiations. The property transacted for \$80 million and reflecting a core market yield of circa 9.50% and a W.A.L.E of approximately 1.7 years.

Furthermore, a national cold chain logistics portfolio recently transacted for \$345 million. The portfolio includes one property in SA, one in QLD and one in WA. The SA property is located at 12-14 Bradford Way, Cavan which been apportioned at circa \$67 million which

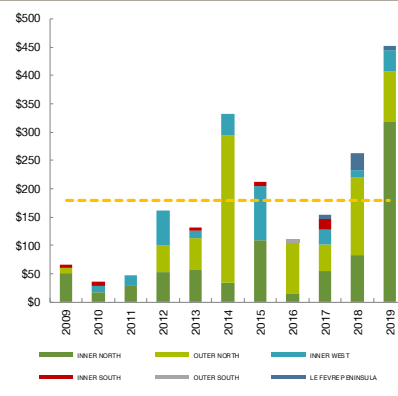
reflects a core market yield of circa 6.00% and a lease term certain of 23.1 years.

The outlook for 2020 is looking positive with interstate and overseas investors continues to see value proposition in South Australia.

## Yields are firming

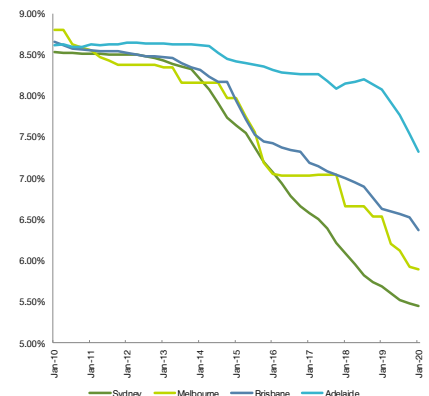
Industrial yields have shown a continued firming bias over the past six months. As at January 2020, average blended prime yields are ranging from circa 6.75% to 7.50% for all precincts. Meanwhile, the average blended secondary yields are ranging from circa 8.25% to 9.00%. Yields are likely to continue firming, given the attractive yields compared to interstate.

FIGURE 4  
Adelaide Industrial Sales  
2009 - 2019 by sub-market - >\$5 million



Source: Knight Frank Research

FIGURE 5  
SA vs East Coast Average Prime Yields  
2010 - 2020



Source: Knight Frank Research

TABLE 3

## Recent Improved Sales Activity Adelaide

Address	Region	Price (\$ mil)	Bldg Area (m²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Sale Date
12-14 Bradford way, Cavan*	IN	67.0	20,361	6.00	23.1	Blackstone	Lineage Logistics	Dec-19
23-41 Galway Avenue, Marleston*	IW	24.4	23,593	N/A	12.0	KKR	Centuria	Dec-19
5-17 Taminga Street, Regency Park	IN	20.5	17,085	6.55	4.6	Revolution Roofing	APIL	Dec-19
32-54 Kaurna Avenue, Edinburgh	ON	19.5	10,583	6.97	10.0	SA Structural	Centuria	Dec-19
76-86 West Avenue, Edinburgh	ON	14.9	11,830	6.79	17.0	Mastec	Primewest	Nov-19
16-28 Martin Avenue, Gillman	IN	14.0	10,090	8.01	4.8	Kerry Logistics	Harmony Investment	Oct-19
101 Wilkins Road, Wingfield	IN	18.6	9,689	VP	VP	Local Private	TRG Transport	Oct-19
46-70 Grand Trunkway, Gillman*	IN	25.5	31,589	6.84	8.2	Charter Hall	Investec	Oct-19
Port Adelaide Distribution Centre	IN	80.0	c167,485	c9.50	1.7	Stockland	Quintessential	Sep-19

IW Inner West IN Inner North ON Outer North IS Inner South OS Outer South c Circa VP Vacant Possession \* part of a portfolio

Source: Knight Frank Research



# PRECINCT HIGHLIGHTS

## Inner West

### Land

Avg <5,000 sqm: \$433/m<sup>2</sup>  
Avg 1-5 ha: \$270/m<sup>2</sup>

### Rents:

Avg Prime: \$122/m<sup>2</sup>  
Avg Secondary: \$77/m<sup>2</sup>

### Yields:

Avg Prime: 6.50% - 7.25%  
Avg Secondary: 8.00% - 8.50%

### Land

Avg <5,000 sqm: \$233/m<sup>2</sup>  
Avg 1-5 ha: \$145/m<sup>2</sup>

### Rents:

Avg Prime: \$97/m<sup>2</sup>  
Avg Secondary: \$70/m<sup>2</sup>

### Yields:

Avg Prime: 6.50% - 7.25%  
Avg Secondary: 7.75% - 8.75%

## Outer North

### Land

Avg <5,000 sqm: \$81/m<sup>2</sup>  
Avg 1-5 ha: \$61/m<sup>2</sup>

### Rents:

Avg Prime: \$71/m<sup>2</sup>  
Avg Secondary: \$48/m<sup>2</sup>

### Yields:

Avg Prime: 7.50% - 8.25%  
Avg Secondary: 8.75% - 9.75%

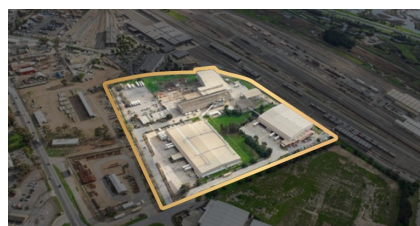
- Sales & leasing remain limited as the high underlying land value is driving a change from industrial to mixed use, which is evident through Thebarton (former Coca-Cola site).
- Notable leasing deals include 30 Charles Road, Beverley, leased for a 5 years initial term at a commencing rent of \$535,125 p.a. net (equivalent to \$75/m<sup>2</sup> p.a. net).

- In CY2019, approximately 68% of the sales transacted above \$5 million were located in the inner north precinct.
- There are a few developments located in the inner north currently under construction. Notable examples are the Metcash DC (circa 68,000m<sup>2</sup>) and the expansion of Woolworths Adelaide Regional Distribution Centre (ARDC) (98,000m<sup>2</sup>). Both located at Gepps Cross and is expected to complete in mid-2020.

- A recent transaction is the sale of 76-86 West Ave, Edinburgh. The property transacted for \$14.9 million and was sold with a leaseback to Mastec Australia for a lease term certain of approximately 17-years which reflects a yield of 6.79%



**Address:** 23-41 Galway Avenue, Marleston  
**Price:** \$24.40 million  
**Sale Date:** December 2019  
**Vendor:** KKR  
**Purchaser:** Centuria  
**Yield:** N/A  
**Comment:** The property has contracted with a 12-year lease-back to Arnott's Biscuits Limited.



**Address:** 12-14 Bradford Way, Cavan  
**Price:** \$67.00 million  
**Sale Date:** December 2019  
**Vendor:** Blackstone  
**Purchaser:** Lineage Logistics  
**Yield:** Circa 6.00%  
**Comment:** The property sold as part of a portfolio and reflects a lease term certain of approximately 23.1 years.



**Address:** 32-54 Kaurana Avenue, Edinburgh  
**Price:** \$19.50 million  
**Sale Date:** December 2019  
**Vendor:** SA Structural  
**Purchaser:** Centuria  
**Yield:** 6.97%  
**Comment:** Sold following off market negotiation with a lease term certain of 10 years.

## Le Fevre Peninsula



### Land

Avg <5,000 sqm: \$110/m<sup>2</sup>  
Avg 1-5 ha: \$83/m<sup>2</sup>



### Rents:

Avg Prime: \$100/m<sup>2</sup>  
Avg Secondary: \$70/m<sup>2</sup>



### Yields:

Avg Prime: 7.00% - 8.00%  
Avg Secondary: 8.75% - 9.75%

## Inner South



### Land

Avg <5,000 sqm: \$383/m<sup>2</sup>  
Avg 1-5 ha: \$253/m<sup>2</sup>



### Rents:

Avg Prime: \$115/m<sup>2</sup>  
Avg Secondary: \$75/m<sup>2</sup>



### Yields:

Avg Prime: 6.75% - 7.50%  
Avg Secondary: 8.00% - 9.00%

## Outer South



### Land

Avg <5,000 sqm: \$98/m<sup>2</sup>  
Avg 1-5 ha: \$60/m<sup>2</sup>



### Rents:

Avg Prime: \$75/m<sup>2</sup>  
Avg Secondary: \$50/m<sup>2</sup>



### Yields:

Avg Prime: 7.75% - 8.75%  
Avg Secondary: 9.00% - 10.00%

- Over the past 24 months, Australian Naval Infrastructure has slowly acquired properties around Osborne, it has been recognised as a defence precinct, in light of the submarine and frigates to be built at Osborne
- The \$535 million shipbuilding yard is well underway and will comprise four (4) new major buildings, with the largest building being 13,500m<sup>2</sup> and 55 metres in height.

- Over the past 12 months, there have been limited sales & leasing activities. However, there is a demand for industrial property under \$3 million.

- An example of a recent transaction in the past six months is the sale of 25 Aldershot Road, Lonsdale. The property was transacted for \$1.625 million and was sold with vacant possession.
- Local manufacturers (Redarc Electronics and Rowlands Metalworks) located at Lonsdale have enjoyed flow on contracts for defence related projects.



**Address:** 689-695 Mersey Road North, Osborne  
**Price:** \$8.50 million  
**Sale Date:** July 2019  
**Vendor:** Private  
**Purchaser:** Australian Naval  
**Comment:** The property transacted off-market with a lease in place.



**Address:** 18 Deloraine Road, Edwardstown  
**Price:** \$2.77 million  
**Sale Date:** January 2020  
**Vendor:** Private  
**Purchaser:** Private  
**Yield:** 8.02%  
**Comment:** W.A.L.E by income of 5.3 years



**Address:** 19 Dorset Street, Lonsdale  
**Price:** \$1.45 million  
**Sale Date:** October 2019  
**Vendor:** Private  
**Purchaser:** Private  
**Comment:** The property transacted off-market and purchased by the sitting tenant.

## RESEARCH

### Yee Ng

Research Analyst, SA  
+61 8 8233 5217  
[Yee.Ng@sa.knightfrankval.com.au](mailto:Yee.Ng@sa.knightfrankval.com.au)

### Ben Burston

Partner,  
Chief Economist  
+61 2 9036 6756  
[Ben.Burston@au.knightfrank.com](mailto:Ben.Burston@au.knightfrank.com)

## INDUSTRIAL

### Garry Partington

Sales & Leasing Executive, SA  
+61 8 8233 5282  
[Garry.Partington@au.knightfrank.com](mailto:Garry.Partington@au.knightfrank.com)

## NATIONAL

### James Templeton

Partner,  
Head of Victoria &  
Interim Head of Industrial  
+61 3 9604 4724  
[James.Templeton@au.knightfrank.com](mailto:James.Templeton@au.knightfrank.com)

### Greg Russell

Partner,  
Head of Industrial Investments, Australia  
+61 7 3246 8804  
[Greg.Russell@au.knightfrank.com](mailto:Greg.Russell@au.knightfrank.com)

## VALUATIONS & ADVISORY

### James Pledge

Partner,  
Head of Valuation & Advisory, SA  
+61 8 8233 5212  
[James.Pledge@sa.knightfrankval.com.au](mailto:James.Pledge@sa.knightfrankval.com.au)

### Nick Bell

Partner,  
Valuation & Advisory, SA  
+61 8 8233 5242  
[Nick.Bell@sa.knightfrankval.com.au](mailto:Nick.Bell@sa.knightfrankval.com.au)

### Tom Walker

Associate, Industrial, SA  
+61 8 8233 5239  
[Tom.Walker@sa.knightfrankval.com.au](mailto:Tom.Walker@sa.knightfrankval.com.au)

## SOUTH AUSTRALIA

### Guy Bennett

Partner,  
Head of Institutional Sales, VIC & SA  
+61 8 8233 5204  
[Guy.Bennett@au.knightfrank.com](mailto:Guy.Bennett@au.knightfrank.com)

### Bobbette Scott

Partner,  
Head of South Australia  
+61 8 8233 5211  
[Bobbette.Scott@au.knightfrank.com](mailto:Bobbette.Scott@au.knightfrank.com)

## 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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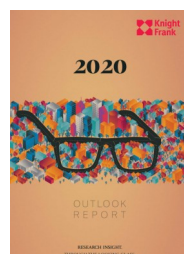
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September 2019



Australian  
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