



MAY 2014

ADELAIDE INDUSTRIAL

Market Brief

HIGHLIGHTS

- Over the past six months prime rental growth has remained stagnant, with the industrial regions experiencing a decline, with the exception of the Inner West which remained stable at \$138/m² net. The Outer North in particular, experienced the largest decrease in prime rents, falling by 3.2%, currently averaging \$72/m² net.
- The \$49.7 million upgrade of South Road is currently in preliminary stages, with no commencement date as yet. The project involves improved access between Anzac Highway and the Southern Expressway. The expansion of this North-South transport corridor between Anzac Highway and the Southern Expressway will support growth, predominately for the Inner and Outer South industrial regions.
- Major developments such as Aldi's new 30,000m² distribution centre in Regency Park, Costco's new 14,000m² warehouse at Kilburn and Masters Home Improvements new facilities at Adelaide and Parafield Airports with a combined area of 27,400m², highlight a renewed interest from the private sector in the development of projects within the local market.

Table 1
Adelaide Industrial Market Indicators as at April 2014

Precinct	Avg. Prime Rent		Avg. Secondary Rent		Core Market Yields (%)		Avg. Land Value			
	\$/m ² net	(%p.a)	\$/m ² net	(%p.a)	Prime	Secondary	<5,000m ²		1 – 5 ha	
							\$/m ²	(% p.a)	\$/m ²	(% p.a)
Inner West	138	-	80	-0.2	7.75 - 8.75	9.00 - 9.75	447	-	277	-
Inner North	90	-1.4	69	-0.6	8.00 - 9.00	9.00 - 10.25	217	-	132	-
Inner South	128	-1.5	77	-	8.00 - 8.50	8.75 - 9.50	408	-1.1	243	-0.6
Outer North	72	-3.2	56	0.7	8.25 - 9.50	9.50 - 10.50	104	-	73	-1.7
Outer South	75	-1.7	50	-	8.75 - 9.75	9.75 - 10.75	120	-	65	-0.8
Adelaide Average	100	-1.4	66	0.1	8.15 - 9.10	9.20 - 10.15	259	-0.4	158	-0.4

Source: Knight Frank

Prime: Asset with modern design, good condition & utility with an office component 10-30%. Located in an established industrial precinct with good access.

Secondary: 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 market income is divided by the adopted value/price which has been adjusted to account for property specific issues (ie rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives etc)

Occupier Demand & Rents

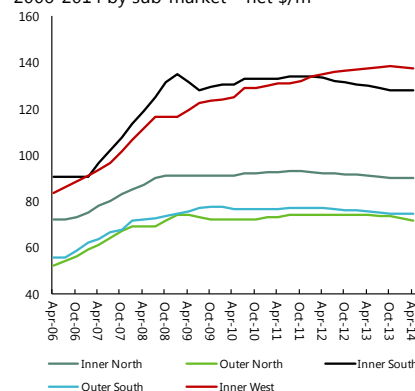
Over the past six months prime net rental growth has remained stagnant, with the industrial regions experiencing a decline, with the exception of the Inner West which remained stable at \$138/m² net.

General Motors Holden announced in December 2013 that they will cease manufacturing of motor vehicles in Australia from 2017. In South Australia, this comprises the manufacturing plant at Elizabeth along with local vehicle component suppliers, and is likely to have a significant negative impact on consumer confidence as the closure date approaches.

Largely as a result of Holden's announcement, the Outer North region has experienced a decrease in prime rents by 3.2%, currently averaging \$72/m² (refer to Table 1). Figure 1 highlights that the Inner West region continues to achieve the highest

prime rental rate of \$138/m² net due to the location and the fact it's a tightly held industrial precinct. Tenants are more location driven, as they require better access to major transport routes.

Figure 1
Adelaide Prime Industrial Rents
2006-2014 by sub-market – net \$/m²



Source: Knight Frank

Incentives are anticipated to remain stable at between 7.5% to 10% on average, as owners

are more likely to accept lower face rents than increase incentives, which is reflected by the rental decreases in Table 1.

The 10 year lease to the mining contractor Halliburton signed earlier this year at 3-9 Birrallee Road, Regency Park, reflected a rental rate of \$85/m², demonstrating that quality tenants are active for the right product.

Development Activity

The completion of the \$842 million South Road Superway project in December 2013, appears to have contributed to an increase in interest from owner occupiers for the Outer North region due to improved access. Construction is also continuing on the \$407.5 million duplication of the Southern Expressway, with an expected completion date of December 2014.

The \$76 million Northern Connector project is currently mooted, with an aim to create a 31km rail track and 15km road connecting the Northern Expressway to the Port River Expressway, as part of Adelaide's north-south corridor; which will mean improved access for the Outer North.

The \$49.7 million upgrade of South Road is currently in preliminary stages, with no commencement date as yet. The project involves improved access between Anzac Highway and the Southern Expressway. The expansion of this North-South transport

Table 2
Major Industrial Leasing Transactions Adelaide Region

Address	Region	Net Rent (\$/m ²)	Area (m ²)	Term (yrs)	Tenant	Date
14-22 Kaurna Ave, Edinburgh	ON	68	3,238	4+5+5	Comfresh Marketing	Mar-14
29-51 Bedford St, Port Adelaide	IN	65	6,497	2+2	Koch Fertiliser	Jan-14
3-9 Birrallee Rd, Regency Park	IN	85	9,619	10	Halliburton	Jan-14
29-51 Bedford St, Port Adelaide	IN	55	13,761	5	Weng Fu	Jan-14

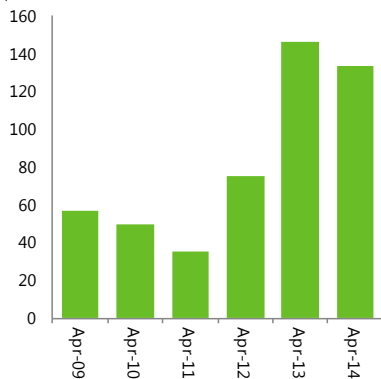
Source: Knight Frank IN Inner North ON Outer North

corridor between Anzac Highway and the Southern Expressway will support growth, predominately for the Inner and Outer South industrial regions.

Sales & Investment Activity

Transaction activity in excess of \$5 million year to April has remained relatively active reaching a total of \$133.2 million, see Figure 2. Whilst this figure is lower than the \$146 million recorded for the period ending April 2013; overall it is significantly higher compared to the four year average to 2012, when the market was experiencing the fallout from the GFC.

Figure 2
Adelaide Industrial Sales \$5 million+
\$ million total transaction value 12 months to



Source: Knight Frank

Charter Hall Core Plus Industrial Fund's (CPIF) purchase of the Gillman Distribution

Centre for \$17.57 million was the most recent significant sale. Although the transaction was part of a portfolio including another interstate property, the sale highlighted that institutional investors remain acquisitive for properties with strong cash flow profiles. Another transaction of note is the option that is currently over a 400ha development site at Gillman until December 2014 for approximately \$30/m², by Adelaide Capital Partners from the State Government.

Prime market yields over the past six months have remained stable across all industrial regions with the exception of the Inner North experiencing a slight firming. This is reflected in sales such as 605-607 South Road, Regency Park achieving a core market yield of 8.09% and 1 Williams Circuit Pooraka 8.78%.

Aldi has recently announced their purchase of a development site located at Naweena Road, Regency Park, reflecting a rate of \$180/m²; for their brand new distribution centre. Construction of the 30,000m² purpose built facility is expected to be completed by 2016.

In addition to the aforementioned purchases, Costco's 14,000m² warehouse at Kilburn and Masters Home Improvements new facilities at Adelaide and Parafield Airports with a combined area of 27,400m², highlight a

renewed interest from the private sector in the development of projects within the local market.

Outlook

The outlook for the Adelaide industrial market in the short to medium term is likely to remain stable, however the imminent closure of General Motors is likely to continue to weigh negatively on consumer confidence as tenants and investors fear the unknown impacts. We anticipate that the Advanced Manufacturing Precinct established in Edinburgh North by the City of Playford, to support the car manufacturing industry will experience the greatest impact of Holden's closure.

In the next six months we anticipate further growth for the Inner North region as tenants become more transport and logistic orientated. These tenants are driven towards vehicle and mining equipment storage, as they look to be closer to Adelaide's ports, inclusive of Gillman and surrounding areas.

Investment activity is unlikely to see substantial growth for secondary assets, due to local investors continuing a risk-averse mind set. However institutional investors will continue to be active in the market for the right asset with a strong cash flow and tenant covenant.

Table 3
Major Land / Development Sales Adelaide Region

Address	Region	Price (\$ m)	Area (m ²)	\$/m ² of site area	Zoning	Vendor	Purchaser	Date
Naweena Rd, Regency Park#	IN	14.40	80,000	180	Industry	Private	Aldi	Jan-14
155-161 Cormack Rd, Wingfield	IN	2.28	7,439	306	Industry	Private	SSS Asset Invest	Dec-13

Major Improved Sales Activity Adelaide Region

Address	Region	Price (\$ m)	Bldg Area (m ²)	Core Mkt Yield (%)	WALE (yrs)	Vendor	Purchaser	Date
1 Williams Cir, Pooraka	IN	5.30	4,385	8.78	13.1	Durban Nominees	Private Investor	May-14
190 Cormack Rd, Wingfield	IN	2.62	2,115	9.29	3.0	Private Investor	Private Investor	Mar-14
3 Gidgie Ct, Edinburgh	ON	4.60	8,373	VP	VP	Hajosa Investments	Private Investor	Dec-13
Lot 102 Grand Trunkway, Gillman	IN	17.57	31,677	8.56	7.5	Cromwell Property Group	Charter Hall CPIF	Dec-13
605-607 South Rd, Regency Park	IN	2.37	2,097	8.09	5.0	Calstock Investments	Private Investor	Dec-13
589 South Rd, Regency Park	IN	3.90	3,500	VP	VP	GPK Property	Private Investor	Nov-13

Source: Knight Frank IN Inner North ON Outer North VP vacant possession # for construction of 30,000m² facility

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Brazil
Canada
Caribbean
Chile

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New Zealand

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