

ADELAIDE

INDUSTRIAL MARKET BRIEF NOVEMBER 2016

Key Facts

The lower cost of capital has supported an increase in the demand from owner occupiers, particularly for properties sub \$5 million.

Average prime yields remained largely unchanged at 8.27% over the six months to October 2016.

Average land values in the Outer North decreased from \$59/m² to \$56/m² for medium sized sites (1-5 ha).

Investor demand still remains active for well located prime grade assets with secure tenancy profiles and long WALE's.



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2016 year to date sales of \$54.1 million have been recorded (>\$5 million), aided by the sale of a number of significant prime grade assets in the Outer North.

Economic Snapshot

Economic confidence and sentiment continues to remain inconsistent across the Adelaide industrial market. South Australia's current unemployment rate of 6.7% is indicative of the challenges the state faces.

The recent announcement that Australian naval construction group ASC and French based naval design company DCNS have secured a \$50 billion Federal Government contract to build 12 submarines for the Australian Defence Force is a positive outcome for the South Australian manufacturing industry. Despite this, it may be some time before the benefits are broadly realised.

Conversely, weak commodity prices have exacerbated challenges to South Australia's manufacturing and mining industries, with the approaching closure of GM Holden remaining in the backdrop.

The three phase reduction of stamp duty on commercial property transactions is expected to enhance the appeal of further investment in South Australian properties.

Development & Land Activity

Recent land sales transactions have been selective. The existing supply of vacant industrial properties has impacted the feasibility of developments, with ample quality secondary stock available to purchase at or below replacement cost. It is anticipated that any new developments will be limited and driven by owner occupiers or subject to major tenant pre-commitment.

In the six months to October 2016, significant developments of note include the Northline Regency Park transportation and warehouse facility. The 10,440m² purpose built logistics centre is to be positioned on Gallipoli Drive on a 2.94ha site, adjacent to the ALDI Distribution Centre. The land was purchased by Northline in August 2016 for \$4.195 million, representing \$142.50/m².

In May, 148 Main Street, Beverley sold for \$3.2 million representing approximately \$187/m². The 1.7ha property comprises land and an older style industrial holding, presenting future development potential.

Over the six months to October 2016, there has been a -5.1% decrease in the average land value for medium sized (1-5 ha) Outer North sites from \$59/m² to \$56/m². Over the same six month period, average Inner North land values (1-5 ha) have decreased by -1.4% from \$144/m² to \$142/m². In the Outer South, average land values (1-5 ha) decreased by -4.6% from \$65/m² to \$62/m².

Despite some precincts experiencing a decrease in land value, select sites which are well located attract good interest.

In September 2016, 107-115 Mooringe Avenue, Camden Park in the Inner West was purchased by a local private developer. The 1.618ha site was sold for approximately \$3.59 million, representing \$222/m². The site adjoins the purchaser's existing property.

In August, Mobil Oil sold 178-192 Railway Terrace, Mile End South in the Inner

TABLE 2

Recent Leasing Activity Adelaide

| Address | Region | Net Rent \$/m ² | Area m ² | Term (yrs) | Tenant | Date |
|-------------------------------|--------|----------------------------|---------------------|------------|-------------------|--------|
| 608 Grand Junction Rd | IN | 85* | 2,935 | 5 | Our United Food | Sep-16 |
| 53-57 Scotland Rd, Mile End | IW | 56 | 5,102 | 5 | Vision Dev. | Jul-16 |
| 2-4 Adam St, West Hindmarsh | IW | 140 | 1,000 | 5 | Programmed Elect. | May-16 |
| 71-81 Coker St, Ferryden Park | IN | 39 | 6,115 | 10 | SA Tourism | Mar-16 |
| 83 Research Rd, Pooraka | IN | 81 | 2,214 | N/A | Salvation Army | Feb-16 |
| 1 Capelli Rd, Wingfield | IN | 68 | 1,547 | 1 | Woodhouse Timber | Jan-16 |
| 15 Francis Rd, Wingfield | IN | 45 | 2,210 | 5 | Hollier Dicksons | Dec-15 |

Source: Knight Frank Research IN Inner North IW Inner West *Gross

West. The 1.047ha site was purchased by a private developer for \$2.4 million, representing \$229/m².

In September 2016, developer Buildtec Group sold 13 Myer Court, Beverley in the Inner West for \$970,000, representing \$371/m². We understand the 2,612m² site was purchased by an owner occupier who intends to develop the site.

\$134/m² in the same six month period.

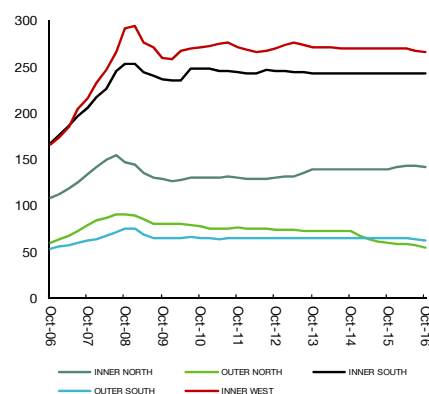
Properties that are well located with good access to major transit routes continue to receive consistent leasing demand due to their proximity to the CBD and airport. An example is 2/2-4 Adam Street, West Hindmarsh, with Programmed Electrical Technologies leasing 1,000m² for \$140/m² p.a. net on a five year term.

FIGURE 1

Adelaide Industrial Land Values

\$/m², 2006-2016

by sub market - 1-5 hectare lots



Source: Knight Frank Research

Occupier Demand & Rents

Given the historically low cost of capital and existing levels of stock currently on the market for sale, there is a growing number of occupiers looking to purchase rather than rent, particularly for properties under \$5 million.

In the six months to October 2016, there has been minimal change in average prime industrial rents within inner metropolitan areas. Average Prime Inner North rents remained at \$89/m² p.a., while Inner West rents saw a modest decrease of -1.4% from \$136/m² to

In the six months to October 2016, average rents in the Inner South decreased by -3.7% from \$126/m² to \$122/m². The decrease can be attributed to landlords adjusting rent on new leases and renewals in order to attract and retain tenants in comparison to the appeal of purchasing over leasing.

Leasing demand for industrial space in the Outer North is largely unchanged, however still remains slow. Over the past six months, average Outer North prime net face rents remained at \$68/m² p.a. Outer North secondary net face rents also remained unchanged at \$54/m² p.a., but in the past 12 months saw a -4.4% decrease overall (See Table 1).

TABLE 1

Adelaide Industrial Market Indicators as at October 2016

| Precinct | Avg Prime Rent | | Avg Secondary Rent | | Core Market Yields % | | Avg Land Values | | | |
|-------------------------|-----------------------|-------------|-----------------------|-------------|----------------------|-------------|----------------------|-------------|------------|-------------|
| | \$/m ² net | (%p.a.) | \$/m ² net | (%p.a.) | Prime | Secondary | <5,000m ² | (%p.a.) | 1-5 ha | (%p.a.) |
| Inner West | 134 | -1.4 | 80 | - | 7.75 | 9.15 | 425 | -1.5 | 267 | -1.2 |
| Inner North | 89 | - | 67 | - | 8.00 | 9.50 | 215 | - | 142 | 1.4 |
| Inner South | 122 | -3.7 | 70 | -3.5 | 8.00 | 9.00 | 367 | - | 243 | - |
| Outer North | 68 | -4.1 | 54 | -4.4 | 8.75 | 10.00 | 80 | -4.5 | 56 | -7.5 |
| Outer South | 75 | - | 50 | - | 8.75 | 10.00 | 112 | -2.6 | 62 | -4.6 |
| Adelaide Average | 98 | -1.8 | 64 | -1.6 | 8.27 | 9.59 | 240 | -1.7 | 154 | -2.4 |

Source: Knight Frank Research

Investment Activity & Yields

2016 year to date sales has seen approximately \$54.1 million worth of sales >\$5 million, tracking below the 10 year average of \$109.9 million (See Figure 2). The Outer North and Inner West were the most active area for large prime grade assets.

Three significant sales occurred in the six months to October over \$10 million. In July 2016, Propertylink purchased the Keylink Industrial Estate at 103-109 West Avenue, Edinburgh in the Outer North for \$15.25 million, reflecting a core market yield of 7.85%. The property sold fully leased to MTU Detroit Diesel Australia with a WALE of 7.7 years. The property was purchased off market as part of a \$135.3 million national industrial portfolio which comprised a total of eight properties.

In June 2016, a private investor purchased 491-499 South Road, Regency Park in the Inner North for \$14.9 million from ISPT, reflecting a core market yield of 8.85%. The industrial holding also includes a detached retail banking chamber and sold fully leased to

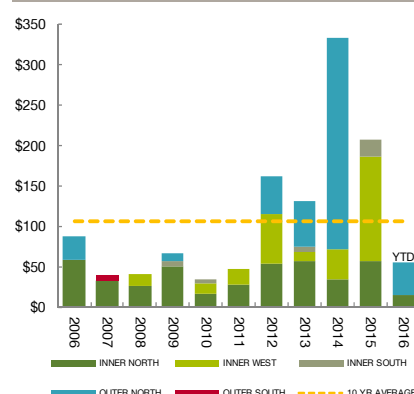
three tenants, Cork Supply Australia, CITC and National Australia Bank on a WALE of 7.6 years (income weighted).

In August 2016, Blackstone purchased the Purling Distribution Centre at 122-132 Purling Avenue Edinburgh for \$15.3 million reflecting a core market yield of 9.42%. The property was purchased as part of a \$640 million national industrial portfolio which comprised 15 properties. The property sold fully leased to GM Holden Ltd expiring May 2017 which is

understood to be vacating at the expiry of the lease.

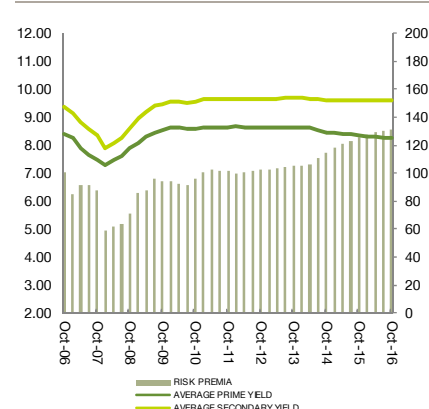
In the six months to October 2016, average prime and secondary core market yields were largely unchanged, averaging 8.27% and 9.59% respectively. Well located prime grade assets with a secure tenancy profile are reflecting sub 8.0% yields. The spread between average prime and secondary grade yields persists, and currently stands at 132 basis points (See Figure 3).

FIGURE 2
Adelaide Industrial Sales
2006-2016 by sub-market - >\$5 million



Source: Knight Frank Research

FIGURE 3
Adelaide Blended Yields
% Core market yields (LHS) & bps spread (RHS)



Source: Knight Frank Research

TABLE 3
Recent Land/Development Sales Activity Adelaide

| Address | Region | Price \$ mil | Area m ² | \$/m ² of site area | Zoning | Vendor | Purchaser | Sale Date |
|-------------------------------------|--------|--------------|---------------------|--------------------------------|--------|------------------|---------------------|-----------|
| 107-115 Mooringe Ave, Camden Park | IW | 3.59 | 16,180 | 222 | IND | Nesaca Holdings | Private | Sep-16 |
| 13 Myer Ct, Beverley | IW | 0.97 | 2,612 | 371 | IND | Buildtec Group | Private | Sep-16 |
| 12-24 Gallipoli Drive, Regency Park | IN | 4.195 | 29,440 | 143 | IND | Asciano Services | Northline | Aug-16 |
| 178-192 Railway Tce, Mile End South | IW | 2.40 | 10,470 | 229 | IND | Mobil Oil | Manchester Property | Aug-16 |
| 148 Main St, Beverley | IW | 3.20 | 17,087* | 187 | IND | Century | Private | May-16 |

Recent Improved Sales Activity Adelaide

| Address | Region | Price \$ mil | Bldg Area m ² | Core Mkt Yield (%) | WALE (yrs) | Vendor | Purchaser | Sale Date |
|--------------------------------|--------|--------------|--------------------------|--------------------|------------|--------------------|---------------------|-----------|
| 122-132 Purling Ave, Edinburgh | ON | 15.30 | 28,450 | 9.42 | 0.8 | Goodman | Blackstone | Aug-16 |
| 103-109 West Ave, Edinburgh | ON | 15.25 | 5,980 | 7.85 | 7.7 | Charter Hall | Propertylink^ | Jul-16 |
| 491-499 South Rd, Regency Park | IN | 14.90 | 12,389 | 8.85 | 7.6 | ISPT | Wild Day Investment | Jun-16 |
| 78-86 West Ave, Edinburgh | ON | 9.50 | 11,830 | VP | VP | Goodman | Regency Park Nom. | Jun-16 |
| 28-30, Diagonal Rd, Pooraka | IN | 6.20 | 3,975 | VP | VP | Bigolino No.2 P/L | T&C Properties | Dec-15 |
| Wingfield Distribution Centre | IN | 11.80 | 10,033 | 8.37 | 5.9 | Goodman | Primewest Funds | Dec-15 |
| 404 Findon Rd, Kidman Park | IW | 57.30 | 58,974 | 8.72 | 4.6 | In For a Pound P/L | Cache Logistics | Nov-15 |

IND Industry IW Inner West IN Inner North ON Outer North VP Vacant Possession ^Propertylink Australian Industrial Partnership II Fund

Source: Knight Frank Research * Sale includes approximately 6,616m² of GBA



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Outlook

The Federal Government's decision to retain the Australian Defence Force submarine contract in Adelaide has been a positive outcome in light of the imminent closure of General Motors Holden.

Uncertain macro economic conditions, commodity prices and exchange rates have been onerous on traditional manufacturing and mining related industries and exports in

South Australia, with some tenants and investors remaining uncertain about the future.

The lower cost of capital and level of stock currently for sale is expected to continue to facilitate activity by a number of owner occupiers due to the relative attractiveness of purchasing over leasing.

Institutional investment is likely to continue to be active for property (>\$10 million) with secure, stabilised

tenancy profiles and long term leases. As a result, it is likely that the propensity for investment in this type of property will remain buoyant. It is also anticipated that the spread between prime and secondary yields will remain, with the prospect for further widening.

Investment activity within the secondary market is likely to remain inconsistent and there is potential that any movement in average secondary yields will be minimal within the next six months.

Major transport infrastructure projects, particularly the North-South Corridor, are anticipated to reduce travel times, congestion and improve access in some key industrial areas such as the Outer North and the Outer South.

The progressive phase-out of stamp duty on commercial property transactions by July 2018 is expected to have a positive affect on the investment market, improving the attractiveness of local and foreign investment.

Definitions:

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 with 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).

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