RESEARCH

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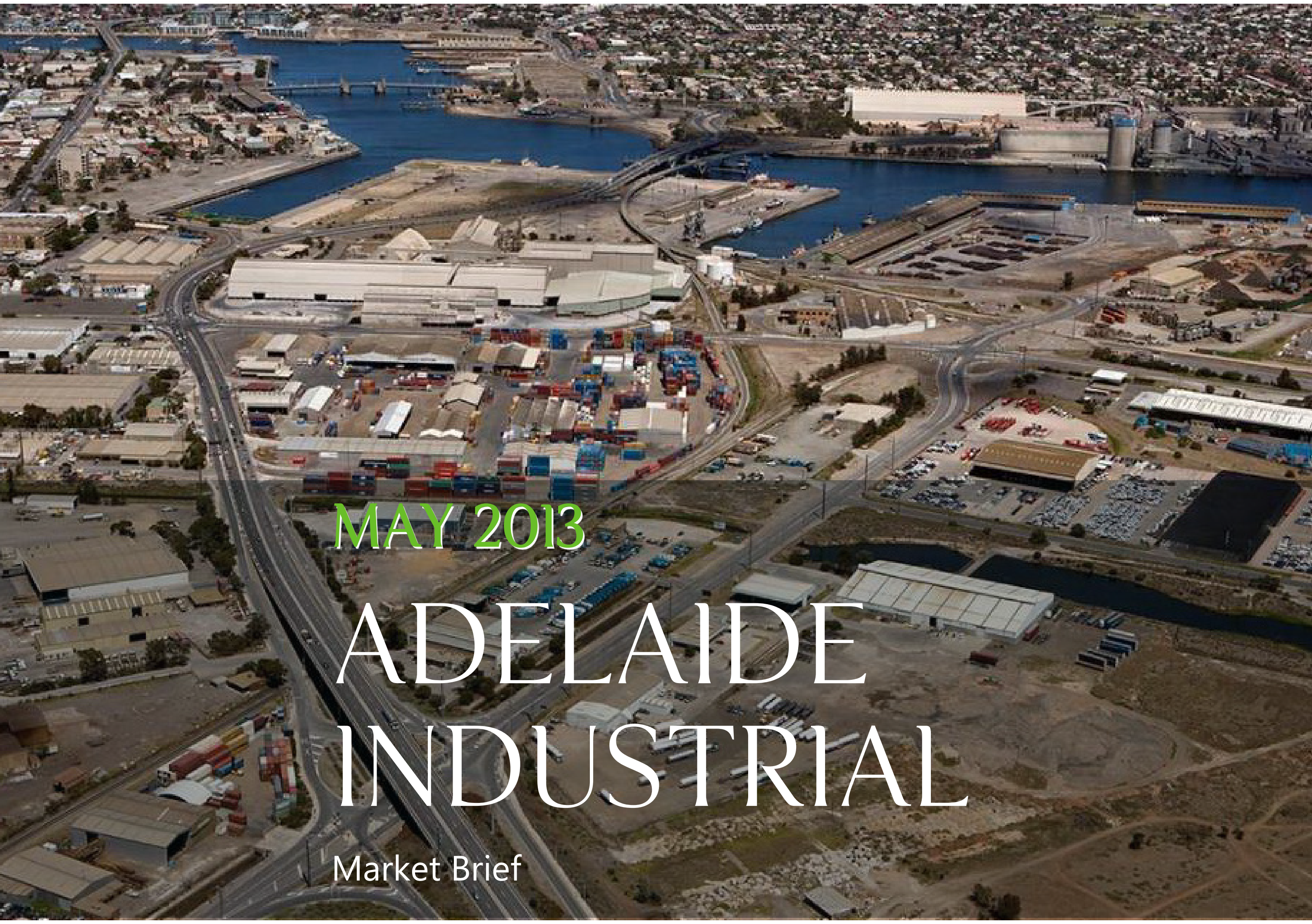

MAY 2013

ADELAIDE INDUSTRIAL

Market Brief

HIGHLIGHTS

- Development and pre-lease activity has shown signs of improvement recently. Over the past six months up to 60,000m² of industrial space has been pre-leased, with occupiers such as Cameron Transport, Electrolux, Spotless Group, Rand Transport, Blackwoods and AHI Carrier Pty Ltd all pre-committing to new space.
- The $407.5 million duplication of the Southern Expressway is a major upgrade for Adelaide's north-south transport corridor. Anticipated for completion by mid 2014, it will provide an 18.5 kilometre multi-lane, two way expressway between Bedford Park in the Inner South and Old Noarlunga in the Outer South.
- Like most national markets, there is strong investment demand for modern assets, subject to long leases to quality tenants. This is driving prime yields lower and is somewhat exacerbated by a shortage of quality assets being brought to the market. However, demand for secondary grade property remains soft.
- The largest industrial sale in 2013 to date was an office warehouse of 25,562m² at 76-80 Howards Road, Beverley. Purchased by Charter Hall for $27.14 million in January, the sale was subject to a 12 year lease to Electrolux, reflecting a core market yield of 8.26%.

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Table 1

Adelaide Industrial Market Indicators April 2013

Precinct	Average Prime Rent		Average Secondary Rent		Core Market Yields (%)		Average Land Values <5,000m²		Average Land Values 1 – 5 ha	
	$/m² net	(%p.a)	$/m² net	(%p.a)	Prime	Secondary	$/m²	(%p.a)	$/m²	(%p.a)
Inner West	138	1.9	80	0.6	7.75 - 8.75	8.75 - 9.75	455	4.2	277	4.0
Inner North	91	-0.8	67	-1.2	8.25 - 9.25	9.00 - 10.50	218	4.8	133	2.7
Inner South	132	-1.0	77	-1.7	7.75 - 8.25	8.75 - 9.50	423	-	245	0.8
Outer North	76	-1.6	56	-2.0	8.50 - 9.50	9.50 - 10.50	105	-2.1	75	-3.2
Outer South	78	-1.9	50	-2.5	8.75 - 9.75	9.75 - 10.75	120	-2.0	66	-
Adelaide Average	**103**	**-0.5**	**66**	**-1.2**	**8.25 - 9.00**	**9.25 - 10.00**	**264**	**1.8**	**159**	**1.8**

Source: Knight Frank

Prime: Asset with modern design, good condition & utility with a clearance minimum of 7-8 metres. Located in an established industrial precinct with good access.

Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with low clearance (sub 7-8 metres).

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 (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc)

Industrial Overview

The South Australian unemployment rate fell by 10 bps to 5.7% as at April 2013. Proposed job cuts by major employers (primarily manufacturing) reflect that upward pressure is likely to remain on the unemployment rate over the next 12-18 months. The official cash rate is anticipated to remain low at around 2.50%-2.75% until 2014 when interest rates are expected to rise.

Relatively low confidence in the global economy continues to be a factor impacting the Adelaide industrial market, with most manufacturers and transporters postponing expansion. This is affecting occupier demand and general investment activity. A major negative influence was the shelving of the Olympic Dam expansion and more recently proposed job cuts and lower production levels at Holden's plant in Elizabeth, which has resulted in ongoing weak demand for industrial land.

Notwithstanding this low level of confidence in the manufacturing sector, a number of other industry sectors have seen the softer market conditions as an opportunity to address their needs for increased efficiencies through the construction of new space. Limited land sales have occurred and there has been a general softening in values in select precincts, while rents have remained flat to slightly down. There is downward pressure on prime yields and the prime to secondary yield spread has widened.

Development Activity

Supply of new industrial stock has remained limited, due primarily to the shortage of tenants prepared to make long-term commitments to new space. Development and pre-lease activity has improved recently, albeit securing finance is proving to be less of an issue in 2013, as banks are more willing participants. However, increased equity contributions and tenant pre-commitments are still key requirements for any significant project to be viable, with speculative activity almost non-existent. Consequently, major new developments have been either purpose built pre-lease deals or facilities for owner occupiers, requiring larger, modern premises to accommodate their expansion and consolidation needs.

Three key infrastructure projects have commenced which is an integral part of the State Government's 30 year plan for a greater Adelaide. These projects will enhance access and will place many of the regions back in the minds of investors and owner occupiers.

The $407.5 million Southern Expressway project will support and further develop local economic activity in Adelaide's Southern commercial and industrial regions. The $291.2 million Seaford Rail Extension, which is underway, will improve the effectiveness of public transport and development in the Southern region. The $842 million South Road Superway is one of the most significant road projects for SA, improving industrial traffic flow in particular through the Port Adelaide region. The Superway comprises a 2.8 kilometre elevated roadway from Regency Road to Port River Expressway.

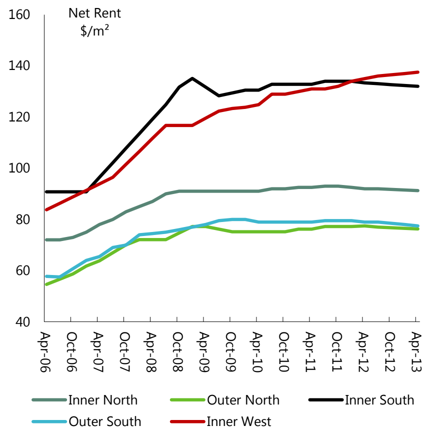
Rental Levels

Over the past two years Prime-grade face rents have remained relatively stable throughout most of the key industrial areas. The Inner West has shown some growth, with rents averaging $138/m² as at April 2013, which is an annual increase of 1.9%.

Figure 1

Adelaide Prime Industrial Rents

2006-2013 by sub-market



Source: Knight Frank

Major lease pre-commitments included; a 9,200m² facility in Regency Park, built for product supplier Blackwoods on a 2.5ha parcel and a 10,500m² facility for Rand Transport, on a 6ha site in Direk, reflecting the maturing nature of the Outer North.

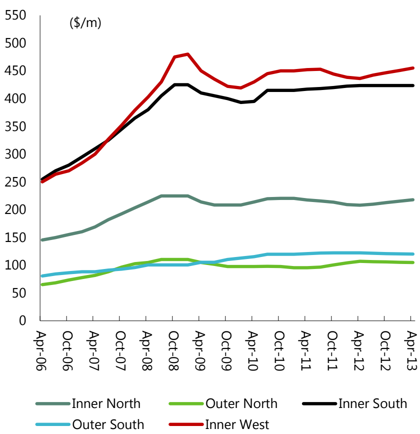
The 'Electrolux' pre-lease was a key leasing deal for Adelaide's industrial market, located at 76-80 Howards Road, Beverley. The deal was struck at a net rent of $87/m² over 25,562m², on a 12 year term. Overall leasing incentives have shown little change in the past two years averaging at around 7-8% (equivalent to 4 months rent free, on a 5 year term) for quality premises in most areas.

Land Values

The land market has been relatively quiet, with limited deals transpiring. The Inner West still remains the prime area for industrial land ($455/m² for small lots, up 4.2% over the past year) due to proximity to the CBD. In comparison the Outer South ($120/m² for small lots, down 2.3% over the past year) is considered a secondary precinct due to its location, with limited sales activity.

As observed in Figure 2, the Inner West and Inner South showed strong growth in land values between 2006 and 2008, however since the GFC correction, the past three years have remained reasonably stable. The Inner West, shows land values averaging $277/m² for medium sized lots and $455/m² for smaller lots as at April 2013.

Figure 2
Adelaide Industrial Land Values
2006-2013 by sub-market - <5,000m² parcels



Source: Knight Frank

Table 2
Major Industrial Leasing Transactions Adelaide Region

Address	Rent ($'000)	Net Rent ($/m²)	Area (m²)	Term (yrs)	Tenant	Date
175 Railway Terrace, Mile End	132	157	840	5	AHI Carrier Pty Ltd	Apr 13
1506 Main North Rd, Salisbury South	424	60	7,079	3	Viterra Ltd	Feb 13
6-14 Oxenham Cr, Dudley Park	986	223^	4,420	15	Spotless Group*	Feb 13
76-80 Howards St, Beverley	2,220	87	25,562	12	Electrolux*	Nov 12
Tappa Rd, Edinburgh	527	84	6,300	10	Cameron Transport*	Sep 12
15-23 Whicker Rd, Gillman	1,440	45	32,000	3	ACI Glass	Jul 12
30-32 Rosberg Rd, Wingfield	577	85	6,787	5	Cospak	Jun 12
37 Plymouth Rd, Wingfield	813	65	12,500	10	Schweppes Australia	Apr 12

Major Industrial Investment Sales Adelaide Region

Address	Price ($m)	Land Area (m²)	Bldg. Area (m²)	Core Market Yield (%)	Purchaser	Date
27-30 Sharp Ct, Cavan	12.33	20,020	8,215	8.17	Harmony Group	Feb 13
76-80 Howards Rd, Beverley	27.14	39,946	25,562	8.26	Charter Hall	Jan 13
224 Eastern Pde, Port Adelaide	6.25	43,549	11,230	9.09	224 Eastern Parade P/L	Oct 12
404-450 Findon Rd, Kidman Park	35.11	119,171	58,794	15.14	In For A Pound#	Jul 12
16-20 Johansson Rd, Wingfield	9.50	60,570	10,866	12.00	Local/Private	Jun 12
61-67 Plymouth Rd, Wingfield	3.23	13,000	4,732	VP	Regent St Properties P/L	Nov 12
203-205 Hanson Rd, Athol Park	4.68	13,891	6,706	VP	Master Butchers Co-Op Ltd	Aug 12

Source: Knight Frank *Pre-Lease VP Vacant Possession
^Very high office to warehouse ratio #Purchased by owner occupier on short term lease

In the past six months, one of the larger vacant land sales was 589 Grand Junction Road, Gepps Cross for $3.225 million with an area of 13,000m² ($248/m²). The sale was off market and subject to certain conditions, noting the vendor was the SA Government.

Sales & Investment Activity

Two major investment sales have occurred in 2013 to date. Firstly, 27-30 Sharp Court, Cavan sold for $12.325 million, with a 9 year lease remaining to Target (Coles), reflecting a core market yield of 8.17%. Secondly, 76-80 Howards Road Beverley sold for $27.142 million reflecting a core market yield of 8.26%. These sales reiterate the strong demand that exists for high quality assets, subject to long leases to quality tenants. Although still a comparatively weaker market, owner occupiers continue to be active in the sub $10 million price bracket, for the right, quality product (see Table 2).

Outlook

Land sales have generally remained scarce, whereas leasing demand has begun to pick up in 2013, driven predominately by D&C activity. Due to the limited supply of new prime industrial allotments and steady demand, it is expected that net face rents will show modest growth for the remainder of 2013. Recent sales indicate that purchasers are prepared to pay a premium for prime assets, with increased interest from AREITs and syndicates.

Due to the low interest rate environment, higher relative yields and strong demand for trophy assets with good security of tenure, local funds and syndicates will stimulate investment activity. The yield spread will widen further in 2013, as secondary assets with weaker leasing fundamentals remain under pressure, with a greater likelihood for a firming in prime yields.

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