



ADELAIDE

INDUSTRIAL MARKET BRIEF MAY 2015

Key Facts

The Inner West continues to achieve the highest prime rental rate of \$135/m² net, due to superior access.

Prime core market yields have experienced modest firming, averaging 8.40% as at April 2015.

Average land values in the Outer North recorded an annual decrease of -15.7%, averaging \$88/m² for sites <5,000m².

The North-South Corridor has \$1.5 billion worth of upgrades planned, improving access to the Outer North and Outer South.



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Institutional interest remains strong for larger facilities (>\$5 million) subject to long term leases. In the twelve months to May 2015, \$333 million worth of sales were recorded.

Economic Snapshot

Changing macro economic conditions and weak industry-level sentiment within South Australian manufacturing is forcing some businesses to adapt and restructure. In December 2014 the State Government announced grants to aid component part manufacturer's associated with General Motors, which is facing closure in 2017. The grants will help these businesses diversify into other industries. For example, Numetric Manufacturing in Wingfield received \$100,000 and ZF Lemforder Australia in Edinburgh received \$29,000 to help make the transition into defence and mining manufacturing.

The Federal Government has entered a tender process regarding the proposed offshore construction of Australian Defence Force submarines. Japan, France and Germany have been shortlisted as potential candidates. To date, the contract has been carried out by the Australian Submarine Corporation (ASC) at Techport, Osborne, within a \$120 million facility. The loss of the \$40 billion contract would be significant.

Development & Land Activity

The North-South Corridor has a total of \$1.5 billion of works planned and will significantly improve access to the Inner North, Outer North and Outer South. The \$896 million upgrade of the Torrens Road to River Torrens section will start mid 2015, improving access to the South Road Superway and Port River Expressway. The \$620 million Darlington upgrade is in planning stages and will provide non-stop access to the recently duplicated Southern Expressway and Ayliffes Road.

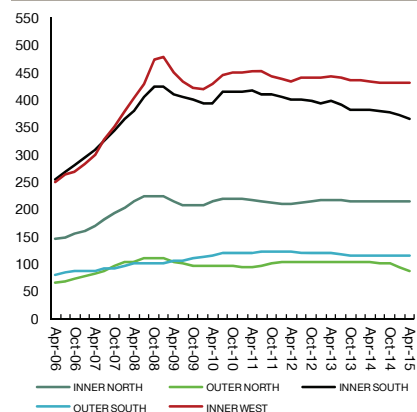
Land development activity has been headlined by the release of a 407 hectare parcel of industrial land in Gillman by development consortium Adelaide Capital Partners (ACP). ACP plan to develop the land into a resources hub named "Lipson Estate" to service the mining industry. This is the largest ever parcel of land made available in the Inner North and will include options for lease, purchase and design / construct. The land has excellent access to air, road, rail and shipping ports.

Smaller scale land activity remains slow due to the availability of existing space. As a result land values have decreased in certain areas (Figure 1).

International supermarket company Aldi has commenced construction of their new \$70 million purpose built distribution facility, located in Regency Park. The 30,000m² facility is situated on approximately eight hectares of land, with completion expected in Q1 2016. The facility will have the ability to service up to 50 stores in South Australia.

The \$253 million Tonsley redevelopment project on the fringe of the Inner South is expected to create 6,300 jobs for South Australia over 20 years. The mixed use development is part of the 30 Year Plan for Greater Adelaide and has a strong manufacturing focus. The project has pre-commitments from tenants such as Tier 5, Siemens, Basetec, Signostics, Zen Industries, Man Diesel and Turbo Aus.

FIGURE 1
Adelaide Industrial Land Values
\$/m², 2006-2015 by sub market - <5,000m² lots



Source: Knight Frank

TABLE 1
Recent Leasing Activity Adelaide

Address	Region	Net Ren	Area	Term	Tenant	Date
124 Cavan Road, Dry Creek	IN	53	1,684	3	Papas Waste	Apr-15
9-11 Williams Street, Mile End	IW	91	1,150	5	Food Equipment	Feb-15
59 Ashwin Parade, Torrensville	IW	73	545	3	Private	Jan-15
95 Bedford Street, Gillman	IN	46	2,009	1	Private	Jan-15
82-86 Woomera Ave, Edinburgh	ON	65	1,703	2	Hunt Energy	Jan-15
7-13 Ridley St, Hindmarsh	IW	101	1,533	4	SA Govt DPTI	Nov-14
3-5 Walsh Street, St Marys	IS	85	1,053	3	Norma Group	Oct-14

Source: Knight Frank IN Inner North IW Inner West ON Outer North IS Inner South

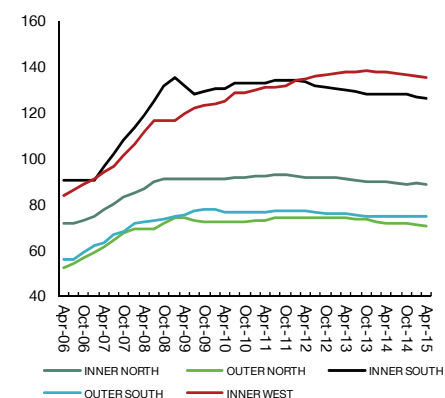
Occupier Demand & Rents

In the twelve months to April 2015, Industrial rents decreased marginally. Average prime net face rents decreased by 1.4% and now average \$99/m² while, secondary net face rents have also decreased marginally by 0.7%, averaging \$66/m² (see Table 2). This is in part due to a lack of confidence in South Australian manufacturing and a result of an increase in available existing space.

Despite an overall decrease in net face rents, tenants are active in the leasing market for prime space and secondary space that is functional and well located. The Inner West and Inner North regions continue to hold the highest rental rates, due to their proximity to the CBD, Adelaide Airport and access to major transport corridors, such as the North-South Corridor. The 78km arterial is one of the main transport logistics routes and feeds the newly completed South Road Superway, Port River Expressway and Salisbury Highway.

Average incentives for prime space remain unchanged at 10% as tenants seek to negotiate lower face rents rather than increases in incentives. Average incentives for new leases in secondary space show a greater range of 7.5% to 15% as landlords compensate for softer demand and focus on tenant retention.

FIGURE 2
Adelaide Prime Industrial Rents
2006-2015 by sub-market - net \$/m²



Source: Knight Frank

TABLE 2
Adelaide Industrial Market Indicators as at April 2015

Precinct	Avg Prime Rent		Avg Secondary		Core Market Yields %		Avg Land Values			
	\$/m ² net	(%p.a)	\$/m ² net	(%p.a)	Prime	Secondary	\$/m ²	(%p.a)	\$/m ²	(%p.a)
Inner West	135	-1.8	80	-	7.75-8.25	9.00-9.50	432	-0.5	270	-0.4
Inner North	89	-1.7	67	-0.9	7.75-8.75	9.00-9.75	215	-	140	-0.3
Inner South	126	-1.3	75	-2.2	8.00-8.50	8.75-9.50	367	-4.4	243	-
Outer North	70	-1.7	56	-	8.25-9.00	9.50-10.50	88	-15.7	64	-12.4
Outer South	75	-	50	-	8.50-9.50	9.75-10.75	115	-0.9	65	-
Adelaide Average	99	-1.4	66	-0.6	8.05-8.94	9.20-10.00	243	-2.9	156	-1.2

Source: Knight Frank

The availability of space is providing the opportunity for tenants to access more modern and larger premises for expansion and consolidation purposes. An example of this is Visy, who have recently leased a new facility, occupying approximately 10,900m² on a 6.057 hectare site at 16-20 Johansson Road, Wingfield in the Inner North. As a result, Visy will be able to consolidate their total occupied space, by vacating their facility at 1 Ocean Steamers Road, Port Adelaide.

Investment Activity & Yields

In the 12 months to April 2015 there was \$333 million worth of sales (>\$5 million), the highest level in five years. This is predominantly due to Charter Hall's acquisition of the Coles Distribution Centre for \$153 million and Inghams Edinburgh facility for \$49.2 million.

Other significant sales were Ascot Capital's purchase of another Inghams facility in Burton for \$39.5 million and Adelaide-based Harmony Property Syndicators purchase of Netley Commercial Park for \$30.25 million, reflecting a core market yield of 7.47%.

Demand from institutional investors remains strong for larger modern facilities of this type (>\$10 million) with long term lease covenants. However activity is constrained by the lack of quality stock available and these types of assets are often tightly held.

Average core market yields have experienced modest firming over the past twelve months; yields for prime assets have firmed by 21 basis points averaging

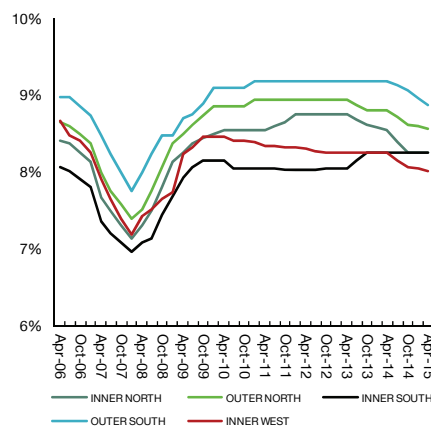
8.40% across Adelaide (refer to Figure 3). Yields for secondary assets have firmed modestly by seven basis points over the same time period, averaging 9.60%. It is possible that core market yields will continue to firm for prime product, particularly for well located assets with strong cash flows and long average lease terms.

Investment activity has been relatively soft over the past six months. The volume of transactional activity has been greater in the secondary market at the sub \$3 million price point, appealing mostly to private investors and owner occupiers. This is evidenced by the recent transactions recorded in the six months to May 2015 (see Table 3).

Land values for sites 2000m²-5000m² remain largely unchanged in the Inner West, Inner North and Outer South. In the 12 months to April 2015 land values in the Outer North decreased significantly by 15.7% (see Table 2) and now average \$88/m² as a result of changing economic conditions within the region. In addition, the availability of existing properties coupled with soft demand for development sites is affecting the feasibility of new design and construct projects.

FIGURE 3

Adelaide Prime Industrial Yields 2006-2015 by sub-market - %



Source: Knight Frank

TABLE 3

Recent Land/Development Sales Activity Adelaide

Address	Regio	Price	Area m ²	\$/m ² of	Zoning	Vendor	Purchaser	Sale
473 Waterloo Corner Road, Burton	IN	1.25	21,000	60	UE	Private Investor	Private Investor	Jan-15
Lot 201 Hanson Road, Dry Creek	IN	5.46	156,800	35	IND	Urban Renewal	Private Investor	Dec-14
27 Caribou Drive, Direk	ON	1.45	22,470	65	UE	Private Investor	Private Investor	Oct-14

Recent Improved Sales Activity Adelaide

Address	Regio	Price \$ mil	Bldg Area m ²	Core Mkt	WALE (yrs)	Vendor	Purchaser	Sale Date
602 South Road, Angle Park	IN	2.08	2,306	VP	VP	Private Investor	Owner Occupier	Mar-15
265 Richmond Road, Richmond	IW	2.50	3,432	VP	VP	Private Investor	Owner Occupier	Jan-15
24 Diagonal Road, Pooraka	IN	2.35	2,208	VP	VP	Private Investor	Owner Occupier	Jan-15
2-4 Priority Court, Edinburgh North	ON	2.50	10,812	VP	VP	Private Investor	Owner Occupier	Dec-14
79 South Terrace, Wingfield	IN	2.15	3,306	VP	VP	Private Investor	Owner Occupier	Nov-14
1122-1136 Port Wakefield Rd, Burton	ON	39.50	21,555	8.43	20	Inghams	Ascot Capital Ltd	Nov-14
34-44 Jonal Drive, Cavan	IN	10.20	8,323	8.18	9.37	Mirvac Group	Altis Property	Nov-14
27-35 Sturton Road, Edinburgh	ON	49.20	21,595	8.50	25	Inghams	Charter Hall*	Nov-14
60-62 Kinkaid Ave, North Plympton	IS	3.50	5,646	VP	VP	Private Investor	Owner Occupier	Nov-14

UE Urban Employment IND Industry VP Vacant Possession *Core Logistics Partnership

Source: Knight Frank

Outlook

The imminent closure of General Motors will continue to weigh negatively on market confidence as tenants and investors remain uncertain about the future. In addition, the Federal Government's proposal to move part, or all of the Australian Defence Force submarine contract offshore is further impacting market confidence.

It is expected that over the next two years more secondary space will become available to the market as component manufacturers close their doors and as a result land values will likely decrease further in the northern areas. This will continue to limit the feasibility of new developments, as existing stock will be available at very competitive rates. However, businesses that can restructure and adapt to changes in the manufacturing sector and fluctuations in the macro economic climate, will fare better in the long run.

Upcoming major transport infrastructure projects, such as the North-South Corridor will encourage development and improve travel times in some key industrial areas such as the Inner North and the Outer South. The Lipson Estate development at Gillman will have a positive impact on the economy fostering growth in the mining resource sector and the significant creation of jobs.

Investment activity will remain the most active within the Inner West and Inner North regions due to ease of access. There is unlikely to be any material growth in activity in the Outer North due to local investors continuing a risk-averse mindset in light of the major changes in manufacturing and the long term viability of the sector. Institutional investors will continue to be active in the market, seeking prime assets with a strong cash flow and tenant covenant.

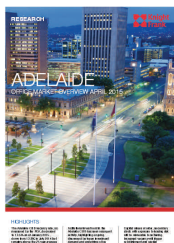
Definitions:

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

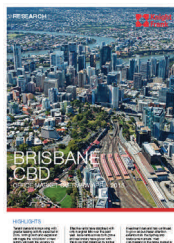
Secondary: Asset with an older design, in reasonable/poor condition, inferior to prime stock, with an office component between 10-20%.

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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