

AUSTRALIAN LISTED PROPERTY

2018 UPDATE

DATA INTO ACTION

AUSTRALIA'S LISTED PROPERTY PORTFOLIOS MAY 28, 2018

3 KEY STATS



\$125 billion
of A-REIT ownership



35 assets worth \$1+ billion



\$6 billion
Chadstone Shopping Centre;
the most valuable asset

Cushman & Wakefield Research has analysed the portfolios and recent transactions of many of Australia's listed property managers from the latest publically available data.

The referenced dataset provides key insights into the valuation metrics of Australia's institutional commercial real estate market and represents 823 office, retail and industrial assets, at least part-owned by 20 Australian Real Estate Investment Trusts and stapled funds (A-REITs) ¹.

The value of these assets totalled \$167 billion, \$125 billion of which (75%) was owned by the A-REITs, the balance owned by investment partners including high net worth investors and wholesale funds.

Cushman & Wakefield Research has reviewed both the value and capitalisation rates of assets in the portfolios and grouped the analysis by retail, office and industrial assets and also compared the data to last financial year's information. Retail assets had the highest value at \$105 billion, followed by office at \$53 billion and industrial at \$9 billion.

Over the 18 months to May 2018, markets continued to tighten with capitalisation rates compressing and capital values increasing across the board. The market strength was reflected in the near-record levels of investment (\$34 billion) recorded by Cushman & Wakefield Research over the 2017 calendar year.

FIGURE 1
Highest valued listed retail assets



Source: Company data; Cushman & Wakefield

¹ Abacus, Aventus, BWP, Centuria Industrial REIT, Centuria Metropolitan REIT, Charter Hall Long WALE, Charter Hall Retail REIT, DEXUS, GDI, GPT, Growthpoint, GWOF, GWSCF, Industria REIT, IOF, Mirvac, SCA, Scentre Group, Stockland, Vicinity

KEY POINTS:

The 823 assets in this analysis have a full value of \$167 billion; \$125 billion of which is owned by A-REITs.

The nine most valuable assets were retail assets.

There were 26 retail assets worth \$1 billion or more.

There were 9 office assets worth \$1 billion or more.

The total value of Industrial assets (\$9 billion) in this dataset was significantly less than retail (\$105 billion) and office (\$53 billion).

Industrial capitalisation rates were, on average, softer than office and retail rates.

There is evidence to suggest that book values have been conservatively priced.

Chadstone Shopping Centre had both the highest value (\$6bn) and sharpest yield (3.75%) of all assets in the dataset.

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RETAIL

Retail assets formed the largest proportion of this dataset, with both the largest number of assets (417 of 823), and the highest total asset value of \$105 billion. A-REITs owned 76%, or \$80 billion.

Increased turnover of retail assets was a key theme for the 2017 calendar year. Cushman & Wakefield Research transaction data indicated that 2017 was a record year for retail investment volume (\$9 billion). Turnover increased as some owners took advantage of the strong market conditions to refocus their portfolios toward core assets and away from non-core assets. The refocus led to a small reduction in the number of assets owned by A-REITs, declining from 425 to 417. By centre class, neighbourhood centres saw the largest sell-down, as the number held by A-REITs declined from 146 to 138. Charter Hall Retail REIT was particularly active in this asset class, divesting ten assets.

Some of the key retail transactions involving A-REITs included GPT purchasing the remaining 25% stake in Maribyrnong's Highpoint Shopping Centre from the Besen family for \$680 million, as well as Vicinity increasing its exposure to CBD assets. It swapped a 49% stake in Chatswood Chase for three CBD assets including: the QVB, The Strand Arcade and The Galleries. The three CBD assets transacted at a weighted capitalisation rate of less than 5%.

Within the full dataset (all sectors), only 24 assets had a capitalisation rate sharper than 5%, and 19 of these were retail assets. Among these were nine Super Regional centres. Driven by elevated purchaser demand, the data in the retail subset indicated that from 2016 to 2017 capitalisation rates compressed across all shopping centre classes (figure 2). Super Regional assets were the big movers, compressing ~50bp to 4.8%. City Centres ranked second with 5.1%. Sub Regional and Neighbourhood assets recorded the smallest tightening.

TABLE 1
Valuation metrics by retail centre class, CY 2017

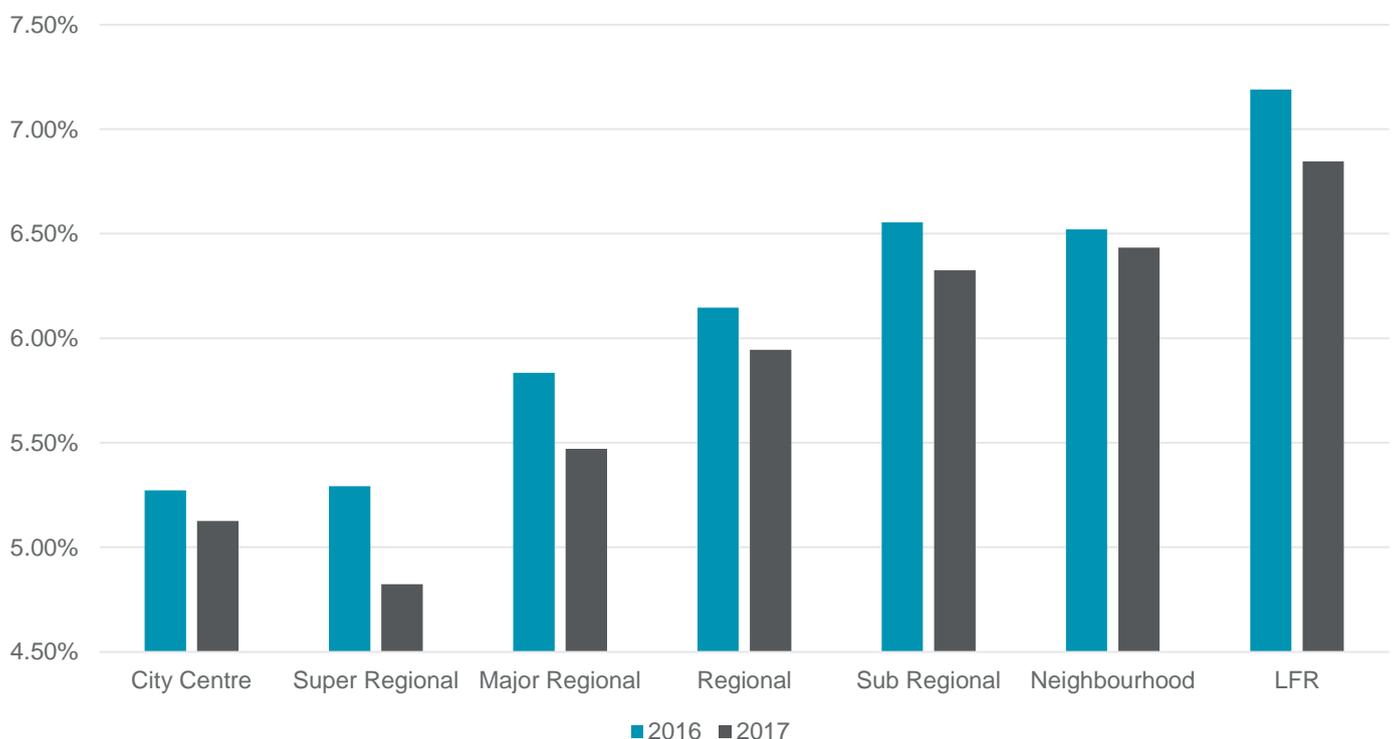
	Average Cap Rate	Avg CV/SQ M
City Centre	5.1%	\$20,800
Super Regional	4.8%	\$14,800
Major Regional	5.5%	\$10,900
Regional	5.9%	\$7,500
Sub Regional	6.3%	\$6,200
Neighbourhood	6.4%	\$5,600
LFR	6.9%	\$2,400

Source: Company data; Cushman & Wakefield

Capitalisation rate compression positively influenced many asset valuations, and within the full dataset the nine most valuable assets were retail assets. 26 retail assets were worth more than \$1 billion, and a further 31 worth more than \$500 million. Chadstone Shopping Centre, a Super Regional centre half (50%) owned by Vicinity was the most valuable asset, worth \$6.0 billion. Its 14% year-on-year valuation increase of \$750 million was driven by a 50 basis point compression in its capitalisation rate, the rate falling from 4.25% to 3.75%. The 3.75% capitalisation rate was also the sharpest rate in the dataset. The compression was influenced by both the sustained weight of capital for prime grade institutional assets and a redevelopment which added 34,00 sqm of GLA.

Retail centres ranked highly by capital value per square metre (sqm). Retail assets occupied the top five positions by this metric with City Centres dominating the top 10. Scentre Group's Westfield Sydney CBD had the sharpest City Centre capitalisation rate of 4.125% and it also had the highest capital value among all assets at \$30,200 per sqm.

FIGURE 2
Retail asset capitalisation rates, 2016 & 2017, by centre class



Source: Company data; Cushman & Wakefield

OFFICE

Collectively, A-REITs own approximately half as much office stock as they do retail stock, both in terms of asset value, and number of assets. The office dataset of 192 assets is 46% the size of the retail subset (417 assets). In terms of value, office assets were valued at \$52.8 billion. A-REIT office ownership accounted for \$36.7 billion, or 69% of the \$52.8 billion total.

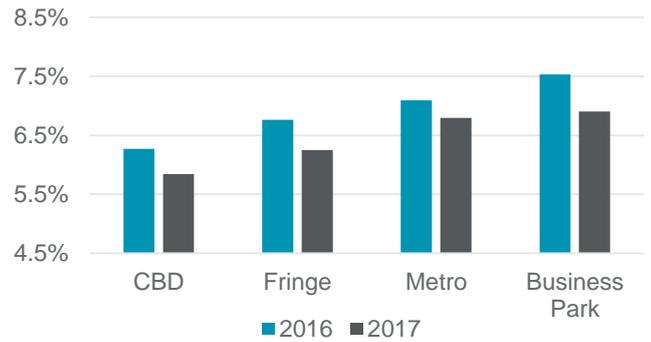
A-REITs own more prime grade stock (144 of 192; 75%) than secondary stock. Of the 192 office assets, 27 of 192 (14%) were Premium grade assets worth \$21.9 billion. While there were far fewer Premium grade assets, their collective value was comparable to the value of the A grade assets (117 of 192; 61%) at \$24.3 billion.

The high value of Sydney office assets was clearly demonstrated within the data. All nine of the office assets worth \$1 billion or more were located within the Sydney CBD, a result of both high rental rates and sharper capitalisation rates (relative to Australia's other CBDs).

In terms of capital value per sqm, the top 26 office assets were located within the Sydney CBD. Mirvac's 50% stake in 8 Chifley Square, a Sydney CBD Premium grade asset, had the highest capital value rate at over \$25,000 per sqm. The highest rate for a non-Sydney asset belonged to Brisbane's 111 Eagle Street, which ranked 27th - nine spots behind 6 O'Connell Street, a Sydney CBD B grade asset. The Eagle Street asset topped a range of Brisbane metrics including highest value (\$881 million), sharpest capitalisation rate (5.25%) and highest capital value per sqm (\$13,800).

In Melbourne, 150 Collins Street was the most valuable in terms of capital value at \$11,900 per sqm. 567 Collins Street, a Premium grade asset completed in 2015, had the sharpest capitalisation rate of 5.00%, while 180-222 Lonsdale Street was the highest valued asset, worth \$922 million.

FIGURE 3
Office capitalisation rates, by market type



Source: Company data; Cushman & Wakefield

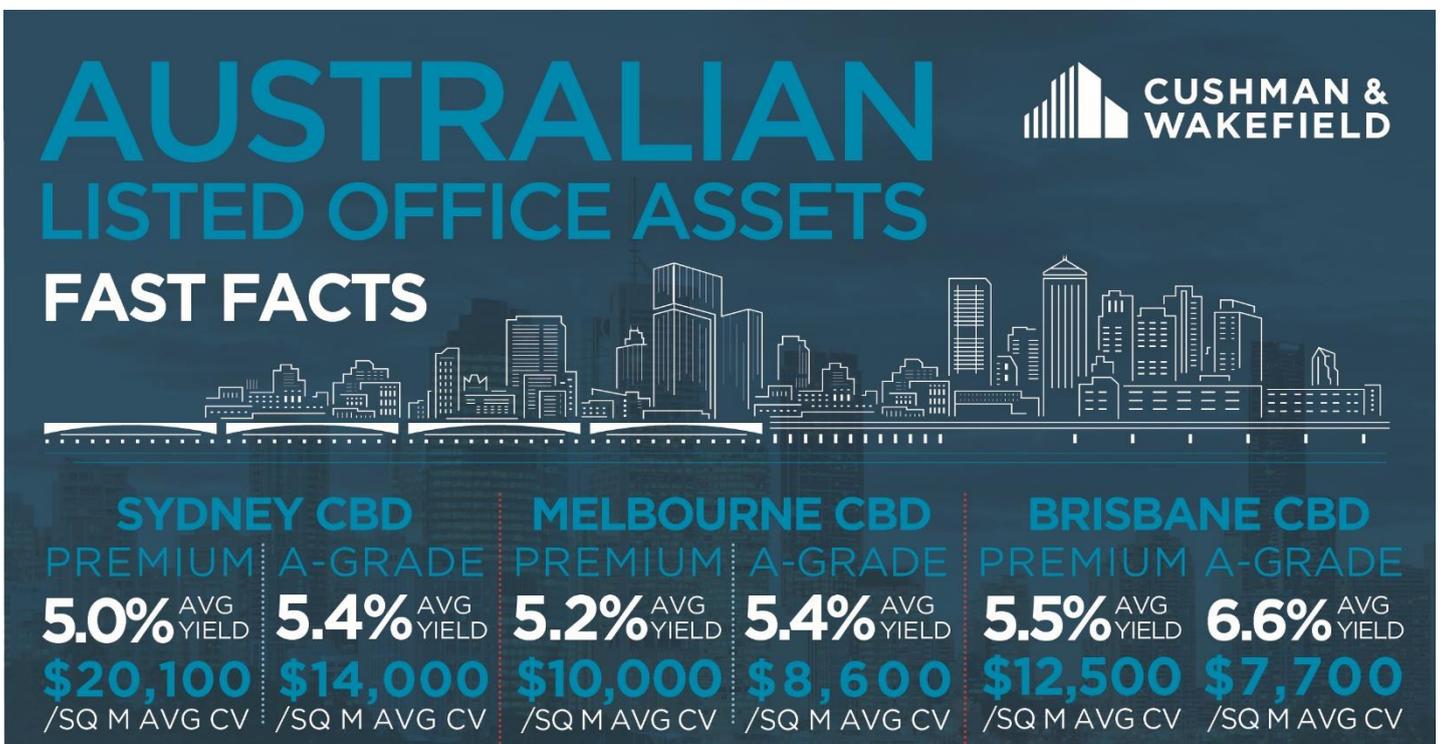
Although Sydney's listed office asset capital values were much higher than that of Melbourne and Brisbane, there is evidence to suggest that the book values have been conservatively priced. Mirvac's 50% stake in 275 Kent Street had a book value of \$555 million, however the other 50% stake, owned by Blackstone, is currently on the market with price expectations of circa \$850 million.

FIGURE 4
CBD office asset capitalisation rates, by state



Source: Company data; Cushman & Wakefield

FIGURE 5
Office asset valuation metrics, by market, grade



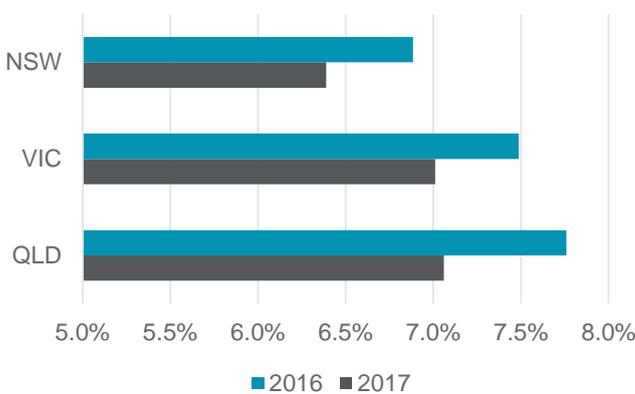
Source: Company data; Cushman & Wakefield

INDUSTRIAL

The Industrial asset subset was far smaller than both the retail and office asset subsets, accounting for just \$9.1 billion of the \$167 billion dataset, and 209 of 823 assets. A-REIT ownership accounted for \$8.0 billion, or 88% of the total.

The most valuable industrial asset, the Stockland-owned Yennora Distribution Centre (Sydney, NSW), was ranked 113 of 823 within the dataset, with a value of \$400 million. Within the industrial subset, only 16 assets (9%) were worth more than \$100 million. This number may well be poised to rise in the years to come as there were 11 assets in the subset, mostly distribution centres, which were valued at over \$80 million. In addition, land prices in some of Sydney and Melbourne's key industrial precincts have recorded significant growth over the past two years. Recent transaction evidence for larger sites in Melbourne has shown up to 30% value uplift in some precincts as institutional owners have competed to secure development opportunities.

FIGURE 6
Industrial asset capitalisation rates, by state



Source: Company data; Cushman & Wakefield

FIGURE 7
Highest valued listed industrial assets, by state

Due to significantly lower rents relative to office and retail assets, the average capital value per sqm of industrial assets was a fraction of office and retail assets. Industrial assets had an average capital value of just \$1,900 per sqm compared to office assets at \$9,000 per sqm and retail assets at \$6,300 per sqm.

Capitalisation rate data from both the industrial subset and Cushman & Wakefield Research indicate that industrial cap rates are, on average, softer than office and retail cap rates. The industrial subset's average cap rate of 6.8% was 50bp softer than 6.3% of the office and retail sectors. NSW industrial assets had the sharpest average cap rates of circa 6.4%, around 60bp sharper than the 7% recorded for both Victoria and Queensland assets.

TABLE 2
Industrial asset capital values by state, CY2017

	CV/sqm
NSW	\$2,400
VIC	\$1,300
QLD	\$1,600
SA	\$1,000
WA	\$1,600
ACT	\$1,800

Source: Company data; Cushman & Wakefield

AUSTRALIAN LISTED INDUSTRIAL ASSETS

FAST FACTS



MOST VALUABLE INDUSTRIAL ASSETS

State	Asset Name	Value
NSW	YENNORA DISTRIBUTION CENTRE (STOCKLAND)	\$400 MILLION
VIC	AUSTRAK BUSINESS PARK, SOMERTON (GPT 50%)	\$341 MILLION
QLD	70 DISTRIBUTION STREET, LARAPINTA (GROWTHPOINT)	\$215 MILLION

Source: Company data; Cushman & Wakefield

TABLE 3
A-REIT purchasing activity, Q1 2017 – Q1 2018 (inclusive), >\$100 million

Property Name	Sector	Price (\$)	A-REIT Purchaser
MLC Centre, Sydney, NSW (25% stake)	Office	361,300,000	DEXUS
100 Harris Street, Pyrmont, NSW	Office	327,500,000	DEXUS
Queen Victoria Building, Sydney, NSW	Retail	301,200,000	Vicinity
Westralia Square Office Tower, Perth, WA	Office	216,250,000	GDI Group
Salamander Bay Shopping Centre, NSW	Retail	174,500,000	Charter Hall Retail REIT
East Village Shopping Centre, NSW (50.1% stake)	Retail	155,300,000	Mirvac
Brisbane State Law Building, Brisbane QLD	Office	150,000,000	Propertylink
The Galleries, Sydney, NSW	Retail	143,100,000	Vicinity
DFO South Wharf (25% stake), VIC	Retail	141,250,000	Vicinity
The Strand Arcade, Sydney, NSW	Retail	111,700,000	Vicinity

Source: Cushman & Wakefield

TABLE 4
A-REIT selling activity, Q1 2017 – Q1 2018 (inclusive), >\$100 million

Property Name	Sector	Price (\$)	A-REIT Vendor
Chatswood Chase, Chatswood, NSW (49% stake)	Retail	562,300,000	Vicinity
477 Collins Street, Melbourne, VIC (50% stake)	Office	414,000,000	Mirvac
Southgate Complex, VIC (50% stake)	Office	289,000,000	Dexus
Civic Tower, 66 Goulburn Street, Sydney, NSW	Office	252,000,000	GDI Group
105 Phillip Street, Parramatta, NSW	Office	229,000,000	DEXUS
Kawana Shoppingworld, QLD (50% stake)	Retail	186,000,000	Mirvac
Ferntree Business Park, VIC	Office	168,000,000	Goodman Group
Coles Melbourne HQ, VIC (50% stake)	Office	140,500,000	Investa Office Fund
664 Collins Street, Melbourne, VIC (50% stake)	Office	138,000,000	Mirvac
Everglades Campus, North Ryde, NSW	Office	120,000,000	Goodman Group
1231-1241 Sandgate Road, Nundah, QLD	Office	106,250,000	Growthpoint
11 Waymouth Street, Adelaide, SA (50% stake)	Office	101,250,000	DEXUS

Source: Cushman & Wakefield

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