

KEY TAKEAWAYS



\$9.9bn

Q2 INVESTMENT
VOLUME 2019



\$42.6bn

ROLLING ANNUAL
VOLUME Q2 2019



45%

FY18/19 FOREIGN
INVESTMENT

TOTAL INVESTMENT ACTIVITY

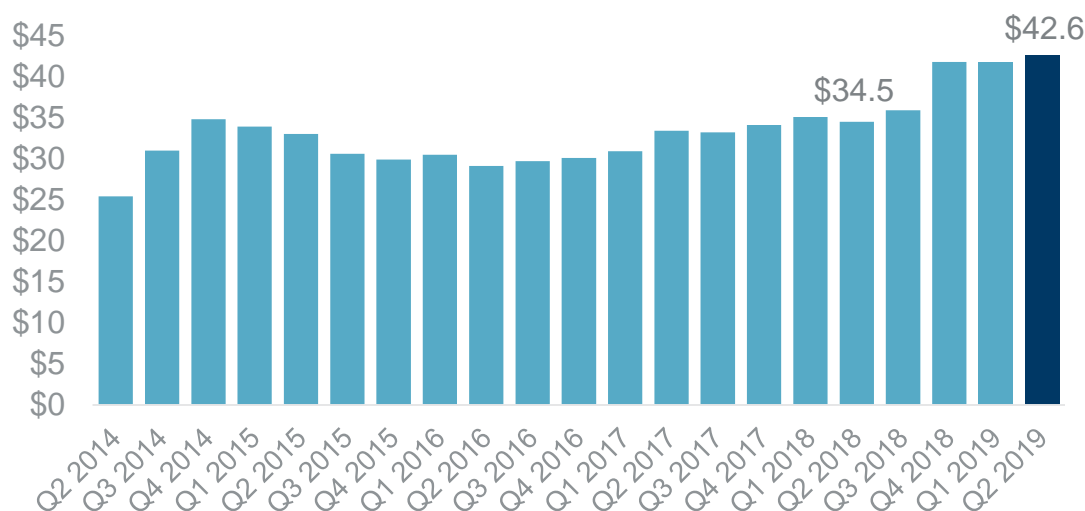
National investment volumes rally late in the quarter to reach new record territory

The Australian commercial real estate market continued to perform strongly in Q2 2019 with \$9.9 billion worth of transactions recorded, pushing rolling annual volumes into record territory. This volume was 59% higher than the \$6.3bn recorded in Q1, which was a relatively strong first quarter. The volume in Q2 was a new record for a Q2 investment volume, and was 17% higher than the five-year Q2 average.

H1 2019 volume totaled \$16.2bn, meaning that it was the strongest H1 on record, eclipsing H1 2018 by 5%. Investment in to the office sector, which accounted for 70% of total investment, helped to drive the record volumes, however, retail investment volumes slumped to its lowest since 2011.

Activity in the industrial sector ramped up in the year to June 2019 behind increased institutional activity and this has pushed investment volumes to their strongest levels post-GFC. Although transaction volumes have increased, there are relatively few vendors to match the strong investor demand for industrial assets.

ROLLING ANNUAL INVESTMENT VOLUME (AUDbn)



Source: Cushman & Wakefield



INVESTMENT BY SECTOR

Offices attracted nearly three quarters of total investment volume in Q2 2019

Elevated investment activity in Australia's office sector continued in the first half of 2019. Offices made up 70% of total Q2 investment volume, and made up 63% of total H1 investment volume.

Q1 2019 commenced with investor demand continuing on from the strong Q4 2018. Q2 followed it up by looking relatively soft through April and May, however, a flurry of pre-EOFY deals ensured that office investment volumes stormed home into record territory. It was the fourth highest office sector investment volume on record, behind only Q3 2007, Q4 2018, and Q2 2014.

Several landmark transactions were behind the elevated volume. These included Scentre Group's sale of 100 Market Street and 77-85 Castlereagh Street to Blackstone for \$1.52bn and QIC's sale of the 80 Collins Street precinct to Dexus for \$1.476bn.

A high level of liquidity is expected to continue in Q3 2019 with numerous major assets likely to transact. Though to match Q2 volume, Q3 will require further landmark asset transactions.

Other notable transactions in Q2 included The Zenith for \$438.2m (Chatswood, NSW), a 50% stake in 100 Miller Street (North Sydney, NSW) for \$300m, and 21 Harris Street for \$297m (Pyrmont, NSW). Each of these three transactions, were at least partially purchased by a foreign buyer, and all are located in Sydney fringe/metropolitan markets.

Institutional investors pushed annual industrial volumes to record levels

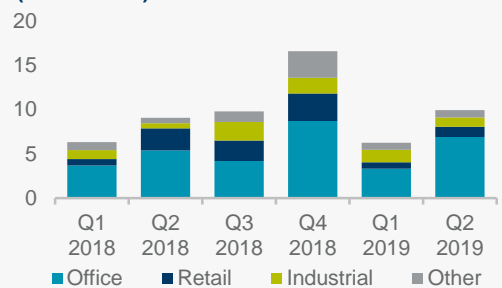
Q2 industrial volume totaled \$1.1bn, marking the fourth consecutive quarter of \$1bn+. Annual volumes totaled \$6.3bn.

Increased purchasing activity from institutional investors has pushed industrial volumes higher. Some, including GPT, Stockland, Dexus, and Mirvac (among others), are actively seeking increased exposure to the sector.

Notable purchases for the quarter included GPT's purchase of five Sydney assets for \$212m, DWS's purchase of a 50% stake in 99 Sandstone Place (Parkinson, QLD) for \$134.2m, and Charter Hall's purchase of the Brisbane City Council bus network terminal for \$102.5m

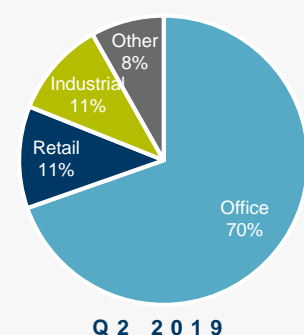
While this liquidity is an indication that some owners are becoming more open to divesting, stock is still tightly held and purchasing opportunities are rare. There remains a significant weight of capital ready to be deployed into the sector from both domestic and foreign sources.

INVESTMENT BY SECTOR (AUD bn)

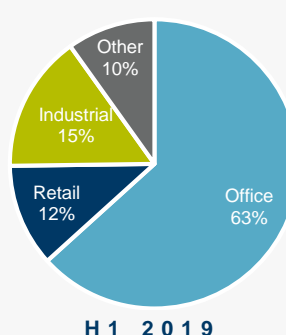


Source: Cushman & Wakefield

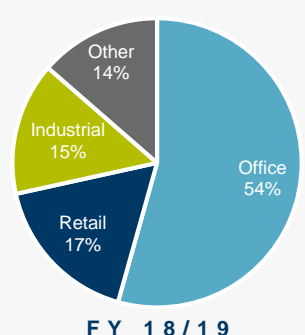
INVESTMENT BY SECTOR



Q2 2019



H1 2019



FY 18/19

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Source: Cushman & Wakefield

Retail transaction volumes plummet

H1 2019 marked a shift in the sentiment of Australia's retail investment market. Between 2016-2018 retail investment volume averaged \$8.5bn per year, and in 2017 volumes even hit a new record high. However, H1 2019 volumes were just \$1.9bn, down 42% on the 2016-2018 H1 average. Much of this variation in transaction volume is due to the reduced number of larger shopping centres that have transacted.

While structural changes have altered the retail landscape, namely the well-documented growth of e-commerce, factors such as slowing economic conditions, potentially unsustainable rents, and the late position in the cap rate cycle have also catalysed a shift in sentiment.

Investment markets have reacted with an increase in (potential) vendors and a reduction in the depth of purchasers. Some investors have looked to reduce exposure to the sector, as a result multiple institutions have noted that wholesale funds are experiencing increased redemption requests.

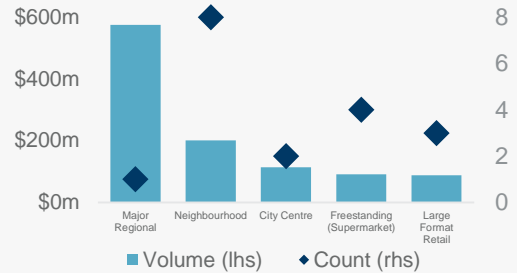
Investors have become more discerning about larger centres. Exposures to tenant mix and long term reversions are being interrogated, while metropolitan locations are favourable (and remain in demand).

Among small assets the reduction in purchaser demand has been far less marked, with the liquidity trend in the neighbourhood and convenience space continuing to track positively.

INVESTMENT BY LOCATION NSW office assets lead the way

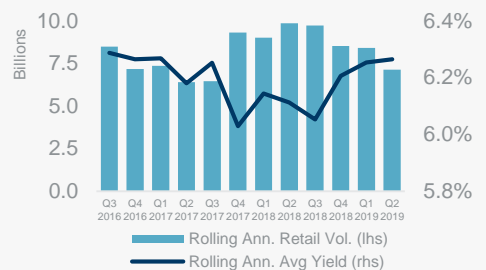
New South Wales commanded 51% (\$5.1bn) of investment volume in Q2, followed by Victoria with 29% (\$2.9bn). Queensland achieved 14% (\$1.4bn). By sector, Queensland investment was relatively diversified, with office (39%), industrial (27%) and retail (15%) each achieving significant proportions. Further south, total investment volumes were more weighted toward the office sector with New South Wales offices commanding 73%, and Victoria 80%.

RETAIL TRANSACTIONS BY SHOPPING CENTRE TYPE Q2



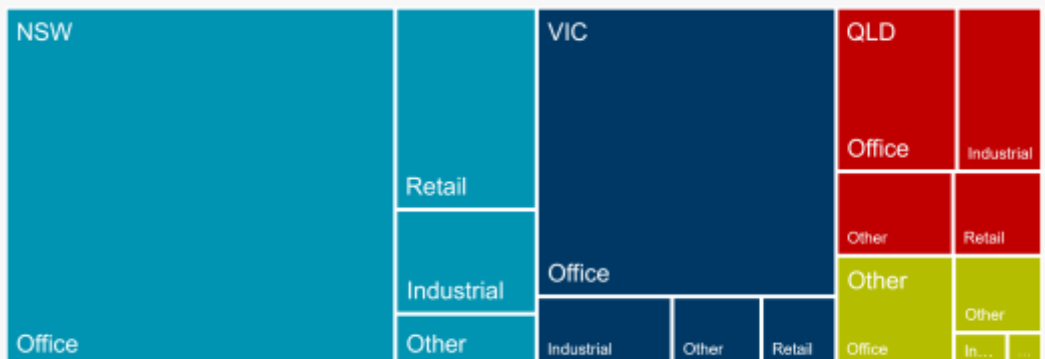
Source: Cushman & Wakefield

RETAIL TRANSACTION VOLUMES AND YIELDS



Source: Cushman & Wakefield

INVESTMENT BY LOCATION, Q2 2019



Source: Cushman & Wakefield

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FOREIGN INVESTMENT

The office sector helped drive record annual foreign investment volume

Foreign investment continued to feature prominently in the Australian investment landscape in FY18/19, accounting for 37% of total investment volume in Q2, and 45% or \$19.0bn for the financial year.

Rolling annual foreign investment volume increased from 31% (\$10.8bn) in FY17/18 to 45% at the close of FY18/19. Foreign investment in the office sector was most prominent, increasing from 42% at the end of FY17/18 to 53% at the end of FY18/19.

Multiple factors continue to contribute to the relative strength of foreign investment in Australian office markets. Firstly, Australian office returns are relatively attractive in the global context. Secondly, the potential for positive leasing spreads (rent growth) has been strong, particularly in Sydney and Melbourne. And thirdly, office assets have been particularly liquid in recent years.

Foreign investment into the industrial sector also increased over the year. More than \$2.4bn of foreign investment was recorded in the sector with annual foreign investment increasing from 10% in FY17/18 to 38% in FY18/19.

Foreign investment in the retail sector has been relatively low with just 14% of retail volume from foreign sources in FY18/19.

KEY FOREIGN PURCHASES Q2 2019

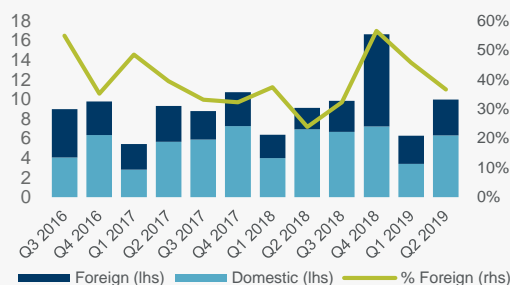
| PROPERTY | SECTOR | PURCHASER | NATIONALITY | PRICE (AUDm) |
|------------------------------------|--------|------------------|---------------|--------------|
| 85 Castlereagh Precinct, Syd | Office | Blackstone | International | \$1,520 |
| 100 Miller Street, North Syd (50%) | Office | Early Light | Hong Kong | \$300 |
| 21 Harris Street, Pyrmont | Office | Suntec REIT | Singapore | \$297 |
| 111 Pacific Hwy, North Syd | Office | Mapletree | Singapore | \$274 |
| Zenith, Chatswood (50%) | Office | Starwood Capital | United States | \$219.1 |
| 31 Queen Street, Melbourne | Office | AEW Capital | United States | \$203 |

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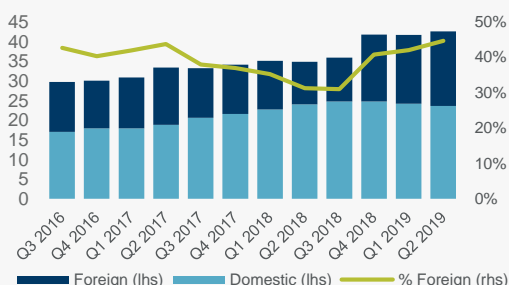
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FOREIGN & DOMESTIC INVESTMENT (AUDbn)



Source: Cushman & Wakefield

ROLLING ANNUAL INVESTMENT (AUDbn)



Source: Cushman & Wakefield



NET PURCHASING ACTIVITY

Unlisted funds acquisitive as Pension Funds and Listed entities divested

Unlisted funds led net purchasing activity in Q2. Numerous domestic and international unlisted funds made significant purchases over the quarter; among them Blackstone and Mapletree. Pension funds were the largest net sellers, led by QIC (80 Collins St) and Oxford Properties. Scentre Group sold \$2.1bn worth of assets over the quarter, contributing to Listed entities being the second largest net seller. However, GPT (Listed) was a net purchaser over the quarter, expanding their ownership at Sydney's Darling Park (\$531m), and purchasing five Sydney industrial assets for \$212m.

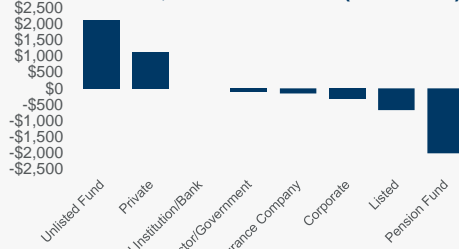
DEMAND OUTLOOK

Attractive yield spread to drive demand

The RBA has recently cut official cash rate twice to the record low of 1.00%, as at July. Australian Government 10 year bond rates are now approximately 1.3%, down 130bp over the year to July and as such, the yield spread to commercial property has widened. Additionally, the Australian dollar has weakened, making Australian commercial property relatively more attractive to foreign investors.

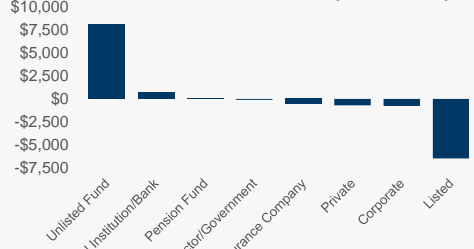
Both domestic and foreign sources of capital are expected to continue to drive demand for Australian property. Office and industrial markets are likely to be preferred due to ongoing strong fundamentals.

NET PURCHASING ACTIVITY, Q2 2019 (AUD m)



Source: Cushman & Wakefield

NET PURCHASING ACTIVITY, FY18/19 (AUD m)



Source: Cushman & Wakefield

FOREIGN INVESTMENT ACTIVITY BY NATION, FY2018/19

| COUNTRY | INVESTED (m) (FY17/18) | INVESTED (m) (FY18/19) | YoY Change | DIVESTED (m) (FY18/19) | NET INVESTMENT (m) (FY18/19) |
|-----------------------------|------------------------|------------------------|------------|------------------------|------------------------------|
| International/Multinational | 857 | 3,546 | 314% | 1,883 | 1,663 |
| Canada | 295 | 3,400 | 1052% | 3,047 | 353 |
| Singapore | 4,038 | 3,039 | -25% | 836 | 2,203 |
| China | 2,166 | 2,067 | -5% | 485 | 1,582 |
| United Kingdom | 119 | 2,049 | 1620% | 174 | 1,875 |
| Hong Kong | 916 | 1,525 | 66% | 491 | 1,035 |
| United States | 1,010 | 1,181 | 17% | 554 | 628 |

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CRE RETURNS

Strong demand for office and industrial property

The high levels of transaction activity, particularly for office and industrial property have reflected strong investors demand and, as a result, yields or income returns have been compressed. MSCI reported income yields for the three main commercial real estate sectors declined in the year to Q1 2019 by an average of 34 basis points. Over that period, industrial income returns had the sharpest decline of 45bp. Despite the declines, at an average of 5.4%, property yields are still relatively attractive compared to bonds.

Retail capital returns now negative

Capital return growth has continued to highlight divergences between the sectors. The Q1 2019 MSCI data showed that even though office and industrial returns were supported by strong investment demand the rate of capital growth in each is slowing. Office was down from 7.9% to 7.2% from Q4 2018 to Q1 2019, while industrial was down from 8.1% to 7.4% over the same period.

For the first time since June 2010 retail capital returns were negative, recording growth of -0.2%.

Industrial property continued to achieve the strongest returns

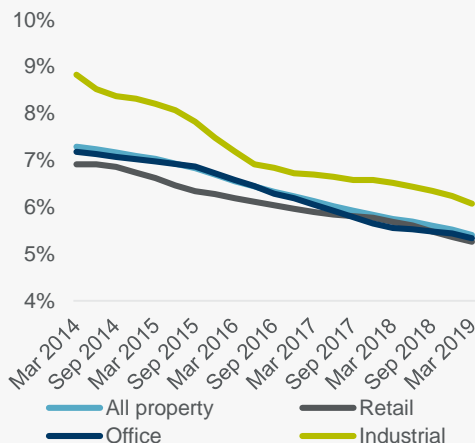
Total returns for the three main Australian commercial real estate sectors averaged 9.5%, down from 11.5% in Q1 2018. Industrial property achieved the strongest growth with a total return of 13.8%, eclipsing the 12.9% office return and 5.1% retail return. Return rates in all three sectors are now declining.

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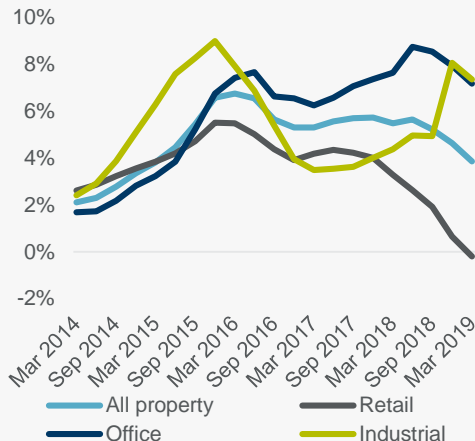
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INCOME RETURNS



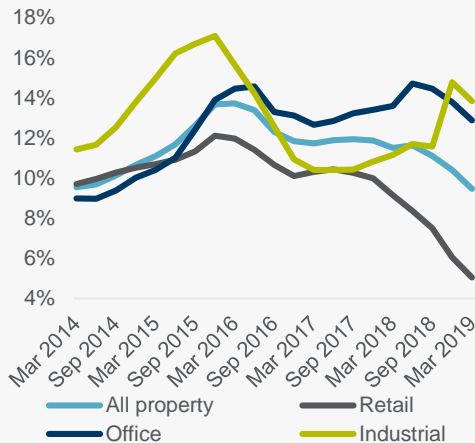
Source: MSCI/IPD Q1 2019

CAPITAL RETURNS



Source: MSCI/IPD Q1 2019

TOTAL RETURNS



Source: MSCI/IPD Q1 2019



SIGNIFICANT TRANSACTIONS, Q2 2019

| PROPERTY | LOCATION | PURCHASER | VENDOR | SECTOR | PRICE |
|--|----------|---|---------------------------------------|--------------|---------|
| 77-85 Castlereagh, 100 Market St, Sydney CBD | NSW | Blackstone | Scentre Group | Office | \$1,520 |
| 80 Collins Street Precinct, Melbourne CBD | VIC | Dexus/DWPF | QIC | Office/Hotel | \$1,476 |
| Westfield Burwood (50%) | NSW | Perron Group | Scentre Group | Retail | \$575 |
| The Zenith, Chatswood | NSW | Starwood/Arrow | Blackrock/Centuria | Office | \$438 |
| 100 Miller St, North Syd (50%) | NSW | Early Light | Cromwell | Office | \$300 |
| 21 Harris St, Pyrmont | NSW | Suntec REIT | Milligan Group | Office | \$297 |
| 111 Pacific Hwy, North Syd | NSW | Mapletree | Oxford Properties | Office | \$274 |
| Darling Park 2, Sydney CBD (25%) | NSW | GPT | Brookfield | Office | \$249 |
| Darling Park 1, Sydney CBD (25%) | NSW | GPT | Brookfield | Office | \$246 |
| 31 Queen Street, Melbourne CBD | VIC | AEW Capital | Challenger | Office | \$203 |
| 737 Bourke Street, Melbourne CBD | VIC | Charter Hall (PFA Diversified Property Trust) | Kumpulan Wang Persaraan Diperbadankan | Office | \$192 |
| 72 Queen Street, Brisbane CBD | QLD | Salter Brothers | Challenger Life | Hotel | \$150 |
| 99 Sandstone Place, Parkinson (50%) | QLD | DWS | Frasers Logistics Trust | Industrial | \$134 |
| 201 Charlotte Street, Brisbane CBD | QLD | Kyko Group | Fortius obo BlackRock | Office | \$127 |
| 163-175 O'Riordan Street, Mascot | NSW | Cromwell Direct Property Fund | Goodman | Office | \$113 |
| 1 Eucalyptus Place, Eastern Creek | NSW | Swiss Re | Steinhoff | Industrial | \$100 |
| 16-18 Mort Street, Canberra | ACT | Charter Hall Long WALE REIT | Oxford Properties | Office | \$109 |
| 2 Asset Portfolio | NSW | GPT | Fitzpatrick Investments | Industrial | \$107 |
| 3 Asset Portfolio | NSW | GPT | AMP Capital | Industrial | \$105 |
| 30 Makerston Street, Brisbane CBD | QLD | Sentinel Property Group | Challenger Life | Office | \$103 |
| 40 Schneider Road, Eagle Farm | QLD | Charter Hall (Long WALE REIT+Education Trust) | Queensland Treasury Corporation | Industrial | \$103 |



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