

Commercial Property Cash-flow Masterclass

Asia Pacific Real Estate Trends 2019

Welcome to your Masterclass series.

With Melbourne and Sydney occupying two of the top three places in this year's Emerging Trends investor prospects survey, Australia remains the single most popular investment destination in the Asia Pacific.

Report Highlights 2019- PWC- p 19 to 22

Prime Office Rents Sydney & Melbourne

- In the first half of 2018, prime office rents in Sydney and Melbourne registered growth of 12.5 per cent and 10.7 per cent respectively over the same period in the previous year, representing Strong growth.
- The push several years ago by some larger tenants to decentralise by shifting a percentage of staff to suburban locations appears now to have ended—accounting firms and the “big four” banks have reversed their policy and reverted back to the central business district (CBD) after they encountered problems in attracting and retaining staff.
- Although yields in Australia continue to compress (into the low 4s for opportunistic and just under 5 per cent for portfolio deals, according to one locally based investor), they remain higher than those in other Asia Pacific gateways, further boosting the appeal for international investors.
- Finally, cap-rate “leakage” in the form of hefty tenant incentives that tend to distort the actual level of local yields, is also falling.

General Commercial Australia

- Although activity by Chinese buyers has ebbed in 2018 due to problems moving capital out of China, other foreign institutional buyers (especially American) have been happy to take their place.
- The result is that foreign buyers currently account for some 40 per cent of all transactions for prime assets in Australia.
- Why is Australia such a magnet for foreigners? It's that “we just tick the boxes for global mandates—the fact that Australia is triple rated ticks one box, and it's prime commercial, so that ticks another box.
- With so much capital targeting core assets in Sydney and Melbourne, other cities are now getting more attention. The appeal is limited, though, given the volatile nature of these markets. Both Perth and Brisbane currently have vacancy rates in

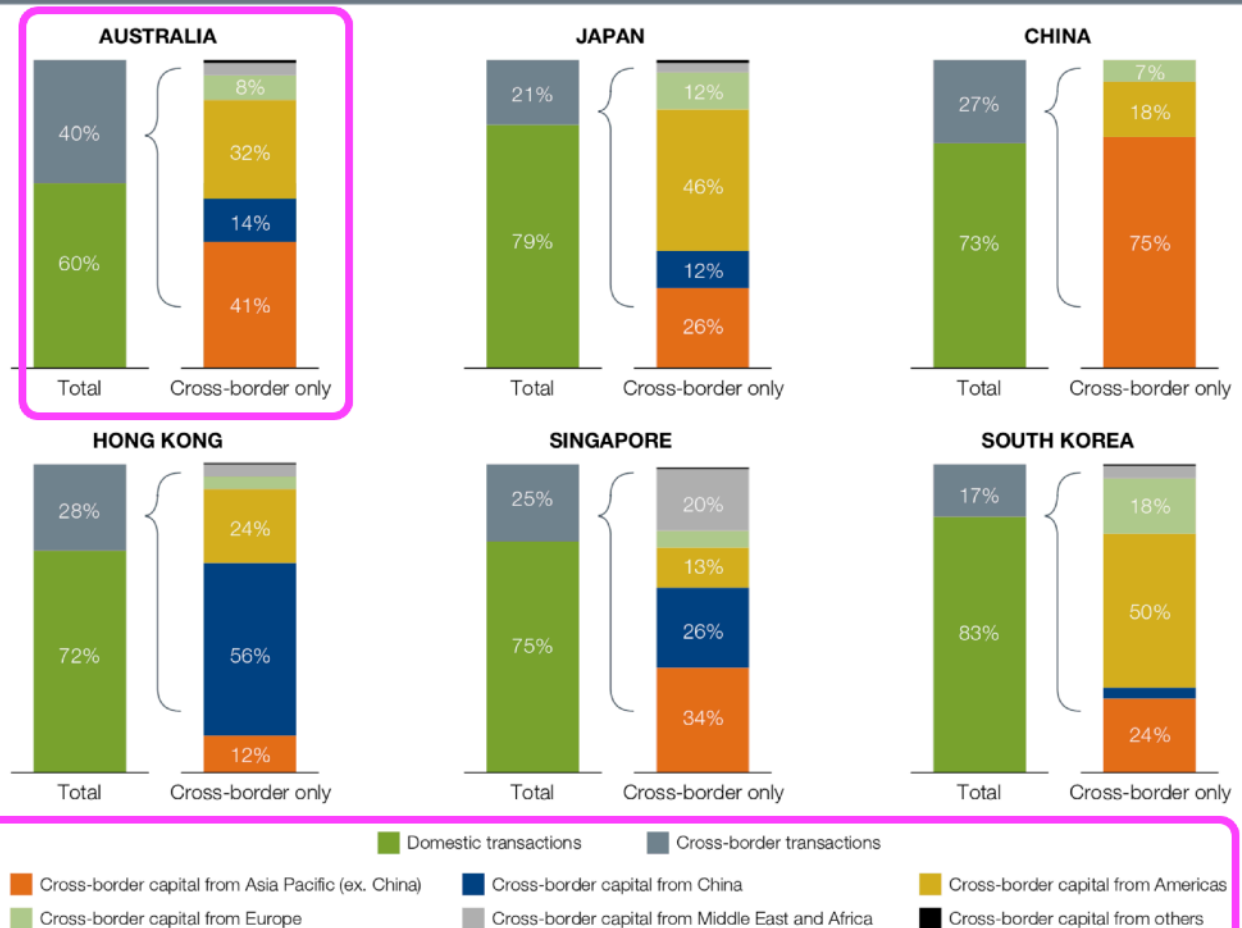
the 20 per cent range, and migration to these locations has also slowed dramatically.

- Investors are ... “looking for places to put their capital. But it’s pretty cautious capital in those markets [because] they tend to be more cyclical.”
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Cross Border Investing- Australia Compared to the other Asia Pacific Countries- p23 & p38 & p40 to 42

- Australia has the largest “cross Border Transactions” for commercial property out of the Asia Pacific region... comprising 40% of commercial sales.
- China leads these investments, followed by America and then Europe.
- Melbourne & Sydney among the top 5 city investment preferences

Exhibit 2-1 Transaction Volume by Buyer Profile (Average of 2012–1H 2018)



Note: Based on independent reports of income properties and portfolios, US\$10million or greater. Income properties include the following property types: apartment, office, retail, industrial, and hotel.

Source: Real Capital Analytics.

Exhibit 3-1 City Investment Prospects, 2019

■ Generally poor
 ■ Fair
 ■ Generally good

1	Melbourne	5.89
2	Singapore	5.88
3	Sydney	5.87
4	Tokyo	5.86
5	Osaka	5.70

for commercial
continues to improve
ket rebounds from
vs.

MELBOURNE

Offers a constrained office supply pipeline; a good yield spread over the cost of debt and sovereign bonds; a deep, liquid, core market; and good prospects for rental growth.

SYDNEY

Still a favourite of global investors due to relatively high returns and as a safe-haven play. Buyer competition helps sustain pricing, while low vacancies and growing demand suggest rents will continue to rise.

Property Types: Office p 51

- Office- rental growth has been stellar in Sydney and Melbourne, and while no one has called the top of the market, participants question how long that can go on.
- The resource-reliant markets of Perth and Brisbane share Singapore's counter-cyclical pattern, and have started to see foreign-backed deals pick up again.
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Property Types: Retail p 52

- Asia Pacific wide... The retail sector continues to be tough for landlords and the retailers themselves, as they try to adapt to tech-driven changes in shopping habits, such as e-commerce and mobile payments.
- Retail remains at the bottom of the preferred sector rankings and for 16 of the 22 cities. The percentage of sellers is higher than the percentage of buyers, more than for any other property sector.

Property Types: Industrial p 53

- Commentary is restricted to outside Australia
- The next move in logistics development will be away from large out-of-town distribution centres and towards smaller facilities nearer to or in the centres of cities, in order to satisfy demand for "last mile" delivery.