

An aerial photograph of Sydney, Australia, taken from a high angle. The Sydney Opera House is prominent in the foreground, situated on the water's edge. Behind it is a large green park area, and further back is the dense city skyline with numerous skyscrapers. The sun is low in the sky, creating a bright lens flare effect over the city.

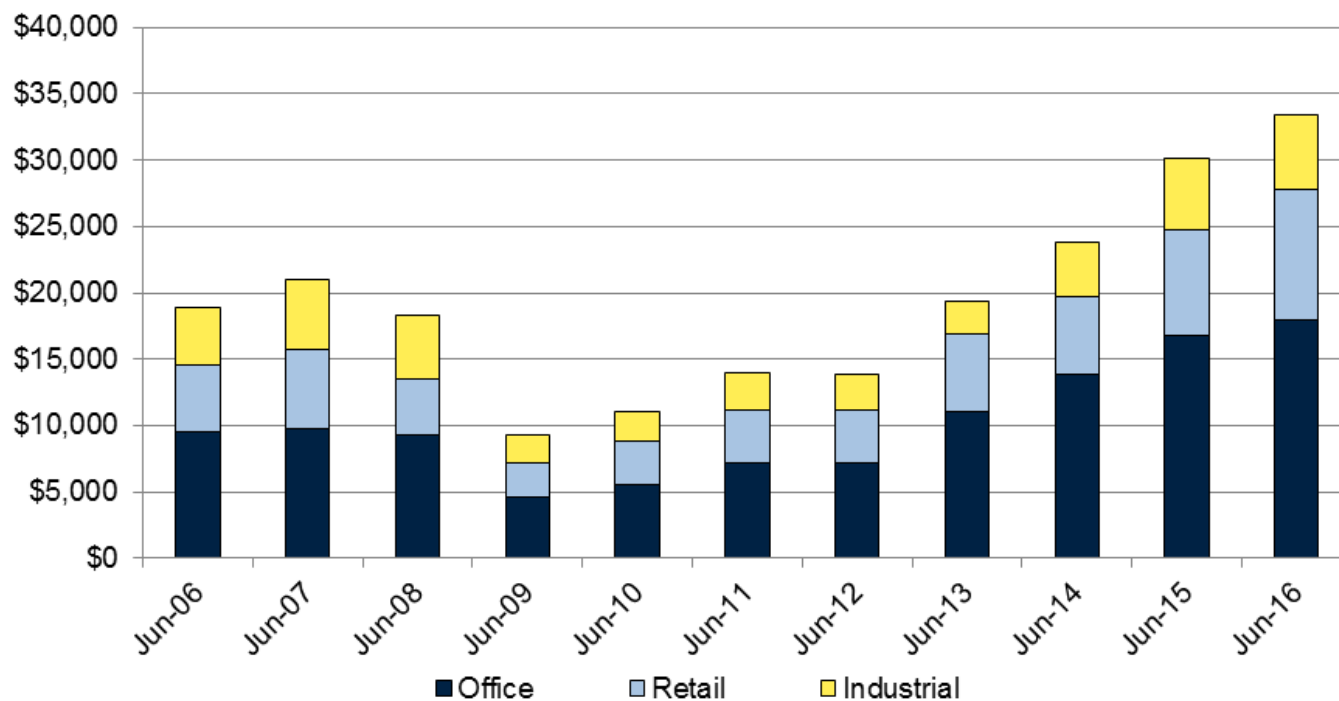
Current State of the Commercial Property Market

Simon Fenn
Managing Director – NSW
Savills Australia

August 2016

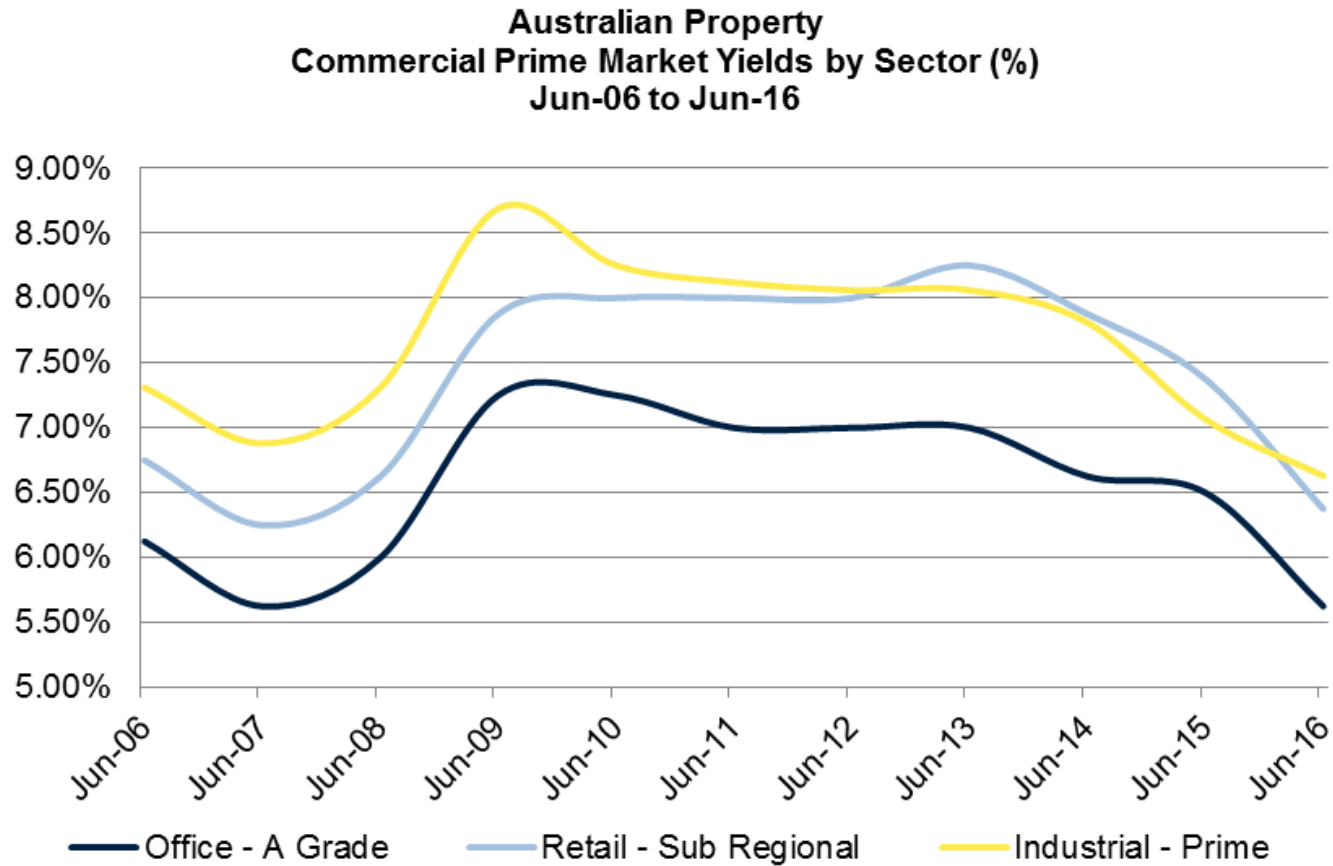
Commercial Sales Volume | Record year

**Australian Property
Commercial Property Sales by Sector (\$m)
Jun-06 to Jun-16**

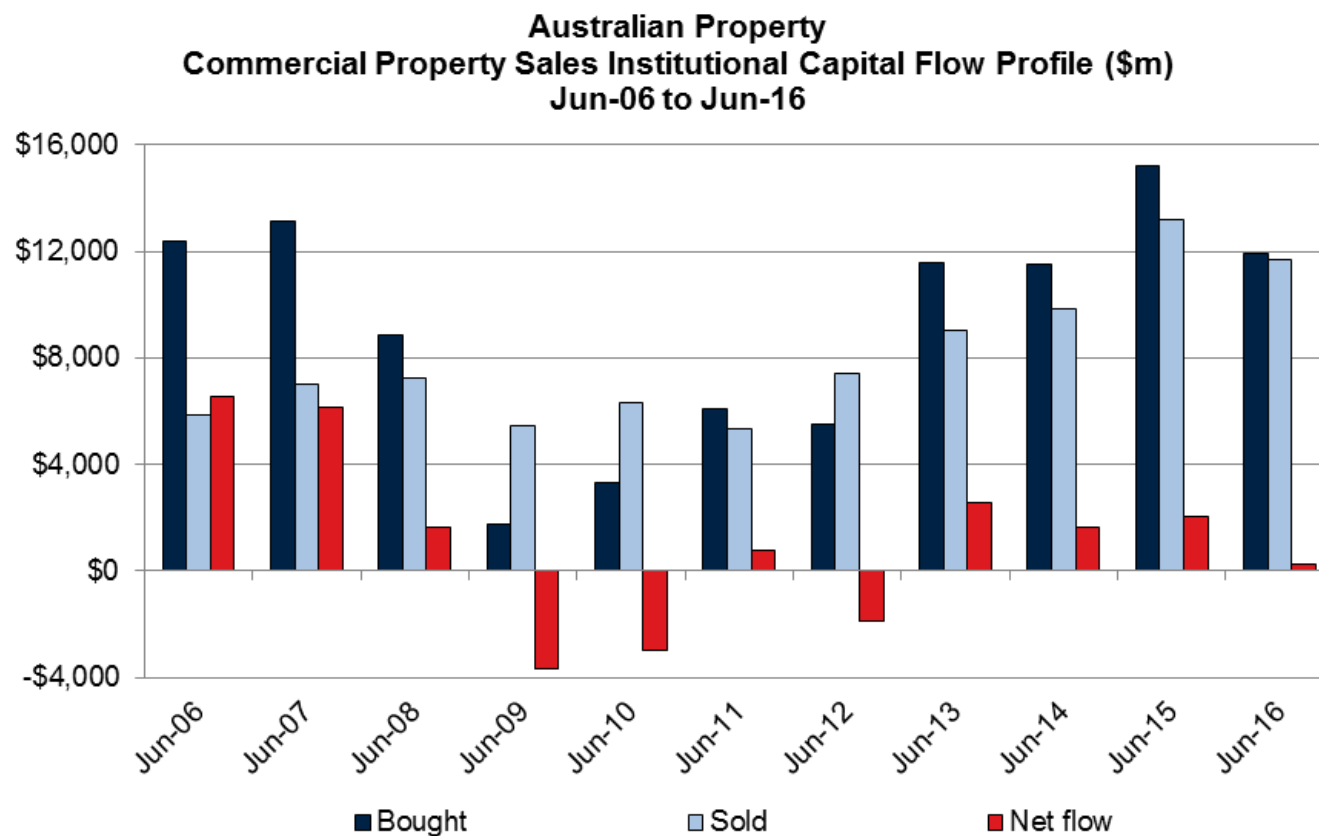


Source: Savills Research

Market Yields by Sector

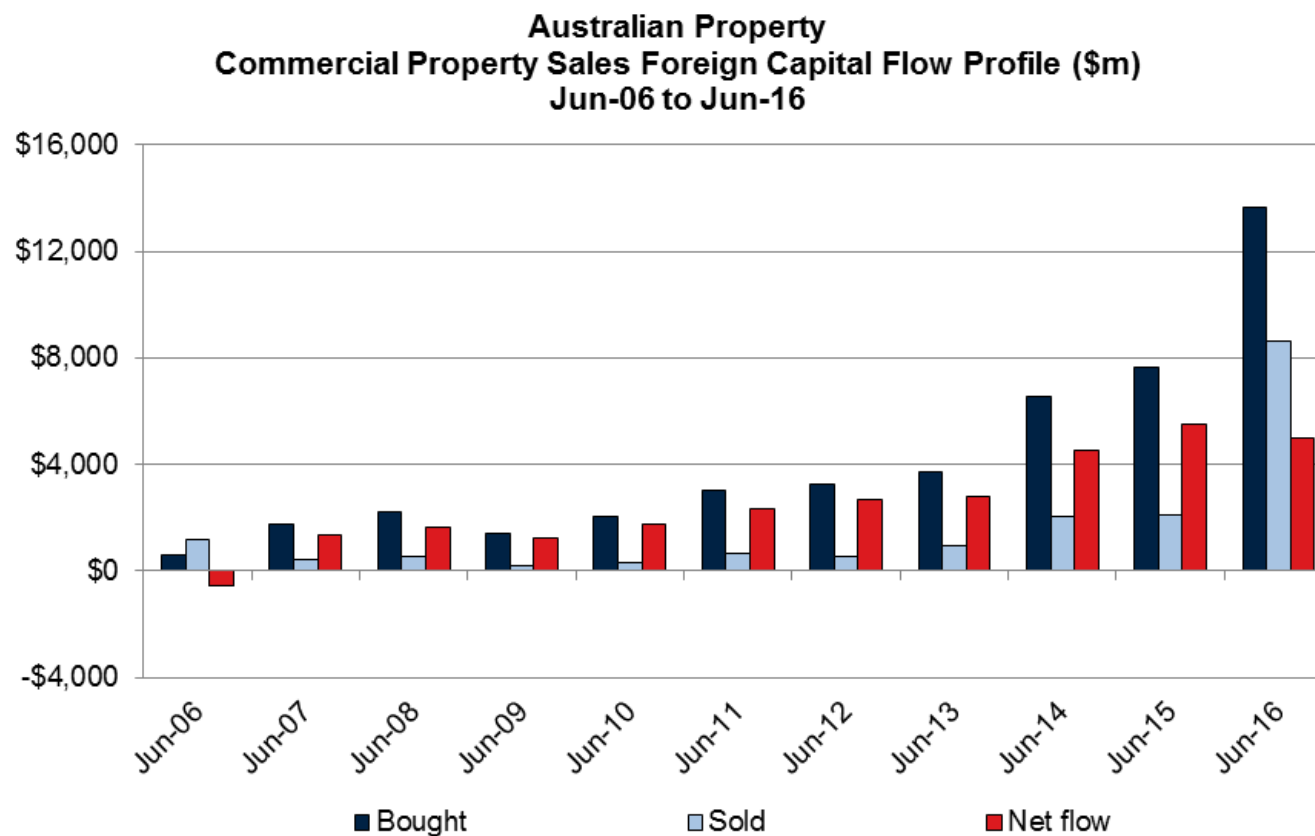


Capital Flow Trend | Institutions



Source: Savills Research

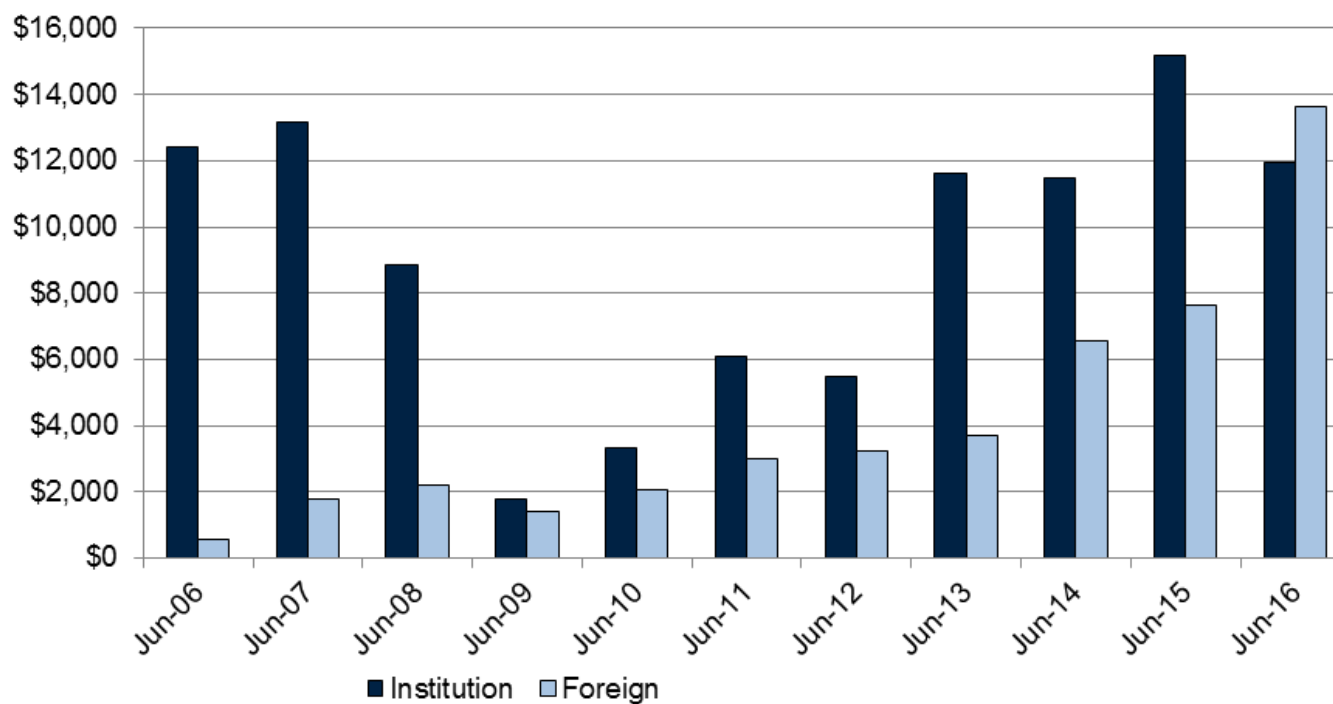
Capital Flow Trend | Foreign Investment



Source: Savills Research

Institution vs Foreign Investment

**Australian Property
Commercial Property Buyers Institution & Foreign (\$m)
Jun-06 to Jun-16**



Source: Savills Research

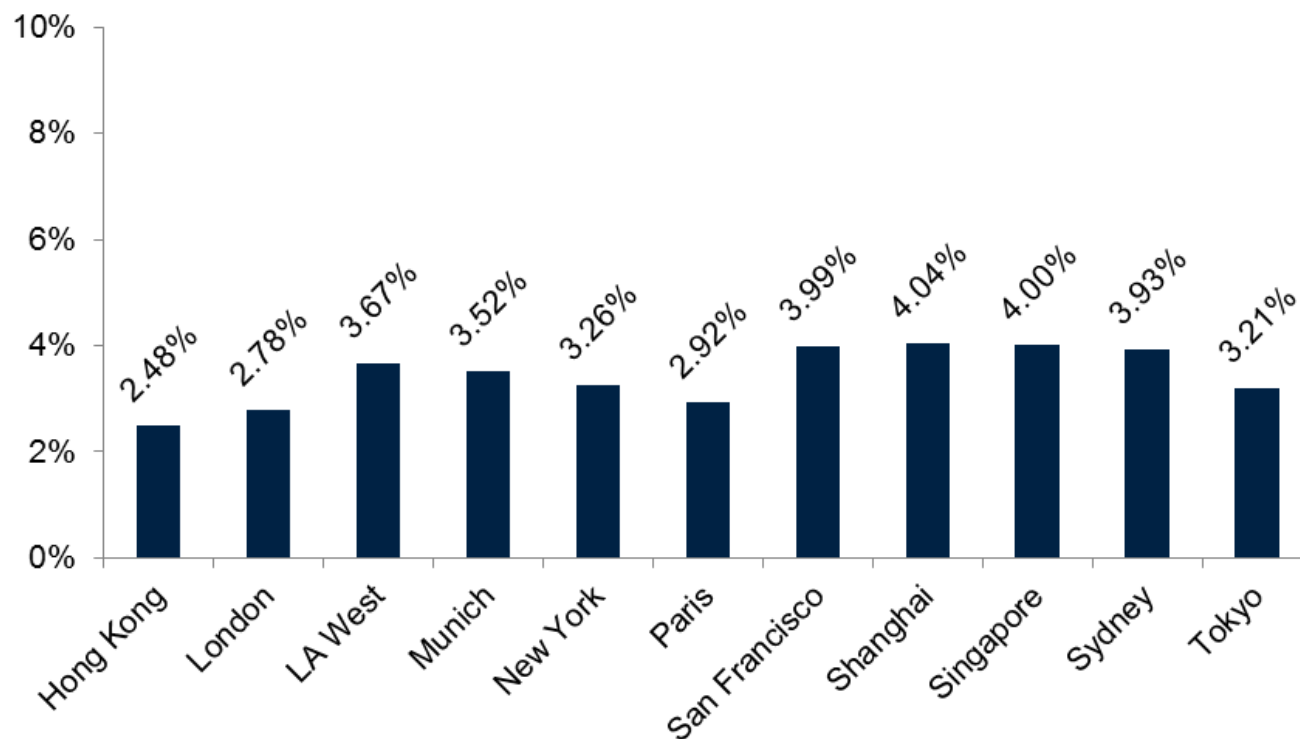
World Office Yield Comparison | Face



Source: Savills Research

World Office Yield Comparison | Effective

World Office
Top Cities CBD Grade A Effective Yields (%)
Jun-16



Source: Savills Research

Major Foreign Investments | Office

INVESTA 

Investa Portfolio
9 office buildings
\$2.45 billion

 中国投资有限责任公司
CHINA INVESTMENT CORPORATION

Brookfield

121 Exhibition St, Melbourne
\$675 million

Blackstone

Major Foreign Investments | Industrial



GIC & Frasers Portfolio
26 Industrial assets
\$1.1 billion



Goodman Portfolio
15 Industrial assets
\$640 million

Blackstone

Major Foreign Investments | Retail

SCENTRE GROUP

Owner and Operator of *Westfield* in Australia and New Zealand

Scentre Portfolio
3 x Sub Regionals
\$655.5 million



Vicinity Portfolio
2x Regionals & 1x Sub Regional
\$613.3 million

epc.Pacific.

Rundle Place & 80 Grenfell St
CBD Retail & Office
\$400 million

Blackstone

\$1.67 billion

Mergers / Acquisitions



Federation Centres & Novion
\$23 billion of Shopping Centres



GPT Metro Office Fund
6 Office assets
~\$315 million (ongoing)



JVs between Local Institutions & Foreign Investors



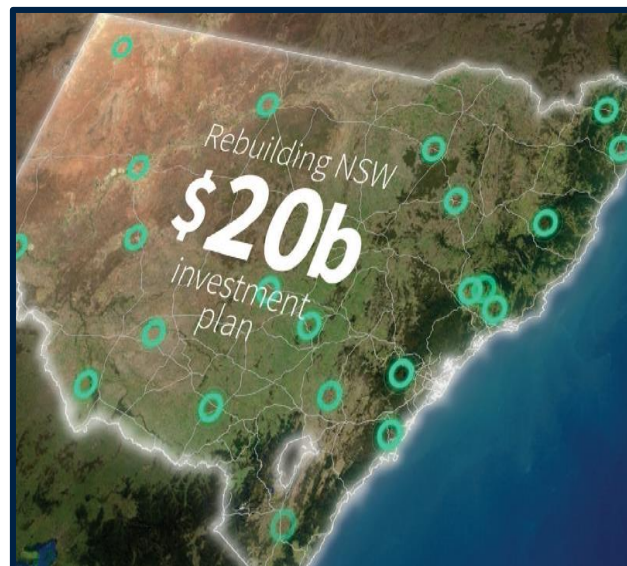
Key Comparisons

	2006	2011	2016
Office Yield	6.13%	7.00%	5.63%
Retail Yield	6.75%	8.00%	6.38%
Industrial Yield	7.31%	8.12%	6.63%

5 year yield	6.56%	6.49%	3.26%
RBA Cash Rate	5.75%	4.75%	1.50%
AUD/USD Rate	\$0.74	\$1.07	\$0.77

Volume of Sales (\$b)	\$18.83	\$13.99	\$33.44
Foreign Purchases	3.04%	21.47%	40.77%

NSW State Infrastructure Strategy



Source: NSW Government

Resource allocation				
Sector	Project	Reservation	Regional NSW	Funding from
Urban public transport	Sydney Rapid Transit	\$7,000m		2016-17
	Sydney's Rail Future 2 Upgrades	\$1,000m		2015-16
	Parramatta Light Rail	\$600m		2017-18
	Bus Rapid Transit and Bus Priority Infrastructure	\$300m		2016-17
	Subtotal	\$8,900m		
Urban roads	WestConnex northern and southern extensions; Western Harbour Tunnel	\$1,100m		2015-16
	Pinch Points & Clearways	\$400m		2015-16
	Smart Motorways	\$400m		2015-16
	Gateway to the South	\$300m		2015-16
	Traffic Management Upgrades	\$200m		2015-16
	Subtotal	\$2,400m		2015-16
Regional Transport	Regional Road Freight Corridor	\$2,000m	\$2000m	2015-16
	Regional Growth Roads	\$1,000m	\$1,000m	2015-16
	Fixing Country Roads	\$500m	\$500m	2015-16
	Fixing Country Rail	\$400m	\$400m	2018-19
	Bridges for the Bush	\$200m	\$200m	2015-16
	Subtotal	\$4,100m		
Water security	Regional Water Security and Supply Fund	\$1,000m		2017-18
Education	Future Focused Schools	\$700m		2016-17
	Regional Schools Renewal program	\$300m		2016-17
	Subtotal	\$1,000m		
Health	Hospitals Growth Program	\$600m		2018-19
	Regional Multipurpose Facilities	\$300m		2015-16
	Care Co-location Program	\$100m		2016-17
	Subtotal	\$1,000m		
Culture & Sport	Culture and Arts	\$600m		2017-18
	Sports Stadia	\$600m		2017-18
	Regional Environment and Tourism Fund	\$300m	\$300m	2017-18
	Subtotal	\$1,500m		
Other opportunities	Corridor Identification and Reservation	\$100m		2016-17
TOTAL		\$20,000m	\$6,000m	

Sydney Major Projects “Sydney Metro Rail”



Australia’s largest public transport project

- Dedicated rail line - two key sections
- Two \$8bn stages proposed
- Several CBD stations such as Barangaroo, Martin Place and Pitt Street
- Stage One forecast for completion 2019
Stage Two forecast for completion 2024



Sydney Major Projects “Light Rail”

- Extension to Inner West Light Rail (2012)
- \$1.6b CBD and south east rail – completion forecast 2020

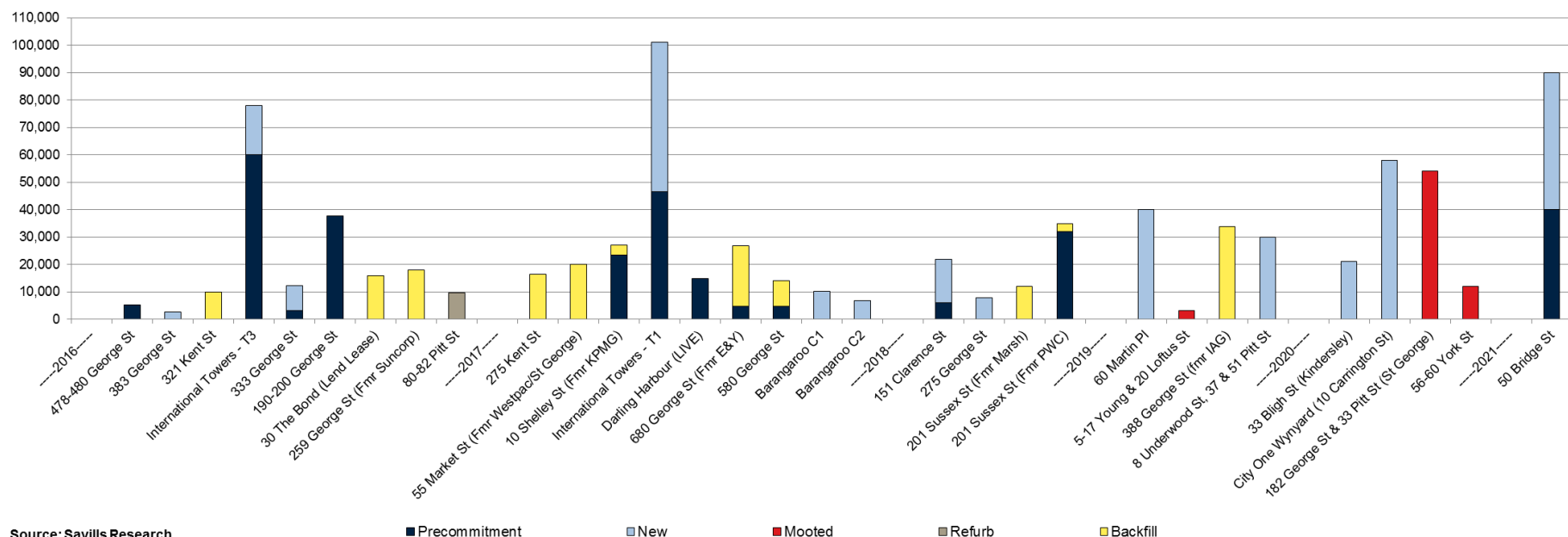


Sydney CBD Precinct Overview



July-16	Stock (sq m)	Vacancy (%)	12-month net absorption (sq m)
Sydney total market	5.08m	5.6% (0.7% sub-lease)	147,245
Sydney market A grade	1.8m	4%	12,889
Sydney market B grade	1.5m	3.5%	(-43,367)
Midtown A grade	0.4m	3.8%	11,509
Midtown B grade	0.4m	3%	4,294
Core A grade	0.7m	3.1%	42,737
Core B grade	0.6m	3.8%	(-40,141)
Western A grade	0.5m	2.8%	(-22,644)
Western B grade	0.3m	2.3%	(-12,041)
Southern A grade	0.1m	1.1%	437
Southern B grade	0.1m	1.5%	1,672
The Rocks A grade	-	-	-
The Rocks B grade	0.03m	16%	5,112
Walsh Bay A grade	0.05m	40.5%	(-19,150)
Walsh Bay B grade	0.01m	21.4%	(-2,263)

Sydney CBD Supply pipeline



Source: Savills Research

■ Precommitment

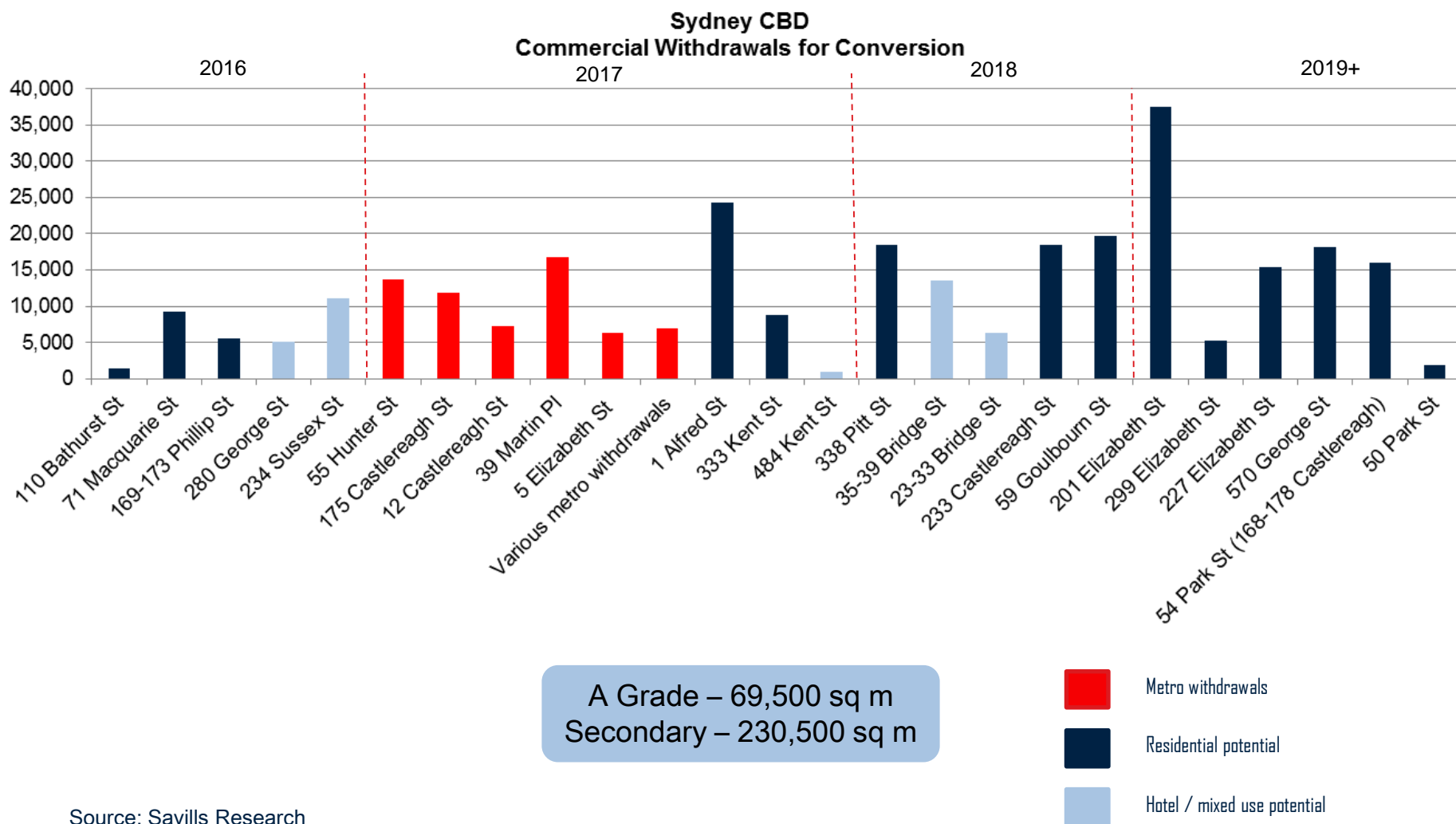
■ New

■ Mooted

■ Refurb

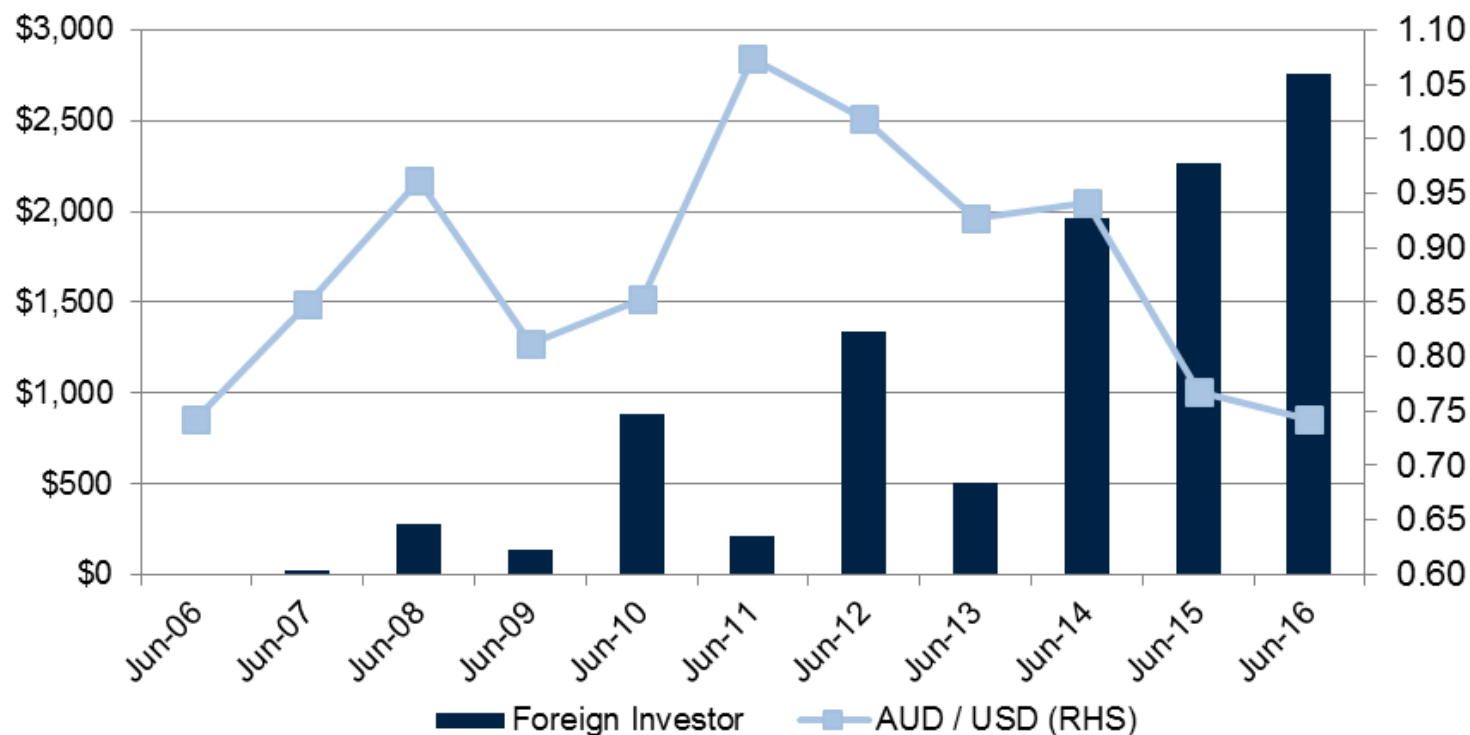
■ Backfill

Sydney CBD Forecast Withdrawals



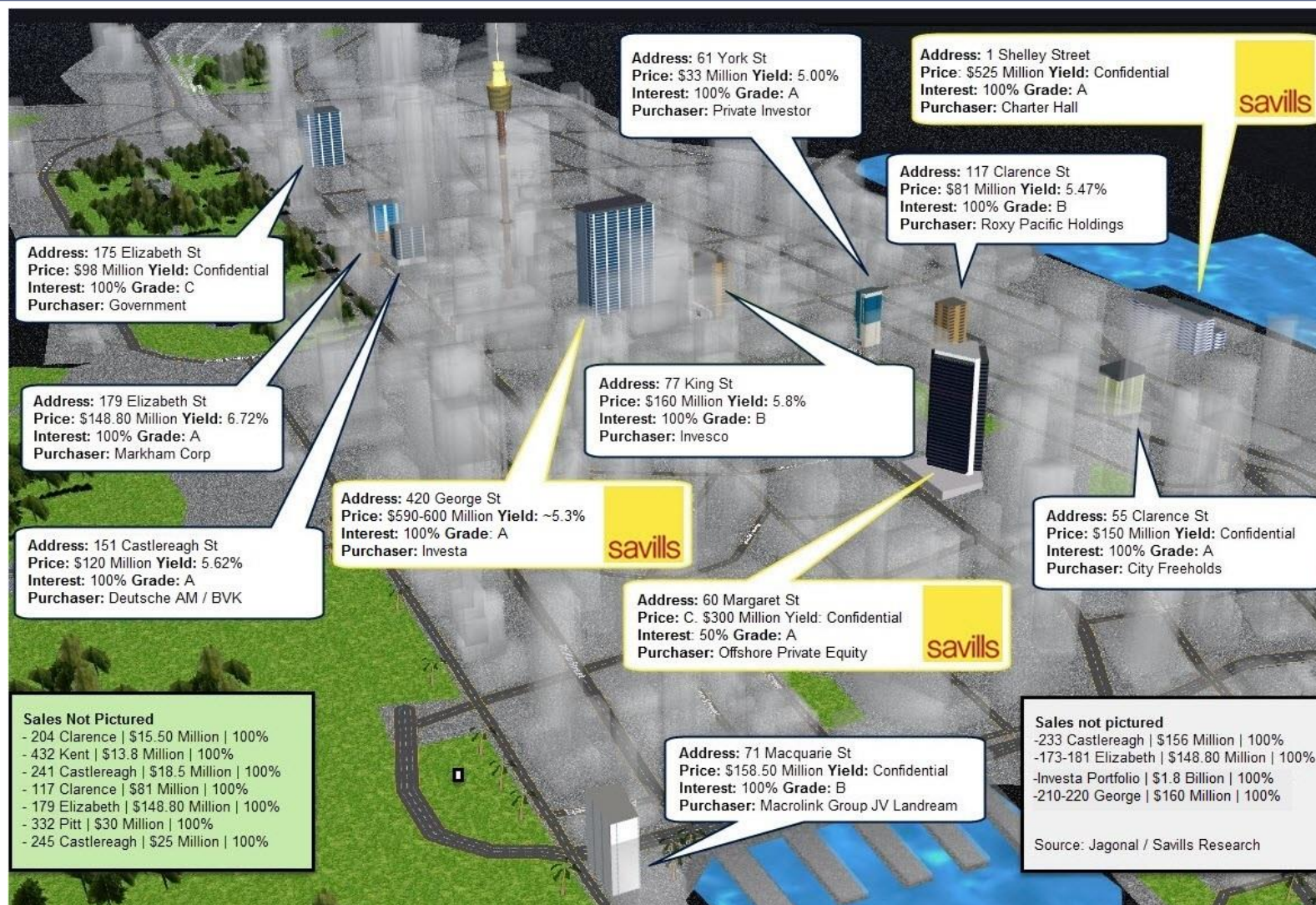
Sydney CBD Investment Sales

Sydney Office
CBD Office Sales to Foreign Investors
Compared to AUD / USD Exch Rate
(>\$5m) Jun-06 to Jun-16



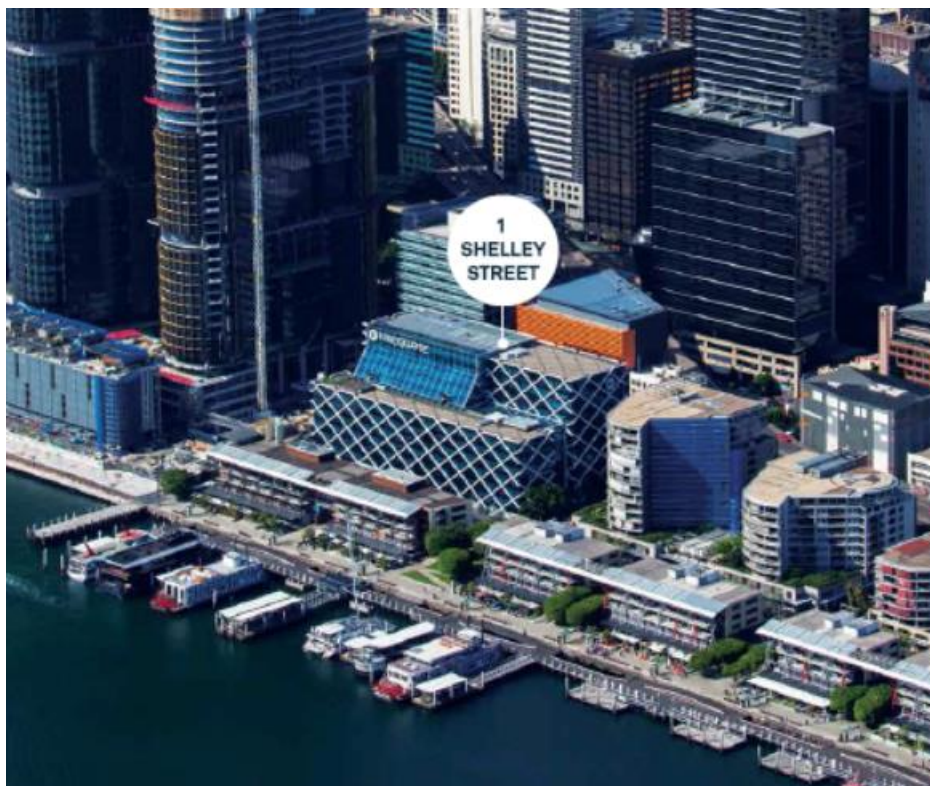
Source: Savills Research

Sydney CBD Sales



Sydney CBD Sales | One Shelley St

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Vendor	Brookfield
Purchaser	Charter Hall
Direction of Capital	Australia > Australia
Interest	100%
Sale Price	\$525,000,000
Sale Date	May 2016
Site Area	3,372sq m
Net Lettable Area	32,986sq m
WALE	7.75 years
Passing Yield	5.25%
Value \$ per sq m	\$15,916
Occupancy	100%
Car Parking	268 Car Spaces

Sydney CBD Sales | 420 George St



Source: Savills

Vendor	Fortius Funds Management (75%) Lendlease (25%)
Purchaser	Investa Commercial Property Fund (ICPF)
Direction of Capital	Australia > Australia
Interest	100%
Sale Price	C. \$600,000,000
Sale Date	April 2016
Site Area	4,401sq m
Net Lettable Area	37,688sq m
WALE	6 years
Passing Yield	5.3%
Value \$ per sq m	\$15,655
Occupancy	100%
Car Parking	64 Car Spaces

Milsons Point Sale | 52 Alfred Street



Vendor	Bridgehill Group
Purchaser	Offshore Chinese Investor
Direction of Capital	China > China
Interest	100%
Sale Price	\$130,000,000
Sale Date	July 2016
Site Area	2,711sq m
Net Lettable Area	9,998sq m
WALE	3.64 years
Passing Yield	5.05%
Value \$ per sq m	\$13,003
Occupancy	100%
Car Parking	176 Car Spaces

Additional Comments:

The property has traded three times in the last 6 years:

2010 - \$51,000,000

2014 - \$77,950,000

2016 - \$130,000,000

Live Case Study | 28 O'Connell St



Source: Savills

Vendor	Chubb Insurance
Purchaser	TBA
Interest	100%
Sale Price	Currently on Market
Net Lettable Area	6,109sq m
WALE	1.2 years (2.7% with Chubb)
Occupancy	87% (33% without Chubb)
Car Parking	41 Car Spaces

Description

A commercial office building completed in 1974. The building comprises basement car parking, ground floor retail and entrance lobby, together with 13 upper levels of office accommodation.

Outlook | Yields to get sharper

- Demand to remain high – further yield compression
- Stock tighten
- Continue to see foreign investment
 - Partnerships
 - Unlisted/wholesale funds
- Groups will continue to re-weight their portfolio's

A large, stylized version of the Savills logo, featuring the word "savills" in red lowercase letters on a solid yellow rectangular background.

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