April 2018

Office Investment Review and Outlook Report

Contents

Executive Summary

- **2017 was the third highest year on record:** A diverse range of office product was offered to the market in 2017 and multiple capital sources with varying degrees of risk tolerance were competitive for these assets. Transaction volumes reached AUD 16.2 billion in 2017, 11.8% higher than 2016 and the third highest on record.

- **New sources of capital emerged in 2017:** Offshore investors acquired AUD 8.3 billion of product, accounting for 51.1% of transaction volumes by value. While Singaporean, Hong Kong and US investors were the most active in 2017, we believe that Mitsubishi Estate represents the first wave of Japanese investment into the Australian office sector.

- **Office market vacancy rate trends lower in 2017:** The physical market recovery gathered momentum in 2017. The national CBD office market vacancy rate tightened by 1.5 percentage points to 9.9% over the 12 months to 1Q18. However, the market-by-market divergence remained wide. The Sydney CBD vacancy rate compressed to the lowest level since 2001, while the Perth CBD vacancy rate remained elevated at 21.4%.

- **Positive rent reversion in Sydney and Melbourne:** Prime net effective rents in the Sydney CBD increased by 26.0% in 2017, while the Melbourne CBD increased by 13.4% over the same time period. The sharp escalation in rents has resulted in investors factoring in significant reversion in pricing models.

- **Tangible signs of recovery in Brisbane and Perth:** The Brisbane CBD leasing market recovery gathered momentum in 2017 with net absorption of 33,200 sqm and prime grade vacancy moving down to 8.5%. The Perth CBD has lagged Brisbane, but positive net absorption of 41,800 sqm was recorded in 2017 – 2.4 times higher than the 25 year average.

- **Higher allocations to real assets remains a relevant theme:** The Australian office sector is the beneficiary of two major investment themes – higher allocations to real assets and higher allocations to Asia Pacific. A survey of institutional investors by Cornell University revealed that real estate allocations were 8.9% in 2013 and are expected to increase to 10.3% in 2018.

- **Investment mandates have to be satisfied in 2018:** We took an exercise to assess the depth of the investment market. For major campaigns in excess of AUD 100 million in 2017, we estimate there was AUD 6.3 dollars of capital for every AUD 1.0 of product.

- **Return expectations have shifted lower:** In a low interest rate environment, investors have lowered their return expectations for risk assets. The expectation of a partial mean reversion in bond yields will impact asset pricing models. However, the medium-term projection for the Australian Government 10 year bond rate is 4.07% in 2021, well below the average (5.62%) over the 2000 to 2010 period. Assuming the risk premium for the Australian office sector is unchanged, return expectations should be 155 basis points lower than previous benchmarks.

What were the key observations from 2017?

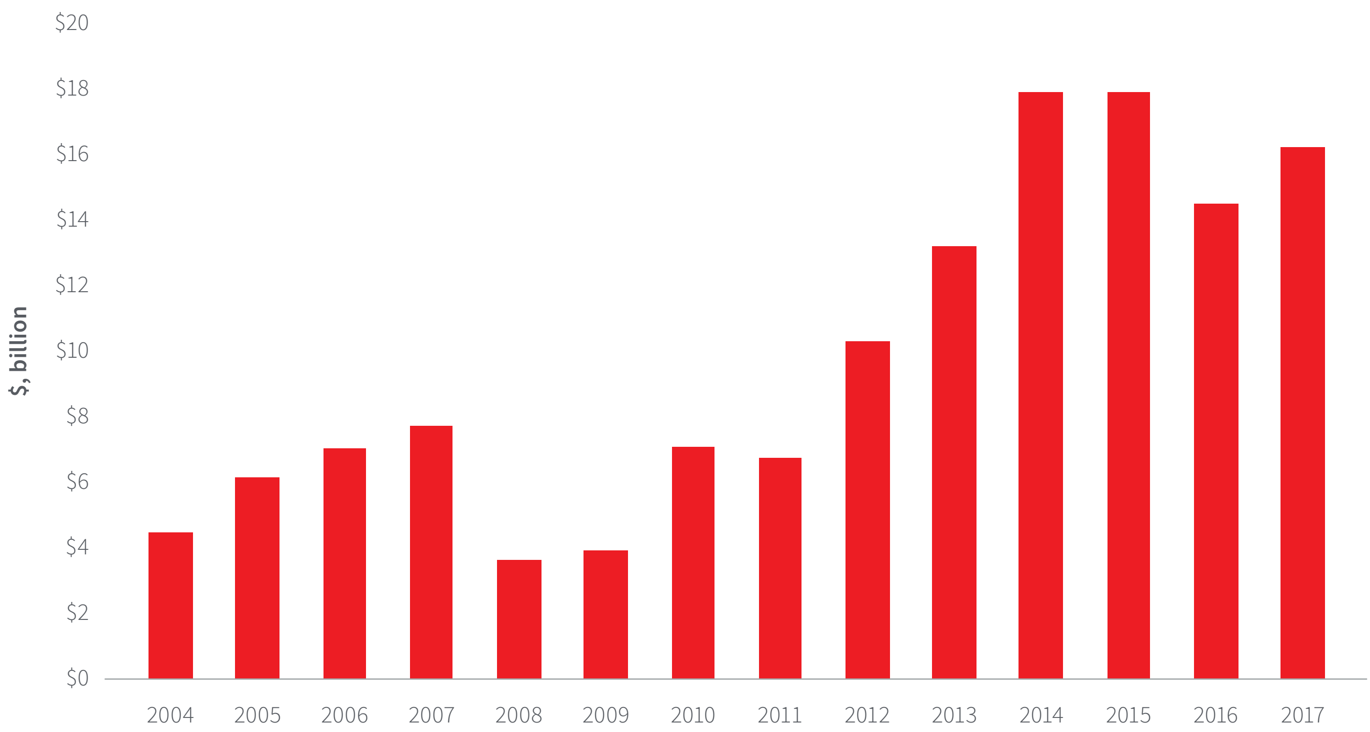
We recorded AUD 16.2 billion worth of office transaction volumes in 2017, an increase of 11.8% over 2016. The Australian office sector is characterised by high levels of liquidity and multiple capital sources competing for assets. Since 2012, approximately AUD 90 billion worth of office product has traded and 2017 was the third highest year on record (Figure 1).

Offshore investors remain active participants in Australia and accounted for AUD 8.3 billion or 51.1% of transactions by value in 2017. New sources of capital emerged in 2017 with Mitsubishi Estate (through CLSA) representing the first wave of Japanese capital seeking exposure to the Australian office sector. However, the most active offshore buyers in 2017 were from: Singapore (18.2%), Hong Kong (7.1%) and the US (8.5%). The net capital flow (inflow minus outflows) into the Australian office sector from 2012 to 2017 is AUD 24.2 billion.

To put this figure in context, we estimate the market value of the 19 monitored office markets in Australia is approximately AUD 260 billion.

As we highlighted last year, investment flows are occurring on both the acquisition and divestment side of the ledger and this theme has remained relevant. 2017 was a record year for offshore divestment. Strong activity on both sides of the ledger partly highlights the divergent outlook for asset values in Australia. However, the divestment rationale varied by capital source. Some investors looked to crystalise capital value gains from assets acquired over the 2012 to 2014 period, a number of capital sources traded into counter-cyclical opportunities in recovering Australian office markets, while Brookfield took the opportunity to de-risk their development pipeline and sell down part shares in Wynyard Place.

Figure 1: Australian office market transaction volumes



Source: JLL Research

Almost 55% of transactions occurred across Sydney office markets

The Sydney CBD is the largest and deepest office investment market in Australia. We estimate the market value of the Sydney CBD is AUD 95 billion and the combined market value of the ten monitored Sydney office markets is AUD 133 billion. Availability of Sydney CBD product and the prospect of positive income reversion resulted in almost 55% of 2017 transactions occurring across Sydney office markets.

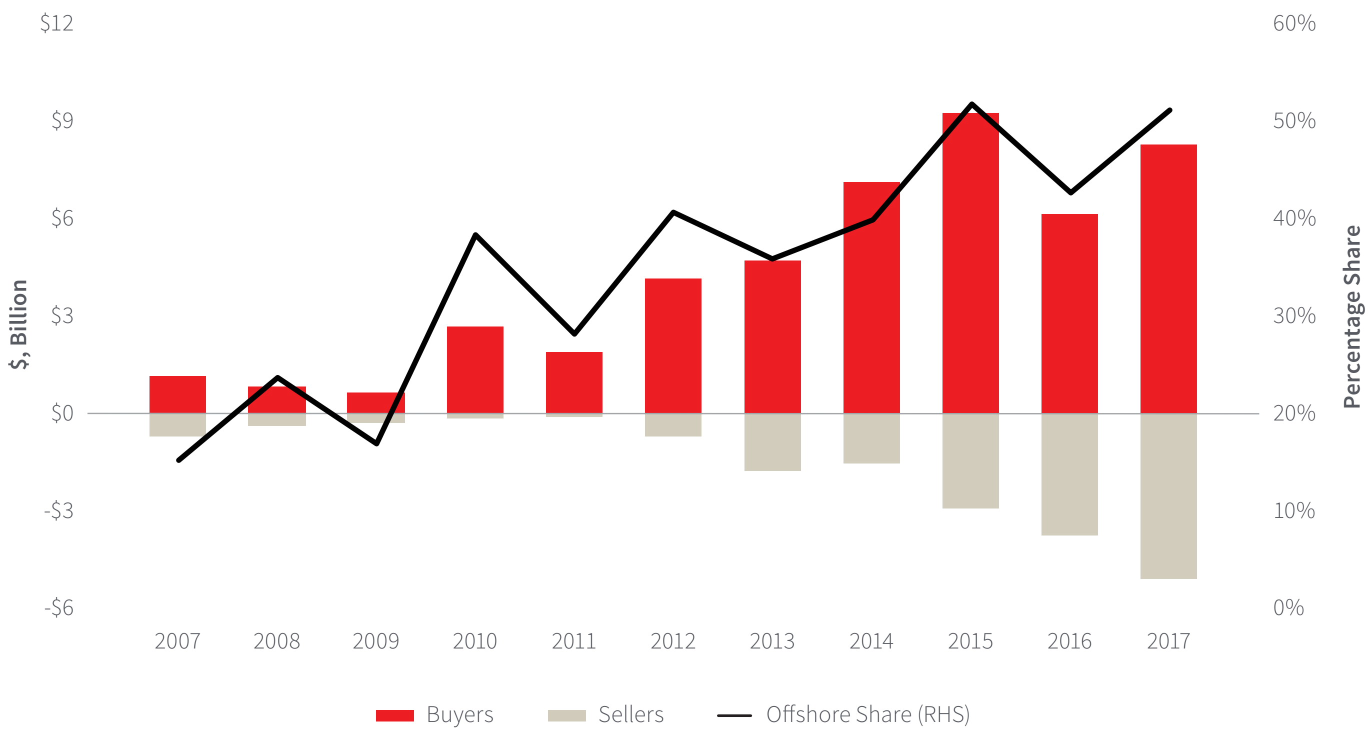
Prime net effective rents have now increased by 54.3% in the Sydney CBD over the past two years. Offshore capital sources are considered to be the marginal buyer for core assets, but the ability to price the Sydney rental growth story resulted in domestic investors being more competitive for Sydney CBD product in 2017. DXS and DWPF acquired a 50% stake in the MLC Centre for AUD 722.5 million, while AWOF (25%) and UniSuper (24.9%) purchased part shares in Wynyard Place.

Offshore investors attracted to the Melbourne CBD

A number of offshore capital sources are agnostic to prime grade investment opportunities in Sydney and Melbourne. Part of the explanation is the high degree of correlation between the two markets with our analysis showing a 0.85 correlation in annualized total returns from 2005 to 2017. Investors with a mandate for modern assets have a more diverse range of product in Melbourne with 19.5% of Melbourne's office stock less than 10 years old compared with 14.9% in the Sydney CBD.

S-REITs were active in Melbourne with Suntec REIT acquiring a 50% stake in 447 Collins Street for AUD 414.17 million and K-REIT increasing their exposure to the Melbourne CBD through the purchase of a 50% share in 313 Spencer Street for AUD 347.8 million. Swiss RE (through AMP) made their first acquisition in Australia with the acquisition of 469 LaTrobe Street for AUD 158.15 million.

Figure 2: Offshore buyer and seller activity



Source: JLL Research

Counter-cyclical investment activity increases in Perth

Most investors adopted a cautious approach to Perth over 2014 to 2016. Uncertainty around market rent levels led to a divergence in buyer and vendor pricing expectations and low levels of transaction activity. However, the leasing market started to recover with net absorption of 41,800 sqm recorded in 2017 – well above the 25 year average of 17,700 sqm. Furthermore, effective rents have reached the cyclical low and the growth prospects for well positioned prime grade assets have firmed.

Liquidity returned to the Perth CBD in 2017 with significant transactions providing new benchmarks. GIC Real Estate has adopted a counter-cyclical view of investment into the Australian office sector and awarded a mandate to Charter Hall and PrimeWest for acquisitions in Perth and Brisbane. The purchase of the Quadrant at 1 William Street for AUD 175.0 million was the first acquisition for this investment strategy.

Increased confidence in Brisbane's medium-term outlook

The Queensland economic recovery is more advanced than Western Australia and the Brisbane CBD office market has recorded 110,200 sqm of positive net absorption from 1Q15 to 4Q17. Deloitte Access Economics project the Queensland economy will grow by an average of 3.5% per annum from 2018 to 2022.

A more diverse range of capital sources are becoming confident in the medium-term Brisbane CBD outlook with Alpha Investment Partners, Deutsche Asset Management, Goldman Sachs and GIC Real Estate all subscribing to the Brisbane recovery story.

Adelaide has re-emerged on the international investment landscape

Investment into Adelaide by Blackstone, Credit Suisse and AEP Investments in 2017 has propelled Adelaide onto the international investment radar. One of the key concerns for investors is the perceived lack of depth in the Adelaide market and liquidity issues. However, our analysis of liquidity- which adjusts for market size – highlights that Adelaide is one of the most liquid office markets from 2000 to 2017. Through the cycle liquidity provides a level of confidence in being able to execute an exit strategy.

Diversification is a large part of the investment rationale for Canberra

Canberra has become a more relevant investment destination as risk averse investors seek exposure to markets with strong covenants and stable cash flows. The acquisition of 50 Marcus Clarke Street for AUD 321 million by Mirae Asset Global Investments was a further sign that global investors are willing to commit significant amounts of capital to Canberra. Domestic investors with a national focus are also investigating the potential of having a tactical exposure to Canberra. Diversification occurs between lowly correlated or uncorrelated geographies or sectors and investment returns in Canberra are lowly correlated with other Australian office markets.

Transaction evidence provided support for yield compression in 2017 and new pricing benchmarks in a number of markets. Our area-weighted average prime equivalent yield compressed by 42 basis points in 2017 to 5.73%. We have now recorded 206 basis points of yield compression for prime grade assets between 3Q09 and 4Q17. While all monitored office markets have recorded yield compression over this time period, the headline rate of compression hides the market-by-market movements. Figures 3 and 4 shows current prime and secondary yields across all monitored office markets.

Figure 3: Australian CBD office markets prime and secondary equivalent yields

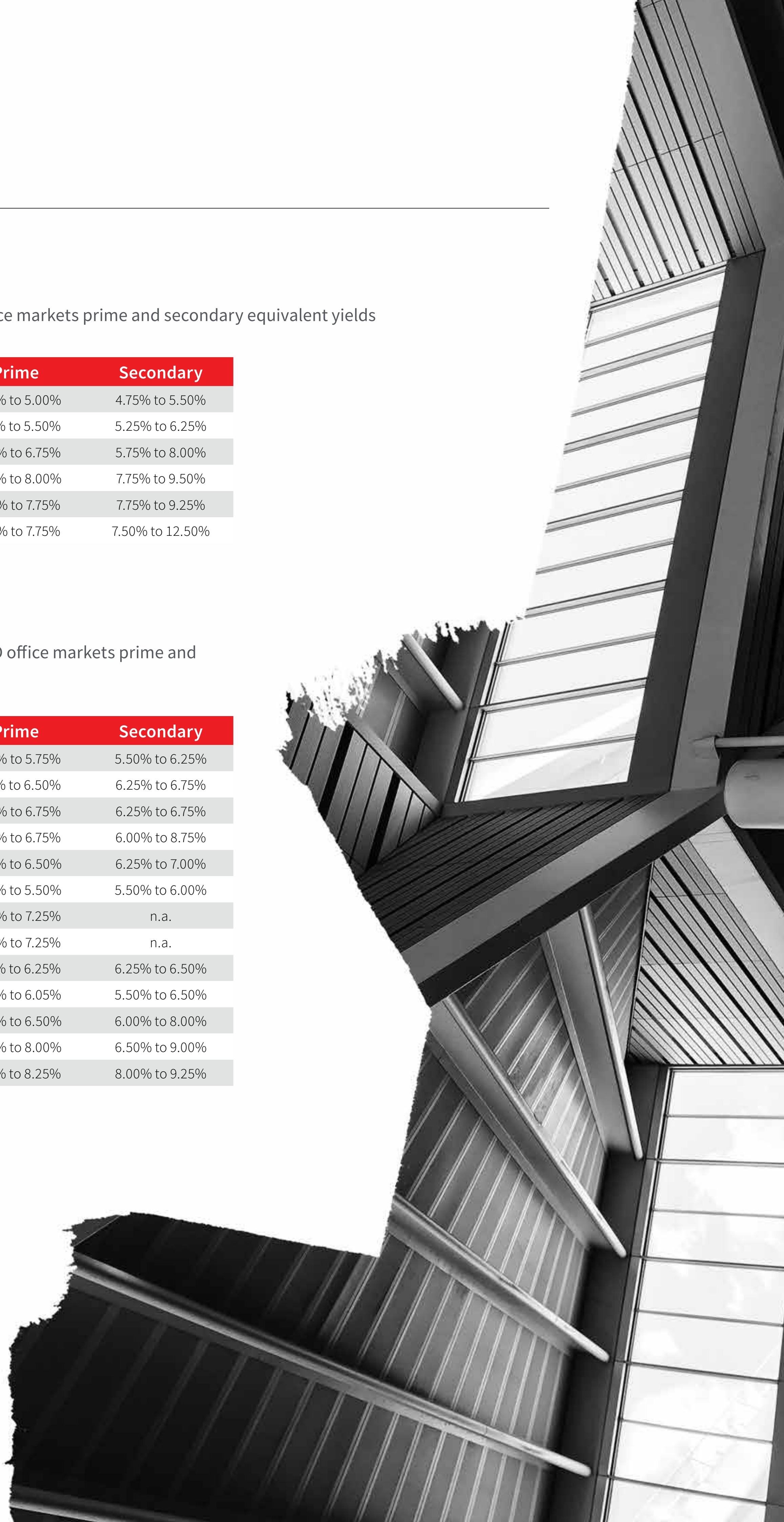
Market	Prime	Secondary
Sydney CBD	4.63% to 5.00%	4.75% to 5.50%
Melbourne CBD	4.75% to 5.50%	5.25% to 6.25%
Brisbane CBD	5.25% to 6.75%	5.75% to 8.00%
Perth CBD	6.00% to 8.00%	7.75% to 9.50%
Adelaide CBD	6.00% to 7.75%	7.75% to 9.25%
Canberra	6.00% to 7.75%	7.50% to 12.50%

Source: JLL Research

Figure 4: Australian non-CBD office markets prime and secondary equivalent yields

Market	Prime	Secondary
North Sydney	5.25% to 5.75%	5.50% to 6.25%
St Leonards	5.75% to 6.50%	6.25% to 6.75%
Chatswood	6.00% to 6.75%	6.25% to 6.75%
Parramatta	5.25% to 6.75%	6.00% to 8.75%
Macquarie Park	5.50% to 6.50%	6.25% to 7.00%
Sydney Fringe	5.25% to 5.50%	5.50% to 6.00%
Sydney Olympic Park	6.00% to 7.25%	n.a.
Norwest	6.25% to 7.25%	n.a.
South Sydney	5.75% to 6.25%	6.25% to 6.50%
Melbourne Fringe	5.25% to 6.05%	5.50% to 6.50%
Melbourne Suburban	5.50% to 6.50%	6.00% to 8.00%
Brisbane Near City	6.00% to 8.00%	6.50% to 9.00%
West Perth	7.00% to 8.25%	8.00% to 9.25%

Source: JLL Research



Wellness will be at the core of real estate solutions

The design and construction of workspaces should ensure health and happiness for an organisations workforce. Health and happiness are two key components in ensuring employee engagement and productivity.

Implementation of wellness initiatives can be undertaken in a cost-effective manner. Simple solutions include green walls, open-air spaces and natural light, lounge areas and sit-stand desks. Wellness can form part of an organisations retention strategy for highly skilled workers.

Real estate owners and investors can benefit from adopting a proactive stance on advising customers on the benefits of wellness. We believe that a strong customer relationship can improve occupancy and increase tenant retention rates.

Richard Fennell

Head of Property & Asset Management – Australia

What asset management strategies will be deployed in 2018?

The Australian economy generated 403,100 new jobs in 2017. As a result, the unemployment rate (seasonally adjusted) tightened to 5.5%. State-by-state divergences are apparent with New South Wales recording the lowest unemployment rate (4.8%) and Queensland 1.2 percentage points higher at 6.0%. Positive employment growth has flowed through to leasing enquiry and the demand for office space. We recorded 187,100 sqm of net absorption in 2017 and a reduction in the national CBD office market vacancy rate to 10.4%.

Melbourne CBD (5.4%) and Sydney CBD (5.5%) were the two strongest markets with vacancy reaching the lowest level since 4Q08 in Melbourne and since 2001 in Sydney (Figure 5). The Perth CBD started to show modest signs of improvement in the latter part of 2016 and the leasing market recovery gathered momentum in 2017 with net absorption reaching 41,800 sqm. The 2017 net absorption result was approximately 2.4 times the 25-year average of 17,700 sqm and was led by a sharp reduction in sub-lease availability and centralisation activity which is supported by the Perth CBD value proposition relative to suburban office markets.

It is important to read behind the vacancy rate headlines in Adelaide and Canberra. Leasing activity is concentrated in prime grade assets and the spread between prime and secondary grade vacancy has widened. In Canberra the spread now sits at 19.5 percentage points with Canberra's prime grade vacancy very tight at 5.4%.

Non-CBD office market net absorption, across a number of markets, was constrained by a shortage of contiguous space. We recorded 113,700 sqm of net absorption across the thirteen monitored non-CBD office markets and vacancy rates below equilibrium in most sub-markets (Figure 6). If we concentrate on the prime grade sector of the market; Parramatta (0.4%), Norwest (4.1%), Melbourne Fringe (4.5%), Macquarie Park (4.7%) and Sydney Fringe (4.9%) are the five tightest office markets in Australia.

Figure 5: Australian CBD office markets vacancy rate

Market	Prime	Secondary	Total
Sydney CBD	5.8%	4.9%	5.5%
Melbourne CBD	5.2%	5.8%	5.4%
Brisbane CBD	8.5%	19.7%	13.9%
Perth CBD	16.4%	28.6%	21.4%
Adelaide CBD	11.6%	17.4%	15.2%
Canberra	5.4%	24.9%	13.2%

Source: JLL Research

Figure 6: Australian non-CBD office markets vacancy rate

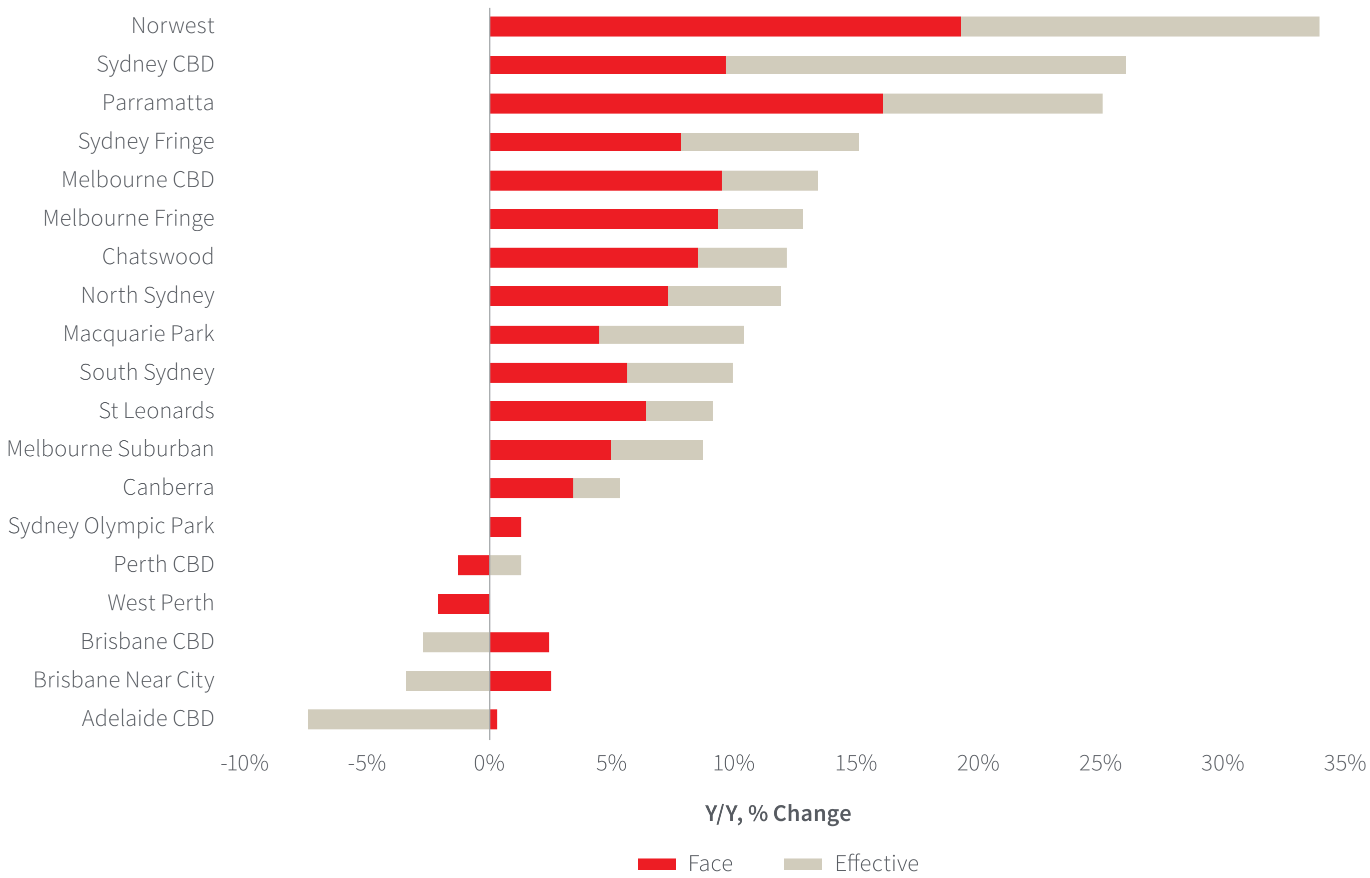
Market	Prime	Secondary	Total
North Sydney	6.4%	7.3%	6.9%
St Leonards	12.9%	14.4%	13.9%
Chatswood	11.8%	7.5%	9.4%
Parramatta	0.4%	7.7%	4.3%
Macquarie Park	4.7%	12.9%	6.9%
Sydney Fringe	4.9%	3.9%	4.3%
Sydney Olympic Park	7.3%	24.9%	8.9%
Norwest	4.1%	3.4%	4.0%
South Sydney	5.8%	11.4%	7.3%
Melbourne Fringe	4.5%	8.5%	7.0%
Melbourne Suburban	9.7%	9.6%	9.7%
Brisbane Near City	12.5%	18.1%	15.6%
West Perth	14.8%	20.5%	18.8%

Source: JLL Research

Low vacancy and competition for space have exerted pressure on effective rents. Our area-weighted CBD prime gross effective rent increased by 12.0% over 2017. Rental growth was largely concentrated in Sydney and Melbourne office markets. Norwest recorded the strongest effective rental growth followed by the Sydney CBD and Parramatta.

Figure 7 shows prime face and effective rents across our 19 monitored office markets and highlights the market-by-market rent divergence. The Brisbane and Perth office markets have been characterised by flat face rents and an increase in incentives' as owners' have attempted to maintain occupancy rates and secure cash flow. We believe that effective rents have troughed in Perth and Brisbane and we have penciled in a modest recovery in effective rents over 2018.

Figure 7: Australian office markets prime net face and effective rental growth, 2017



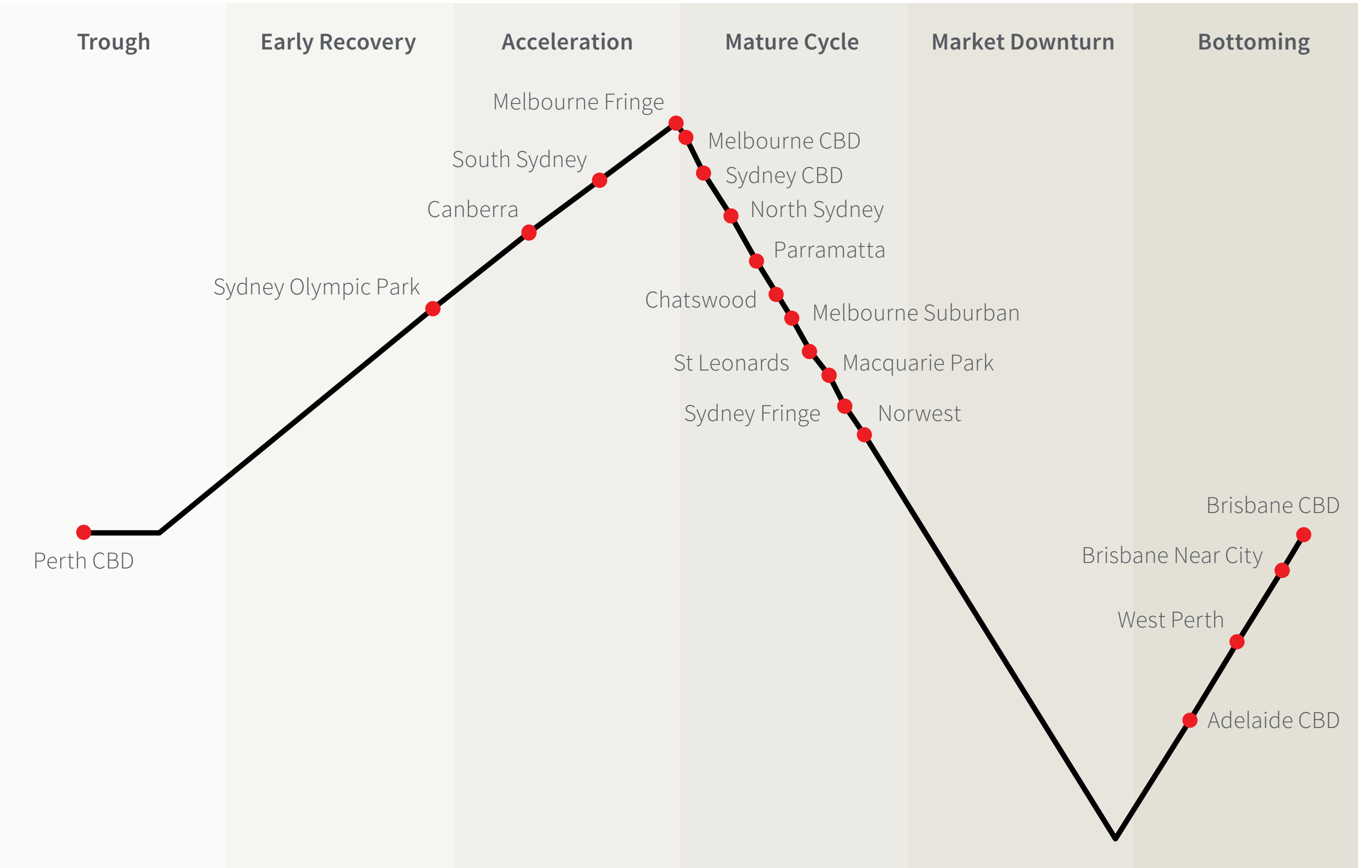
Source: JLL Research

State-by-state disparity in economic performance and a wide divergence in physical market conditions has resulted in office markets at different phases of the rent cycle. We have evolved the adopted the principles of the S-Curve and placed all of the nineteen monitored office markets in the various stages of the office market cycle (Figure 8).

Sydney CBD and Melbourne CBD effective rental growth accelerated over 2016 and 2017. We believe that the rate of growth will slow in 2018, but still remain in the 8% to 10% territory – well above the long-term average. The trend will be similar for Sydney and Melbourne suburban office markets in 2018.

The short to medium-term rental growth outlook for Sydney and Melbourne office markets is well-articulated. The view, however, on the outlook for Brisbane, Perth and Adelaide is more divergent and highly dependent on the trajectory of leasing incentives. Our house view is for a moderation in incentives and the potential for above trend effective rental growth in Brisbane and Perth from 2019.

Figure 8: Australian office markets prime net face and effective rental growth, 2017



Source: JLL Research

Will we see the emergence of a hub and spoke model?

The consolidation of multiple tenancies to generate real estate efficiencies was a major push by organisations. The philosophy of this model is to view real estate as a cost and adopt strategies to minimise this cost. We believe that this workplace model is less relevant for the modern organisation.

The attraction and retention of knowledge workers is important for organisations. We believe that an organisation can generate a sustainable competitive advantage through the workforce and HR policies are an important contributing factor.

An employer's location is a key decision-making criteria for knowledge workers. Understanding workforce demographics and a city's changing demographic profile is important for organisations to create a diverse workforce.

The hub and spoke workplace model sees an organisation have one core location in a city and one (or more) smaller premises. The organisation may utilise co-working operators to facilitate this strategy.

Tim O'Connor

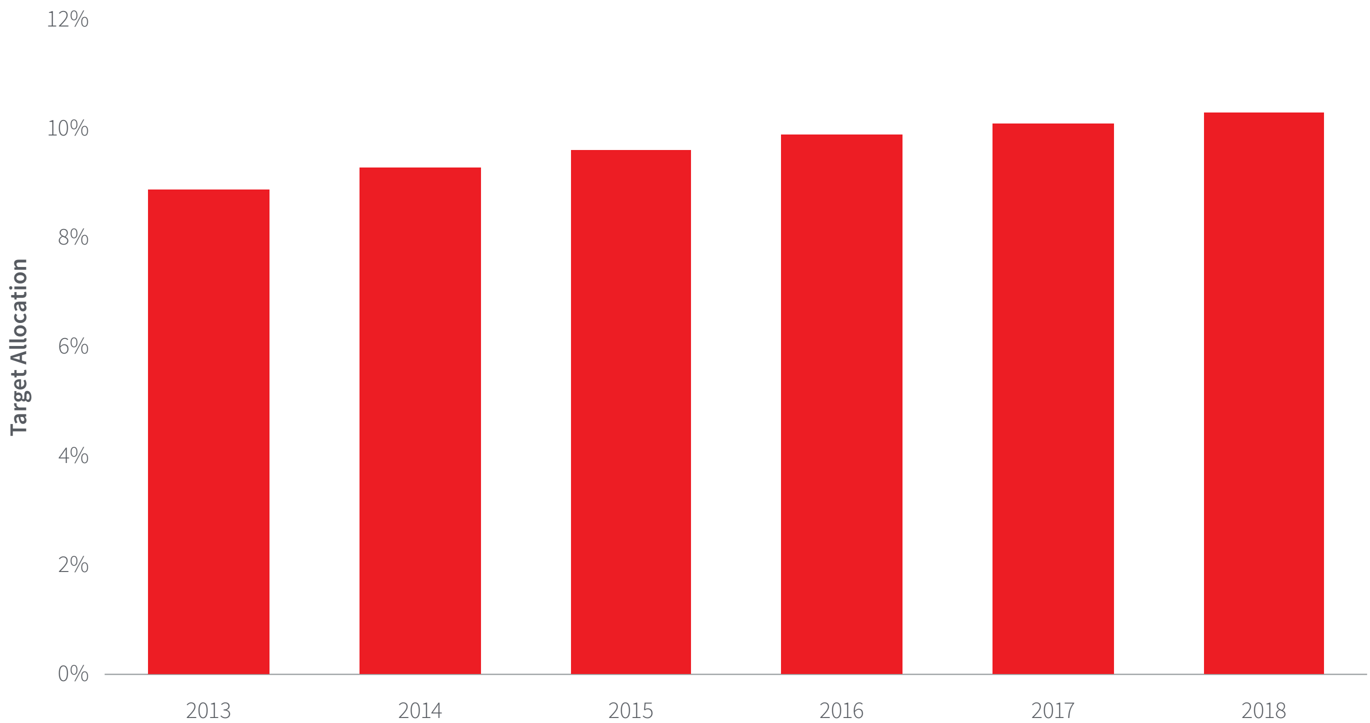
Head of Office Leasing – Australia

How relevant is the asset allocation story for real estate?

The Australian office sector has been a beneficiary of two major investment themes – higher allocations to real assets and higher allocations to the Asia Pacific region. Real assets are considered to be a step up the risk-return curve from fixed income products, but have less volatility than general equities and private equity. Direct real estate provides diversification in a multi-sector portfolio, while pension funds and sovereign wealth funds are attracted by long-term contractual leases which provide security of income.

We believe that the asset allocation story for real estate is a relevant thematic over 2018. The evidence is provided by Cornell University's (Baker Program in Real Estate) annual Institutional Real Estate Allocations monitor. The 2017 Allocations Monitor includes research collected on a blind fund basis from 244 institutional investors in 28 countries. The survey revealed that the target allocation to real estate in institutional portfolios has now surpassed the 10% threshold – up from 8.9% in 2013 (Figure 9). Increasing allocations to real estate will remain a relevant theme with survey respondents expecting the target allocation to hit 10.3% in 2018.

Figure 9: Global real estate allocations, 2013 to 2018



Source: JLL Research, Cornell University

Figure 10: Global Real Estate Investable Stock, USD billions

Region	2016	% Share	2036	% Share
Asia Pacific	7,684	28.0%	32,816	43.1%
Europe	8,759	32.0%	18,469	24.2%
Latin America	1,465	5.3%	4,159	5.5%
North America	8,819	32.2%	18,433	24.2%
Gulf Corporation Council	673	2.5%	2,299	3.0%
Global	**27,400**		**76,176**	

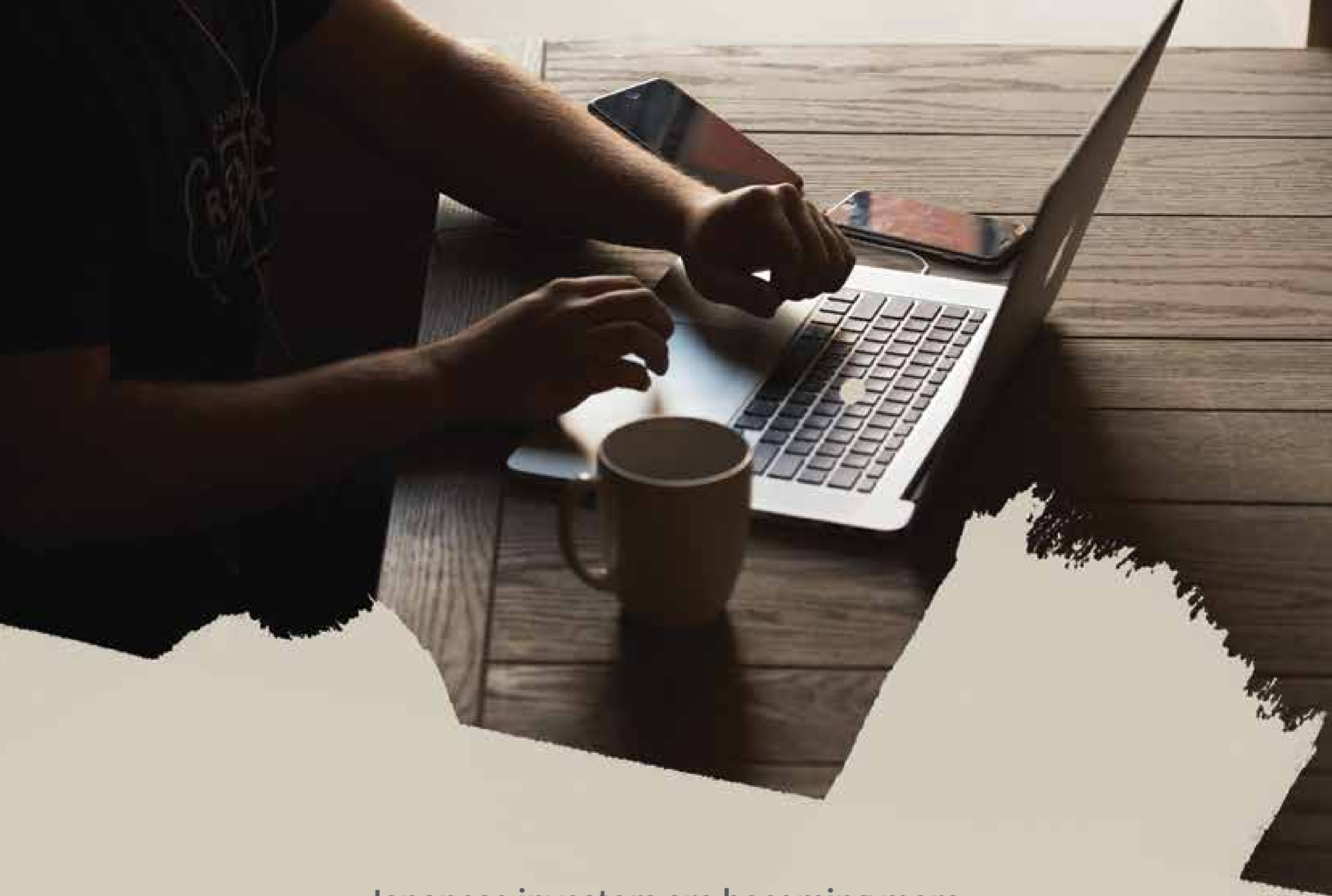
Source: PGIM, JLL Research

Higher allocations to Asia Pacific is the second major investment theme impacting the Australian office sector. PGIM has estimated the size of real estate markets globally in 2016 and projected out to 2036 (Figure 10). Asia Pacific is projected to be USD 32,816 billion and represent 43.1% of the investable universe in 2036.

The evolution of real estate markets will have a structural impact on global investors. A global investor adopting a strictly value-weighted portfolio would have had a 28.0% allocation to Asia Pacific in 2016. For risk-averse pension and sovereign wealth funds, a number of Asian real estate markets still lack transparency and while allocations to the region have increased, there would be few (if any) that have a 28.0% allocation required a value-weighted asset allocation strategy.

The expansion of the investable universe is intrinsically linked to the outlook for asset creation and the capital appreciation of existing assets. Strong population growth, higher urbanisation rates and the expansion of the service sector economy will accelerate asset creation in Asia Pacific relative to North America and Europe. Furthermore, asset value growth – through the cycle – is closely related to inflation and the long-term inflation rate is projected to be higher in Asia Pacific. PGIM's modelling of the global real estate investment universe shows that Asia Pacific will increase from USD 7,684 billion to USD 32,816 billion by 2036.

A value-weighted asset allocation strategy would result in an investor having a 43.1% allocation to Asia Pacific in 2036 – 15.1 percentage points higher than 2016. Global investors based in Asia Pacific are expected to be first movers in evolving their allocation strategies. GIC – Singapore's sovereign wealth fund – announced in their 2016/17 annual report that their geographical weighting to Asia Pacific across all asset classes was 33% in March 2017 – up 5 percentage points from March 2013.



Japanese investors are becoming more active cross-border investors

The Japanese financial market is one of the largest in the world and the size of the investable wealth held by Japanese investors is estimated at over AUD 20 trillion. A high proportion of assets are held by Japanese public pension funds which had a very high allocation to Japanese Government Bonds.

GPIF is a large Japanese public sector pension fund and has adopted a more dynamic asset allocation strategy. GPIF will seek to increase its allocation to equities (domestic and offshore), offshore fixed income markets and have a 5% allocation to alternatives.

The diversification strategy for Japanese pension funds remains in its infancy strategy and the flow of outbound real estate capital from Japan will have a major impact on global real estate markets in 2018.

Simon Storry
Head of International Investments – Australia

How deep is the investment market?

The asset allocation story highlights the underlying demand for real assets. The macro observation is reflected by the level of investment activity and the number of under-bidders on major campaigns. Australian office sector transactions have been at or close to record highs since 2012. The diversity of capital sources is unprecedented and investor demand for assets across the risk spectrum is strong.

To gauge an insight into the short-term demand for real estate, we undertook an analysis of the number of under-bidders as a method for assessing the volume of unsatisfied capital in the market. We selected a representative sample of assets which traded in excess of AUD 100 million across major office sales campaigns. Typically, most major assets are receiving between four and eight expressions of interest in the first round. If we aggregate the sample, it shows there was AUD 6.3 of capital for every AUD 1 of investment product.

Hong Kong investors seeking diversification in their real estate portfolios

Hong Kong investors were the third largest exporters of capital globally in 2017. Hong Kong investors have a bias for the office sector, accounting for 83% of total acquisitions. Furthermore, London was the favoured geography with 57% of capital exported by Hong Kong investors deployed in the UK.

Hong Kong investors are moving offshore as they seek yield and diversification in their real estate portfolios. Prime yields have compressed below 3.00% for core office product in Hong Kong and investors are looking for higher yielding assets in gateway cities and the associated diversification benefits.

Australia received approximately AUD 1.0 billion of inbound capital from Hong Kong in 2017. However, Australia will be a larger focus for Hong Kong investors as a number of investors have executed on their London office mandate and will be exploring opportunities in a more diverse range of global cities.

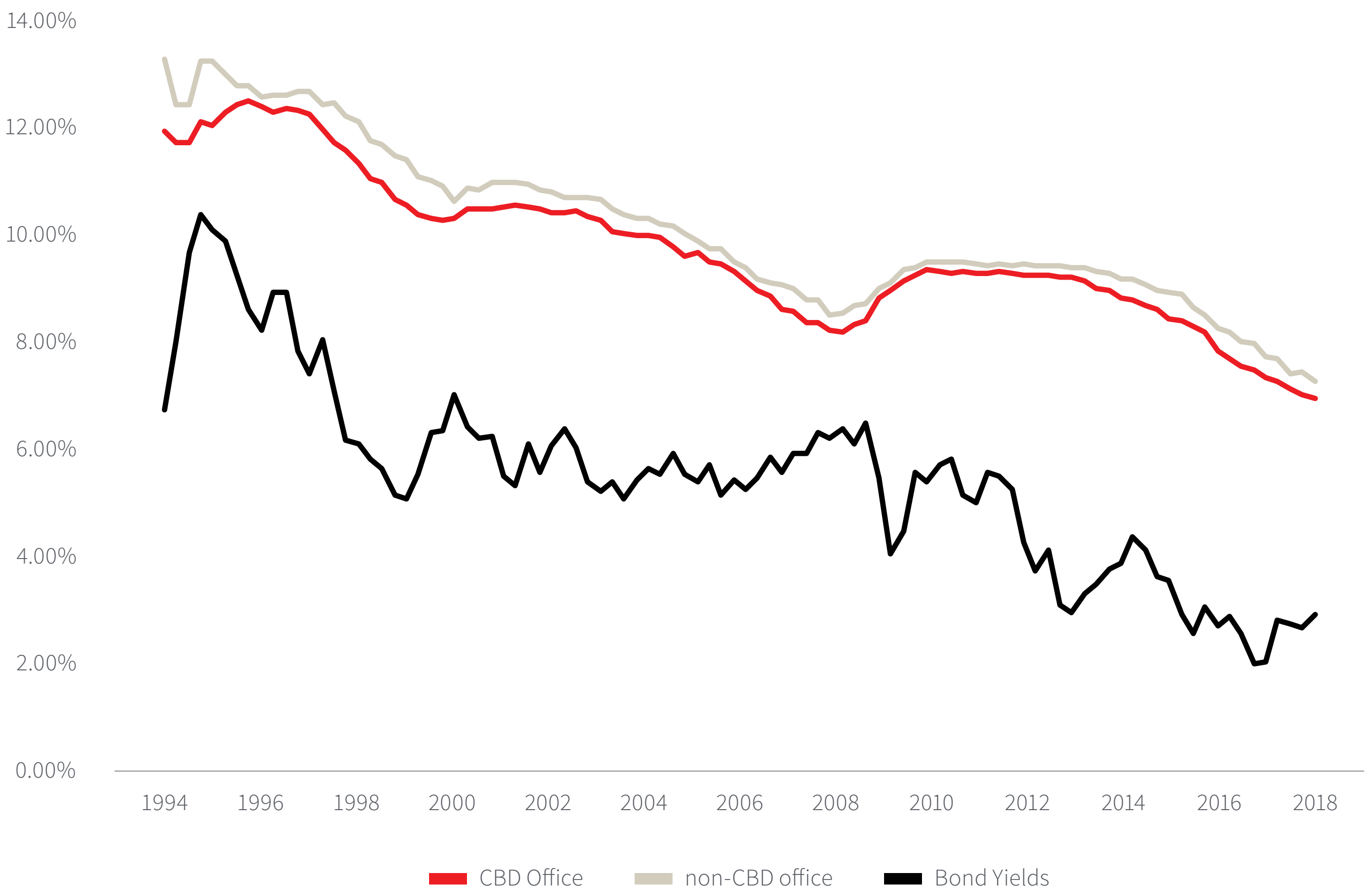
Hong Kong capital sources will be aggressive for well-located core opportunities, of 100% interests and preferably for assets that offer future development upside in the Sydney and Melbourne office markets.

Stuart McCann
Head of International Capital – Australia

The return conundrum – lower, but how low?

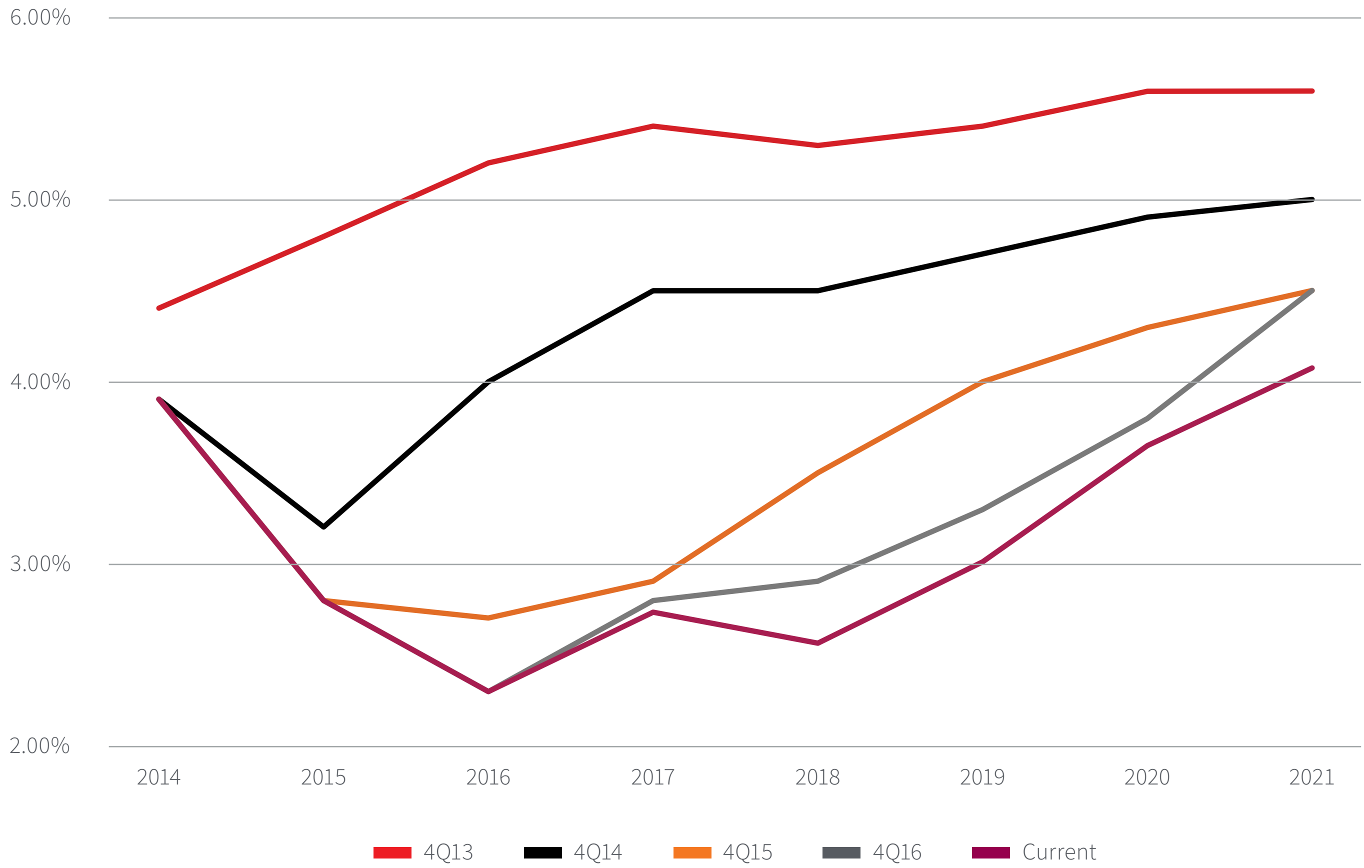
Commercial property return expectations should not be considered in isolation. We have undertaken an analysis of discount rates – the rate used to determine the present value of future cash flows in discounted cash flow analysis – as the proxy for investor return expectations. Figure 11 shows the MSCI discount rate for CBD and non-CBD office assets and the Australian Government 10 year bond yield between 1994 and 2017. Over this time period, the correlation co-efficient between the discount rate and bond yield was 0.83 for CBD office markets and 0.82 for non-CBD office markets. A high proportion of the movement in discount rates can be explained by the movement in the Australian Government 10 year bond yield. In a low treasury yield environment, the discount rate applied to the cash flow generated from risk assets has moved lower.

Figure 11: Office sector discount rates and Australian Government bond yields, 1994 to 2017



Source: JLL Research, MSCI, Deloitte Access Economics

Figure 12: Australian Government Bond forecasts, 2014 to 2021



Source: JLL Research, Deloitte Access Economics

The Australian Government 10 year bond yield traded in a narrow range between 2.36% and 2.98% over the course of 2017. An improvement in the global economy and RBA expectations of Australia moving back towards trend growth in 2018 and 2019 would imply a tightening in monetary policy and upward pressure in bond yields. However, the benign outlook for inflation will limit the potential pressure on interest rates. Deloitte Access Economics projects a partial mean reversion in bond yields over the next five years.

Figure 12 shows the projection for the Australian Government 10 year bond yield from 2014 to 2021. In their December 2013 Business Outlook, Deloitte Access Economics – similar to other economists – forecast the Australian Government 10 year bond yield would revert to 5.60% by 2021. The reversion in bond yields has been scaled back in more recent forecast iterations. In the most recent Business Outlook (December 2017), the reversion in Australian Government 10 year bond yields is to 4.07% in 2021.

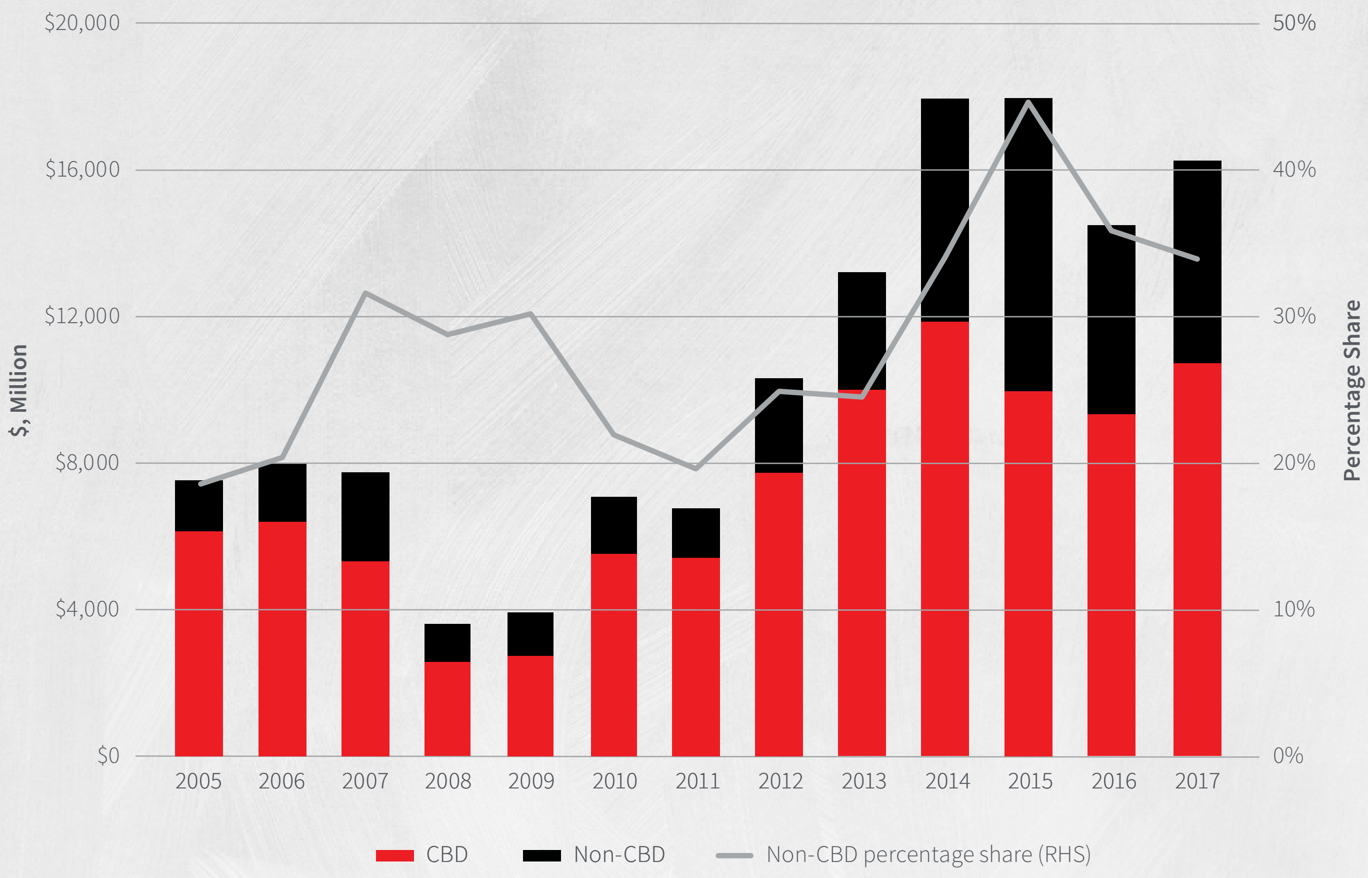
An increase in the risk-free rate would imply that investors will re-adjust their real estate return expectations. However, investors had already assumed a partial reversion in bond yields and a risk-free rate of 4.00% and a risk premium of 300 basis points implies core returns in the range of 6.50% to 7.50%.

Should we take a closer look at non-CBD office markets?

The market value of Australian non-CBD office markets is estimated at AUD 65 billion. The size and scale of non-CBD office markets have made them viable investment destinations for a diverse range of capital sources. The investment case for suburban office markets is strong and we saw a diverse range of domestic and offshore capital sources seeking exposure to non-CBD office markets.

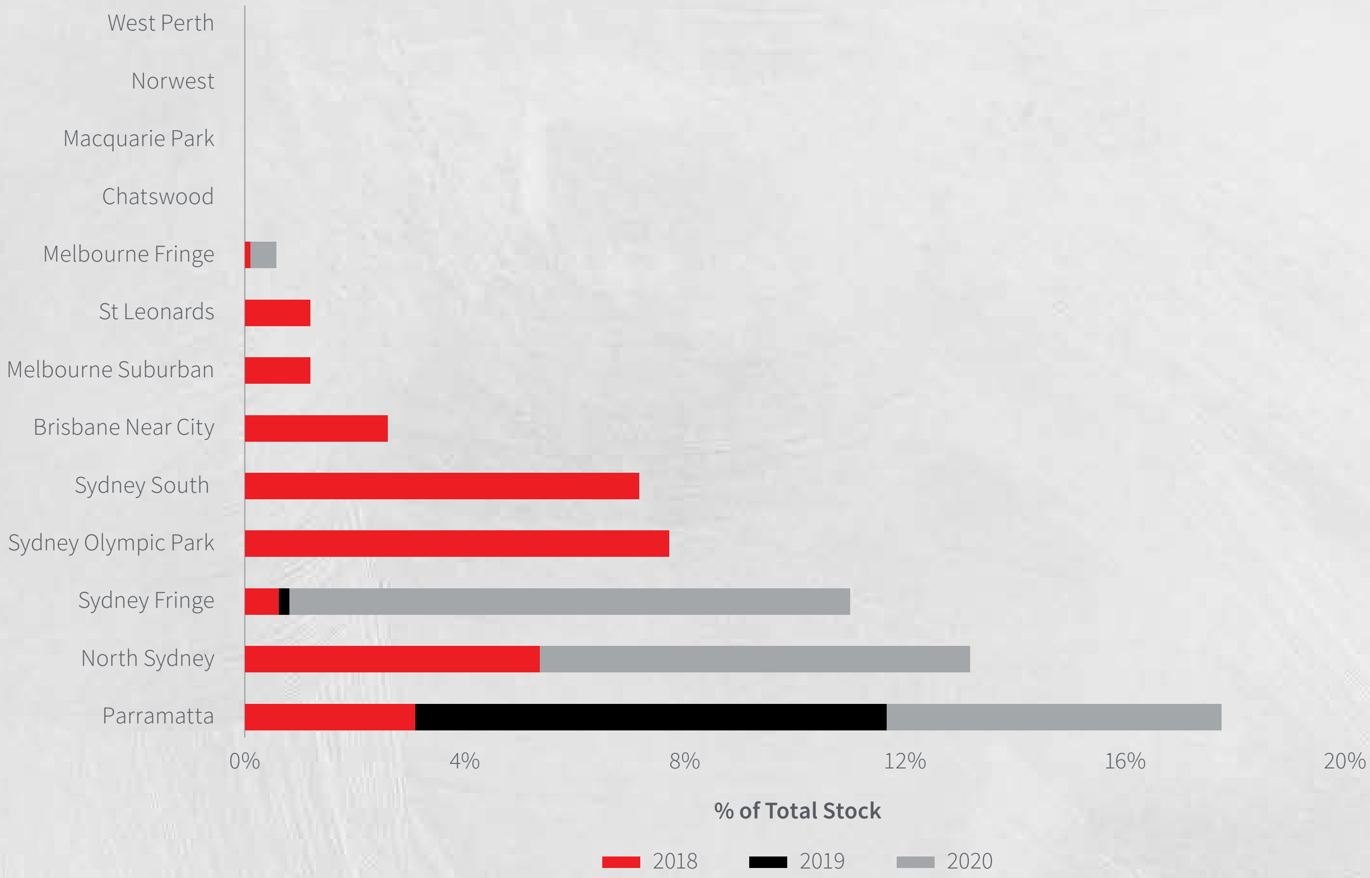
Most Sydney and Melbourne non-CBD office markets have below equilibrium vacancy, development activity is minimal and effective rents are growing above trend. However, outside of North Sydney (AUD 969 million), transaction volumes were limited across non-CBD office markets and only represented 33% of sales – below the figures recorded in 2015 (44.4%) and 2016 (35.8%).

Figure 13: Non-CBD office markets share of transaction volumes, 2005 to 2017



Source: JLL Research

Figure 14: Non-CBD office market development pipeline, 2018 to 2020

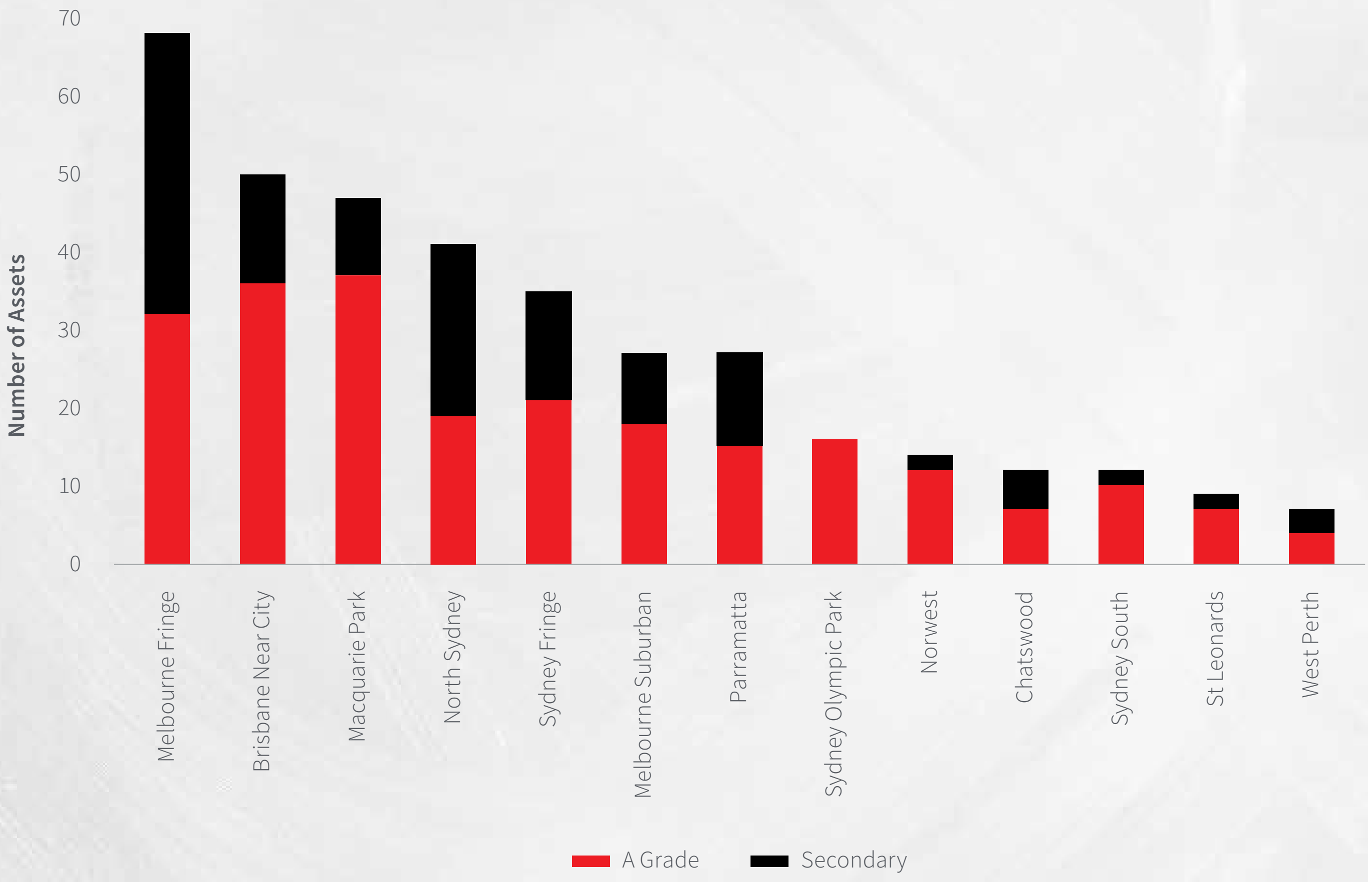


Source: JLL Research

Physical market conditions are supportive of investment into non-CBD office markets. As we mentioned earlier, vacancy is low and gross effective rental growth is above trend. Furthermore, most markets have a moderate development pipeline (Figure 14). Those markets with stronger development outlooks are under-written by healthy levels of pre-commitment.

In Parramatta, 100% of the space under construction is pre-committed, while North Sydney (39%), Sydney Fringe (93%) and Sydney Olympic Park (43%) development pipelines are significantly de-risked. Historically, vacancy movements in Australian office markets are more sensitive to movement in supply than demand. A moderate and highly pre-committed development pipeline implies vacancy will remain tight across non-CBD office markets over the medium-term outlook.

Figure 15: Non-CBD office market investment universe (assets > 7,500 sqm)



Source: JLL Research

One of the challenges is accessing product in non-CBD office markets – a high number of assets are of limited scale and not of institutional quality. We have provided an insight into the potential scale and opportunity by highlighting the number of A Grade and secondary assets (>7,500 sqm) across non-CBD office markets (Figure 15).

What sort of equity IRRs can investors generate?

Figure 16: Equity IRR model

	Unlevered Property Return				
Gearing	6.00%	6.50%	7.00%	7.50%	8.00%
20%	6.55%	7.18%	7.80%	8.43%	9.05%
30%	6.95%	7.66%	8.38%	9.09%	9.80%
40%	7.47%	8.31%	9.14%	9.97%	10.81%
50%	8.21%	9.21%	10.21%	11.21%	12.21%
60%	9.32%	10.57%	11.82%	13.07%	14.32%

Source: JLL Research

Commercial lending in Australia has been dominated by the four major banks. These four banks have an aggregated market share of approximately 80%. Bank lending criteria tightened over the second half of 2017 with lenders reducing maximum LVRs and increasing interest coverage ratios. However, the attractiveness of the Australian commercial property sector has led to the expansion of offshore banks, non-traditional lenders, domestic debt funds and increased interest from the Australian superannuation sector.

Publicly available information on debt market pricing is limited in Australia, so we have historically adopted corporate bond market pricing as a proxy for the cost of debt. Most large cap A-REITs in Australia are A or BBB-rated making this a valid comparison for providing an insight into senior debt pricing for institutional investors.

Debt is one component of the capital structure and evidence from the corporate bond market implies the 5 year cost of debt is 3.24% for A-rated organisations and only marginally higher for BBB-rated entities (3.63%) in January 2018. The 39 basis point spread is tighter than historical benchmarks and we believe there will be greater price discrimination in the public and private debt markets in 2018.

Figure 16 adopts the BBB-rated figure as a proxy for the cost of debt for a real estate investor and provides an insight into the potential return on equity based on unlevered property returns and gearing. An investor under-writing a transaction with an unlevered return of 6.50% with gearing at 50% can generate an equity IRR of 9.21%.

Major Transactions

Wynyard Place, Sydney (49.9% interest)

Location: 10 Carrington Street, Sydney

Sale Date: September 2017

Sale Price: $953,000,000

NLA (sqm): 68,963 sqm (office), 5,933 sqm (retail) – these figures are a blend of the Premium Grade tower, Shell House and 285 George Street.

Rate (AUD/sqm): $25,449

Initial Yield (Fully Leased): 4.77%

IRR: n/a

WALE: 10.08 years

Major Tenants: National Australia Bank

Vendor: Brookfield Property Partners (49.9%)

Purchaser: AMP Wholesale Office Fund (25%) / UniSuper (24.9%)

Description: Wynyard Place is a mixed-use development that will consist of a newly built 27 level Premium Grade office tower (58,636 sqm), and approximately 5,933 sqm of retail space above Wynyard train station in the Sydney CBD. The development also includes the refurbishment of Shell House and 285 George Street, both of which are heritage buildings adjacent to Wynyard train station. The development has secured National Australia Bank as a major pre-commitment and has an expected completion date in 2020.

MLC Centre, Sydney (50% interest)

Location: 19 Martin Place, Sydney

Sale Date: June 2017

Sale Price: $722,500,000

NLA (sqm): 67,092 sqm (office), 10,650 sqm (retail)

Rate (AUD/sqm): $18,587

Initial Yield (Fully Leased): 4.7%

IRR: 6.7%

WALE: 4.17 years

Major Tenants (office): Sparke Helmore, GPT, Servcorp

Vendor: QIC (50%)

Purchaser: DEXUS Property Group (25%), DEXUS Wholesale Property Fund (25%)

Description: MLC Centre was built in 1978 and is located in the Core precinct of the Sydney CBD. The asset consists of 67 levels of office accommodation, approximately 308 car parking spaces, and an extensive multi-level retail centre. The asset has recently undergone an extensive refurbishment, including the make-good and upgrade of over 20 office floors, as well as remedial works on the building's façade.

Major Transactions

The Olderfleet, Melbourne

Location: 477 Collins Street, Melbourne

Sale Date: June 2017

Sale Price: $414,171,000

NLA (sqm): 56,384 sqm (office), 1,664 sqm (retail)

Rate (AUD/sqm): $14,270

Initial Yield (Fully Leased): 4.80%

IRR: 7.25%

WALE: 7.79 years

Major Tenants: Deloitte

Vendor: Mirvac

Purchaser: Suntec REIT

Description: The heritage Olderfleet will be redeveloped into a 38 level Premium Grade office tower. However, it will retain the heritage façade that dates back to 1889. Boutique office, conference facilities, retail and restaurants will be located in the heritage buildings. The asset has secured Deloitte as a pre-commitment, and the building has an expected completion date in mid-2020.

Santos Place, Brisbane

Location: 32 Turbot Street, Brisbane

Sale Date: December 2017

Sale Price: $348,432,916

NLA (sqm): 34,199 sqm (office), 197 sqm (retail)

Rate (AUD/sqm): $10,130

Initial Yield (Fully Leased): 7.34%

IRR: 6.91%

WALE: 3.84 years

Major Tenants: Aurecon Australia, Santos, VCA Properties

Vendor: Permodalan Nasional Berhad

Purchaser: GIC

Description: Santos Place is an A-Grade office building that was completed in 2009. The asset comprises ground floor retail, five podium levels of car parking (186 spaces), and 32 upper levels of office accommodation.
Average floor plates are approximately 1,200 sqm in size. Santos place is located approximately 300 metres from the Roma Street bus and train station interchange.

Major Transactions

Victoria Police Centre, Melbourne (50% share)

Location: 311 Spencer Street, Melbourne

Sale Date: June 2017

Sale Price: $347,800,000

NLA (sqm): 65,648 sqm

Rate (AUD/sqm): $10,596

Initial Yield (Fully Leased): 4.92%

IRR: 7.80%

WALE: 30.0 years

Major Tenants: Victorian Police

Vendor: Australia Post

Purchaser: Keppel REIT

Description: The Victoria Police Centre is a 39 level A-Grade commercial building that will accommodate Victoria Police operations and associated support services. Typical floor plates will be approximately 2,000 sqm, and the asset will target a 4.5 Star NABERS Energy and Water rating together with a 5 Star Green Star Office Design rating. The development has an expected completion date in late 2019.

100 Harris Street, Pyrmont

Location: 100 Harris Street, Pyrmont, Sydney

Sale Date: June 2017

Sale Price: $327,500,000

NLA (sqm): 26,403 sqm (office), 476 sqm (retail)

Rate (AUD/sqm): $12,184

Initial Yield (Fully Leased): 5.2%

IRR: 6.3%

WALE: 7.77 years

Major Tenants: Domain, WeWork

Vendor: Citi 100

Purchaser: Dexus Property Group

Description: 100 Harris Street is a heritage listed building that was built in 1910 and was previously used as a wool store building, before being repurposed into office accommodation. The building has recently undergone a major refurbishment providing large open plan floor plates (ranging up to 4,400 sqm), generous ceiling heights that retain the exposed column and timber beam construction features, and an internal atrium which rises to the skylights on the roof of the asset.

Major Transactions

50 Marcus Clarke Street, Canberra

Location: 50 Marcus Clarke, Street, Canberra

Sale Date: March 2017

Sale Price: $321,000,000

NLA (sqm): 39,903 sqm (office), 298 sqm (retail)

Rate (AUD/sqm): $7,895

Initial Yield (Fully Leased): 6.13%

IRR: 7.03%

WALE: 8.24 years

Major Tenants: Commonwealth of Australia

Vendor: CIMB

Purchaser: Mirae Asset Global Investments

Description: 50 Marcus Clarke Street comprises 11 levels of upper office accommodation, three levels of basement car parking (424 car spaces), and a recreational room and plant room on level 12. Typical floor plates range from 2,842 sqm to 3,608 sqm. The building has achieved a 5.5 star NABERS Energy rating.

141 St Georges Terrace, Perth

Location: 141 St Georges Terrace, Perth

Sale Date: October 2017

Sale Price: $216,250,000

NLA (sqm): 32,635 sqm

Rate (AUD/sqm): $6,626

Initial Yield (Fully Leased): 12.59%

IRR: 7.76%

WALE: 2.55 years

Major Tenants: Minister for Works, UGL Limited

Vendor: Insurance Commission of Western Australia

Purchaser: GDI Property Group

Description: 141 St Georges Terrace is an 18 level office building that was constructed in 1991. Typical floorplates in the asset average 1,800 sqm, and the building has a multilevel car park with a total of 537 car bays. The asset currently has a 5 star NABERS energy rating and is located approximately 300 metres from Elizabeth Quay train station.

Major Transactions

Grenfell Centre, Adelaide

Location: 25 Grenfell Street, Adelaide

Sale Date: January 2017

Sale Price: $125,100,000

NLA (sqm): 23,733 sqm (office), 1,262 sqm (retail), 252 sqm (other)

Rate (AUD/sqm): $4,955

Initial Yield (Fully Leased): 8.54%

IRR: 8.15%

WALE: 4.99 years

Major Tenants: Minister for Transport and Infrastructure, Minter Ellison

Vendor: GDI Property Group

Purchaser: Credit Suisse

Description: The Grenfell Centre comprises 23 upper levels of office accommodation. Since its completion in 1975 the asset has undergone multiple refurbishments ranging from a façade refurbishment, a foyer upgrade, as well as the addition of retail tenancies and basement car parking. The building currently has a 4 star NABERS energy rating.

Transactions $100+ million

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price (AUD)	Share of Sale (%)	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
Wynyard Place	10 Carrington Street	Sydney	NSW	Sep-2017	$953,000,000	49.9	4.77%	-	74,896	$25,449	Brookfield Property Partners (49.9%)	AMP Wholesale Office Fund (25%) / UniSuper (24.9%)
MLC Centre	19 Martin Place	Sydney	NSW	Jun-2017	$722,500,000	50	4.70%	6.70%	77,742	$18,587	QIC (50%)	DEXUS Property Group (25%) / DEXUS Wholesale Property Fund (25%)
The Olderfleet	477 Collins Street	Melbourne	VIC	Jun-2017	$414,171,000	50	4.80%	7.25%	56,461	$14,671	Mirvac Group	Suntec REIT
Santos Place	32 Turbot Street	Brisbane	QLD	Dec-2017	$348,432,916	100	7.34%	6.91%	34,396	$10,130	Permodalan Nasional Berhad	GIC
Victoria Police HQ	311 Spencer Street	Melbourne	VIC	Jun-2017	$347,800,000	50	4.92%	7.80%	65,648	$10,596	Australia Postal Corporation	Keppel REIT
Telstra House	231 Elizabeth Street	Sydney	NSW	Dec-2017	$342,000,000	100	5.10%	6.30%	23,274	$14,695	Bright Ruby Resources	Charter Hall Direct Property Fund
Exchange Centre	20 Bridge Street	Sydney	NSW	Apr-2017	$335,000,000	100	4.80%	5.40%	20,347	$18,630	Kumpulan Wang Persaraan	Early Light International (Holdings) Ltd Group
	100 Harris Street	Pyrmont	NSW	Jul-2017	$327,500,000	100	5.20%	6.30%	26,878	$12,858	Citi100 Pty Ltd	DEXUS Property Group
	50 Marcus Clarke Street	City	ACT	Mar-2017	$321,000,000	100	6.13%	7.03%	40,201	$7,985	CIMB Trust Group	Mirae Asset Global Investments
	800 Collins Street	Melbourne	VIC	Dec-2017	$295,000,000	100	5.08%	6.41%	29,493	$10,009	Savills Investment Management (50%) / Australian Prime Property Fund (50%)	Manulife (100%)
	86-88 Christie Street	St Leonards	NSW	Sep-2017	$295,000,000	100	n/a	n/a	Multiple sites	n/a	Dyldam	JQZ
Telstra Plaza	310-322 Pitt Street	Sydney	NSW	Jun-2017	$275,000,000	100	6.53%	7.50%	29,159	$9,378	Propertylink Office Partnership (POP II) (100%)	ARA Australia (74%) / Straits Real Estate (26%)
	10 Spring Street	Sydney	NSW	Sep-2017	$270,050,000	100	4.00%	5.80%	13,200	$20,458	Centuria Property Fund	Australian Prime Property Fund Commercial (APPF)
World Trade Centre	605 Flinders Street	Melbourne	VIC	Feb-2017	$267,500,000	100	6.73%	6.94%	62,500	$5,442	Riverlee (30%) / Abacus Property Group (18%) / KKR (52%)	Ouson Group (100%)
	106-120 Spencer Street	Melbourne	VIC	Aug-2017	$250,000,000	100	5.46%	6.83%	31,849	$7,773	Anton Capital	CBRE Global Investors
Civic Tower	66-68 Goulburn Street	Sydney	NSW	Aug-2017	$231,300,000	100	6.30%	6.90%	22,888	$10,106	GDI Property Group	Ascendas-Singbridge Group
	105 Phillip Street	Parramatta	NSW	May-2017	$229,000,000	100	5.30%	6.70%	22,542	$10,159	DEXUS Property Group (100%)	Charter Hall Prime Office Fund (50%) / Charter Hall Direct Office Fund (50%)
	130 Pitt Street	Sydney	NSW	Nov-2017	$229,000,000	100	3.90%	5.90%	10,893	$21,023	Investa Commercial Property Fund (100%)	Mitsubishi Estate Co (50%) / CLSA Real Estate (50%)
	1 Castlereagh Street	Sydney	NSW	Nov-2017	$218,000,000	100	4.90%	6.20%	11,770	$18,522	Blackstone	Francis Choi
Westralia Square	141 St Georges Terrace	Perth	WA	Aug-2017	$216,000,000	100	12.59%	7.76%	32,635	$6,619	Insurance Commission of Western Australia	GDI Property Group

Transactions $100+ million

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price (AUD)	Share of Sale (%)	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
	400 George Street	Brisbane	QLD	Aug-2017	$210,000,000	50	-	-	42,521	$9,877	South Australian Motor Accident Commission	Blackstone
Green Square South Tower	505 St Pauls Terrace	Fortitude Valley	QLD	Mar-2017	$205,500,000	100	6.39%	6.99%	17,618	$11,664	ISPT	Eureka Real Assets
John Hunter Building	9 Hunter Street	Sydney	NSW	Nov-2017	$195,251,758	100	5.30%	6.50%	15,548	$12,558	CorVal	Ashe Morgan
CLSA House	20 Hunter Street	Sydney	NSW	Oct-2017	$192,500,000	100	4.40%	5.90%	10,895	$19,454	TH Real Estate	K Wah International
QBE House	628 Bourke Street	Melbourne	VIC	Jun-2017	$180,000,000	100	6.18%	6.68%	25,071	$7,315	M&G Asia Property Fund	AFIAA
Fuji Xerox	101-107 Waterloo Road	Macquarie Park	NSW	Jul-2017	$180,000,000	100	n/a	n/a	18,200	$9,890	Goodman Group	JQZ Eleven
The Quadrant	1 William Street	Perth	WA	Aug-2017	$175,000,000	100	-	7.16%	23,425	$7,471	Commonwealth Bank Officers Superannuation Corporation Pty Ltd	GIC
Fujitsu House	15 Blue Street	North Sydney	NSW	Jul-2017	$169,000,000	100	6.70%	6.70%	16,144	$10,584	Denwol Group	Aqualand
Endeavour House	50 Pitt Street	Sydney	NSW	Sep-2017	$165,000,000	100	4.80%	6.40%	9,897	$16,672	CIMB TrustCapital Australian Office Fund No. 1	AEW Capital Management
Charter Grove	29-57 Christie Street	St Leonards	NSW	Dec-2017	$160,000,000	100	-	-	14,350	$11,150	Australasian Property Investments (50%) / Wingate Group (50%)	Starwood Capital (33%) / Arrow Property Investments (33%) / Pindan Capital (33%)
	469 La Trobe Street	Melbourne	VIC	Nov-2017	$158,150,000	100	5.34%	6.28%	19,415	$7,962	Trust Capital Advisors	AMP Capital on behalf of Swiss RE
	59 Goulburn Street	Sydney	NSW	Jul-2017	$158,000,000	100	5.50%	7.20%	19,407	$8,142	Roxy-Pacific Holdings Limited	SC Capital Partners Group
	850 Collins Street	Melbourne	VIC	Nov-2017	$153,100,000	100	6.53%	6.72%	17,337	$8,831	Trust Capital Advisors	PA Realty (MEC and CLSA Real Estate)
State Law Building	50 Ann Street	Brisbane	QLD	May-2017	$145,000,000	100	6.74%	7.21%	25,519	$5,682	CIMB TrustCapital Advisors (100%)	Propertylink (25%) / Goldman Sachs (75%)
	417-421 St Kilda Road	Melbourne	VIC	May-2017	$144,700,000	100	6.29%	7.11%	20,453	$7,186	Newmark Capital	Mapletree Investments
Crowe Howarth Centre	120 Edward Street	Brisbane	QLD	Jun-2017	$142,650,000	100	6.23%	7.03%	15,271	$9,341	Axis Capital	Deutsche Asset & Wealth Managememt (100%)
	73 Miller Street	North Sydney	NSW	Dec-2017	$142,500,000	95	n/a	n/a	13,800	$10,870	Fosun	Propertylink Australian Commercial Trust I

Transactions $100+ million

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price (AUD)	Share of Sale (%)	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
K5	25 King Street	Fortitude Valley	QLD	Jan-2017	$140,000,000	100	-	-	15,421	$9,079	Lend Lease	Impact Investment Group
Connect Corporate Centre - Stage 1 and Stage 2	191 O'Riordan Street	Mascot	NSW	Apr-2017	$138,600,000	100	5.51%	7.52%	17,060	$8,124	Goodman Group	AMP Capital Wholesale Australian Property Fund
Southern Cross Station	664 Collins Street	Melbourne	VIC	Jun-2017	$137,560,000	50	4.98%	7.42%	26,345	$10,443	Mirvac Group	Morgan Stanley Real Estate Investing
10 Barrack Street	10 Barrack Street	Sydney	NSW	Dec-2017	$138,000,000	100	4.20%	6.40%	9,259	$14,904	Bright Ruby Resources	AEW Capital Management
Gateway 241	241A O'Riordan Street	Mascot	NSW	May-2017	$137,600,000	100	6.53%	7.44%	19,043	$7,226	151 Property Group (V-Plus Fund)	Fort Street Real Estate Capital
	575 Bourke Street	Melbourne	VIC	Nov-2017	$136,200,000	100	5.25%	6.58%	16,443	$8,441	Trust Capital Advisors	PA Realty (MEC and CLSA Real Estate)
116 Miller/173 Pacific			NSW	Jul-2017	$133,880,000	100	5.20%	6.20%	11,368	11777	Property Bank Australia (33%) / Security Capital Corporation (33%) / Rifici Group (33%)	Maville Group (100%)
Grenfell Centre	25 Grenfell Street	Adelaide	SA	Jan-2017	$125,100,000	100	8.54%	8.15%	25,348	$4,955	GDI Property Group	Credit Suisse Asset Management
Everglades Campus	82-84 Waterloo Road	North Ryde	NSW	Jan-2017	$120,000,000	100	n/a	n/a	10,670	$11,246	Goodman Group	Romeciti
160 Ann Street	160 Ann Street	Brisbane	QLD	Aug-2017	$119,500,000	100	6.76%	6.83%	15,984	$7,476	CorVal Partners	Alpha Investment Partners
HQ South Tower	520 Wickham Street	Fortitude Valley	QLD	Jul-2017	$119,149,000	100	7.08%	7.61%	14,669	$8,123	AFIAA Foundation for International Real Estate Investments	M&G Asia Property Fund
Dudley House	468-472 George Street	Sydney	NSW	Apr-2017	$116,000,000	100	-	-	1,676	$69,212	Moss Nominees Pty Ltd	The Greater Union Organisation
Melbourne Water Building	990 La Trobe Street	Docklands	VIC	Aug-2017	$114,500,000	100	5.58%	7.23%	12,200	$8,844	South Australian Motor Accident Commission	Charter Hall
	1 Pacific Highway	North Sydney	NSW	Sep-2017	$114,500,000	100	4.20%	6.00%	7,698	$14,874	AMP Capital	Private Investor
	108 Wickham Street	Fortitude Valley	QLD	Dec-2017	$106,230,000	100	6.46%	7.43%	11,913	$8,917	Centennial	Ascendas
	150 Charlotte Street	Brisbane	QLD	Oct-2017	$105,750,000	100	6.92%	6.71%	11,913	$8,917	CIMB TrustCapital Australian Office Fund No.1	Australian Unity Office Fund
	45 Pirie Street	Adelaide	SA	Aug-2017	$105,000,000	100	8.90%	7.63%	19,341	$5,429	CorVal Partners	AEP Investment Management

Transactions $20 million to $100 million by state

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price	Share of Sale (Total) %	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
New South Wales												
	160 Sussex Street	Sydney	NSW	Dec-2017	$95,000,000	100	-	-	8,622	$11,018	Burcher Property Group	ACCER
	45-61 Waterloo Road	Macquarie Park	NSW	Aug-2017	$90,000,000	100	n/a	n/a	32,000	$2,813	Government Property NSW	John Holland Group
	75 George Street	Parramatta	NSW	Nov-2017	$86,300,000	100	5.50%	6.90%	9,536	$9,050	CorVal	Mirvac Group
	201 Pacific Highway	St Leonards	NSW	Dec-2017	$85,800,000	50	6.60%	7.40%	16,488	$10,408	Abacus Property Group (25%) / Goldman Sachs (25%)	Centuria Metropolitan (50%)
	275 George Street	Sydney	NSW	Jun-2017	$82,750,000	100	n/a	n/a	7,368	$11,231	QIC	John Holland
Elizabeth Plaza	2 Elizabeth Plaza	North Sydney	NSW	Mar-2017	$81,000,000	100	6.40%	7.60%	7,002	$11,568	Marprop Real Estate Partners	BlackRock
	146 Arthur Street	North Sydney	NSW	Apr-2017	$78,000,000	100	6.50%	6.90%	7,591	$10,275	General Nice Company	Aqualand
Ogilvy House	72 Christie Street	St Leonards	NSW	Feb-2017	$76,000,000	100	8.10%	7.80%	11,221	$6,773	Brompton Asset Management	Proprium Capital Partners Australia
Room 4	285A Crown Street	Surry Hills	NSW	Oct-2017	$72,100,000	100	5.70%	6.70%	4,467	$16,141	Clipper Property	LaSalle Investment Management
NSW Grain Corporation	9-25 Commonwealth Street	Sydney	NSW	Aug-2017	$70,500,000	100	n/a	n/a	10,806	$6,524	Coronation Property	Private investor
Swire House	8 Spring Street	Sydney	NSW	Jan-2017	$68,888,888	100	4.50%	6.60%	5,053	$13,635	Heathley Diversified Property Fund (100%)	Australian Prime Property Fund Commercial (50%) / Abu Dhabi Investment Authority (50%)
	56 Clarence Street	Sydney	NSW	Jan-2017	$64,000,000	100	5.40%	6.70%	5,149	$12,430	Heathley Diversified Property Fund	City Freeholds
Enterprise House	630-634 George Street	Sydney	NSW	Jun-2017	$60,000,000	100	-	-	3,166	$18,951	Unison Pty Ltd	Elegant George Pty Ltd
	163-165 Walker Street	North Sydney	NSW	Jul-2017	$60,000,000	100	5.40%	6.50%	5,244	$10,660	Charter Hall Direct Property Fund	Private Investor
Christie Corporate Centre	56 Berry Street	North Sydney	NSW	Dec-2017	$60,000,000	100	5.50%	6.50%	5,175	$11,594	Remco Properties	DEXUS Property Group
	8 West Street	North Sydney	NSW	Jul-2017	$58,880,000	100	5.40%	6.60%	6,025	$9,773	Property Bank Australia (50%) / Security Capital Corporation (50%)	Undisclosed (100%)
Readers Digest	26-32 Waterloo Street	Surry Hills	NSW	Sep-2017	$52,673,000	100	5.20%	7.10%	6,998	$7,527	Argus Property Partners	Barana Group
	126 Church Street	Parramatta	NSW	Apr-2017	$52,000,000	100	7.20%	7.40%	9,809	$5,301	Marprop Real Estate Partners	Qtkt Pty Ltd
	75 Miller Street	North Sydney	NSW	Nov-2017	$52,000,000	100	5.60%	6.50%	4,930	$10,507	Property Bank Australia (50%) / Security Capital Corporation (50%)	Undisclosed (100%)
University Centre	210 Clarence Street	Sydney	NSW	Oct-2017	$43,880,000	100	4.00%	6.30%	3,958	$11,086	Redbreast Pty Ltd	Orsun Family Trust
Cue Clothing Company Building	156 Clarence Street	Sydney	NSW	Mar-2017	$40,163,000	100	4.50%	6.60%	5,354	$12,473	Cue Clothing Company	Private Investor
	32 Smith Street	Parramatta	NSW	Mar-2017	$31,200,000	100	n/a	n/a	28,000	$1,114	Salvation Army (NSW) Property Trust	GPT Group
	20 York Street	Sydney	NSW	Nov-2017	$30,700,000	100	4.10%	5.39%	2,224	$13,804	Undisclosed	Sin Family
	426-428 Church Street	Parramatta	NSW	Aug-2017	$30,500,000	100	-	-	3,139	$9,716	Unison Pty Ltd	Salvation Army (NSW) Property Trust
Terrace Gardens	128 Marsden Street	Parramatta	NSW	Nov-2017	$26,000,000	100	-	-	3,777	$6,884	Rougem Pty Ltd	Undisclosed
Merchant & Partners	332-338 Kent Street	Sydney	NSW	Oct-2017	$25,000,000	100	4.00%	5.50%	1,600	$15,625	Warwick Sherman Enterprises Pty Ltd (50%) / Rikoaks Pty Ltd (50%)	Undisclosed (100%)

Transactions $20 million to $100 million by state

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price	Share of Sale (Total) %	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
New South Wales												
	11 Murray Rose Avenue	Sydney Olympic Park	NSW	Jul-2017	$24,700,000	100	-	-	5,900	$4,186	Sydney Olympic Park Authority	Folkestone
	115 Sailors Bay Road	Chatswood	NSW	May-2017	$23,000,000	100	-	-	2,542	$9,048	115 Sailors Bay Road Pty Ltd	Yuhu Group
	754-758 Pacific Highway	Chatswood	NSW	May-2017	$22,520,000	100	7.40%	7.20%	3,852	$5,846	Dolce Investments	Delhit Pty Ltd
	657 Pacific Highway	St Leonards	NSW	Aug-2017	$22,150,000	100	6.90%	7.20%	3,546	$6,246	Charter Hall Diversified Property Fund	657 Pacific Highway Pty Ltd
	39-47 Albany Street	Crows Nest	NSW	Feb-2017	$22,000,000	100	4.70%	6.30%	3,287	$6,693	Pindan Capital	Sun Property Australia
	35 Chandos Street	St Leonards	NSW	Nov-2017	$22,000,000	100	-	-	2,190	$10,046	NSW Farmers	Holdmark Property Group
Victoria												
Qantas House	38-56 Franklin Street	Melbourne	VIC	Dec-2017	$99,950,000	100	5.04%	6.76%	11,514	$8,681	Lian Beng Group	50 Franklin Street Pty Ltd
	390 St Kilda Road	Melbourne	VIC	Aug-2017	$98,000,000	100	6.07%	6.87%	16,730	$6,010	Fort Street Real Estate Capital	Rockworth Capital Partners
Gateway	312 St Kilda Road	Melbourne	VIC	Nov-2017	$77,000,000	100	5.40%	6.63%	10,275	$7,354	Myer Family Company	Tong Eng Group
	495 Blackburn Road	Mount Waverley	VIC	May-2017	$74,250,000	100	7.23%	7.43%	23,724	$3,129	EG Funds Management Core Plus Fund No. 1	Fife Capital
	420 St Kilda Road	Melbourne	VIC	Aug-2017	$68,900,000	100	6.07%	6.94%	9,200	$6,586	CES Properties (Aus) Pty Ltd	Vantage Property Group
Building 8	658 Church Street	Richmond	VIC	Mar-2017	$44,650,000	100	4.90%	6.56%	5,122	$8,613	Property Bank	Private Investor
	187 Todd Road	Port Melbourne	VIC	Oct-2017	$43,500,000	100	-	-	7,322	$5,941	Terraplex	Abacus Property Group
324 St Kilda Road	324 St Kilda Road	Melbourne	VIC	Oct-2017	$41,881,351	100	-	6.50%	7,100	$5,897	Lester Group	Glorious Sun
	2 Russell Street	Melbourne	VIC	Nov-2017	$38,000,000	100	-	-	1,900	$20,000	Schwartz Family	Undisclosed
	10-16 Dorcas Street	South Melbourne	VIC	Jun-2017	$37,000,000	100	6.56%	7.27%	7,161	$4,890	Crescent Wealth	Jing Liyang
Newspaper House	247-249 Collins Street	Melbourne	VIC	Apr-2017	$35,000,000	100	4.26%	5.94%	1,277	$17,381	Lian Beng Group	Oriental Holdings Bhd
Bourke House	179-183 Bourke Street	Melbourne	VIC	Mar-2017	$33,000,000	100	-	-	1,500	$20,022	Unicorn Hotel Nominees Pty Ltd (Carole Hart)	Golden Bridge Holding Pty Ltd
iSelect HQ	294 Bay Road	Cheltenham	VIC	Jul-2017	$27,325,000	100	-	-	4,500	$6,072	Trilogy Funds	ZACD
	785 Toorak Road	Hawthorn East	VIC	Nov-2017	$24,650,000	100	-	-	2,000	$12,325	IOOF Investment Management	Undisclosed
	102 Albert Road	South Melbourne	VIC	Feb-2017	$24,380,000	100	6.99%	6.98%	4,671	$5,114	Wilfred Kong	Ouson Group
Compark Corporate Office Complex	13 Compark Circuit	Mulgrave	VIC	Jun-2017	$21,500,000	100	-	7.51%	2,972	$7,234	GJEH Pty Ltd	Stronghold Investments Advisory

Transactions $20 million to $100 million by state

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price	Share of Sale (Total) %	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
Victoria												
	17-21 Hardner Road	Mount Waverley	VIC	Jun-2017	$20,500,000	100	-	-	6,412	$3,197	Paragon Financial Group	Undisclosed
	675 Victoria Street	Richmond	VIC	Feb-2017	$20,400,000	100	-	8.12%	3,757	$5,444	Hooker Cockram	Terraplex
	555 Lonsdale Street	Melbourne	VIC	Oct-2017	-	100	-	-	14,991	-	QIC Global Real Estate	Deutsche Asset Management
Queensland												
	199 Grey Street	South Brisbane	QLD	Oct-2017	$92,600,000	100	5.83%	7.33%	11,845	$7,818	Earl Lamar	AMP Capital
Virgin Village	Lot 2 56 Edmondstone Road	Bowen Hills	QLD	Dec-2017	$90,800,000	100	-	-	12,427	$7,307	Charter Hall Direct VA Trust	Charter Hall Long WALE REIT
	100 Wickham Street	Fortitude Valley	QLD	Aug-2017	$83,850,000	100	8.26%	7.19%	13,350	$6,386	Keystone Private	Ascendas REIT
	545 Queen Street	Brisbane	QLD	Apr-2017	$70,500,000	100	11.23%	7.25%	13,581	$5,191	GPT Wholesale Office Fund	Axis Capital
Health and Forestry House	Charlotte and Mary Street	Brisbane	QLD	May-2017	$66,000,000	100	-	-	29,701	$2,222	Cromwell Property Group	Ashe Morgan
	31 Duncan Street	Fortitude Valley	QLD	Nov-2017	$64,000,000	100	-	-	4,060	$15,764	AsheMorgan	Tribune Properties
366, 370 and 380 Queen Street			QLD	Jun-2017	$56,775,000	100	n/a	n/a	n/a	n/a	Clive Palmer (45%) / Blackstone (41%) / Martel Pty Ltd (14%)	Charter Hall Prime Office Fund (50%) / Investa Commercial Property Fund (50%)
Forty Tank	40 Tank Street	Brisbane	QLD	Apr-2017	$56,100,000	100	-	-	5,500	$10,200	151 Property Group (100%)	Seymour Group (50%) / Ariadne (50%)
Tower 1 Waterloo Junction	12 Commercial Road	Newstead	QLD	Jul-2017	$47,000,000	100	7.78%	7.19%	6,562	$7,162	Cambooya Pty Ltd	Cape Bouvard
200 Creek Street	200 Creek Street	Spring Hill	QLD	Jan-2017	$38,700,000	100	-	-	7,599	$5,093	Centuria Property Funds Limited	Sentinel Property Group
Publicis - Mojo House	164 Grey Street	South Brisbane	QLD	Jan-2017	$30,300,000	100	7.67%	7.15%	3,081	$9,834	Renweed Pty Ltd	Marquette Properties (5%) / Moelis Australia Asset Management (95%)
Gasometer 1	76 Skyring Terrace	Newstead	QLD	Dec-2017	-	100	-	-	8,000	-	Aveo	AMP Capital

Transactions $20 million to $100 million by state

Building / Portfolio Name	Address	Suburb	State	Sale Date	Sale Price	Share of Sale (Total) %	Initial Yield (Fully Leased)	IRR	NLA (sqm)	Price/ m2	Vendor	Buyer
Western Australia												
Westpac Bank Building	109 St Georges Terrace	Perth	WA	May-2017	$71,770,000	100	-	7.40%	13,890	$5,167	Charter Hall Prime Office Fund	Far East Organization
Hatch Building	144 Stirling Street	Perth	WA	Jun-2017	$58,220,000	100	8.99%	7.89%	11,042	$5,273	Charter Hall	Centuria Metropolitan REIT
	226 Adelaide Terrace	Perth	WA	Aug-2017	$54,600,000	100	-	-	13,576	$4,022	South Australian Motor Accident Commission	Blackstone
SGIO	42-46 Colin Street	West Perth	WA	Jul-2017	$33,550,000	100	-	7.90%	8,433	$3,978	Dexus Office Trust	Centuria Metropolitan REIT
	20 Parkland Road	Herdsman	WA	Jun-2017	$27,251,500	100	7.64%	6.46%	4,825	$5,674	Decmil	Primewest
	26 Thomas Street	West Perth	WA	Mar-2017	$23,100,000	100	-	-	3,935	$5,870	Demol Investments	State School Teachers' Union of Western Australia
South Australia												
City Central Tower 2 (Ernst & Young)	121-129 King William Street	Adelaide	SA	Aug-2017	$58,400,000	100	-	-	12,409	$4,706	South Australian Motor Accident Commission	Blackstone
Citi Centre Building	11 Hindmarsh Square	Adelaide	SA	Aug-2017	$41,500,000	100	-	-	16,146	$2,570	Landmark Plaza Pty Ltd	Local Private Syndicate
Stillwell House	99-105 Gawler Place	Adelaide	SA	Aug-2017	$34,600,000	100	-	-	10,875	$3,182	South Australian Motor Accident Commission	Blackstone
Australian Capital Territory												
Childers Square	14 Childers Avenue	City	ACT	Dec-2017	$92,150,000	100	7.67%	7.21%	15,150	$6,082	Morris Property Group (50%) / Childers Street Nominees (50%)	Challenger (100%)
	44 Sydney Avenue	Forrest	ACT	Nov-2017	$58,600,000	100	6.90%	8.77%	9,948	$5,891	Quintessential Equity	Charter Hall Direct PFA Fund
Penrhyn House	2-6 Bowes Street	Phillip	ACT	Mar-2017	$58,380,000	100	6.63%	7.97%	12,348	$4,728	Quintessential Equity	Undisclosed
AMSA Building	82 Northbourne Avenue	Braddon	ACT	Mar-2017	$57,330,000	100	7.13%	7.69%	7,001	$8,189	Worthwest	Challenger
Anzac Park West	99 Constitution Avenue	Parkes	ACT	Dec-2017	$51,000,000	100	8.81%	9.45%	17,149	$2,974	The Commonwealth of Australia	EG Funds Management
	11 Moore Street	City	ACT	Mar-2017	$44,000,000	100	8.09%	8.05%	8,735	$5,037	Willemsen Group	Lederer Group
Anzac Park East	Constitution Avenue	Parkes	ACT	Dec-2017	$34,300,000	100	n/a	n/a	18,061	$1,899	The Commonwealth of Australia	Amalgamated Property Group
	Block 8 Section 3 Constitution Avenue	Parkes	ACT	Dec-2017	$21,700,000	100	n/a	n/a	13,517	$1,605	The Commonwealth of Australia	Amalgamated Property Group

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