

A U S T R A L I A N

C O M M E R C I A L R E A L E S T A T E G U I D E



CUSHMAN &
WAKEFIELD



MAY 2019

**INSIGHTS
INTO
ACTION**

Country, New South Wales

AUSTRALIAN COMMERCIAL REAL ESTATE GUIDE

C O N T E N T S

Executive summary	04	
General country overview	05	
	05	Geographic overview
	06	Demographic overview
Australian political and economic overview	10	
	10	Australian political overview
	12	Australian economic overview and outlook
	15	Inflation
	15	Interest rates
	16	Employment
	16	State economic outlooks
Commercial property markets	19	
	19	Office
	21	Retail market snapshot
	24	Australian retail trade
	26	Industrial market snapshot
	28	Agricultural market
	32	Hotel market
Investment market	34	
	34	Risk and return
	34	Return outlook

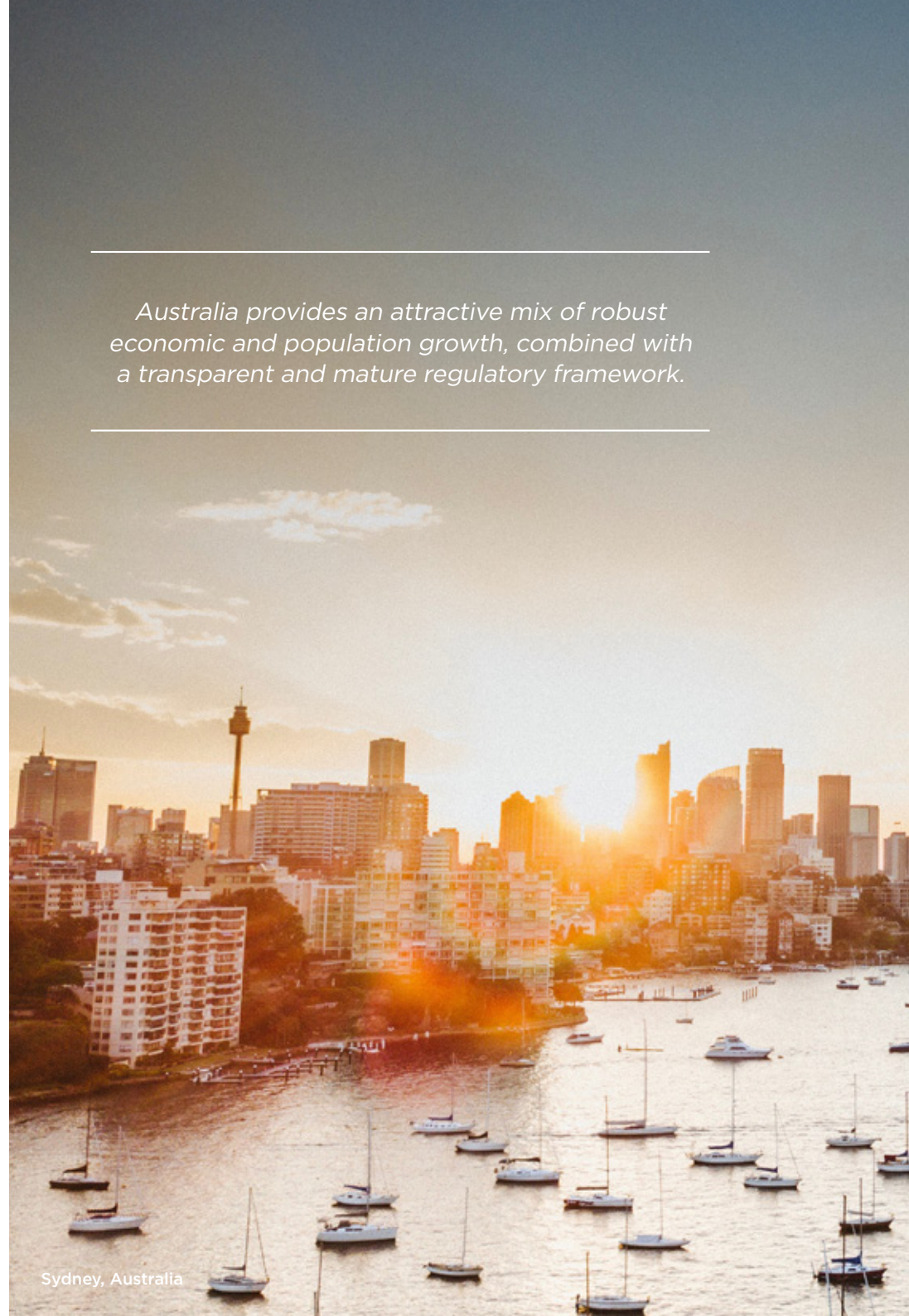
executive summary

The Australian economy in 2018 achieved the record for a developed economy of 27 years of continuous economic growth. Across the country, growth has been strongest in the service sector dominated states such as New South Wales and Victoria. Growth has been slower in the resource dominated states of Queensland and Western Australia following the post GFC 'construction cliff', though the low now appears to be past with Queensland well into the recovery phase.

In line with economic performance, New South Wales and Victoria's commercial real estate markets lead across all sectors with generally higher demand, tighter vacancy, higher rents and tighter yields. This is mainly being driven by service sector growth, particularly technology. Queensland and Western Australia are at varying stages of recovery with Queensland leading Western Australia due to its broader based recovery while Western Australia has benefited from an improvement to Australia's mining outlook. Both these markets have begun to show renewed strength in 2018, as investor interest grows.

Australia is an attractive investment destination for international investors, noted for its comparatively high yields and stable return profile. Although property yields have compressed to near historic lows, commercial property investment still compares favourably to both fixed interest markets and many international commercial property markets.

Australia provides an attractive mix of robust economic and population growth, combined with a transparent and mature regulatory framework.



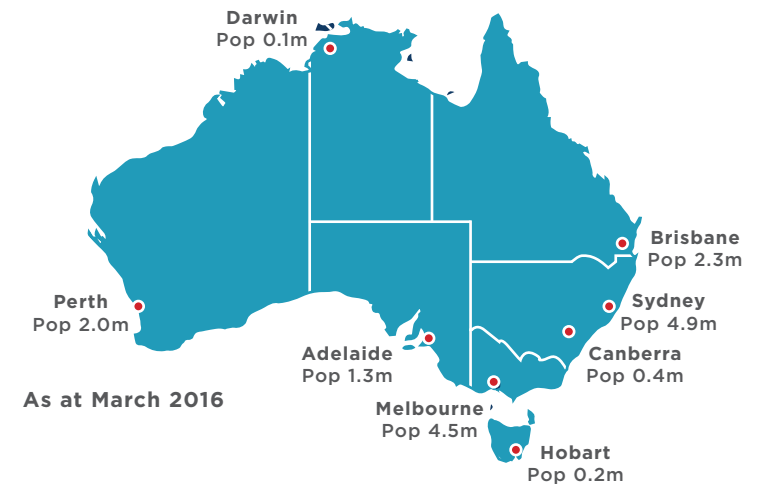
Sydney, Australia

General country overview

GEOGRAPHIC OVERVIEW

Australia is the sixth largest country in the world after Russia, Canada, China, the USA, and Brazil. With a land mass of approximately 7.7million square kilometres, it is the smallest continent but the world's largest island. The country spans approximately 4,000 km from east to west and 3,000 km from north to south. By comparison it is about 50% greater than Europe.

MAP 1: Australian major city population size



MAP 2: Australian landmass compared to USA and Europe



AUSTRALIA IS THE
6TH LARGEST
COUNTRY
IN THE WORLD

DEMOGRAPHIC OVERVIEW

Australia has a population of approximately 25 million, placing it 53rd in the most recent global rankings. Overall population density is low at just three people per square kilometre, however, much of the country's interior is classified as desert and is unpopulated. Most of the population is therefore concentrated in two coastal regions – the south-east and east, and the south west – and is 90% urban.

The eastern and south-eastern seaboard of Australia is by far the more populated of the two coastal regions. Approximately half the country's population, 12.1 million, live in the east coast capitals of Sydney (4.9m), Melbourne (4.5m), Brisbane (2.3m) and Canberra (0.4m).

The national population has grown by 1.6% per annum (pa) on average over the past five years. Natural increase over the past five years has contributed around 40% of population growth with approximately

60% due to immigration. Deloitte Access Economics forecast population growth over the next 5 years to average 1.4% per annum.

At the sub-national level, growth dynamics vary between the States and Territories. While all States and Territories benefit from natural increase, they differ in levels of immigration and interstate migration. New South Wales and Victoria typically receive the highest levels of net overseas migration gain, accounting for 75% of the national total, followed by Queensland (11%). Immigration to the remaining five States and Territories is more limited at 14% of the national total combined.

For the 25 years preceding the Global Financial Crisis (GFC), Victoria was a net exporter of interstate migrants. However, between 2013 and 2016 the strengthening Victorian economy resulted in it achieving the nation's highest internal migration gains. Queensland has traditionally been the top recipient

of interstate migration. Though weaker economic performance post GFC had reduced net flows to the state. Since its low in 2014, Queensland has recorded consistent improvements and in 2017 it once again lead in terms of net interstate migration gains, fuelled at least partly by Sydneysiders moving north in search of more affordable housing.

In contrast to Queensland and Victoria's performance in recent years, New South Wales has consistently experienced net interstate migration losses over the past 35 years. Similarly, though at a much lower level, South Australia is a regular interstate migration exporter while the direction of interstate migration to/ from Western Australia is heavily tied to its economic productivity.

AUSTRALIA COMPRISES SIX STATES, AND TWO TERRITORIES:

TABLE 1: Australian state population and economic size and growth

STATE/TERRITORY	CAPITAL	POPULATION ¹	POPULATION GROWTH RATE ²	GROSS STATE PRODUCT (GSP) ³	GSP GROWTH RATE ²
New South Wales	Sydney	7.7m	1.5%	\$593bn	2.6%
Victoria	Melbourne	6.2m	2.2%	\$424bn	3.5%
Queensland	Brisbane	4.8m	2.1%	\$340bn	3.4%
South Australia	Adelaide	1.7m	1.0%	\$106bn	2.0%
Western Australia	Perth	2.6m	2.5%	\$256bn	1.9%
Tasmania	Hobart	0.5m	0.6%	\$30bn	3.3%
Northern Territory	Darwin	0.2m	1.8%	\$26bn	1.7%
Australian Capital Territory	Canberra	0.4m	2.0%	\$39bn	4.0%
Australia	Canberra	24.2m	1.8%	1,815bn	2.8%



AUSTRALIA HAS A
POPULATION OF
**APPROXIMATELY
25 MILLION**



12.1 MILLION
OF THE POPULATION
LIVE IN THE
**EAST COAST
CAPITALS**

1: Estimated residential population as at March 2016.

2: Change over previous year growth rate.

3: As at June 2018.

SOURCE: ABS; DAE





Barangaroo reserve in Sydney

TABLE 2: Demographic characteristics by capital city

2016 CENSUS		SYDNEY		MELBOURNE		BRISBANE		PERTH		ADELAIDE		AUSTRALIA	
		#	%	#	%	#	%	#	%	#	%	#	%
Population	Total	5,029,768		4,725,316		2,360,241		2,022,044		1,324,279		24,210,809	
Age	Median Age	36		36		35		36		39		38	
Household Income (per week)	Median	\$1,750		\$1,542		\$1,562		\$1,643		\$1,265		\$1,438	
Dwelling Structure (occupied private dwellings)	Detached	924,225	57%	1,067,637	68%	602,947	77%	530,833	77%	368,244	75%	6,041,788	74%
	Townhouse/ Semi-det	227,238	14%	264,404	17%	79,228	10%	110,152	16%	82,994	17%	1,055,016	13%
	Flat/Unit	456,233	28%	231,297	15%	99,679	13%	45,418	7%	38,309	8%	1,087,434	13%
Dwelling ownership (occupied private dwellings)	Owned Outright	472,635	30%	479,374	31%	208,811	27%	193,636	29%	151,060	32%	2,565,695	32%
	Mortgaged	539,917	34%	567,574	36%	281,867	37%	289,273	43%	179,648	38%	2,855,222	36%
	Rented	553,249	35%	472,462	30%	272,751	36%	184,428	28%	142,460	30%	2,561,302	32%
Household Structure (occupied private dwellings)	Couple no Children	385,859	24%	381,683	24%	207,546	26%	186,134	27%	127,484	26%	2,198,547	27%
	Couple with Children	607,343	37%	557,251	35%	263,950	33%	236,471	34%	147,638	30%	2,687,384	32%
	Lone Parent	179,463	11%	167,595	11%	91,815	12%	71,821	10%	56,892	12%	919,128	11%
	Group	76,795	5%	78,913	5%	41,605	5%	27,644	4%	19,439	4%	354,917	4%
	Lone Person	351,423	22%	366,005	23%	173,424	22%	159,002	23%	134,833	27%	2,023,542	24%
	Other	22,993	1%	23,033	1%	11,117	1%	9,212	1%	6,166	1%	102,560	1%
	Average Hold size	2.8		2.7		2.7		2.6		2.5		2.6	
Employment (#workers)	White Collar	1,663,952	75%	1,522,729	73%	761,918	72%	657,240	73%	416,452	72%	7,436,584	71%
	Blue Collar	564,526	25%	556,197	27%	294,438	28%	248,007	27%	161,671	28%	3,061,108	29%

SOURCE: ABS; Cushman & Wakefield Research

Australian political and economic overview

AUSTRALIAN POLITICAL OVERVIEW

Australia's official name is the Commonwealth of Australia. Australia is both a representative democracy and a constitutional monarchy with Queen Elizabeth II as Australia's head of state. The nation has a liberal democrat tradition which encourages tolerance, freedom of speech and association. There are three levels of government:

1 The Commonwealth, Federal or National Government:

The Commonwealth is responsible for national laws and administration of areas such as: trade, taxation, immigration, citizenship, social security, industrial relations and foreign affairs.

The Commonwealth Government is also responsible for levying a range of taxes such as income tax, goods and service tax (GST) and withholding tax (a withholding from interest paid to foreign residents).

Laws are required to be passed through the National Parliament which has two chambers: the House of Representatives (Lower House) and the Senate (Upper House). Legislation has to be approved by both houses before it can become law.

The term of the House of Representatives is not fixed, though, Federal elections are generally held every three years. Senators have fixed terms of six years, with half of the senators turning over after elections every three years.



Sydney Harbour Bridge



2 State and Territory Governments: State and Territory Governments are responsible for those powers not administered by the Commonwealth Government which include: public health, education, roads and public land use.

Every State and Territory has its own Parliament and its own Constitution Act (which can be amended by its Parliament), but they are also bound by the national constitution. All State Parliaments other than Queensland are bicameral with an Upper and Lower House. The Parliament of each Territory has only one House.

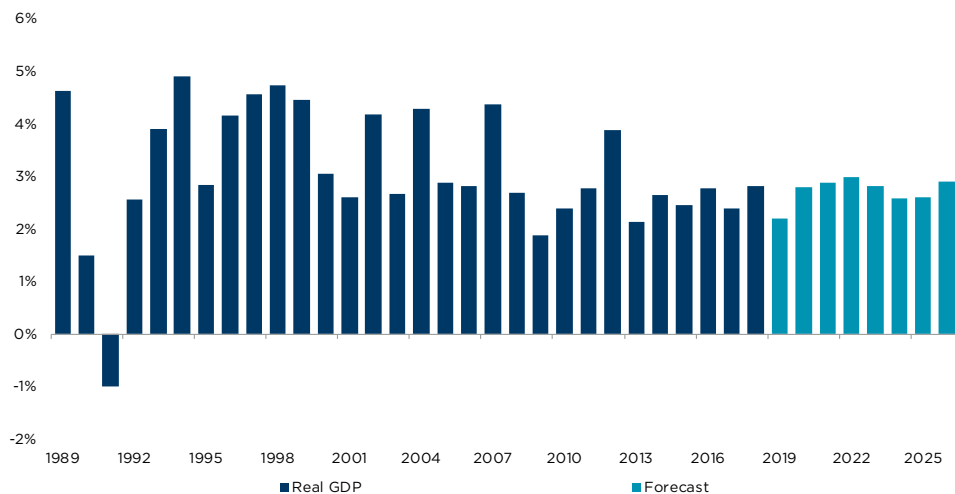
State and Territory Governments are also responsible for a range of taxes or charges such as land tax or transaction fees such as 'stamp duty' on property transactions. These fees vary depending on factors such as the State or Territory the property is located in, the value of the property and the whether the owner is an Australian resident.

3 Local Government: There are approximately 537 local government bodies or Councils in Australia. The powers of local government vary from State to State and are the responsibility of State Governments.

Responsibilities typically include town planning, supervision of building codes, local roads, water, sewerage and drainage, waste and sanitary services as well as community recreational facilities.

Local government revenue comes from three main sources - taxation (rates usually based on property ownership), user charges and grants from Federal and State/Territory governments.

FIGURE 1: Australian real GDP growth rate (% per annum)



SOURCE: DAE; Cushman & Wakefield Research

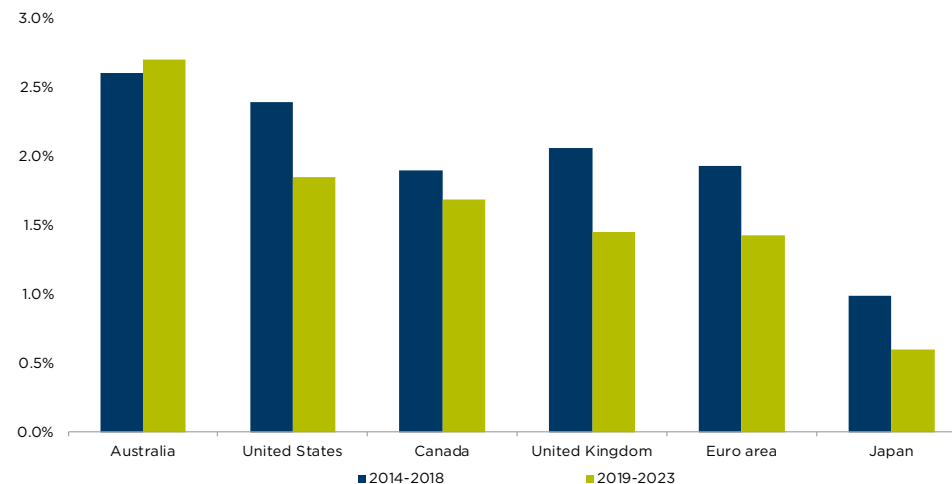
AUSTRALIAN ECONOMIC OVERVIEW AND OUTLOOK

In 2019, the Australian economy is expected to enjoy its 28th year of continuous, stable economic growth. The growth compares favourably with other advanced economies and is expected to continue over the next 5 to 10 years. Deloitte Access Economics forecasts real economic growth of 2.8% from 2019 to 2023. Nominal economic growth, which includes inflation, is forecast to drop to 4.6% in 2019 and average 4.3% per annum over the 2019 to 2023 period.

**IN 2019 THE AUSTRALIAN ECONOMY IS
EXPECTED TO ENJOY ITS
28TH YEAR OF
STABLE ECONOMIC GROWTH**

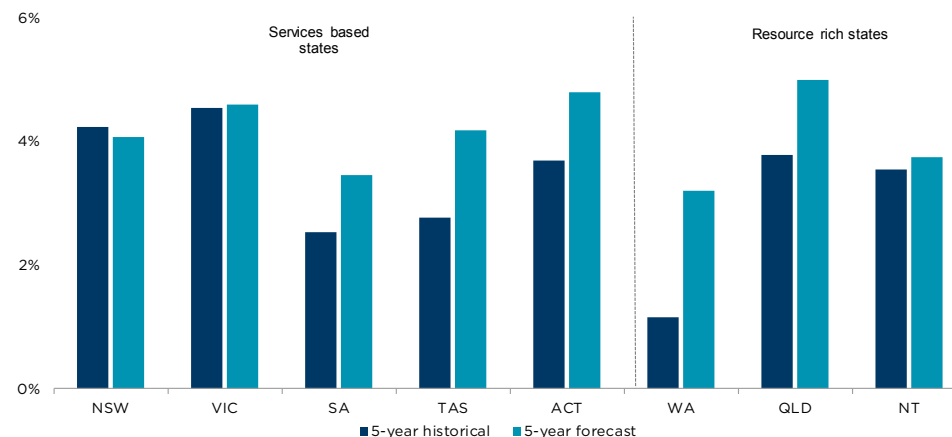


FIGURE 2: Comparative GDP growth rate for selected countries (% per annum)




SOURCE: IMF; Cushman & Wakefield Research

FIGURE 3: GSP growth rate for selected States/Territories (% per annum)



SOURCE: DAE; Cushman & Wakefield Research

Across the nation, economic growth rates are expected to converge as the effects of the construction cliff in the resource dominated states unwinds. Since the GFC, economic growth in states such as Western Australia, Queensland and the Northern Territory has been limited as investment in resource projects fell away. However, the low in investment appears to have past and economic growth is building, driven by increased exports. Growth is also likely to be supported by lower-for-longer interest rates, a relatively low exchange rate and infrastructure investment.



Sea Cliff Bridge, New South Wales



Perth, Western Australia

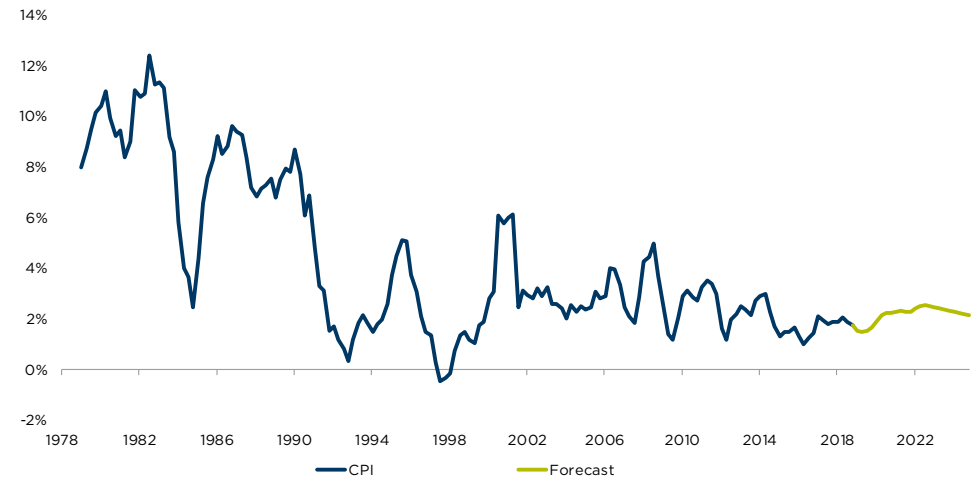
INFLATION

Australian consumer price data for Q4 2018 indicates price pressure remains very low. The 'headline' measure of inflation recorded annual growth of 1.8%, below the RBA's target band of 2-3%. Underlying inflation measures including the Trimmed Mean and Weighted Median indices, (which reduce the impact of more volatile items such as fuel, fruit and vegetables), were also relatively soft, rising by an average of 1.8% and 1.7% respectively over the 12 months to December. Looking forward, Deloitte Access Economics expects price pressures to remain limited, with the CPI forecast to stay in lower half of the RBA's target range over the next five years (Figure 4).

INTEREST RATES

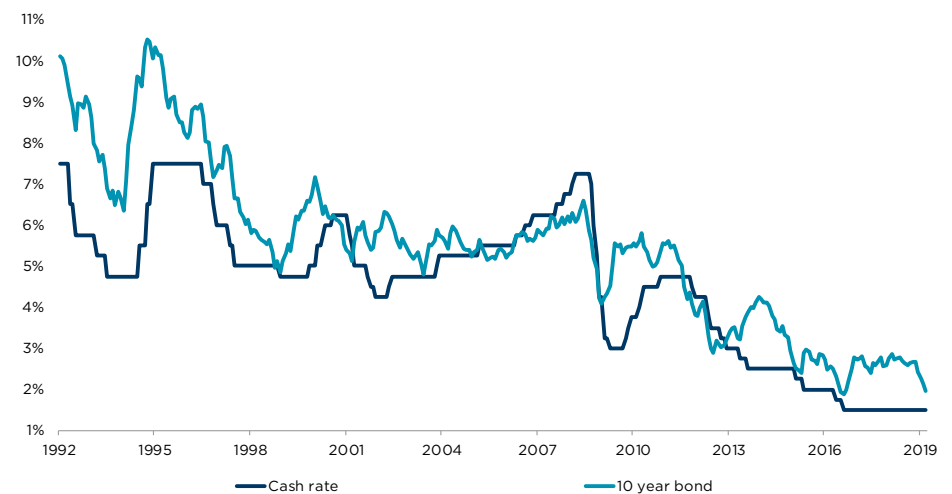
The RBA target cash rate has been at the record low rate of 1.5% since August 2016. With economic growth expected to remain a little below trend and inflation muted, interest rates are expected to remain lower-for-longer. The market, as indicated by 30 Day Interbank Cash futures in March 2019, is pricing in the likelihood of rates moving lower in the second half of 2019, with the probability of a second 25 basis point cut increasing. Bond yields remained relatively stable throughout 2017 and most of 2018 but moved lower in late 2018 and early 2019 (Figure 5).

FIGURE 4: Actual and forecast annual CPI growth (%)



SOURCE: DAE; Cushman & Wakefield Research

FIGURE 5: Target cash rate and 10-yr Government bond yield



SOURCE: RBA; Cushman & Wakefield Research

EMPLOYMENT

Unemployment was recorded at 5.0% in January 2019 – its equal lowest level in more than six years.

Employment growth, which hit a recent high of 3.6% per annum in January 2018 has moderated to 2.2% per annum as of January 2019.

**NEW SOUTH WALES
GDP GROWTH TO AVERAGE
2.7%
BETWEEN 2019 & 2021**

STATE ECONOMIC OUTLOOKS

NEW SOUTH WALES

The New South Wales economy is expected to continue to perform solidly in 2019. This is despite the cooling of the housing sector, which is likely to remain weak in the near term. Deloitte Access Economics forecasts real GDP growth to average 2.7% between 2019 and 2021 compared to average annual growth of 2.5% for the 10 years between 2009 - 2018.

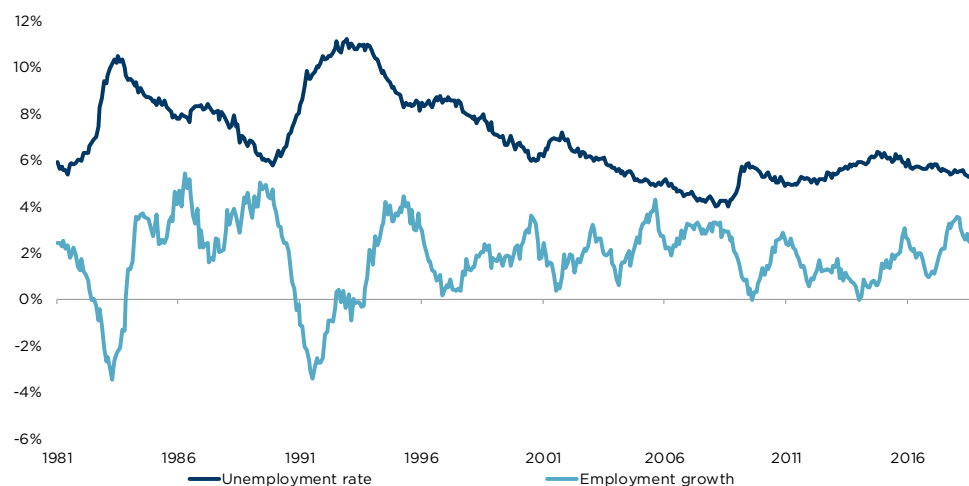
Key drivers are expected to be continued low interest rates, the reduced exchange rate as well as still solid population growth. A relatively large pipeline of infrastructure projects is also expected to support the state's growth.

Key risks for the NSW economy include the housing sector or a drop-in business investment. In addition, high levels of employment in the finance services sector in Sydney increases the economy's sensitivity to the global economy and financial markets.

VICTORIA

The Victorian economy is expected to achieve relatively strong growth between 2019 and 2021 with Deloitte Access Economics forecasting average annual growth of 3.1%. Like NSW, lower interest rates and the weaker exchange rate should underpin growth in Victoria. Comparatively strong population growth is also forecast to be a key driver of the Victorian economy however Victorian net interstate migration may have peaked in 2017. The key risk for Victoria is also a housing market correction and/or a global economic shock.

FIGURE 6: National unemployment rate and annual employment growth (%)



SOURCE: ABS; Cushman & Wakefield Research

DELOITTE ACCESS ECONOMICS

**VICTORIA FORECAST AVERAGE
ANNUAL GROWTH OF**

3.1%



**QUEENSLAND FORECAST AVERAGE
ANNUAL GROWTH OF**

3.3%

QUEENSLAND

After a period of relatively soft growth between 2009 and 2017, Queensland's economic growth is gathering pace. Deloitte Access Economics are forecasting Queensland economic growth to average 3.3% between 2019 and 2021. Key drivers of Queensland's growth are expected to be increased export volumes and tourism. Key risks for the Queensland economy include a further slowing in the global economy, weaker commodity prices and potential apartment oversupply in Brisbane.



Nawi Cove in Barangaroo district, Sydney

SOUTH AUSTRALIA

In 2019, South Australia is expected to have one of the slower economic growth rates of Australia's states and territories. Deloitte Access Economics forecasts growth to average 2.0% per annum in 2019-2021. In recent years the closure of the Holden manufacturing plant has weighed down the South Australian Economy. However, infrastructure spending has been increased and ongoing defence spending is a positive for the economy as well as the support the weaker AUD provides for the agricultural sector. Key risks for the state include further slowing in the manufacturing sector as well ongoing commodity price weakness.

WESTERN AUSTRALIA

The Western Australia economy in 2019 is expected to be past its low point in this cycle. The winding down of the construction phase of the mining boom, combined with weaker commodity prices resulted in lower consumer confidence and reduced economic growth. However, by late 2018, consumer confidence reached a five-year high and economic growth had returned to positive territory. Continued growth is expected with Deloitte Access Economics forecasting real GDP growth to average 2.6% per annum over 2019, 2020 and 2021. Key risks for the Western Australian economy are global economic growth and the commodity cycle.



Melbourne, Victoria

commercial property markets

OFFICE

MARKET SIZE AND STRUCTURE

The Australian office market totals approximately 25 million square metres (sqm) of floor space or gross lettable area (GLA). Most stock, about 18 million sqm, is situated in the capital city CBD markets with the remainder, around 7million sqm, outside the CBDs.

VACANCY

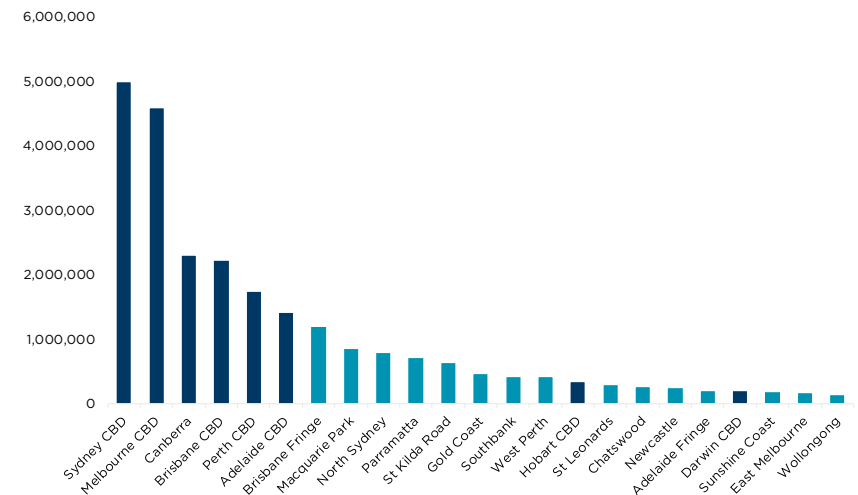
Vacancy rates in Australia's CBD office markets tend to reflect state economic growth with the divergence between the resource and service driven states continuing.

Stronger demand for space and generally lower vacancy rates in the service sector driven states of New South Wales (Sydney) and Victoria (Melbourne) and higher vacancy rates in the markets dominated by resources, namely Brisbane, Perth and Darwin. Canberra, in the Australian Capital Territory, is dominated by federal government uses and is experiencing elevated, though declining vacancy.



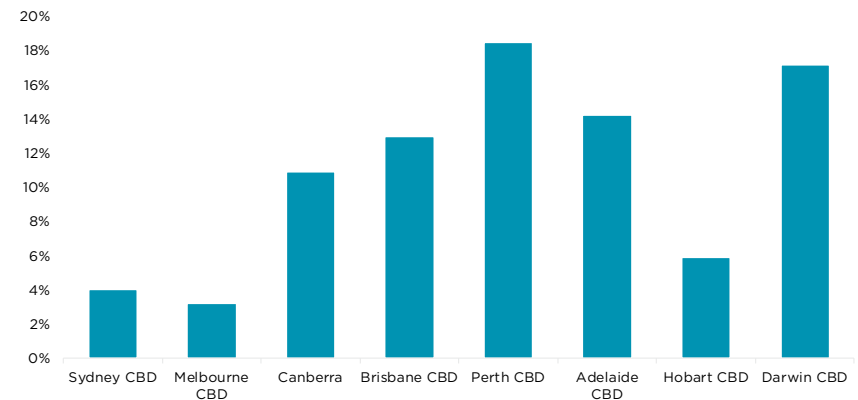
AUSTRALIAN OFFICE MARKET TOTALS APPROXIMATELY
25 MILLION SQM
OF FLOOR SPACE

FIGURE 7: Capital city CBD office market stock (sqm)



SOURCE: PCA; Cushman & Wakefield Research

FIGURE 8: Capital city CBD office vacancy rate



SOURCE: PCA; Cushman & Wakefield Research

SYDNEY CBD

10,443 sqm 12m
Net Absorption

4.1% Vacancy

\$1030 per sqm per annum
Prime Gross Effective Rent

20% Prime Gross Incentive



MELBOURNE CBD

135,290 sqm
Net Absorption

3.2% Vacancy

\$630 per sqm per annum
Prime Gross Effective Rent

20% Prime Gross Incentive



BRISBANE CBD

46,931 sqm
Net Absorption

13.0% Vacancy

\$455 per sqm per annum
Prime Gross Effective Rent

37% Prime Gross Incentive



SYDNEY CBD OFFICE MARKET

Since 2016, the Sydney CBD office market has experienced its strongest tenant demand since pre-GFC. The strength of the NSW economy combined with the withdrawal of multiple office towers for redevelopments and infrastructure projects has led to a shortage of CBD floor space, where vacancy rates are approaching record lows. Total market vacancy has tightened to 4.1% as of January 2019, significantly down on the post-GFC high of 9.7%. The decline in vacancy has driven solid face rent growth as well as a decline in incentives. Cushman & Wakefield Research data indicate that after the 2016 calendar year in which Prime gross effective rents rose by 19.5% to \$895 per sqm per annum, rent growth has slowed but remained positive in 2017 and 2018. Over the 12 months to March 2019, Prime gross effective rents rose to \$1,030 per sqm, representative of 8.0% YoY growth. With limited new supply due in 2019, vacancy is expected to fall to around 3.5% and drive strong rental growth until the next supply cycle post 2020.

MELBOURNE CBD OFFICE MARKET

The Melbourne CBD office market is also experiencing a period of low vacancy driven by limited supply and positive net absorption. Total market vacancy fell to 3.2% in January 2019 after peaking at 9.8% in 2013. The decline in available space has underpinned growth in prime net effective rents, which rose by 10.5% in the 12 months to March 2019, to \$460 per sqm per annum. Looking ahead, significant supply will be added from 2019, which will see anchor tenants relocate and multiple backfill opportunities arise. Vacancy is expected to increase with the influx of new supply, while effective rent growth should ease.

SOURCE: PCA; Cushman & Wakefield Research



BRISBANE CBD OFFICE MARKET

The Brisbane CBD office market is improving after several years of rising vacancy and falling rents. Subdued demand in the Queensland economy as the commodity boom wound down and the Government reduced public service job numbers resulted in negative net absorption, which combined with new supply to push vacancy to a peak of 16.9% by July 2016. Over the period of rising vacancy, Prime gross incentives also rose to nearly 40% after being near zero in 2008. Since 2018, the market has improved with the vacancy rate falling to 13.0% by January 2019 on limited new supply and improving tenant demand. With stronger economic growth expectations and a strengthening in net interstate migration, vacancy should continue on a moderate downward trend. However, despite the improving outlook, significant rental growth is not expected in the near term as the market remains firmly tenant favourable.

RETAIL MARKET SNAPSHOT

There are over 2,400 shopping centres across Australia, with a gross lettable retail area (GLAR) of more than 28 million sqm. Centres are usually categorised by their size and tenant mix, with most centres either regional (including super and major regionals), sub-regional or neighbourhood.

Larger regional centres dominate total floor space with GLAR of over 9 million sqm compared to smaller neighbourhood centres that have a GLAR of around 5 million sqm. Neighbourhood centres are more numerous with over 900 centres compared to around 130 regional centres.

Ownership of regional centres is dominated by institutions with ownership more diversified amongst the smaller centres. For example, AREITs Scentre and Vicinity own nearly 100 centres, predominantly regionals or sub-regional centres, with a total GLAR of about 5.6 million sqm.



According to the Shopping Centre Council of Australia, total shopping centre space in Australia is 0.94 sqm per capita. The equivalent ratio in the US is about 2.19 sqm, indicating the US has more than two times the retail space per capita than Australia. Part of the reason for this is Australia's planning regime. While the guidelines vary across the nation, they have generally served to limit the pace of retail development activity.

The main categories of shopping centres, as defined by the Property Council of Australia, include:

SUPER REGIONAL CENTRE

The largest shopping centres in Australia, typically incorporating two full line department stores, one or more full line discount department stores, two supermarkets and over 250 specialty shops.

Total gross lettable area retail exceeds 85,000 square metres.

MAJOR REGIONAL CENTRE

A major shopping centre typically incorporating at least one full line department store, one or more full line discount department stores, one or more supermarkets and around 150 specialty shops.

Total gross lettable area retail generally ranges between 50,000 and 85,000 square metres.

REGIONAL CENTRE

A regional shopping centre typically incorporates one full line department store, a full line discount department store, one or more supermarkets and around 100 or more specialty shops.

Total gross lettable area retail typically ranges between 30,000 and 50,000 square metres.

In some instances, all other characteristics being equal, a centre with two full line discount department stores, without a department store, serves as a regional centre.



Queen Street Mall, Brisbane



SUB REGIONAL CENTRE

A medium sized shopping centre typically incorporating at least one full line discount department store, a major supermarket and around 40 or more specialty shops.

Total gross lettable area retail will typically range between 10,000 and 30,000 square metres.

NEIGHBOURHOOD CENTRE

A local shopping centre comprising a supermarket and up to around 35 specialty shops.

Total gross lettable area retail will typically be less than 10,000 square metres.

CITY CENTRE

Retail premises within an arcade or mall development owned by one company, firm or person and promoted as an entity within a major Central Business District.

Total gross lettable area retail exceeds 1,000 square metres.

BULKY GOODS

A medium to large sized shopping centre dominated by bulky goods retailers (furniture, white goods and other homewares), occupying large areas to display merchandise. Typically contain a small number of specialty shops.

Generally greater than 5,000 square metres (GLAR) in size.

OUTLET CENTRE

An outlet centre is a type of shopping mall in which manufacturers sell their products directly to the public through their own stores.

AUSTRALIAN RETAIL TRADE

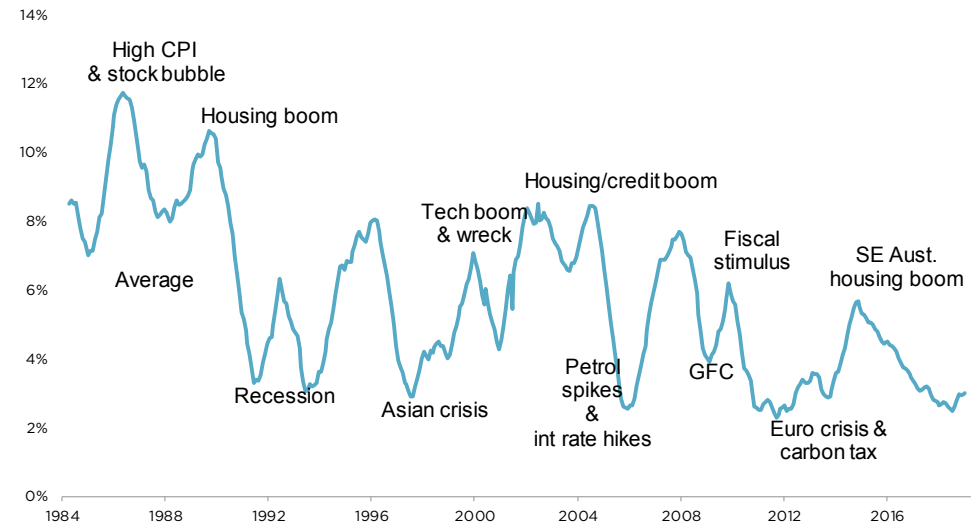
Over the 12 months to December 2018, retail sales Moving Annual Turnover (MAT) has grown by 3.0%, below the long-term average (being the low inflation period from 1993) of 5.0% per annum. The rate of growth has been relatively low for a number of years and reflects a combination of structural and cyclical factors. Cyclical include the slowing housing market and weak income growth. Structural factors include growth in online sales and reduced pricing power as well as demographic shifts changing shopping habits.

Looking forward, retail sales growth should remain positive but sub-trend in 2019, as slowing housing markets are offset by relatively strong infrastructure spending, improved employment growth and slowly improving wages growth. Retailers that focus on services or everyday needs are likely to outperform retailers competing with online.

MOVING ANNUAL TURNOVER (MAT) HAS GROWN BY HAS GROWN BY 3.0%

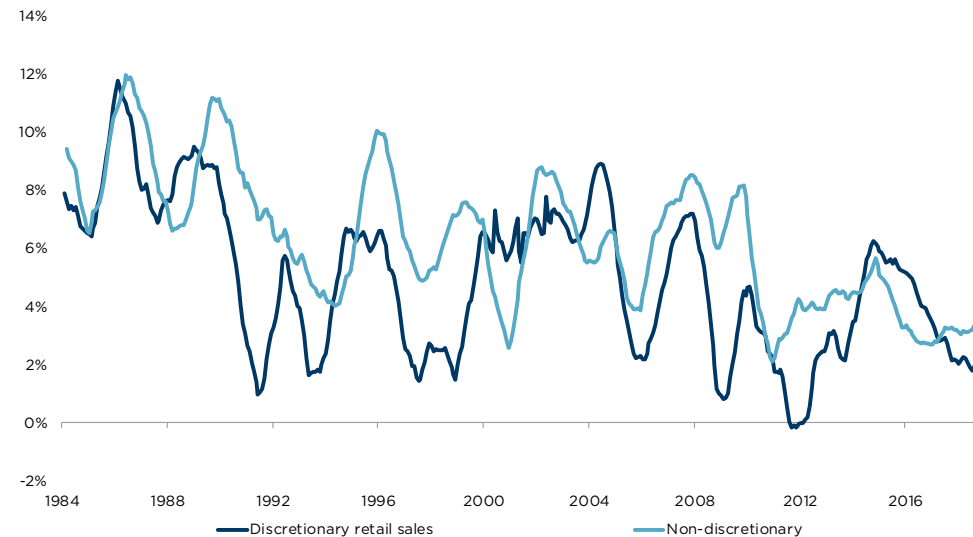
The factors that have limited overall sales growth have been have mainly impacted discretionary goods. Non-discretionary or food growth has accelerated following a period of intense pricing competition between the supermarkets.

FIGURE 9: National retail sales growth



SOURCE: ABS

FIGURE 10: Discretionary versus non-discretionary retail sales growth



SOURCE: ABS

TABLE 3: Moving annual turnover growth by expenditure category, as at December 2018

BY CATEGORY	FOOD	H'HOLD GOODS	CLOTH AND FOOT	DEPT STORES	OTHER	CAFÉS ETC	TOTA	DISCRET	NON-DISCRET	ONLINE*
Total MAT (AUD bn)	131	55	25	19	46	46	321	190	131	29
% total	41%	17%	8%	6%	14%	14%	100%	59%	41%	9%
QoQ %	1.0%	0.2%	1.1%	0.1%	1.0%	0.5%	0.7%	0.6%	1.0%	NA
HoH %	2.0%	0.7%	1.8%	0.3%	1.9%	1.6%	1.6%	1.3%	2.0%	NA
YoY %	3.8%	1.7%	3.5%	0.3%	3.1%	2.9%	3.0%	2.4%	3.8%	9.0%
20-year average	5.3%	5.0%	4.6%	2.3%	4.7%	6.1%	4.9%	4.7%	5.3%	NA

SOURCE: ABS; NAB (online % of total estimate); Cushman & Wakefield Research

TABLE 4: Moving annual turnover growth by State and Territory, as at December 2018

BY CATEGORY	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUST
Total MAT (AUD bn)	103	83	63	21	34	6	3	6	321
% total	32%	26%	20%	7%	11%	2%	1%	2%	100%
QoQ %	0.5%	1.3%	0.9%	0.3%	0.2%	1.1%	-0.3%	1.2%	0.7%
HoH %	1.3%	2.7%	1.5%	1.2%	0.0%	2.5%	-0.3%	2.2%	1.6%
YoY %	2.8%	5.2%	2.2%	2.6%	-0.2%	4.1%	0.6%	3.4%	3.0%
20-year average	4.6%	5.3%	5.5%	4.6%	5.0%	4.3%	4.9%	4.8%	4.9%

SOURCE: ABS; NAB; Cushman & Wakefield Research

Sales growth trends by state have been driven by local economic conditions. In recent years, service-orientated states (NSW, VIC, SA, TAS and ACT) have had relatively stronger sales growth than the resource-based states (QLD, WA and NT).

INDUSTRIAL MARKET SNAPSHOT

Australia industrial property over the past few decades has been undergoing a dual transition. Firstly, space requirements have transitioned from traditional manufacturing, towards transport, warehousing and logistics usage. Relatively high production costs compared to some offshore markets, has resulted in a significant proportion of Australian manufacturing moving offshore. As a result, there has been less need for traditional manufacturing property and a growing demand for purpose-built spaces catering to the storage and distribution of goods. The rise of e-commerce and new technologies are also driving demand for larger, leading-edge logistics space as retailers seek the most cost-efficient ways to distribute goods.

A separate but related trend has seen residential encroachment push industrial users away from near city areas to dedicated industrial precincts on the outer edges of Australia's major cities. These comprise larger sites, near high quality (multi-nodal) transport infrastructure and away from the congestion found nearer the city. As a result, some inner industrial precincts, such as South Sydney, have experienced a significant shift to residential usage (Figure 11). While larger users have moved, demand for specialised industrial space in inner locations remains for storage, trades use and 'last kilometre' distribution requirements.

FIGURE 11: South Sydney has seen a shift from industrial to residential usage over the past 10 years
SOUTH SYDNEY 2009 – predominantly sheds

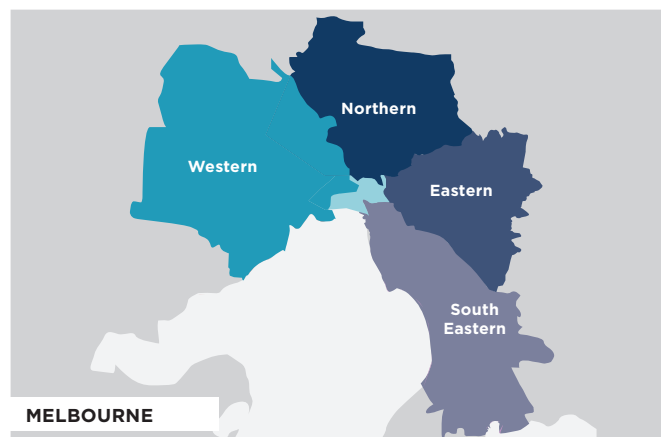
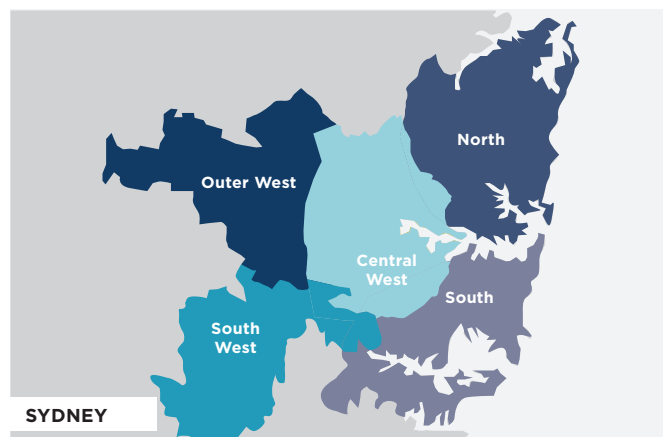


SOUTH SYDNEY 2019 – mainly apartments



SOURCE: Nearmap and Cushman & Wakefield Research

MAP 3: Industrial sub-markets by capital city



SYDNEY

Prime Net Face Rents:
\$110 - \$240 per sqm per annum

Prime Transaction Yields:
4.00%-5.50%

MELBOURNE

Prime Net Face Rents:
\$70 - \$115 per sqm per annum

Prime Transaction Yields:
5.75% - 6.25%

BRISBANE

Prime Net Face Rents:
\$85 - \$150 per sqm per annum

Prime Transaction Yields:
6.00% - 7.75%

SOURCE: Cushman & Wakefield Research

SYDNEY INDUSTRIAL MARKET

The Sydney industrial market is relatively diverse with wide variations in rents across its submarkets, for example, Prime grade net face rents in South Sydney averaging around \$205 per sqm compared to around \$125 per sqm in the Outer West. The higher rents in South Sydney are due to residential encroachment limiting the space available combined with strong tenant demand and rising land values. In outer locations, a range of Infrastructure projects, such as Western Sydney Airport, are transforming industrial precincts. For example, the development of Western Sydney Airport is driving both tenant and investor demand. A number of Australia's largest industrial investors have acquired key stakes in the surrounding precincts, which will all benefit from improved road infrastructure, residential growth, and employment opportunities upon completion.

Solid economic growth and business conditions as well as the structural changes and infrastructure development outlined above have led to strong tenant demand, solid rental growth and further yield compression. Prime grade net face rents in the Outer West, for properties larger than 10,000 sqm have risen by 9% year on year to \$125 per sqm. In investment markets, record levels of transaction activity occurred, although supply remains constrained. The strong demand, contributing to a decline in yields (around 50 basis points to circa 5.25%), and an increase in capital values (up around 20% to \$2,400 per sqm).

MELBOURNE INDUSTRIAL MARKET

Melbourne's four industrial precincts (North, East, South East and West) are all experiencing positive tenant demand. Rents are generally lower in the West, where there is greater supply of developable land. As such, they are circa \$75 per sqm (net face) for prime grade space. In other precincts, prime rents average circa \$90-\$105 per sqm (net face). Moving closer to the city, rents increase, especially for city fringe locations. Underlying fundamentals are expected to remain robust over the near term, leading to ongoing tenant demand. Major projects such as The West Gate Tunnel Project and The Inland Rail, aim to improve access for trucks and other machinery to the port, and provide high-capacity freight links between Melbourne and Brisbane. Improved freight links are expected to support ongoing tenant demand.

BRISBANE INDUSTRIAL MARKET

Transport and logistics users are the strongest contributors to leasing demand across Brisbane industrial markets. With the exception of the Trade Coast, key rents remain comparable across precincts at circa \$105 per sqm net face. Trade Coast prime net face rents average \$135 per sqm for assets smaller than 4,000 sq m, approximately \$20 per sqm more than being achieved elsewhere due to its close proximity to the CBD and a range of transport infrastructure. However, this has potential to change as a result of The Inland Rail project, which could make Acacia Ridge and Brisbane's Central South the leading freight hub as the precinct's expansion continues. Tenant Demand is expected to recover in line with State economic growth. Land sales are expected to be led by the South and West markets, which feature an array of land development opportunities.

AGRICULTURAL MARKET

Australia's agricultural sector consists of 372.7 million hectares of in-use agricultural land, or 48% of Australia's total land area.

The sector comprises a diverse range of industries encompassing extensive grazing of livestock and broadacre cropping through to intensive animal production, horticulture and permanent crops.

Australia has a comparative advantage in extensive broadacre agriculture (non-irrigated crops, cattle and sheep) because of a relative abundance of land. Grazing land for livestock is widespread, occurring in most areas of Australia and totals 340.8 million hectares, or 91% of the in-use agricultural land. Cropping and horticulture are generally concentrated in areas relatively close to the coast, particularly in Australia's East, South East and South West.

The distribution of agricultural activities is largely dictated by several natural resource characteristics: soil type, topography, vegetation and rainfall. These define three broad zones:

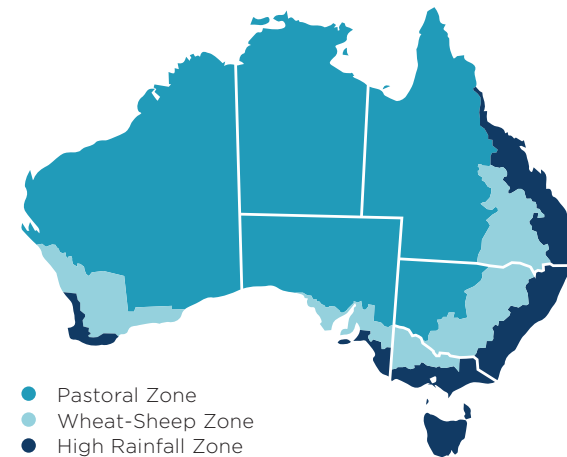
- [pastoral zone](#)
- [wheat-sheep zone](#)
- [high rainfall zones](#)

Large parts of Australia's landscape comprise the pastoral zone, which is only suited to low-intensity grazing. Much of it is characterised by low rainfall, less fertile soils and large area farming of beef and sheep. The principal farming activities in the wheat-sheep zone are winter cropping and livestock grazing. Most of Australia's sheep flock is run in this zone. Prime lamb and beef production are undertaken in the high rainfall zone.



AUSTRALIA'S AGRICULTURAL SECTOR CONSISTS OF
372.7 MILLION HECTARES
OF IN-USE AGRICULTURAL LAND

MAP 4: Land Tenure in Australia



The value of agricultural production in Australia has been growing, and in 2016-17 it totalled \$60.8 billion. In livestock, higher prices have been the main driver, as demand for protein, especially from emerging countries, has pushed prices higher. In cropping, falls in real prices have been offset by volume growth, made possible through improved productivity and increased area used to sow crops.

FIGURE 12: Value of agricultural production (AUD bn)



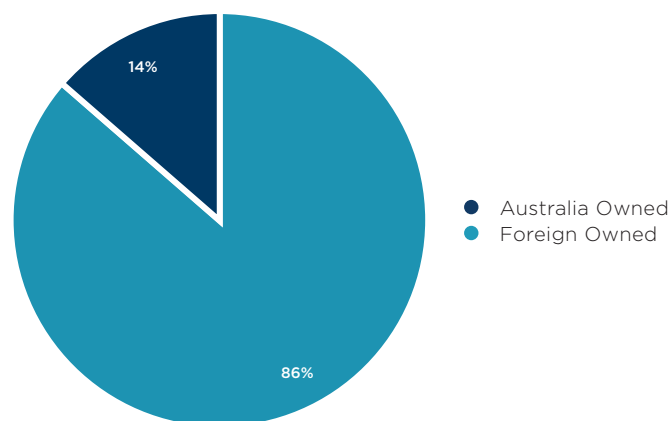
SOURCE: ABARES





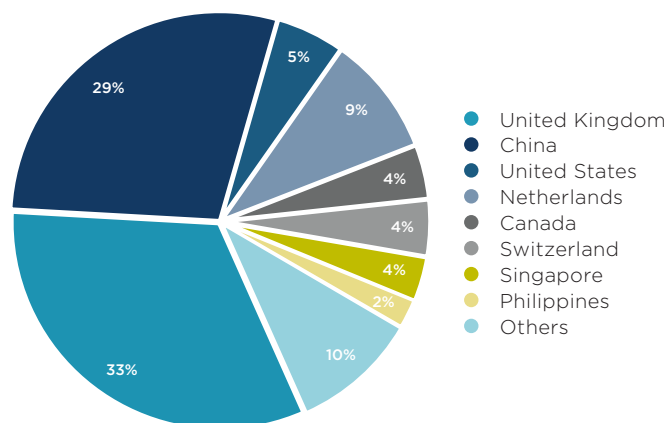
Most agricultural land in Australia is owned by Australian entities (86%). Among the 14% of foreign owned Australian agricultural land parcels, the UK (33%) and China (29%) were the most prominent owners.

FIGURE 13: Foreign ownership of Australian Agricultural land – June 2017



SOURCE: ATO Register of Foreign Ownership of Agricultural Land Report of registrations as at 30 June 2017

FIGURE 14: Foreign ownership of Australian Agricultural Land – June 2017

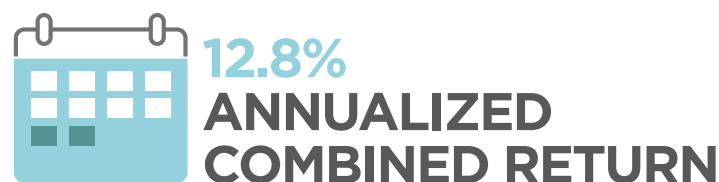


SOURCE: ATO Register of Foreign Ownership of Agricultural Land Report of registrations as at 30 June 2017

RETURNS FROM AUSTRALIAN AGRICULTURAL LAND - FARMLAND INDEX

The Australian Farmland Index tracks income and land appreciation performance of some of the major agricultural asset managers in Australia. Returns for Australian farmland continued to perform strongly with annualized combined return for the year to 30 September 2018 of 12.8%. The income portion of this return (5.1%) was down on the previous year, reflecting lower production due to dry conditions on much of Australia's Eastern seaboard. Land appreciation (7.5%) was down on the previous year as land values stabilised after a period of strong growth.

The NCREIF Australian Farmland Index compares favourably to the NCREIF U.S. Farmland Index, which recorded a Total Return of 6.8% for the same 12 months to September 2018 (comprising 4.4% income return and 2.3% capital appreciation). Since its inception in 1990 the U.S. Index has recorded Total Annualised Returns of 12.1% for Permanent Farmland (e.g. Horticulture) and 10.32% for Annual Farmland (e.g. Crops, Livestock). (Source: NCREIF)



HOTEL MARKET

NATIONAL OVERVIEW

Australia's major hotel markets are currently experiencing a disparity in performance. Throughout 2018, continued development in key cities has resulted in new supply outstripping demand growth. This has led to weaker performance from some major city hotel markets with smaller markets, such as the Gold Coast, Canberra, and Hobart showing the highest RevPAR growth year on year at 9.4%, 4.4% and 2.6% respectively. The major markets such as Melbourne, Sydney, Perth and Brisbane have recorded stabilisation/decline in trade. RevPAR softening by 0.2%, 1.0%, 3.5% and 3.5% respectively.

SYDNEY

Room occupancy is still trading at record levels in comparison to other key markets across Australia. However, according to STR, 2018 year on year Room Occupancy rates marginally declined. RevPAR declined by around 1.0% year on year in response to the new supply both in the City and the Airport precinct, coupled with a softer conference and events calendar. A total of 5 hotels (473 rooms) opened in the City and 2 hotels (329 rooms) opened in the Sydney Airport precinct during 2018 with a further 9 hotels (2,290 rooms) and 3 hotels (297 rooms) currently under construction respectively and due for completion over the 2019-2021 period. A further 26 projects (3,733 rooms) currently at the planning and application stage are considered likely to proceed. We note that over 60% of room stock currently under construction (March 2019) is within the luxury segment.

Room Yield/RevPAR growth is anticipated to be driven predominantly through Average Room Rate growth supported by high occupancy rates and is anticipated to result in Room Yield/RevPAR above inflationary growth. We expect a modest reduction in Room Occupancy in the medium term and whilst Average Room Rate growth is anticipated to continue, it may be at moderated levels as the new supply additions come online.

MELBOURNE

According to STR, Melbourne Room Occupancy are the second highest nationwide. In 2018 demand remained stable, however, new supply additions resulted in RevPAR declining by 0.2%, although Average Room Rates increased by 0.6% to \$207. Over the year (2018) there were 6 new hotel projects completed, adding 1,767 letting bedrooms to the market, with most of these rooms



The Fullerton Hotel, Sydney

concentrated in the upscale to upper upscale segments. More than 20 projects (4,223 rooms) were currently under construction as at March 2019, with completion due over the 2019-2022 period.

With a significant pipeline of projects either currently under construction or projects considered likely to proceed it is anticipated that the Melbourne market will be tested in its ability to absorb new supply over the next few years. Despite relatively strong demand, Average Room Rate increases will likely be foregone due to increased competition from new developments.

BRISBANE

Brisbane recorded strong levels of demand in 2018. However, a wave of supply resulted in over 1,400 rooms being completed in 2017, followed by a further 1,269 rooms added in 2018. This influx of supply hampered Brisbane's ability to sustain RevPAR growth, and in 2018 the market recorded a 3.5% year on year decline to \$111. The recently completed hotel stock has been concentrated in the upscale to luxury segment and will see four more hotels (849 rooms) enter the market within the next two years whilst a further 12 projects are approved and likely to enter the market over the next three years.

Given the current trading conditions of elevated Room Occupancy rates and recent supply additions it is anticipated that Average Room Rates will continue to decline through to 2020.

PERTH

The Perth hotel market has continued to see both Room Occupancy and Average Room Rate decline since 2013. The decline driven by the downturn in the resources mining sector and significant levels of new supply entering the market. This has led to a 3.5% year on year decline in RevPAR to \$122. A total of six hotels were completed during 2018, adding around 842 rooms into the Perth market with a further 1,502 rooms currently under construction spread across six hotels. With additional developments in the pipeline, it is anticipated that Room Yield/ RevPAR in 2019 will continue to soften through a combination of both Room Occupancy and Average Room Rate as new supply comes online.

FIGURE 15: Hotel room stock by major city

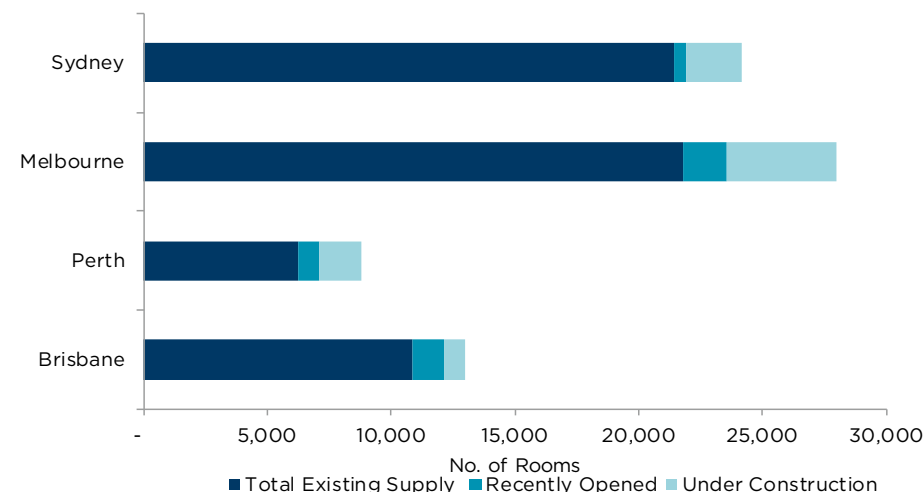
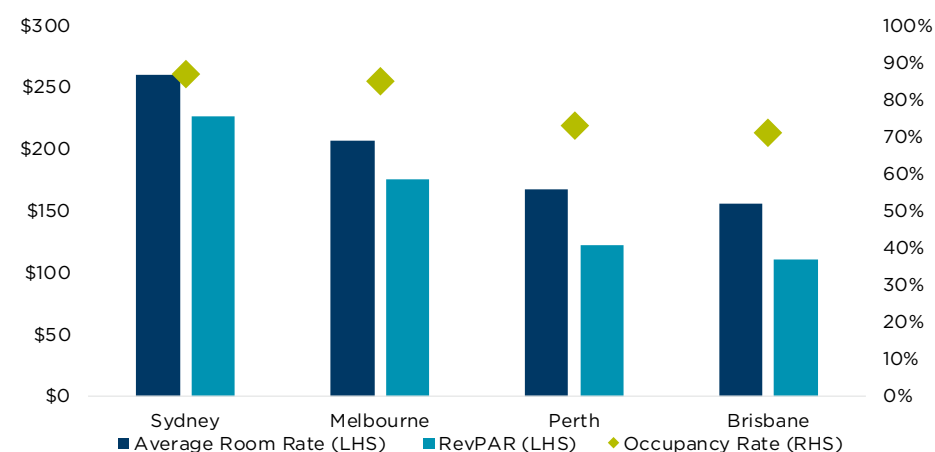


FIGURE 16: Hotel occupancy costs and rates



SOURCE: STR

In addition to this Hotels update, Cushman & Wakefield Valuations look forward to providing updates from our wider team as we expand nationally over 2019.

investment market

RISK AND RETURN

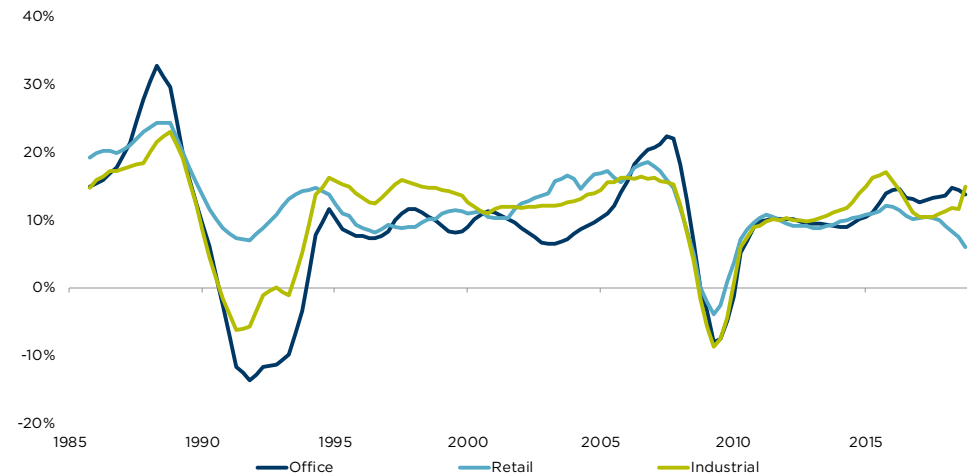
Australian CRE markets for the past few decades have generally provided solid returns with limited volatility. MSCI data indicate the 'All Property' average annual total return was around 10.0% between December 1984 and December 2018. Over the same period, the office sector's total return averaged about 9.0% per annum, retail 12.0% and industrial 11%. However, more recently the Industrial sector has outperformed in 2018, rising by 14.8% compared to the office sector's 13.7% and 6.0% for retail. Historically, the office sector has a slightly lower overall return as it suffered more during the 1991 recession and GFC than the retail and, to a lesser extent, industrial property. The standard deviation of annual returns of the All Property Index between December 1984 and December 2018 was about 8.0% with the approximate standard deviation of annual returns for the office sector 9.0% pa, retail 5.0% and industrial 7.0%.

RETURN OUTLOOK

Australian CRE yields are at or approaching historic lows. In absolute terms, this suggests the market could be near a peak. However, while anecdotal expectations are for yields to be at their low there are a number of factors to suggest yields could compress a little further in the short to medium term. Compared to both fixed interest markets and many international CRE markets, Australian CRE appears relatively good value.

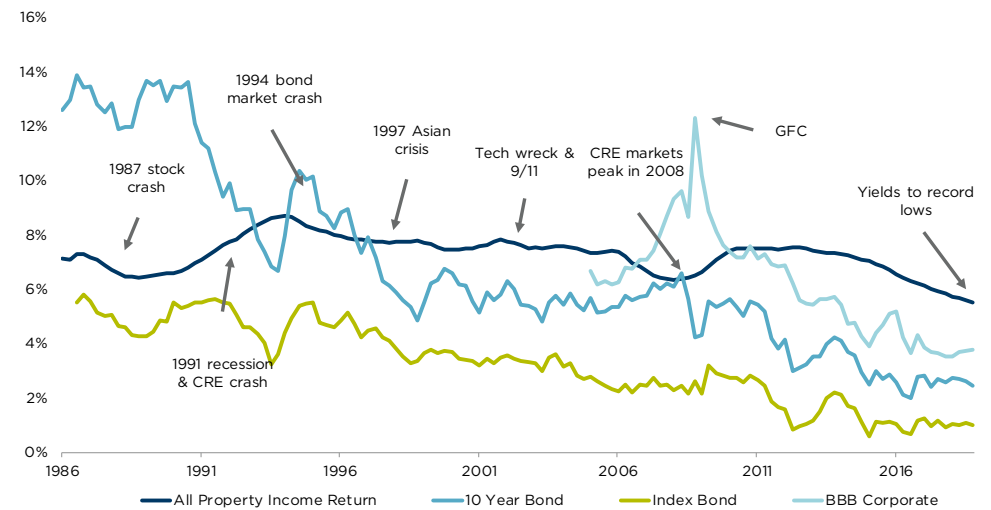
Income returns currently appear relatively good value when compared to risk free alternatives such as government bonds.

FIGURE 17: Australian commercial real estate total return growth



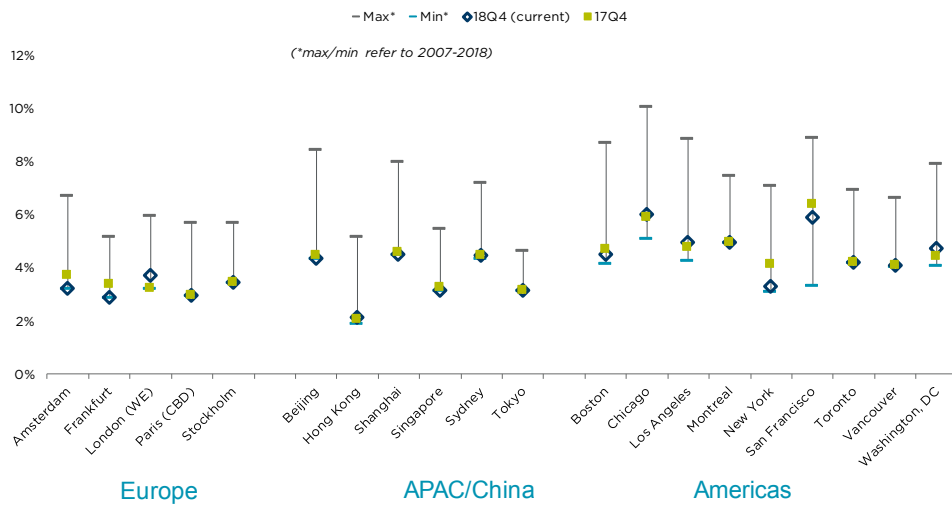
SOURCE: IPD; Cushman & Wakefield Research

FIGURE 18: All property income return and bond yields



SOURCE: IPD; Cushman & Wakefield Research

FIGURE 19: Prime office capitalisation rates



SOURCE: Real Capital Analytics; Cushman & Wakefield Research

Australian CRE yields are relatively high when compared to other countries and should continue to attract investor interest from around the world.



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