

# AUSTRALIA PROPERTY INVESTMENT SEMINAR

Q4 2018 | Sydney

February 20, 2019

# EVENT WELCOME



**John Stawyskyj,**  
*Partner, Ashurst*

# MARKET UPDATE



**Bryan Reid,**  
*Vice President, MSCI*

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Index



MSCI Australia Quarterly Unlisted  
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The Property Council/IPD  
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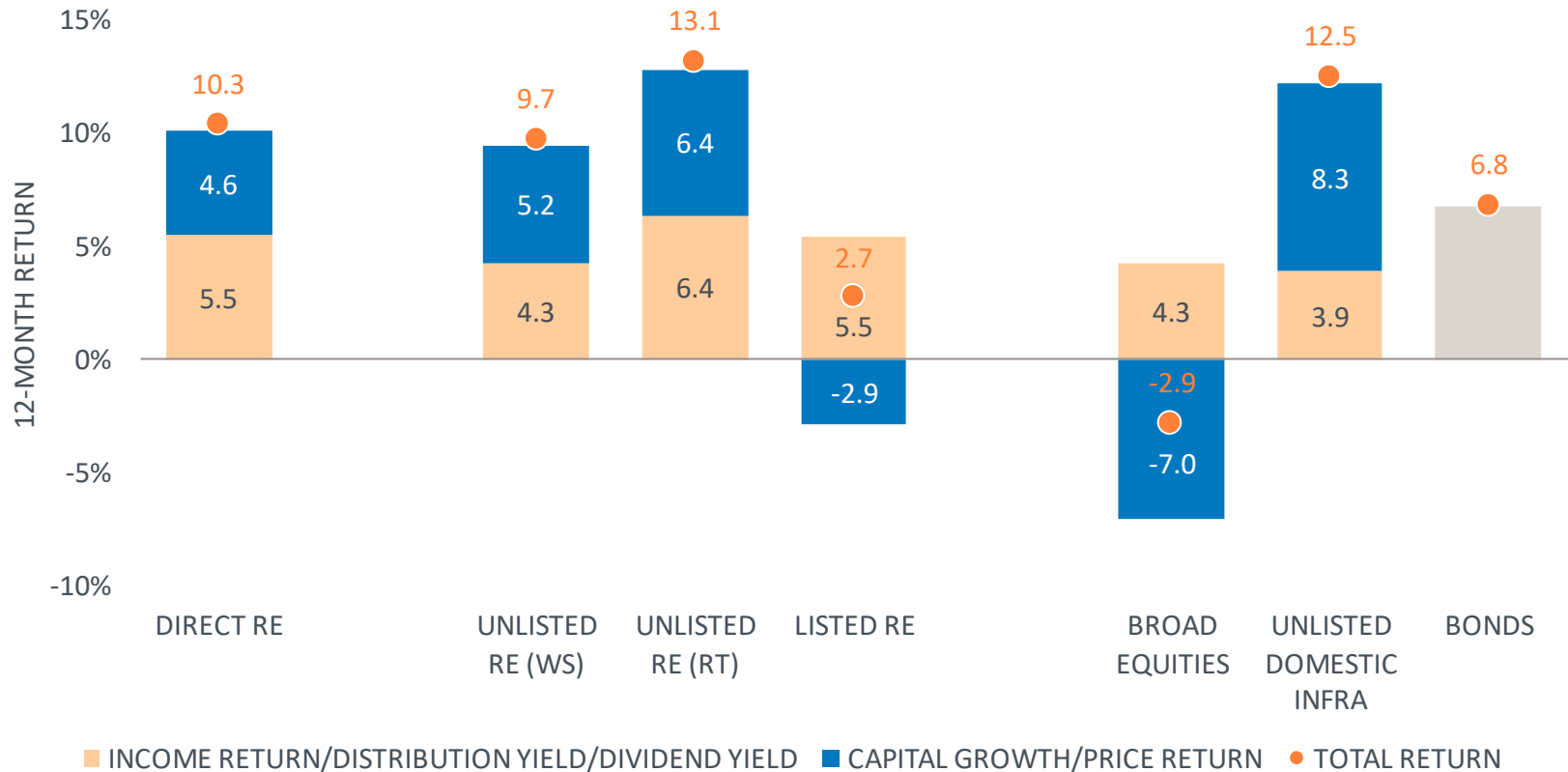


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# 2018 ASSET CLASS COMPARISON

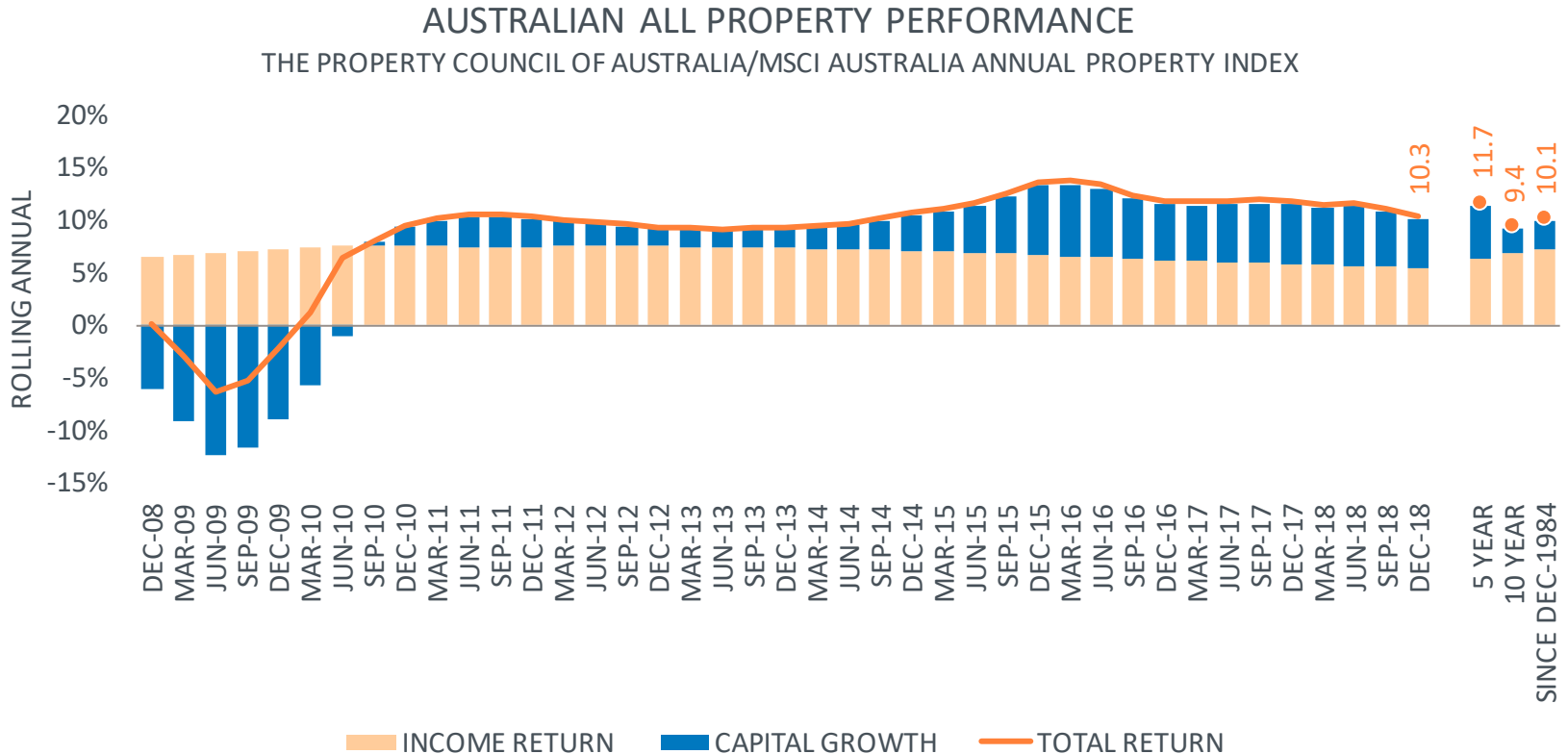
Direct commercial property recorded an 10.3% total return in 2018 with a 5.5% income return and 4.6% capital growth



Property Council/PD Australian All Property Index, Mercer/IPD Australia Unlisted Core Wholesale PFI, The Property Council/IPD Australia Unlisted Retail Property Fund Index, MSCI Australia IMI Core REIT Index, MSCI Australia IMI, MSCI Australia Quarterly Unlisted Infrastructure Index, J.P. Morgan GBI Global Australia Unhedged index

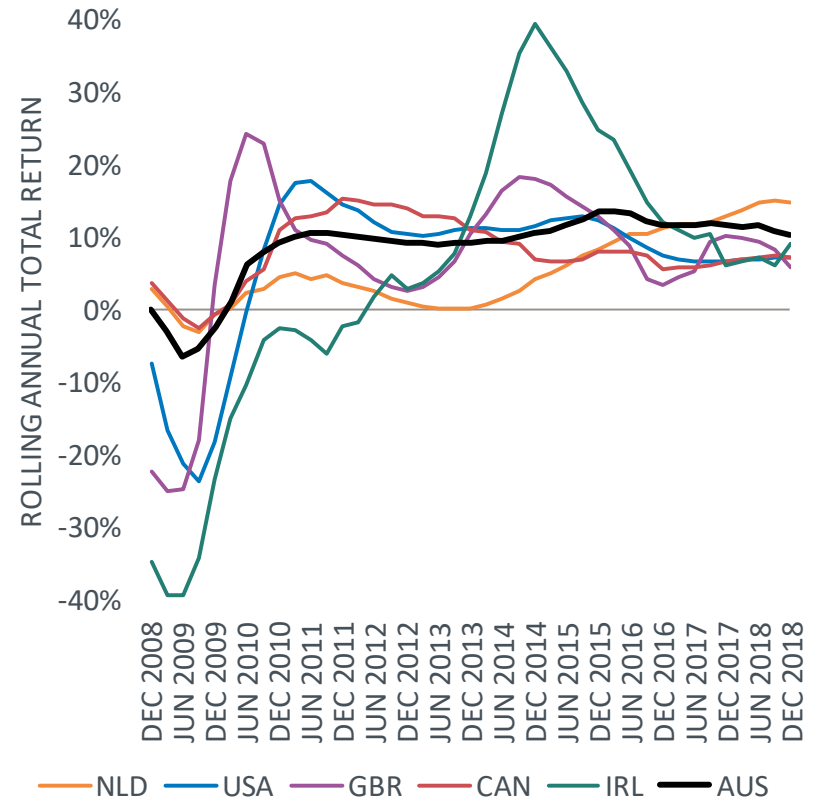
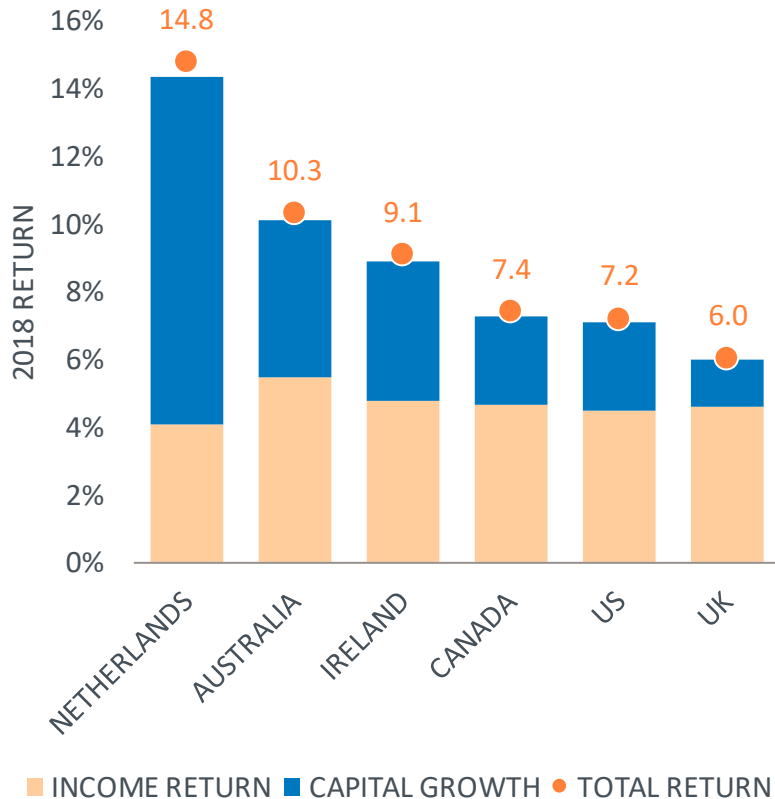
# ALL PROPERTY PERFORMANCE

Total return has dipped below 11% for the first time in 15 quarters but is still just above the long-term average total return



# INTERNATIONAL COMPARISON

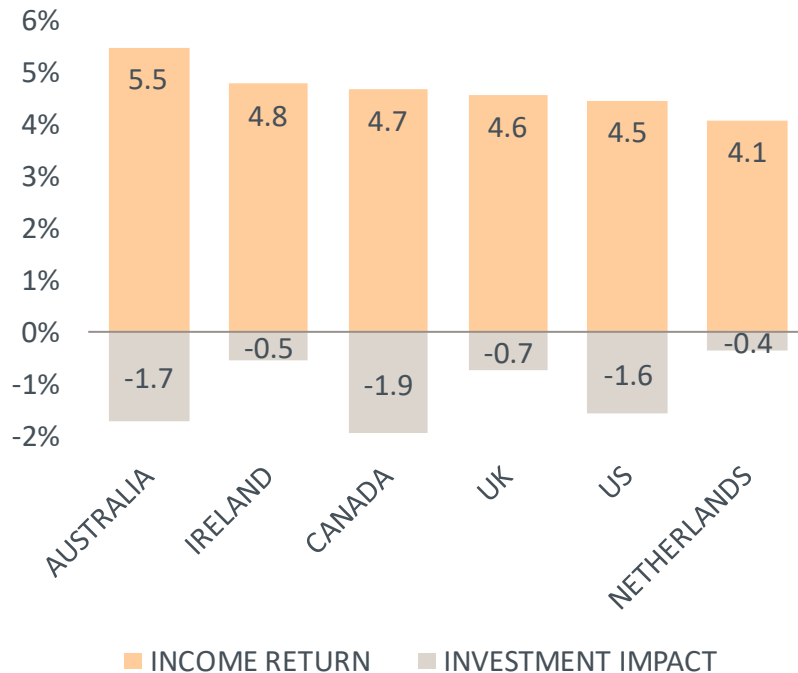
Australia's total return of 10.3% means it outperformed Ireland, Canada, the US and the UK in 2018



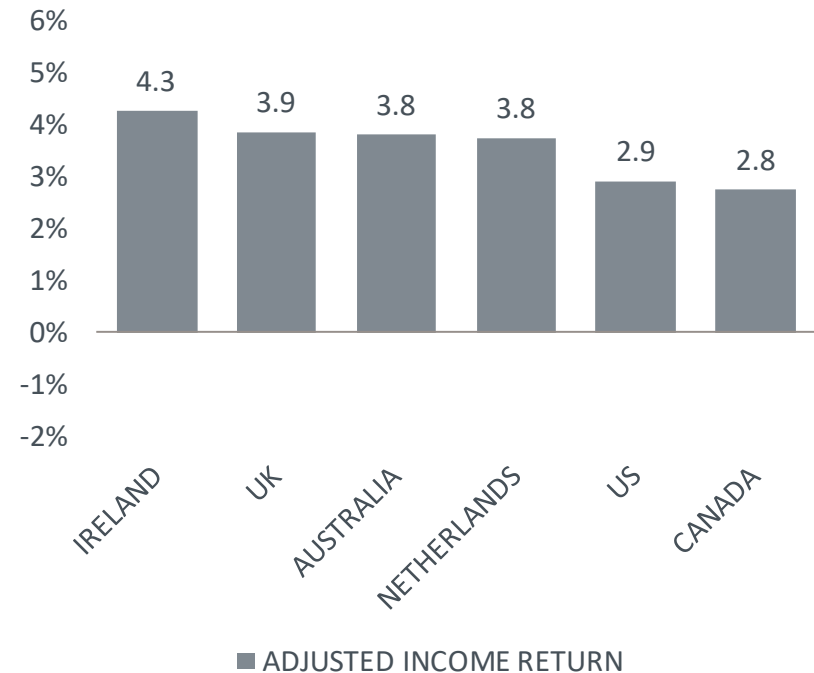
# DOES AUSTRALIA OFFER HIGHER INCOME RETURN?

Australia's income return looks high in comparison to other markets but reinvestment levels are also high

### 2018 INCOME RETURN & INVESTMENT IMPACT



### INCOME RETURN - INVESTMENT IMPACT

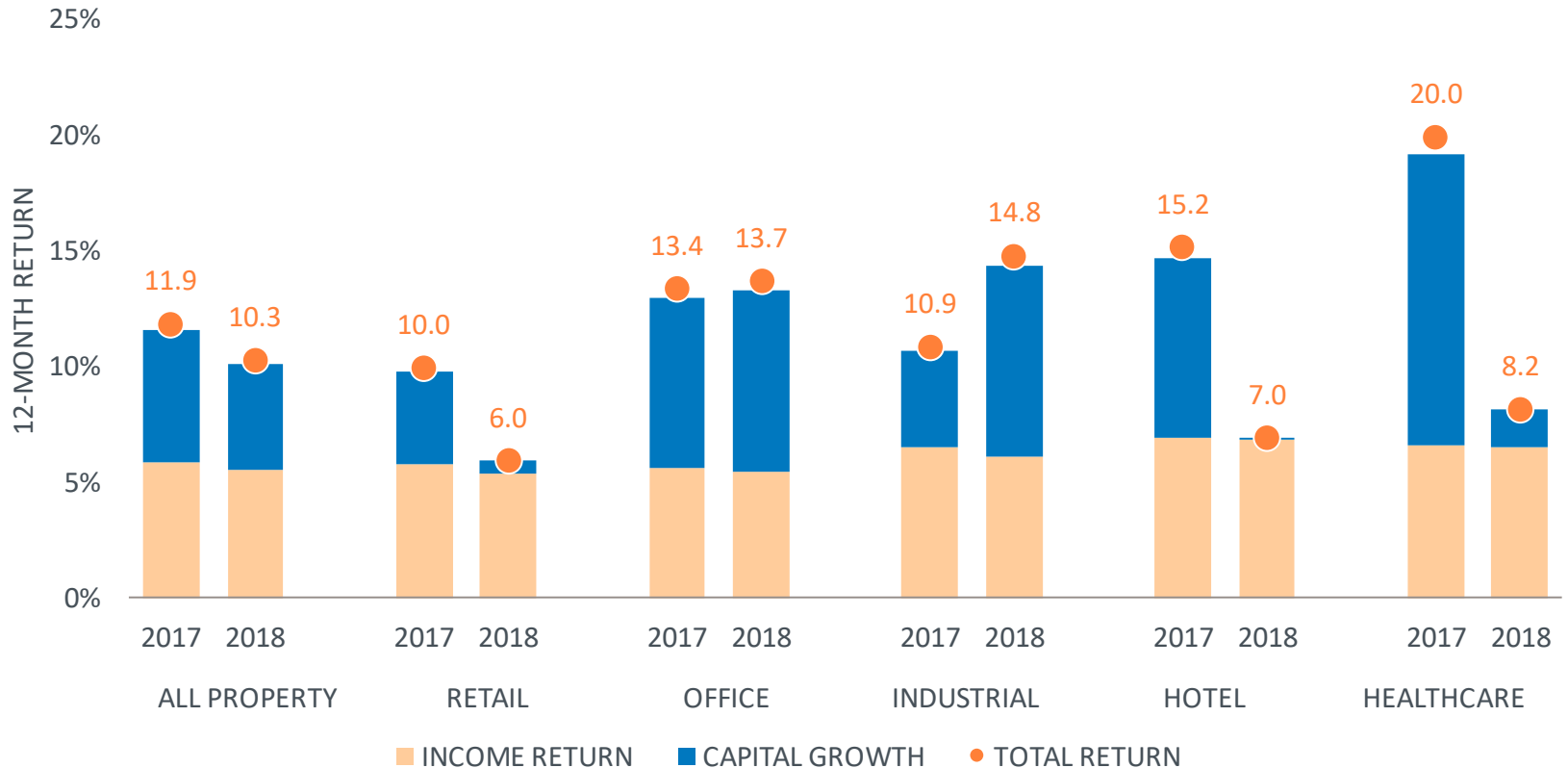


\* Investment Impact = Capital Growth – Asset Value Growth



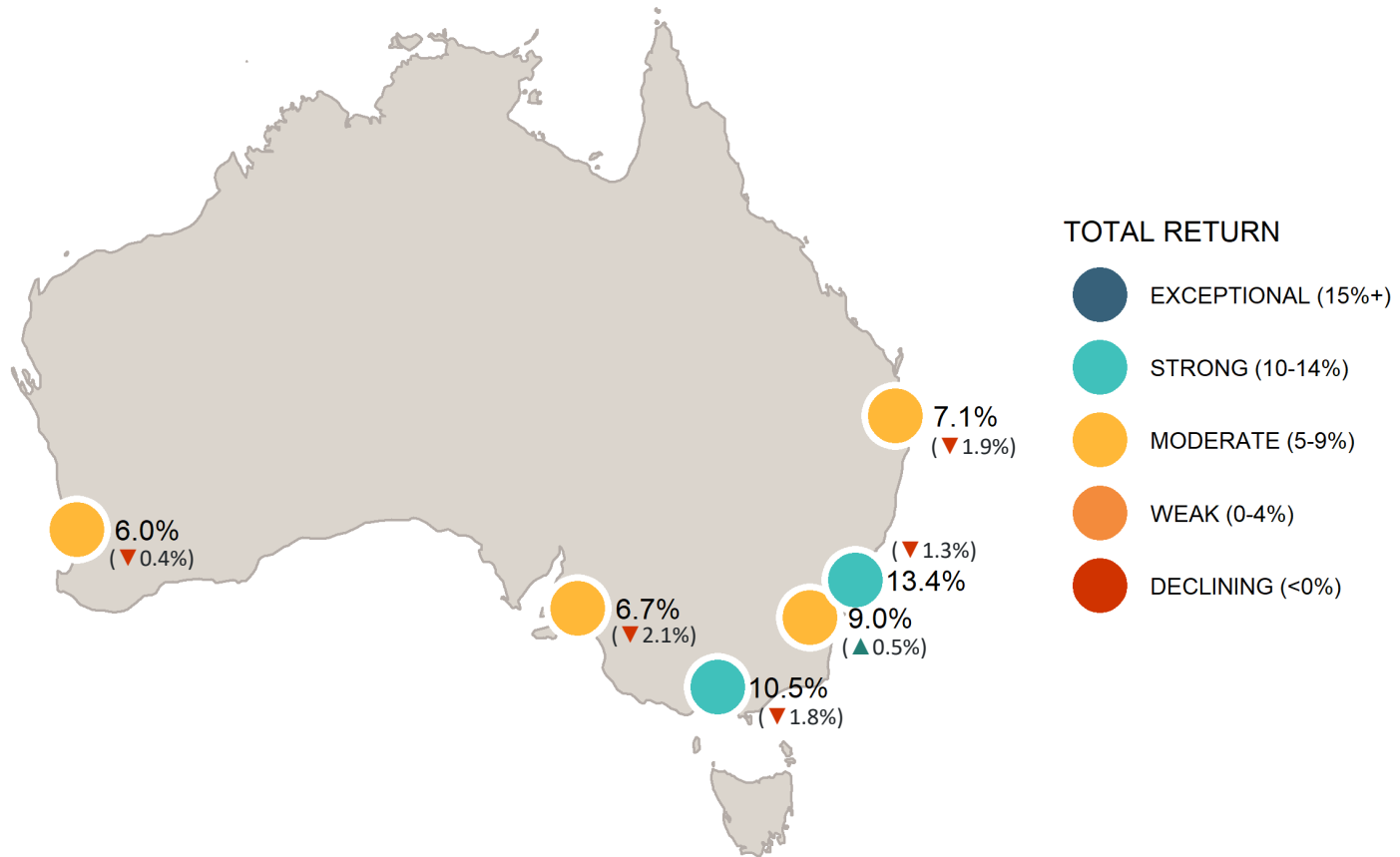
# SECTOR PERFORMANCE

Industrial and office sectors posted the strongest total returns in 2018. Retail, hotel and healthcare performance fell back to single digits.



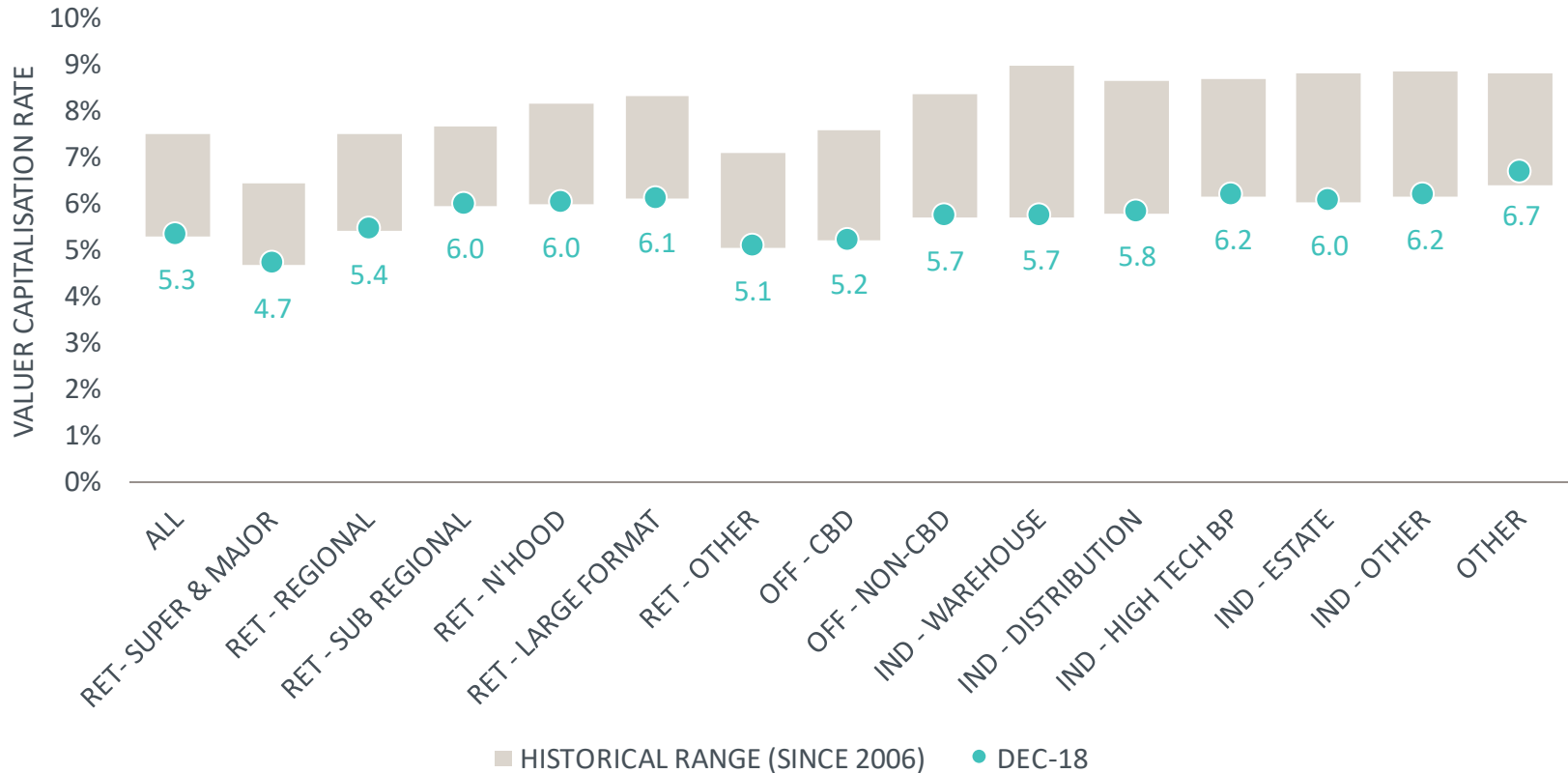
# 2018 CITY PERFORMANCE

Total returns softened in all of the major centres except Canberra



# VALUER CAPITALISATION RATES

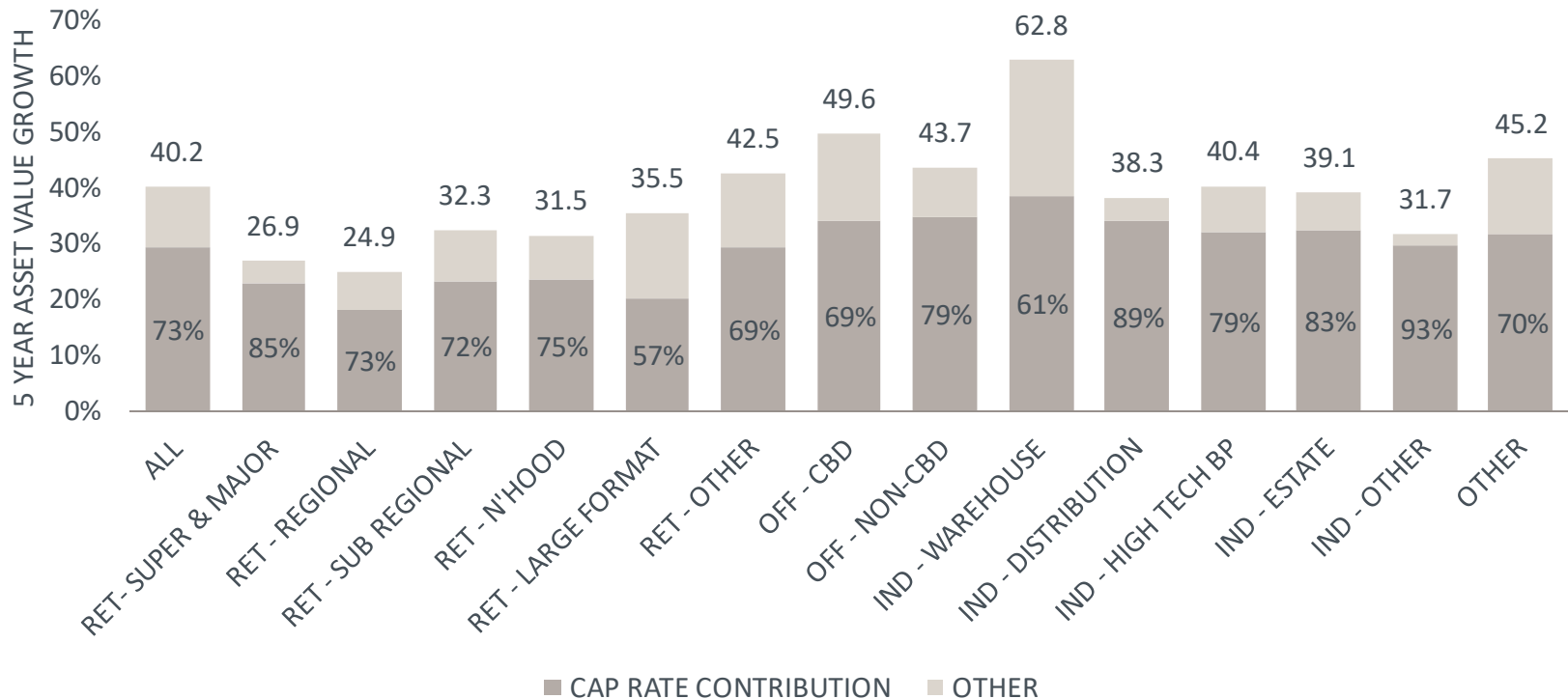
Valuer capitalisation rates continued to firm in 2018, albeit at a slower pace



# ASSET VALUE GROWTH

Firming cap rates have driven the majority of asset value growth over recent years

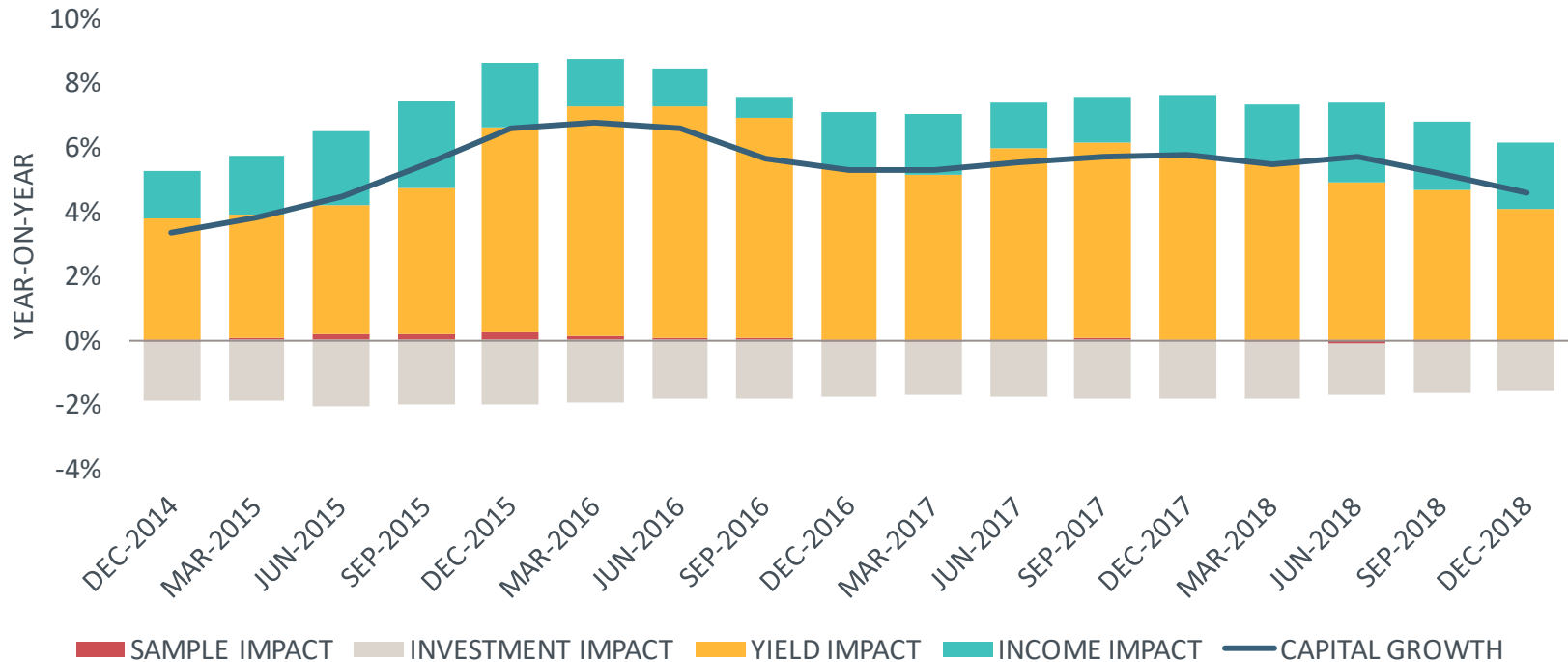
## ASSET VALUE GROWTH AND YIELD CONTRIBUTION



# CAPITAL GROWTH DECOMPOSITION

At the all property level, capital growth has moderated as yield impact has reduced

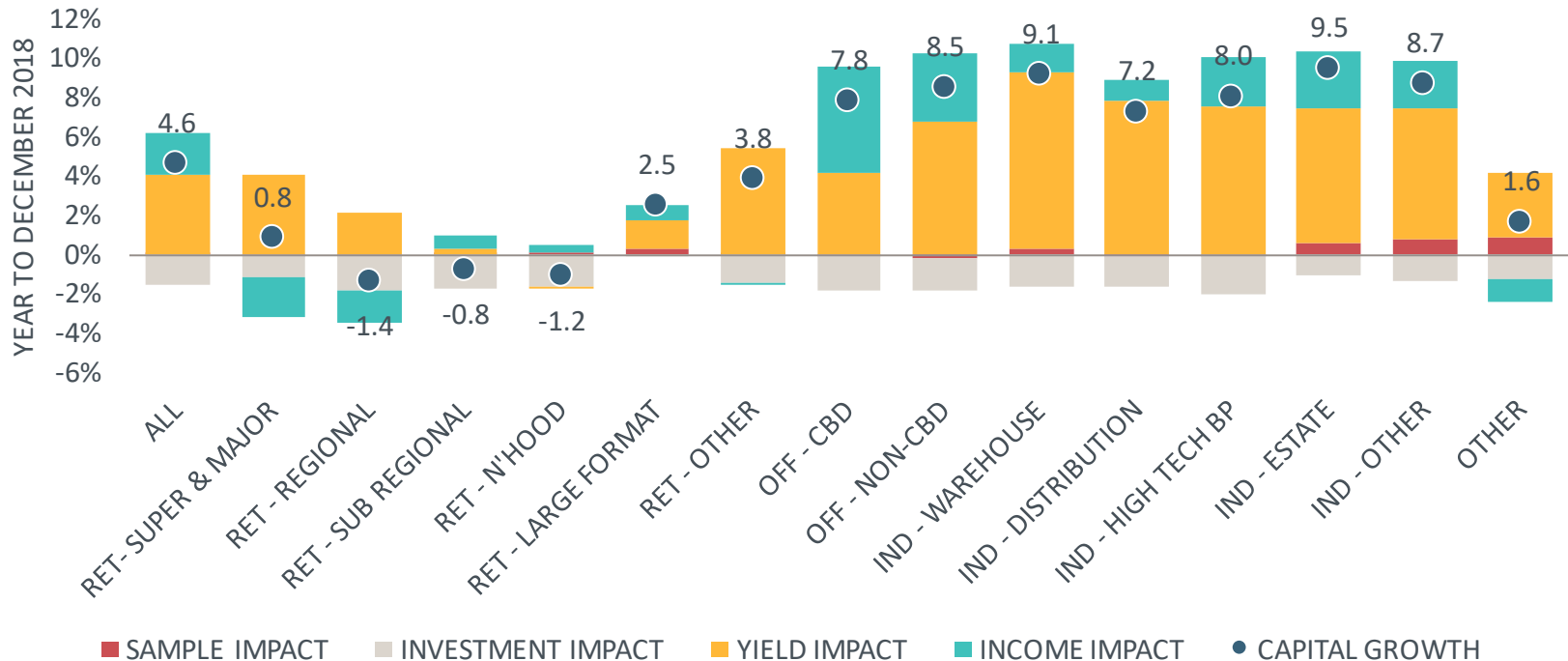
AUSTRALIAN ALL PROPERTY CAPITAL GROWTH DECOMPOSITION  
VALUER CAPITALISATION RATE DECOMPOSITION



# CAPITAL GROWTH DECOMPOSITION

Results vary considerably across segments – capital growth has turned negative for parts of the retail sector

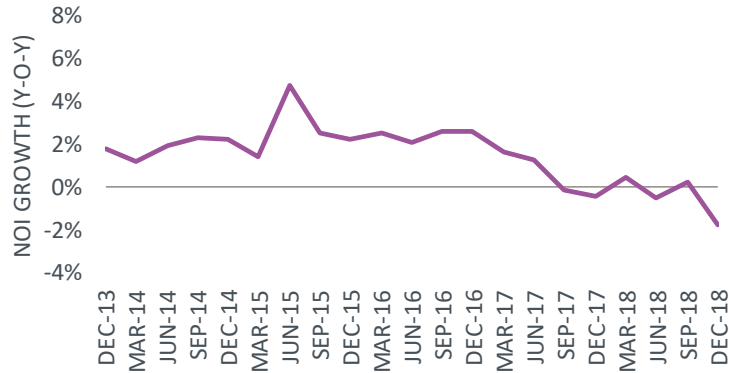
2018 CAPITAL GROWTH DECOMPOSITION  
VALUER CAPITALISATION RATE DECOMPOSITION



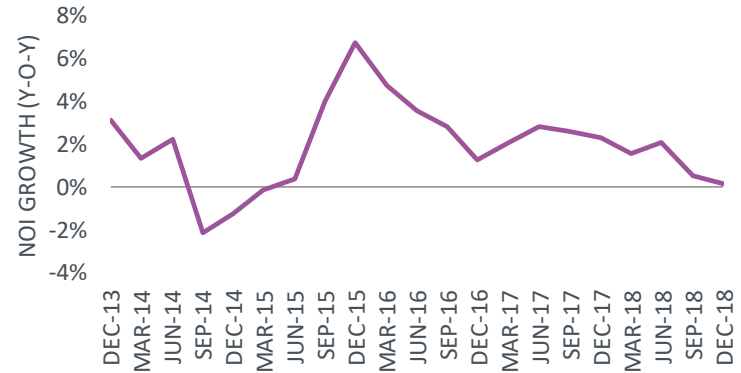
# RETAIL NOI GROWTH

NOI growth has been slowing and even turned negative for some retail segments

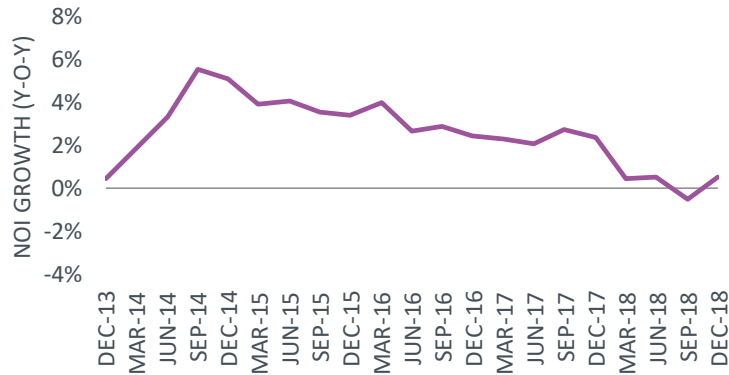
RETAIL - SUPER AND MAJOR REGIONAL



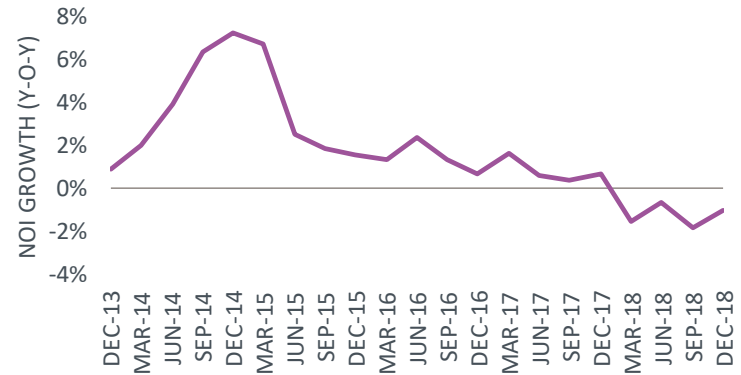
RETAIL - REGIONAL



RETAIL - SUB REGIONAL

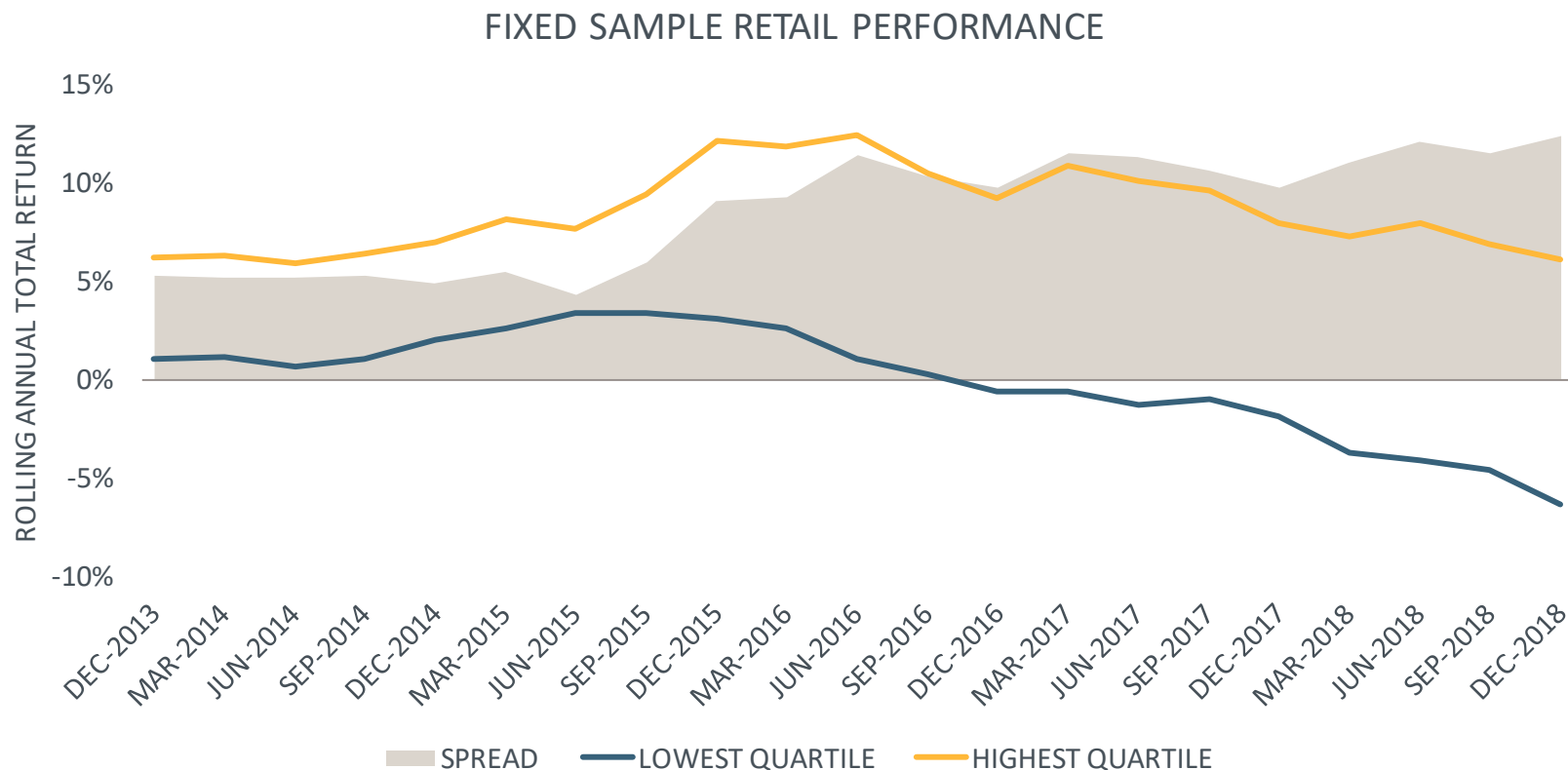


RETAIL - NEIGHBOURHOOD



# A WIDENING RETAIL GAP?

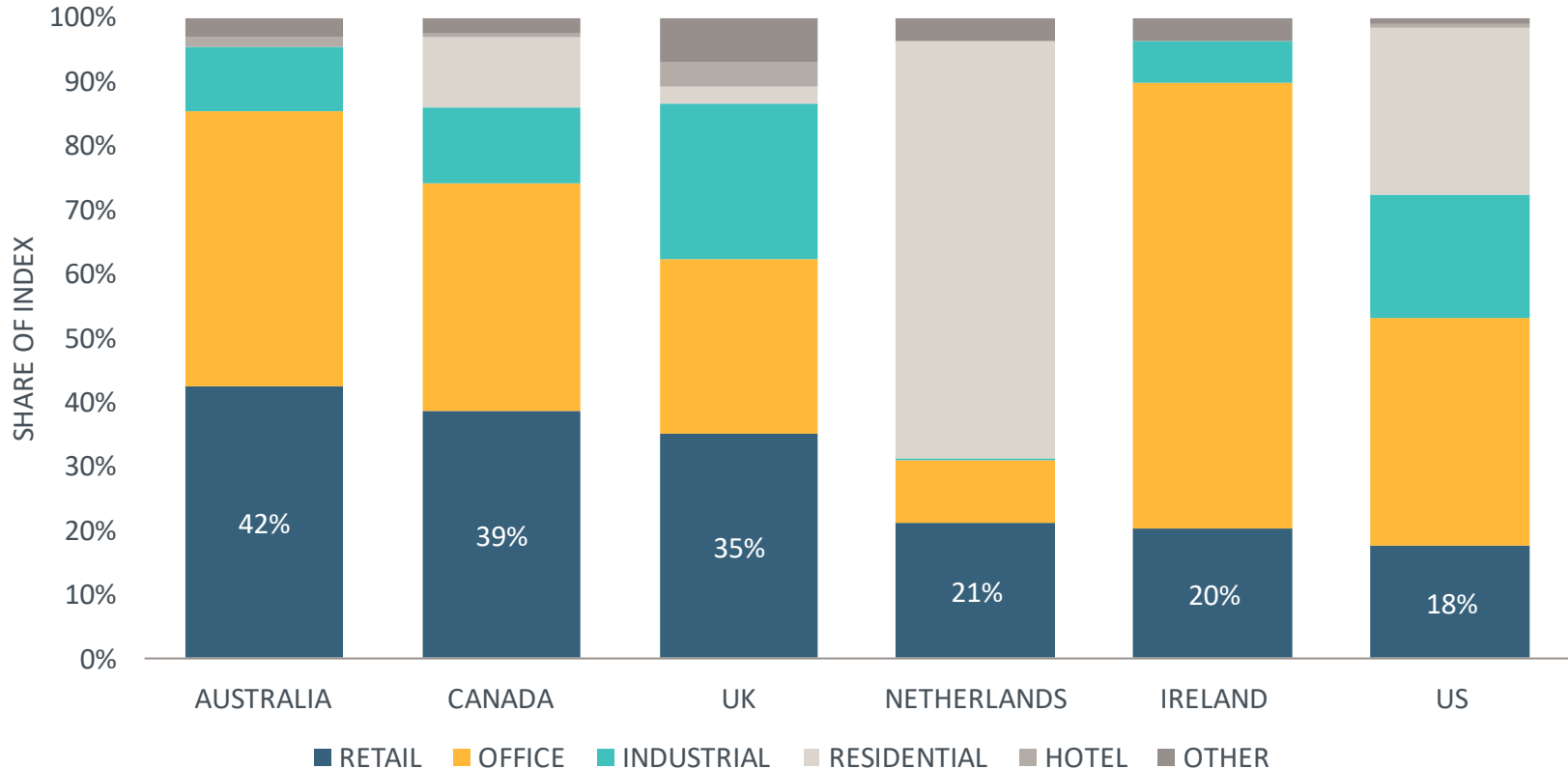
Using a fixed sample of retail assets, the gap between best and worst performing assets has widened





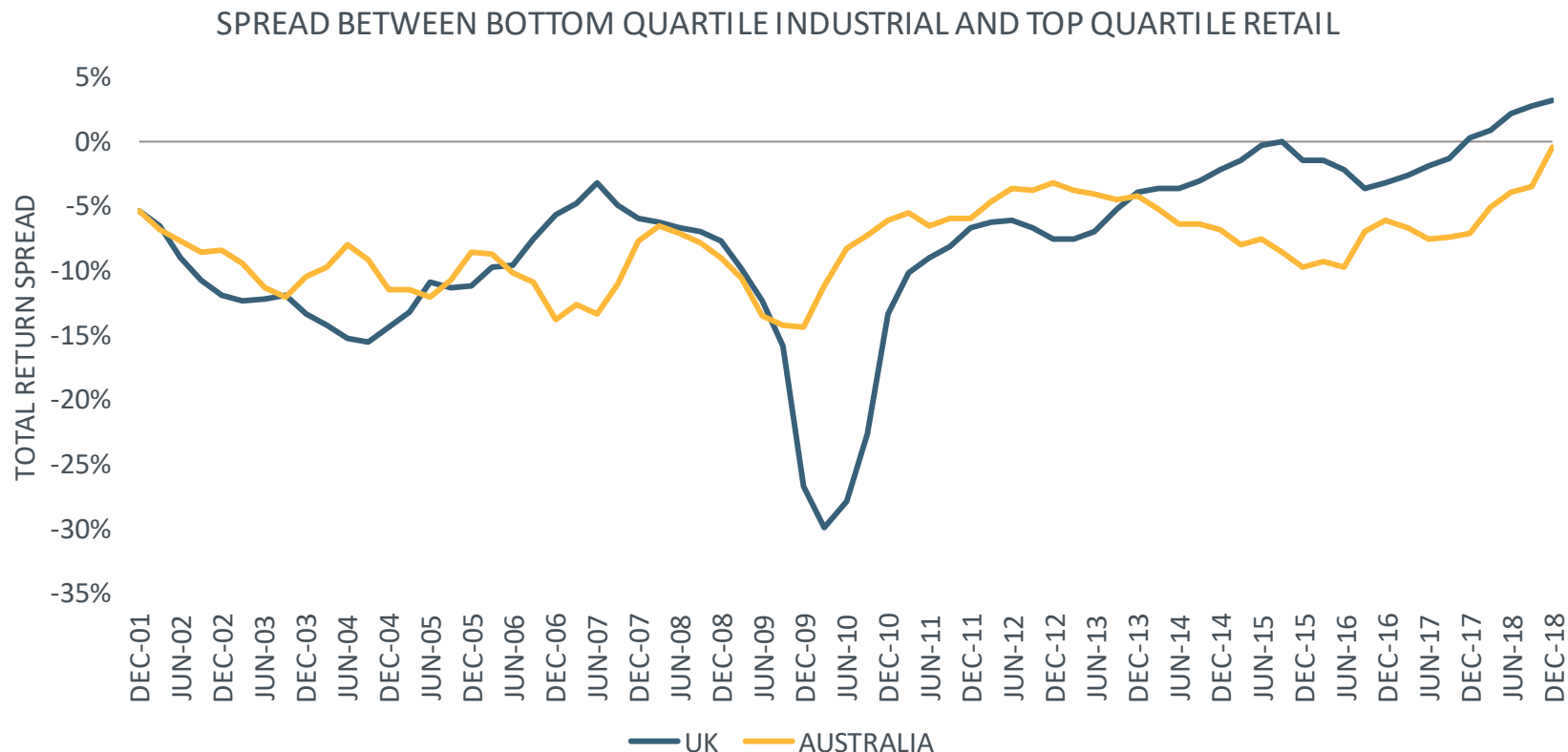
# SECTOR EXPOSURES

Australia has a higher exposure to the retail sector than many other markets



# THE INDUSTRIAL RETAIL SPLIT

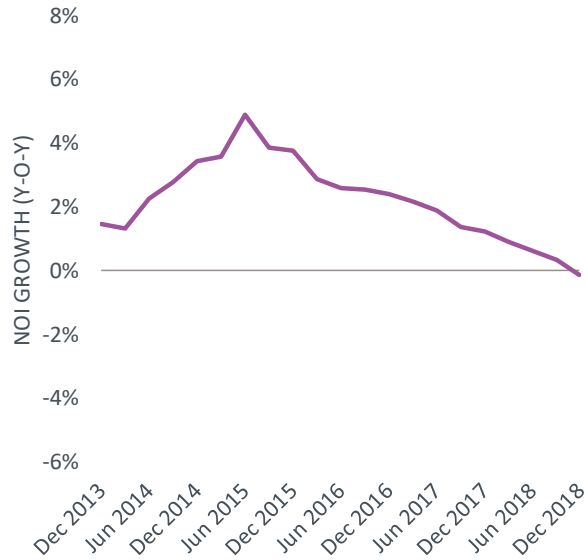
In the UK, the bottom quartile return for industrial is outperforming the top quartile for retail and the trend in Australia has been heading in the same direction



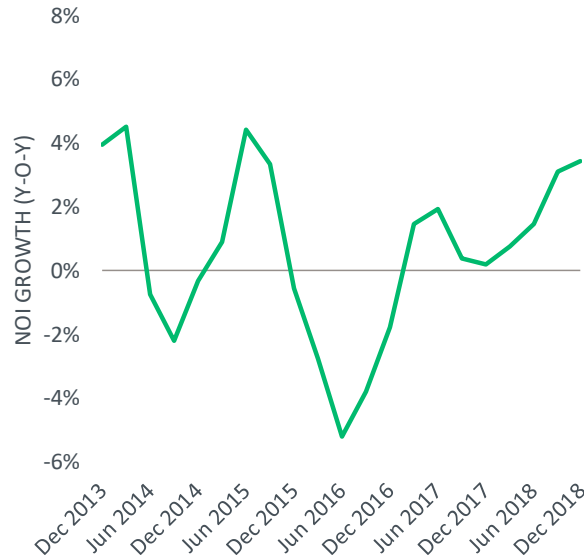
# NOI GROWTH BY SECTOR

Industrial annual NOI growth has been outperforming retail for the last 3 quarters but has been much more volatile over the last 5 years

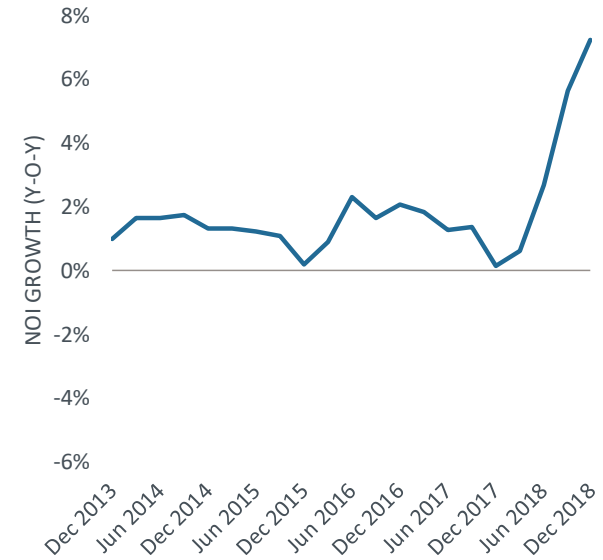
RETAIL



INDUSTRIAL

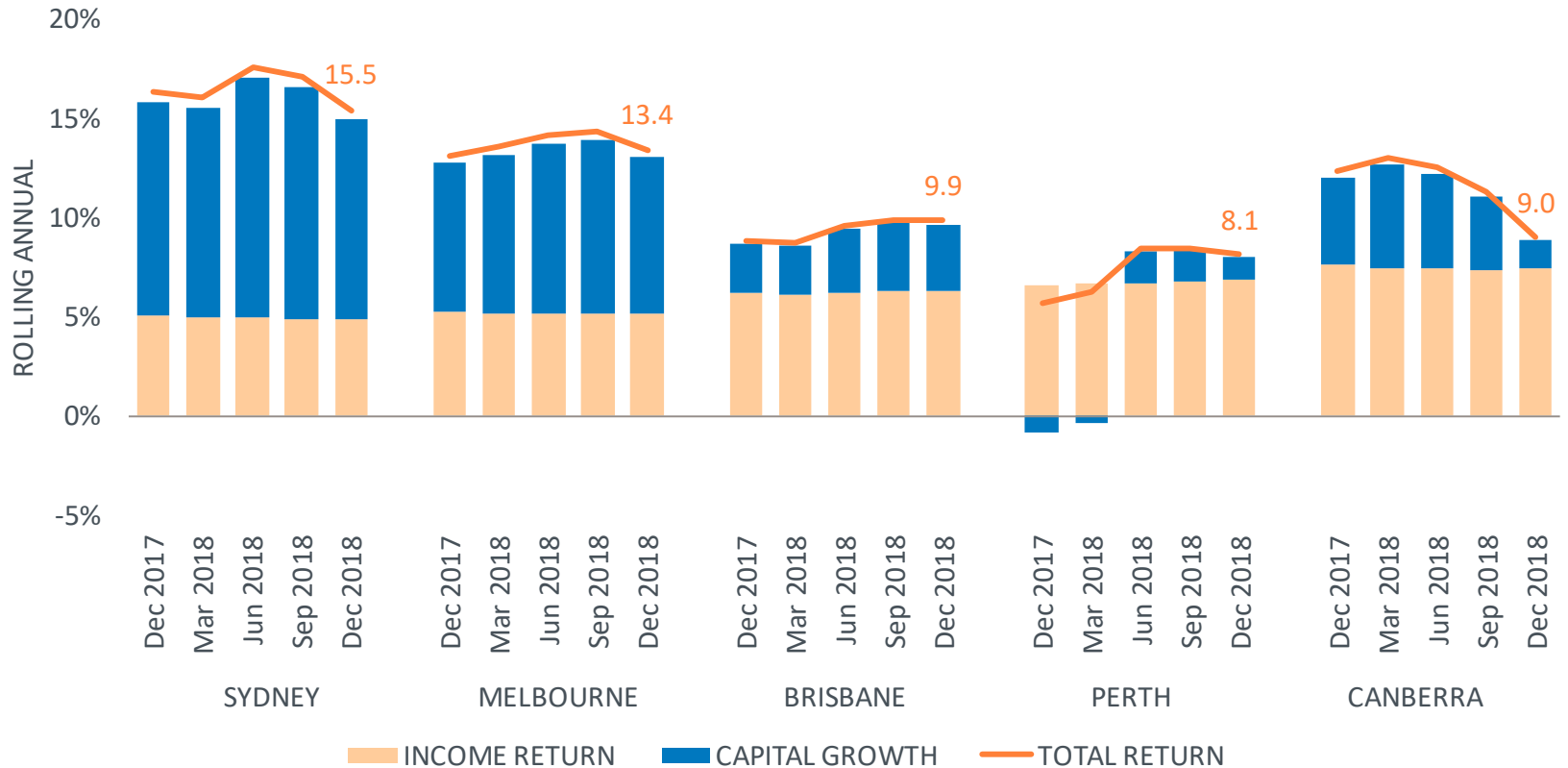


OFFICE



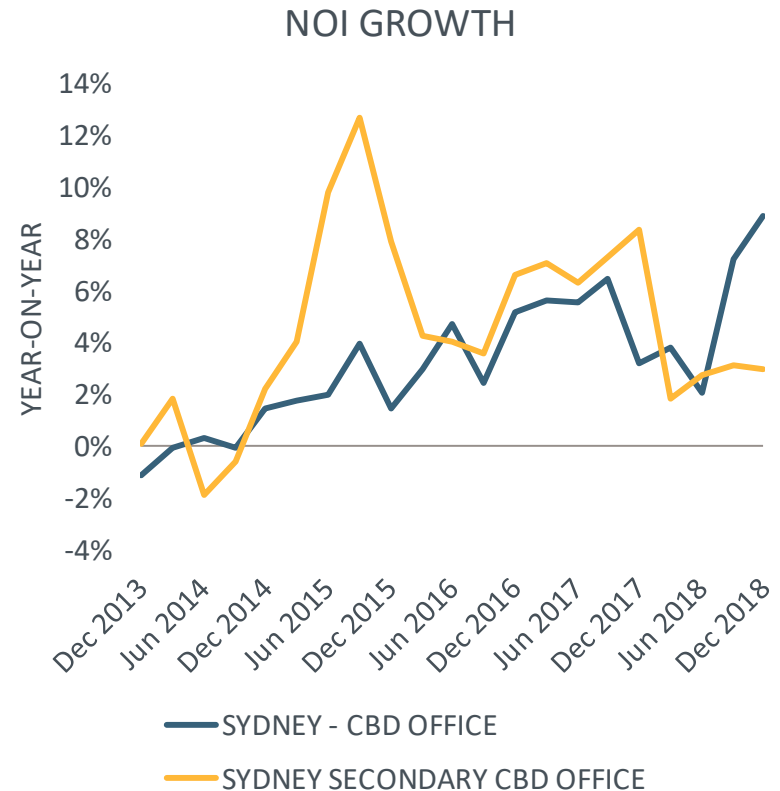
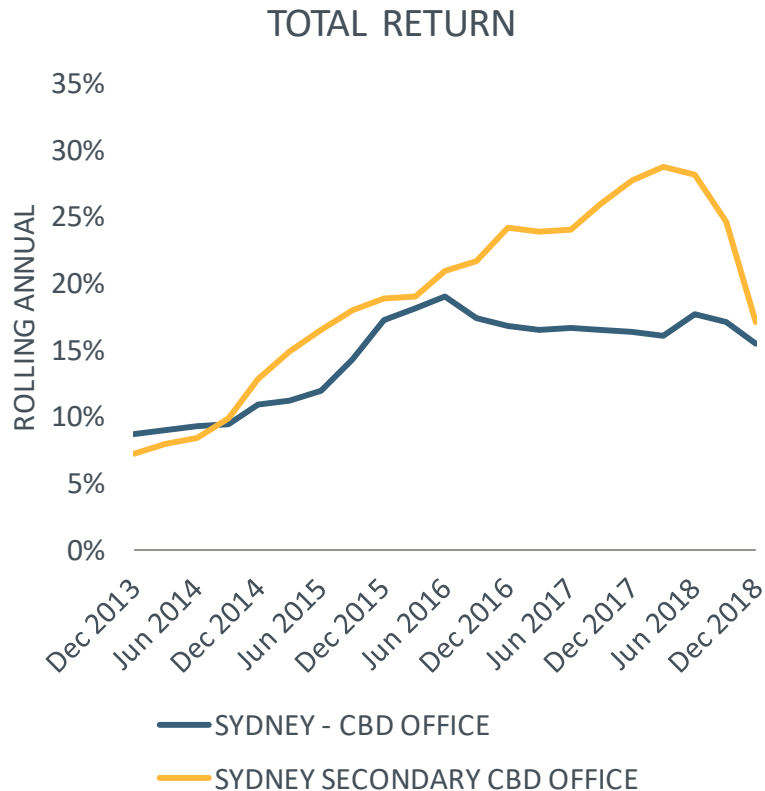
# CBD OFFICE MARKETS

Office markets continue to be led by Sydney and Melbourne



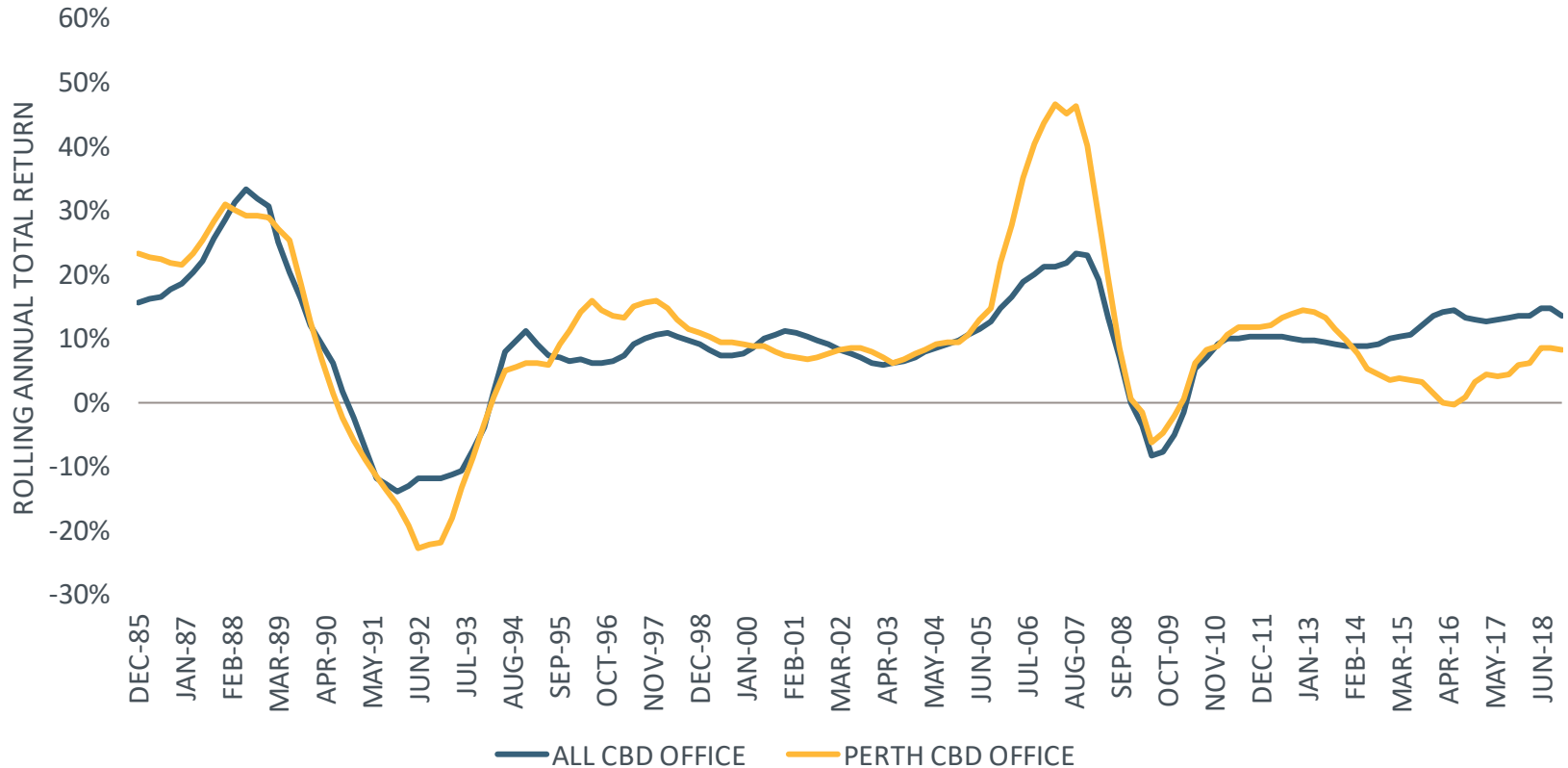
# END OF THE SYDNEY SECONDARY OFFICE BOOM?

Total returns for Sydney's B, C and D grade offices have declined sharply in recent quarters



# PERTH VS ALL CBD OFFICE

Perth's counter cyclicity is a relatively recent phenomenon



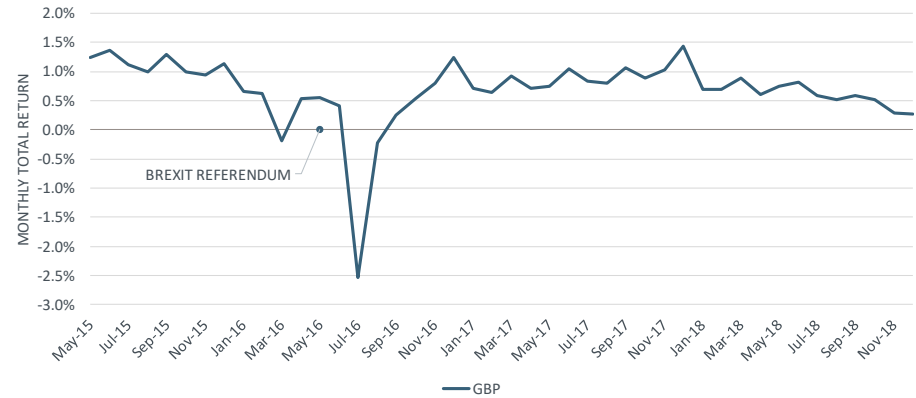
# TRENDS TO WATCH: NOWHERE TO HIDE FROM GEOPOLITICAL RISK

Shocks can cause disruption to property markets but currency impact may amplify pain for foreign investors

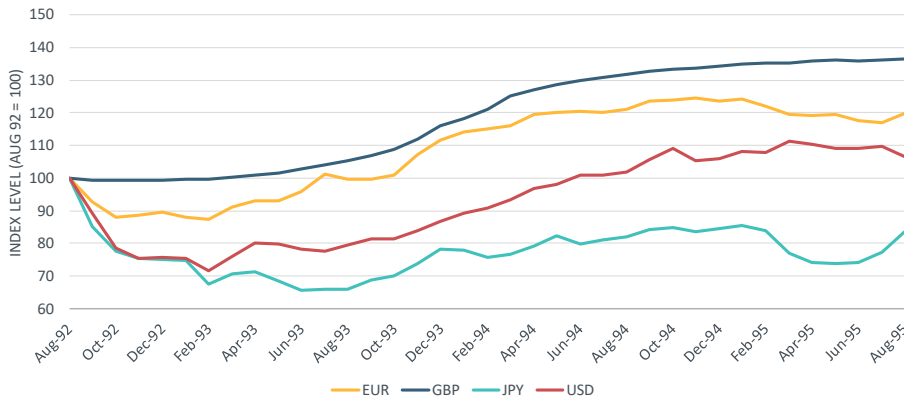
UK MONTHLY PROPERTY INDEX TOTAL RETURN



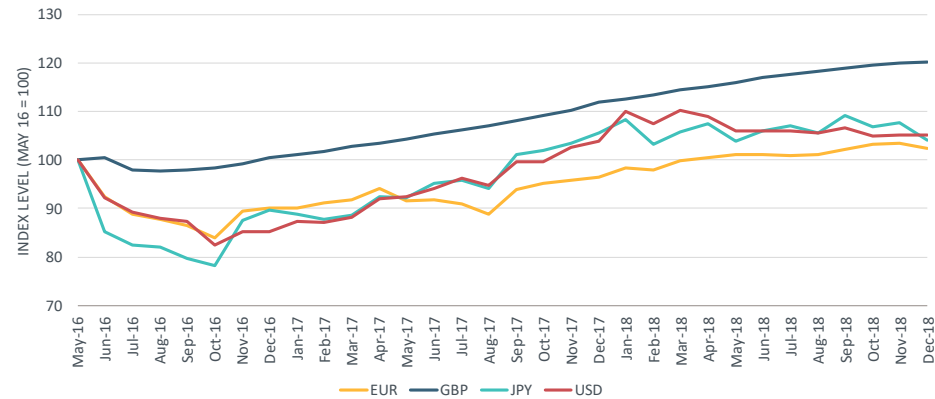
UK MONTHLY PROPERTY INDEX TOTAL RETURN



UK MONTHLY PROPERTY INDEX TOTAL RETURN INDEX

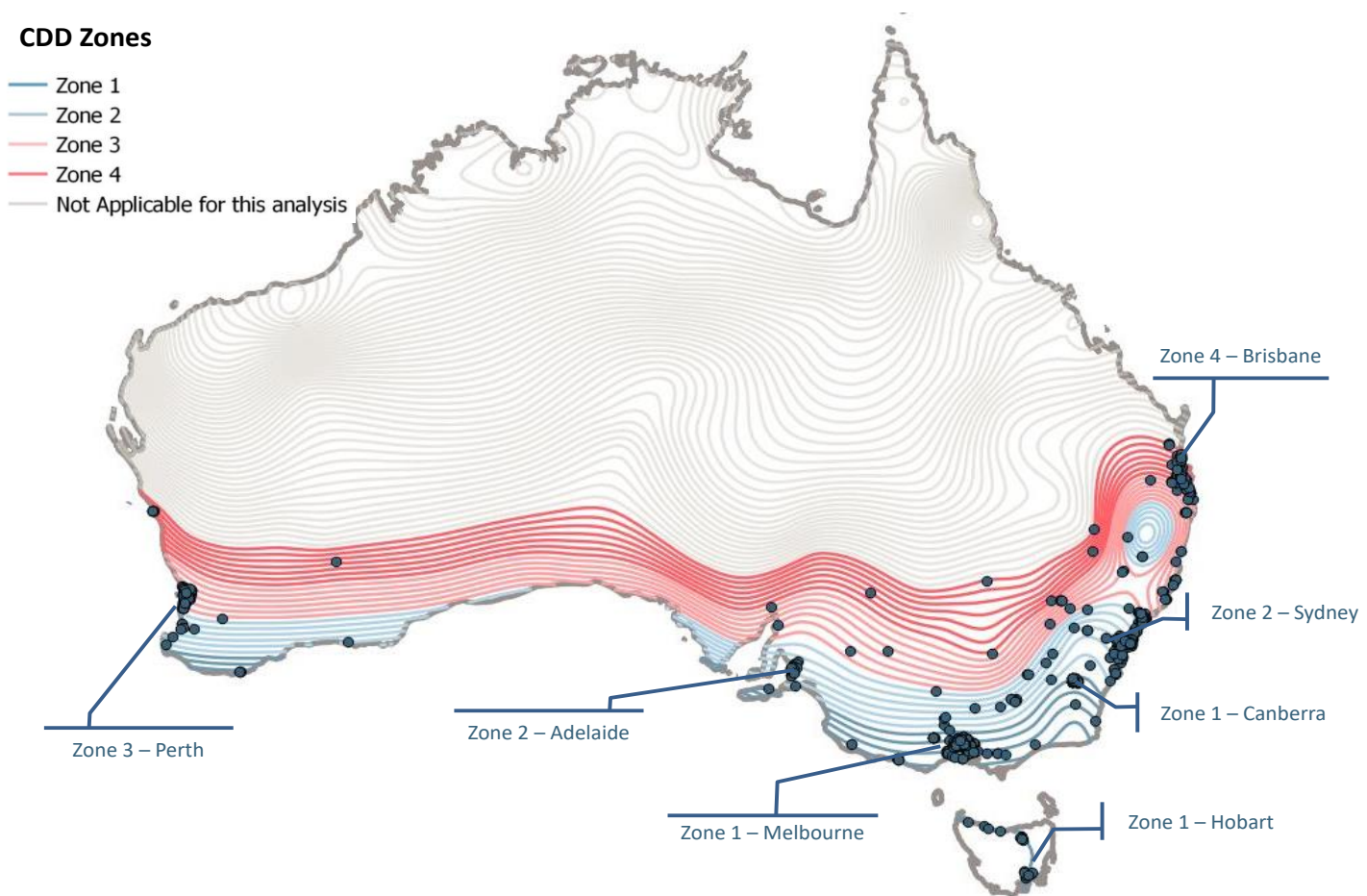


UK MONTHLY PROPERTY INDEX TOTAL RETURN INDEX



# TRENDS TO WATCH: ESG RISKS ON INVESTMENT HORIZON

Map of property distribution by Zones of Cooling-Degrees Days in Australia



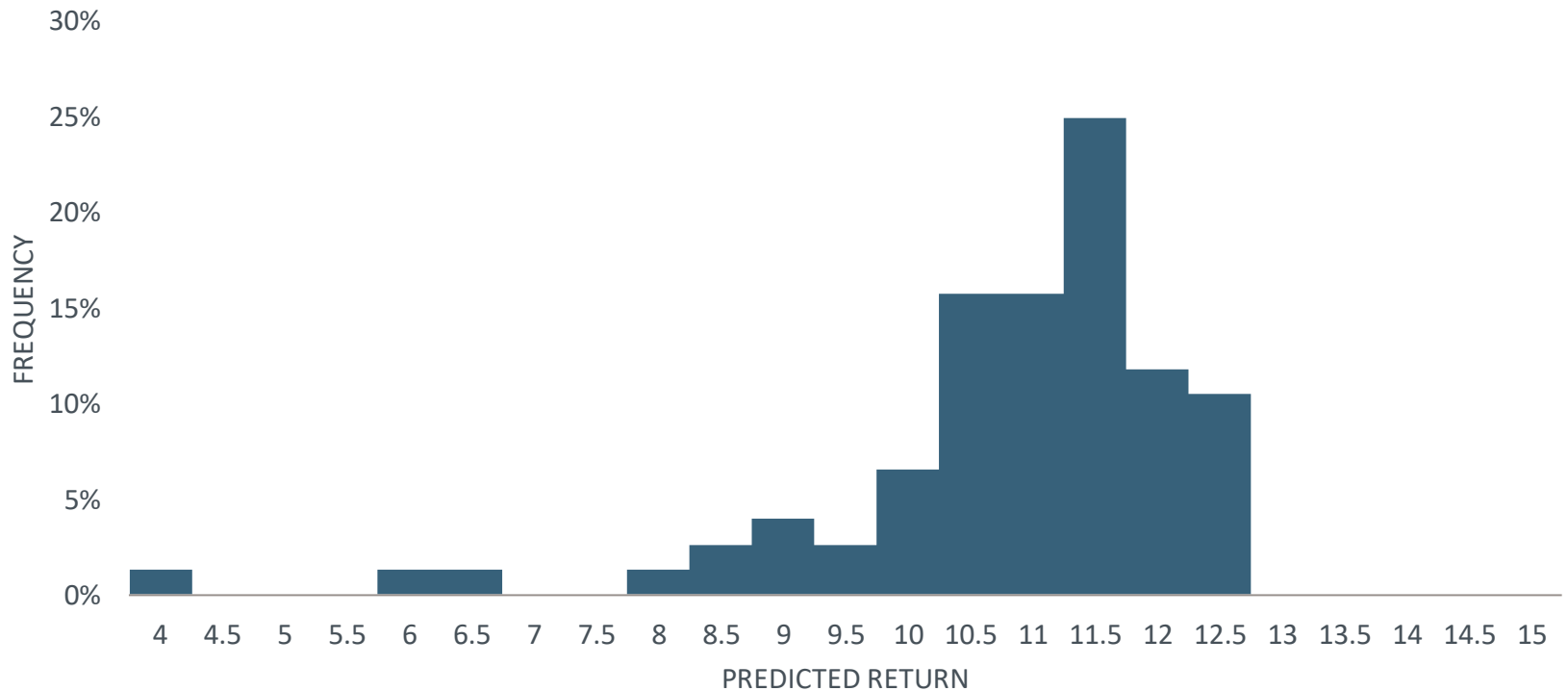
NB: The areas of Australia which do not have office properties owned by the companies included in this analysis have been excluded from the definition of CDD Zones and are represented by grey lines.



# PREDICTION WINNER

The average total return prediction was 10.6%, just above the actual result of 10.3%

## 2018 TOTAL RETURN PREDICTIONS



# TODAY'S MODERATOR



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*Partner, Ashurst*

# PANEL DISCUSSION AND Q&A



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*Senior Vice President, Director, Head of Asia Pacific Investment Research, Heitman*



**ALEXANDRA CROSSING**

*Head of Pacific Investments, CBRE Global Investment Partners*



**CALLUM BRAMAH,**

*Head of Corporate Development & Research, The GPT Group*

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