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AUSTRALIAN REAL ESTATE TRENDS
OCTOBER 2017

AMAZON: THE DISRUPTOR

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FOREWORD

October 2017

Dear Readers,

While e-commerce existed before Amazon.com, Jeff Bezos' company has revolutionized shopping – starting in the US and spreading around the globe – and is poised to open its first distribution centre next year in Australia. In this issue of ***Australian Real Estate Trends, "Amazon the Disruptor,"*** Situs RERC and Urban Property Australia (UPA) explore the Australian commercial real estate market with an emphasis on the entry of Amazon.

While expensive last-mile delivery will be Amazon's biggest challenge initially, Australia has the third highest online spend per capita globally, which bodes well for Amazon's success. Citigroup estimates that Amazon's Australian sales could reach $4 billion within five years, representing about 14 percent of all online sales and 1.1 percent of total retail sales in Australia.

The rise in e-commerce fueled by players such as Amazon means an upsurge in the demand for industrial assets and a dwindling demand for retail space. Australia's brick-and-mortar retailers can expect increased pressure to compete and will be forced into making their businesses an experience rather just a place to shop. Results of our Australian investor survey indicate that Amazon is likely to have the greatest impact on the bulky goods and high street retail sectors.

Industrial and logistics centres, on the other hand, if properly located, will became more attractive as e-commerce increases the need for warehouse space. As services such as last-mile delivery become more prominent, the industrial sector will experience more demand for local facilities, especially within cities. Recent leasing industrial trends indicate that online businesses require three times more warehouse space than traditional brick-and-mortar retailers; however, warehouse availability is at an all-time low in the US and other markets. The growing demand and limited supply for space in cities will support rent growth and, hence, investors' interest in the sector.

Amazon is not just a juggernaut in the retail industry; it is a disruptor. It is not just that Amazon allows people to shop from the convenience of their own homes; in the US, Amazon has transformed the way people think about and interact with retailers. It is reasonable to assume that Australia's experience with the arrival of Amazon will be similar to what has happened in North America and Europe.

We would like to express our gratitude for the multitude of investors across the Australian real estate and financial markets spectrum for completing our survey and offering their insights. Without your help, this report would not have been possible.

Sincerely,

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1 AMAZON THE DISRUPTOR

AMAZON THE DISRUPTOR

On 20 April 2017, Amazon announced plans to bring its online shopping platform to Australia in 2018. While Amazon has been a player on the continent since 2012, its scope of services has been limited. The announcement has far-reaching consequences for Australian real estate, particularly for the retail and industrial sectors. In other parts of the world, the Amazon powerhouse has taken the retail industry by storm. Retailers, even traditional industry darlings, are struggling to compete. As a result, many commercial real estate investors are worried that they will have difficulty finding or retaining tenants. Amazon's typical offering of expedited delivery service means that supply chains and infrastructure have had to adapt at a record pace.

Given the behemoth that is Amazon, many retailers in Australia will have to ramp up their strategies to compete. According to a recent report from Commonwealth Bank of Australia, more than 40 percent of retailers view Amazon as a threat, but only a few have a strategy in place. Most retailers plan to provide superior customer experience and better products to outcompete Amazon. The Chinese firm Alibaba is also setting up shop in Australia, although its operations will be significantly smaller than Amazon.

The impact of Amazon on commercial real estate has been well-documented in the US, Canada and Europe (see pgs. 6 – 13 of this report) and it is reasonable to assume that Australian CRE will encounter similar challenges. As many retailers in the US announce bankruptcy and shutter stores, certain types of retail properties, such as Class B and Class C malls, are becoming obsolete. However, many real estate experts believe the US retail market was overbuilt and that shedding stores reflects a natural cyclical shift for retail commercial real estate. The US has the greatest amount of shopping centre space per capita, followed by Canada and Australia (see Exhibit 1).

According to the Wall Street Journal, the "Amazon effect" has been more pronounced in the US than anywhere else due to a glut of retail stores, thousands of which have been closed in recent years. American brands are also more dependent on selling products through department stores, and they have been harder hit by struggles at big chains. Stock prices for European and Australian retailers have fallen this year because investors are becoming more worried about the "Amazon effect." Australia should start feeling this impact over the next three to five years, according to the Wall Street Journal.

However, it is important to distinguish between Amazon's effect on retail merchandising and its effect on retail real estate (i.e., brick-and-mortar establishments). The challenges facing the retail industry do not necessarily translate into troubles for property owners or private equity investors. No doubt, Amazon will rattle the retail industry, but assuming that properties are in prime locations with adequate infrastructure and amenities, and the ability to easily be repurposed, the space will continue to be in high demand. The tenants may come and go, but the space itself remains.

There is a bright side to Amazon for commercial real estate. As evidenced in both North America and Europe, industrial distribution centres have benefited from the surge in e-commerce. Demand for space has overtaken supply, and competition in the market is fierce. E-commerce retailers typically require a greater amount of space than traditional retailers and supply chain constraints, such as last-mile delivery, pose challenges for owners and occupiers in the sector. The lack of existing distribution centres in Australia (especially those that will meet the needs of giant e-commerce retailers) will mean that the sector will be strong for the foreseeable future.

Exhibit 1. Shopping Centre Space Per Capita

	Latest Data Available Year	Market Size (million sq m)	Population (million)	Sq m of Gross Leasable Area per 100 Persons
USA	2016	708.1	323.1	219
Canada	2016	56.7	36.4	156
Australia	2016	25.2	24.3	104
Singapore	2014	3.0	5.4	55
New Zealand	2016	2.5	4.7	53
United Kingdom	2015	27.7	65.1	43
Japan	2016	51.7	126.9	41
France	2014	23.7	66.3	36
Germany	2014	17.6	81.1	22

Source: ICSC Research (Country Fact Sheet data as of 02 October 2017).

② AMAZON'S EFFECT AROUND THE WORLD

AMAZON'S EFFECT AROUND THE WORLD

Amazon: The Tipping point of E-Commerce in the US

The New York Times reported the first online retail transaction in 1994 when a Philadelphian bought a CD over the internet. The same year, Jeff Bezos incorporated his company, which opened its virtual doors on the World Wide Web at Amazon.com in 1995. AuctionWeb, now eBay, was founded in 1995, too (see Exhibit 3).

While Amazon focused primarily on selling books when it started, the company soon expanded to housewares, electronics, toys, and many other items. Bezos always viewed his company as a technology company rather than a retailer, and to his point, Amazon has truly grown from its humble start as a book seller to a tech giant. With the acquisition of companies such as Whole Foods Market Inc. and its market innovation, Amazon is set to define the future consumer marketplace. The rise of Amazon as a powerhouse is the perfect example of a marriage of retail and industrial industries, technology and logistics.

How Big is E-commerce in the US?

According to the Federal Reserve Bank of St. Louis, e-commerce retail sales averaged about 8.1 percent of total US sales in 2016, compared to about 0.9 percent in 2000. Likewise, the National Retail Federation (NRF) predicts that non-store/online will grow 8-12 percent in 2017, about three times faster than the growth rate of the overall retail sector. E-commerce and players such as Amazon will be crucial to the future growth of retail. While in-person sales are still important, capitalizing on e-commerce and finding creative shopping experiences will be increasingly important as well. For example, Nordstrom recently announced that it will roll out smaller stores with no merchandise, instead providing services such as manicures and on-site tailoring. And, traditional e-retailers, like Warby Parker and Rent the Runway, have started opening “showrooms” that allow consumers to try on products without large inventory.

The rise in e-commerce fueled by players such as Amazon also means an upsurge in the demand for industrial assets and a dwindling demand for retail space. At the year-end 2016, Amazon alone leased more than 97 million square feet and owned more than 2 million square feet of industrial space, such as fulfilment and data centres, in North America (US, Mexico, and Canada).

Amazon Changes the Industrial and Retail Landscape

The industrial sector is benefiting from the exponential growth in e-commerce and “last mile” delivery. The growing demand and limited supply for space in cities will support rent growth and, hence, investors’ interest in the sector. Most of the warehouses and distribution centres are near large population centres, such as Atlanta, Chicago, Northern New Jersey and Houston. However, with companies like Amazon promising same-day deliveries, the demand for smaller fulfilment centres in urban locations will increase. A CBRE report suggests that e-commerce requires three times as much space as other warehouse uses because of the way inventories are

The retail sector is adapting to evolving consumer needs by adding “shoppertainment,” matching online pricing for goods and offering technology-enhanced options.

placed and dispatched. Hence, industrial assets will remain in high demand as e-commerce gains a larger foothold.

According to CBRE, the demand for industrial properties in the US continued to increase in 2017, with the second quarter 2017 vacancy rate down 40 basis points year over year. The vacancy rate for the warehouse subsector was down 43 basis points for the same time period. The net asking rent for the sector climbed 5 percent during the same time. Likewise, Real Capital Analytics (RCA) reported that the average sales price for the industrial properties increased more than 6 percent year-over-year during second quarter 2017.

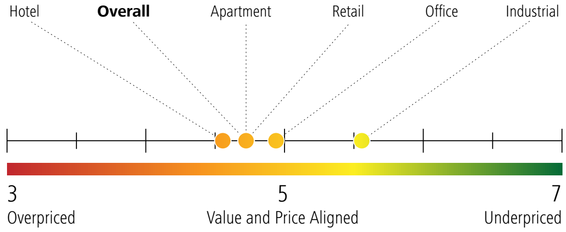
On the flip side, the growth in e-commerce is hampering the retail sector. Our respondents believed that retail held the least return compared to the associated risk and lower value compared to price. However, the retail sector is adapting to evolving consumer needs by adding "shoppertainment," matching online pricing for goods and offering technology-enhanced options such as Apple Pay and interactive shopping.

Comparatively, the average sales prices for the retail properties declined 1.3 percent and the net asking rent declined 5 percent during the same time. The availability rate for retail declined 6.5 percent year over year during second quarter 2017. This could be a result of converting retail spaces into mixed-use spaces or the competition to occupy the best spaces available.

Investors should be particularly cautious about the retail sector as the industry continues to evolve in order to compete in a digital world. As the sector shakes off the oversupply of retail space, it will be crucial for investors to consider property-level factors such as location, infrastructure and tenant improvement costs to determine where to find the best opportunities. However, respondents indicated that competition is becoming fierce, which will likely lead to overpricing in the future.

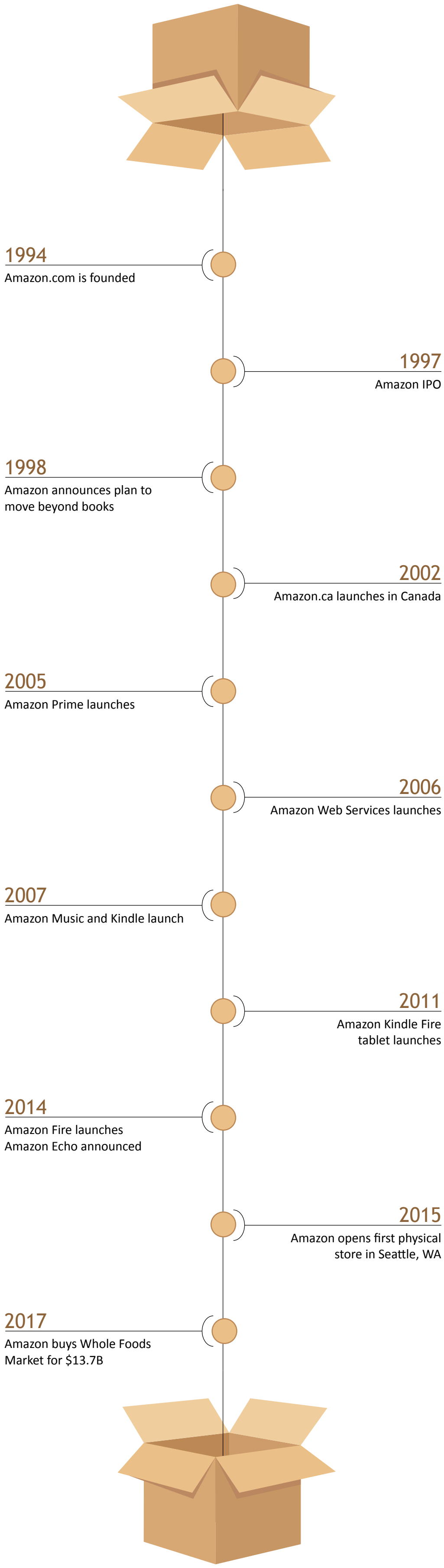
Analysis from Situs RERC supports these conclusions. Situs RERC institutional investor sentiment regarding the relative value for the price for major property types indicates that the industrial sector offers the greatest value compared to price, but also that valuation challenges are ahead for big box retail. Despite concerns about the future of certain segments of the retail sector, investors were more optimistic about values supporting prices for the overall retail sector.

Exhibit 2. Situs RERC Value vs. Price Ratings — 3Q 2017



Ratings are based on a scale of 1 to 10, with 10 suggesting that value greatly outweighs price.
Source: Situs RERC Investment Survey, 3Q 2017, preliminary data.

Exhibit 3. Amazon in North America



Canada: Amazon Expands in North America

The Amazon website was founded in 1994 and went online in 1995 in the US, but it didn't arrive in Canada until 2002, as Amazon.ca, with no employees or offices in Canada (see Exhibit 3). At the time, it still functioned primarily as a book seller, and Amazon.com founder and CEO Jeff Bezos promised that his company would not violate any law designed to protect Canadian businesses, even though many remained skeptical.

Amazon didn't receive official approval to operate its own distribution centre in Canada until 2010. Until then, cultural protection rules required Amazon to use a subsidiary of Canada Post to ship goods to Canada. In 2013, Amazon Prime came to Canada, with a much smaller selection of items than offered in the US because the program was only for products offered on Amazon.ca.

Canadian E-commerce: New Trends

According to eMarketer, Canada has historically trailed the US and the UK in total online sales growth, but is forecast to grow to 10 percent of total retail sales by 2020. The main reason for this increase is an expansion in the number and quality of online offerings.

In light of the e-commerce revolution, according to a 2015 study by Deloitte commissioned by the Retail Council of Canada, many brands are no longer relying on retailers to supply their products. The brands are going directly to consumers – by selling directly online and sometimes by opening their own retail stores. They're also working with retailers to create new partnerships for inventory.

Commercial Real Estate in Canada – Bigger is Not Better for Retail

Commercial real estate continues to thrive in Canada, spurred especially by demand for property in Toronto and Vancouver, which will make up almost two-thirds of the national investment volume. In the Greater Toronto Area, robust growth is expected in office, industrial and land sectors with an annual total of $12.6 billion, 3.2 percent higher than in 2016. Canadian bond yields are predicted to stay at historical lows and maintain the current spread with cap rates. Foreign capital is expected to continue flowing into Canadian markets

The continuing rise in e-commerce will make the distribution and logistics industry more attractive.

because of the perceived lack of risk, which should protect against any sudden drop in asset pricing.

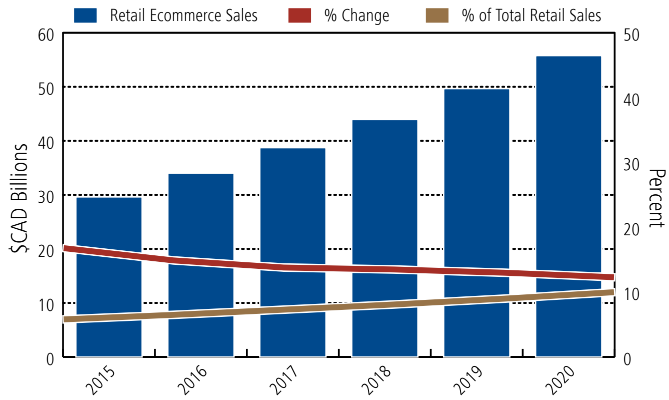
The continuing rise in e-commerce will make the distribution and logistics industry more attractive and retailers will partner with third-party logistics providers more than ever or retrofit their space to use for online order fulfilment centres.

CBRE Marketview reported record-low availability of industrial space in Canada in Q2 2017, and this continued to put upward pressure on rents for industrial spaces. Vancouver and Toronto will lead the way in the industrial sector, spurred by limited space and robust demand, leading to ever-increasing sale prices and rental rates. Industrial office space under construction has hit a seven-year low in Canada, which will lead to record-low availability rates in 2017 even as tenant demand for Class A inventory keeps rising. This will encourage many to renew their existing space and put upward pressure on rental rates.

According to MPWVL International, Canada has six Amazon fulfilment centres – two in British Columbia (near Vancouver, Canada's third-largest city) and four near Toronto (by far Toronto's largest city) – with no future facilities planned. The six centres total about 3 million square feet. Toronto and Vancouver are more than 4,000 kilometres apart on opposite sides of the country. In contrast, the United States has 105 fulfilment centres and 36 more planned throughout the country, along with 153 various other types of facilities and 23 additional planned.

According to CBRE, Canadian retailers are putting more emphasis on location and smaller, more efficient footprints. They are cautious about expanding, and the highest quality centres and largest markets will dominate. Canadians can expect more mixed-use urban developments with local artisanal shops, restaurants and other amenities intended to create engaging destinations. As e-commerce keeps growing, retailers will increase their focus on reverse supply chain logistics for returning items to stores or warehouses.

Exhibit 4. Retail Ecommerce Sales in Canada 2015-2020



Source: eMarketer, August 2016.

Canadian retailers are putting more emphasis on location and smaller, more efficient footprints.

Amazon Makes Intercontinental Move into Europe

Amazon.com opened its first fulfilment centre in the UK in 1998 and has been increasing its operations throughout Europe since (see Exhibits 6 and 13). It plans to have 16 centres in the UK by the end of the year and to open another one next year, in Bristol south west England, and hire 1,000 workers there. From 2010 to 2016, Amazon invested about 850 million British pounds in the UK, according to accounts from its UK subsidiaries, with increased use of robot technology.

In June 2016, Amazon launched its full online supermarket service for Amazon Prime customers in central and east London, with plans to expand the service in the near future. The service offers a full week's worth of groceries delivered the same day as they are ordered.

Here's a list of other countries with Amazon fulfilment centres listed in chronological order of when they first opened:

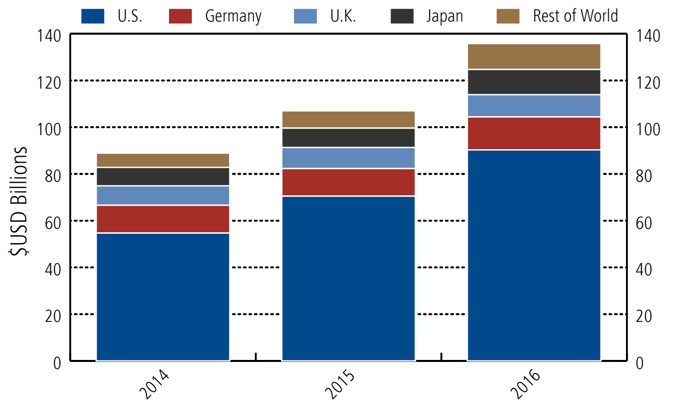
- Germany: 1999; now has 17 opened or planned.
- France: 2007; now has seven and has one planned to open in September 2017.

- Italy: 2007; one opened in Q3 2017 and another planned to open in autumn 2017.
- Spain: 2012; now has six with another planned for 2018.
- Czech Republic: 2013; added second in 2015.
- Poland: Opened three in October 2014; added one in August 2017 and another one planned in 2018.
- Slovakia: Q3 2017.

BNP Paribas reports that late in 2016, Amazon opened its first permanent kiosk in a shopping centre in Germany and planned to establish others in France in 2017.

Germany and the UK trail only the US in terms of net sales for Amazon (see Exhibit 5). According to Morgan Stanley, Amazon is currently the top retailer of non-food goods in Germany and the UK, representing 40 percent of online sales in Germany and 27 percent share in the UK. Expansion of Amazon and other e-commerce firms will likely continue.

Exhibit 5. Amazon Global Sales by Country



Source: Amazon Annual Report, 2016.

UK Takes the E-Commerce Cake in Europe

Research from Statista indicates that the UK has the highest amount of online sales (as a percent of total retail sales) than any other European country, Canada or the US. Online retail sales in the UK are expected to grow to 17.8 percent of total retail sales in 2017, or 67.38 billion British pounds.

Amazon's Commercial Real Estate Impact

Despite the differences among the various EU economies, CRE remains attractive almost everywhere in Europe. According to Savills, the majority of European countries had transaction volumes above long-term averages; only Ireland, France and the UK saw declines compared to the five-year average. Lack of supply as opposed to lack of demand was cited as the main cause of the decrease.

Germany and the UK trail only the US in terms of net sales for Amazon.

Prologis and JLL report that industrial demand was at record-high levels in the first half of 2017, primarily due to the e-commerce trend. Prologis reports that Amazon will add no less than 1.2 million square metres of industrial space this year, primarily in the UK, Germany and Poland. Rental growth increased in the first half of 2017 and vacancy rates remain below 5 percent, according to Colliers.

Situs RERC finds that the European industrial/logistics sector has the most favourable investment conditions among all the major property sector. Investors should be cautious, though; value-add expertise is critical to achieving attractive yields. All European regions had greater return compared to risk for the industrial/logistics sector, with the highest rating in the UK; the sector is considered a safe investment option. Germany was the only region where value did not support price for the industrial/logistics sector. Industrial volume in Germany topped that in the UK in the first half of 2017, becoming the largest market for the sector, according to BNP Paribas. Fierce competition in Germany for industrial space has led to overpricing in the sector.

Until now, European retailers haven't been as hit hard by the spread of Amazon as their counterparts in the US. That's because European retailers aren't facing the same glut of stores as is the case in the US. Cushman and Wakefield report that the US has almost 10 times the amount of retail square feet per 1,000 people than the UK. Nonetheless, investors in recent months have shown increasing concerns about the value of retailers based in Europe, based on falling stock prices.

The retail sector has been mixed in Europe with some countries and regions faring better than others. Based on European survey data, Situs RERC finds that investment conditions for the retail sector is booming in Germany, but struggling in the UK. There is high demand in Germany for small malls with only four or five tenants with good parking that feature supermarkets or drugstores as anchors. However, due to e-commerce, secondary, non-food-led malls and shopping centres will struggle. Survey respondents note that Europe is not as Amazon-proof as people think. This is reflected in Situs RERC's return vs. risk and value vs. price ratings. All European regions had greater risk compared to return for the retail sector, but the highest rating was in Germany. The retail sector received low value vs. price ratings from all European regions except the Mediterranean countries, where the rating tied with land/development as the third-best asset class from a value vs. price perspective.

According to Cushman and Wakefield, approximately 2.9 million square metres of new shopping centre space was delivered to the European market in the second half of 2016. France, Germany and the UK are the largest shopping centre markets, accounting for 47 percent of shopping centre space in Western Europe. However, Cushman and Wakefield report that shopping centre completions were 6 percent lower in 2016 than 2015 and are expected to further decline in 2017 and 2018. Not all spaces are created equal. Future development is expected to favor prime properties in economically favorable markets or where value-add opportunities exist. Similar to the US market, mixed-use retail that focuses on providing shoppers with experiences are the best options for investment.

Exhibit 6. Amazon in the United Kingdom

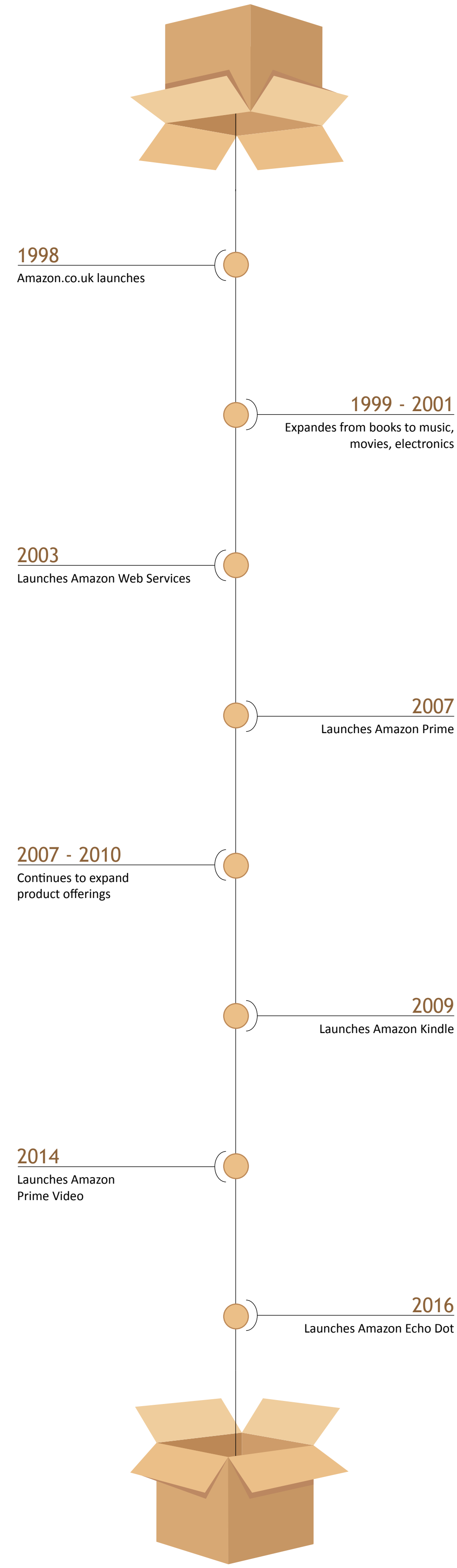


Exhibit 7. Return vs. Risk Ratings — Europe

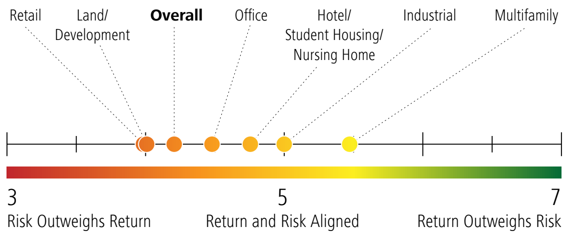


Exhibit 10. Value vs. Price Ratings — Europe

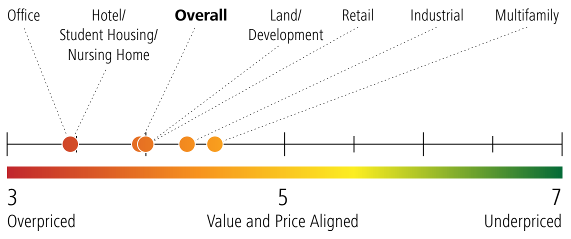


Exhibit 8. Return vs. Risk Ratings — UK

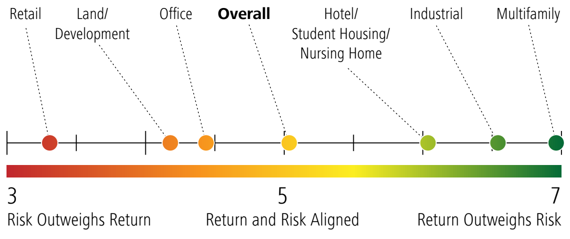


Exhibit 11. Value vs. Price Ratings — UK

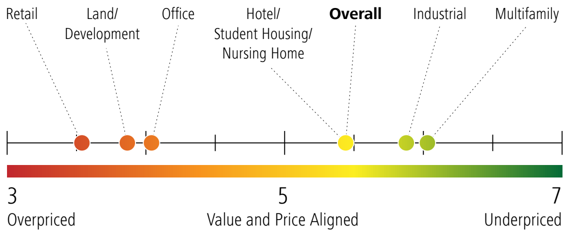


Exhibit 9. Return vs. Risk Ratings — Germany

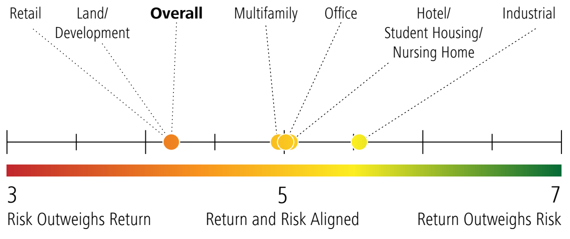
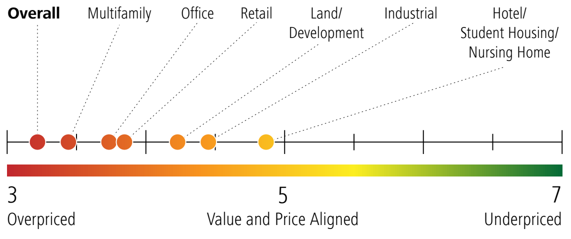


Exhibit 12. Value vs. Price Ratings — Germany



Ratings are based on a scale of 1 to 10, with 10 suggesting that return greatly outweighs risk.
Source: Situs RERC European Investment Survey, 3Q 2017.

Ratings are based on a scale of 1 to 10, with 10 suggesting that value greatly outweighs price.
Source: Situs RERC European Investment Survey, 3Q 2017.

Exhibit 13. Amazon Launch Dates by Country

1995
Amazon.com (US)

1998
Amazon.co.uk (UK)
Amazon.de (Germany)

2000
Amazon.co.jp (Japan)
Amazon.fr (France)

2002
Amazon.ca (Canada)

2004
Amazon.cn (China)

2010
Amazon.it (Italy)

2011
Amazon.es (Spain)

2012
Amazon.com.br (Brazil)

2013
Amazon.com.au (Australia)
Amazon.in (India)
Amazon.com.mx (Mexico)

2014
Amazon.nl (Netherlands)

2017
Amazon.com.sg (Singapore)

Amazon's Effect on Australia: Lessons Learned from other Markets

Canada is the second-largest country in the world by land mass, and Australia is sixth, yet Canada is only the 38th-most populous country (about 36.6 million) and Australia is No. 53 (about 24.7 million). In population density, Canada ranks 232nd among countries and territories with about 4 people per square kilometre, while Australia is No. 233 with 3 people per square km. In both countries, the vast majority live in a handful of densely populated urban areas. Canada is ranked No. 17 in GDP per capita and Australia is No. 9, according to staticstimes.com. Canada's GDP is forecast to grow 2.1 percent in 2017 and 2018, per CBRE. The Reserve Bank of Australia (RBA) sees Australia's economy growing between 2.0 percent and 3.0 percent in 2017 and between 2.5 percent and 3.5 percent in 2018.

In comparison, the United States' population is more than 10 times that of either Canada or Australia, but it similarly has vast swaths of open land and densely populated cities, including New York City (about 10,000 people per square kilometre), San Francisco, Boston, Chicago and Philadelphia. It ranks No. 185 worldwide in population density with about 33 people per square km. Superficially, Europe as a whole and as individual countries is a very different market from Australia. Europe's population density is 73 people per square km. But Australia's cities are densely populated, almost comparable to cities in Europe, though farther apart. For example, Melbourne's population density is 440 per square km., and Sydney's is 2,037. London's is 5,285 and Paris' is over 21,000. Canada's most densely populated cities are Toronto (about 954 per square km.), Montreal (about 898) and Vancouver (about 803).

Nonetheless, Amazon's biggest challenge in Australia will be logistics. The cost of shipping between its largest cities areas is likely to challenge Amazon's delivery model as well as raise costs, especially with oil prices rising again. Failure to offer quick deliveries may leave it more prone to competition from physical retail chains offering low-priced goods.

Amazon's biggest challenge in Australia will be logistics, given Australia's low population density.

3 GLOBAL ECONOMIC OUTLOOK

GLOBAL ECONOMIC OUTLOOK

The global growth estimate for 2016 was pegged at 3.1 percent and is estimated to be 3.5 percent in 2017 and 3.6 percent in 2018, according to the International Monetary Fund (IMF). Economic activity in both advanced (US, UK, the euro area, Canada and Japan) and emerging economies (including China and India) is forecast to accelerate in 2017, to 2 percent and 4.5 percent respectively. While risks around the globe remain over the medium term, the forecast of growth rates seems to be broadly balanced in the short term. In Europe, where the political risk has reduced substantially, the growth could be stronger and more persistent. A number of Asian economies, including Thailand, Malaysia, Indonesia and the Philippines, are expected to keep experiencing robust growth, thanks to well-planned investments in infrastructure and more demand from foreign sources, especially China.

Forecast global growth rates for 2017-18, although stronger than the 3.1 percent estimated for 2016, are lower than those before the Great Financial Crisis, specifically for the more advanced economies and for commodity-exporting emerging and developing economies. Some of the factors testing the strength and durability of the recovery include longer period of policy uncertainty – including post-Brexit arrangements and uncertainty over U.S. regulatory and fiscal policies; the failure to address financial sector risks in China; and protectionism policies in various countries. which could disturb global supply chains and cause more income disparity.

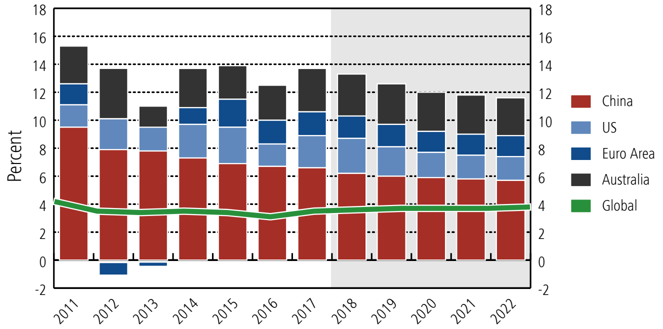
In Europe, steady economic growth has extended into 2017, thereby ensuring a fourth straight year of moderate, balanced GDP growth. According to Eurostat, employment in the euro area rose to 71.1 percent of the EU population in 2016. Over this year and next, an increase in employment opportunities and a mild surge in employment growth is expected to be fueled by strengthening domestic demand as well as historical structural reforms and accomodative policy measures in some of the countries.

Eurostat shows that the EU experienced weaker economic growth in 2016 at 1.9 percent, compared to the global average of 3.1 percent. However, EU countries registered a steady increase in GDP growth from -0.5 percent in 2012 to 1.9 percent in 2016 and euro area countries witnessed a gradual increase in GDP growth from -0.9 percent in 2012 to 1.8 percent in 2016. The Russian economy is projected to recover gradually with GDP growth estimated at 1.4 percent in 2017 and 2018, up from -0.2 percent in 2016.

Economic trends in the Americas were mixed. In the United States, the latest Federal Open Market Committee (FOMC) meeting projected growth to be 2.4 percent in 2017 and 2.1 percent in 2018. Canada showed some strength as resilience in domestic demand boosted the first-quarter growth to 3.7 percent. The Latin American economy is projected to gradually recover from -1.0 percent growth in 2016 to 1.1 percent in 2017 and 2.0 percent in 2018.

The Asia Pacific region continues to be the world leader in growth, with GDP growth of 3.5 percent in 2016, according to Asia-Pacific Economic Cooperation (APEC) data. According to the IMF, India and China GDP grew 6.8 percent and 6.7 percent respectively, in 2016. The 2017 GDP growth for India and China is projected at 7.2 percent and 6.6 percent, respectively. The efforts to reduce excess capacity in the industrial sector has resulted in the projections to decrease by 0.1 percentage points compared to 2016. However, China's unresponsiveness to the financial sector risk and its inability to control excessive credit growth could lead to an abrupt economic slowdown.

Exhibit 14. World Annual GDP Growth



Note: Shaded area indicates forecast.
Sources: International Monetary Fund, Urban Property Australia, September 2017.

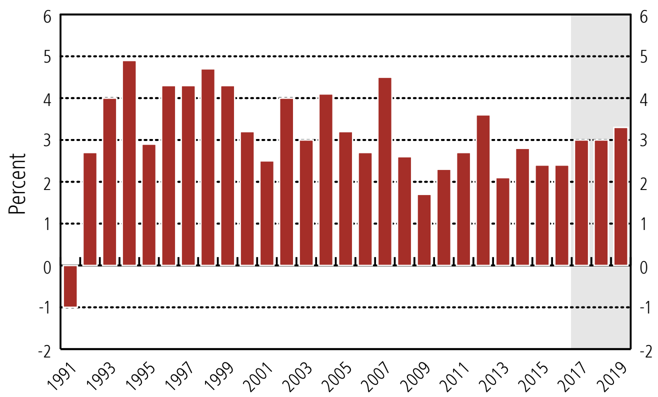
4 DIVING DEEP INTO AUSTRALIA

AUSTRALIAN ECONOMIC OUTLOOK

While the global economy appears to be gaining momentum, the Australian economy has been lacklustre. The Australian economy posted growth of 0.8 percent in the second quarter of 2017, after Tropical Cyclone Debbie had an impact on exports in the first quarter of 2017 with the economy growing by only 0.3 percent in the quarter. The pick-up in second quarter 2017 quarter was primarily driven by a rebound in exports and strong government spending.

While Australia has recorded 26 years of growth in Australia without a recession, the annual growth of 1.8 percent as at June 2017 indicates that the economy is growing slower it has in the past. Looking forward, economic growth is expected to pick up to in the second half of 2017, thanks to an increase in LNG exports. Australia's economy is forecast to grow by 3 percent in 2018 and 3.25 percent in 2019.

Exhibit 15. Australian Annual GDP Growth



Note: Shaded area indicates forecast.
Sources: Australian Bureau of Statistics, Urban Property Australia, October 2017.

Solid labour market conditions and the housing sector continue to support growth in New South Wales and Victoria. Economic growth in Queensland and Western Australia appears to be gathering momentum underpinned by an improvement in the labour market and the recent pickup in resource prices. In South Australia and Tasmania, economic growth remains close to its long-term trend, with the labour market and household sector conditions relatively subdued.

Across Australia, approximately 54,000 seasonally adjusted full- and part-time jobs were created in August 2017, the 11th consecutive month of increases. Given the strong gain in employment, the unemployment rate steadied at 5.6 percent despite the increase in participation. The improvement was broad-based across the states, although Victoria accounted for 40 percent of all Australian jobs created in the year. Interestingly, more jobs were created in Queensland, despite its smaller population, than New South Wales while Western Australia recorded its highest annual employment growth since 2012.

The strong rise in employment is consistent with the strength in job advertisements since the start of 2017. The current level of job advertisements suggest that employment growth is likely to continue through the remainder of 2017. The unemployment rate is now forecast to fall gradually to 5.4 percent through 2017, 5.3 percent by the end of 2018 and 5.1 percent by the end of 2019.

Consistent with the strong employment growth in the first half of the year, household spending was solid in June 2017 at 0.7 percent. Strength was evident in retail sectors such as clothing and footwear and furnishings and household equipment as well as transport services, communications and insurance and other financial products.

Australia continues its 26-year stretch of growth without a recession, with economic growth forecast to pick up in 2018 and 2019.

Looking ahead, higher energy prices are likely to weigh on discretionary spending in the third quarter of 2017, with subdued wage growth still hampering retail sales. Household consumption is projected to increase to 2.0 percent in 2018 before picking up to 2.75 percent in 2019.

While Australian company profits fell by 4.5 percent in second quarter 2017, profits have increased by 19 percent year over year. Much of the annual increase was due to the mining sector, where profits rose 60 percent over the year, thanks to rising commodity prices. Both mining and non-mining profits hit record highs in June 2017. The strength in non-mining profits suggests that the outlook for non-mining business investment should continue to improve.

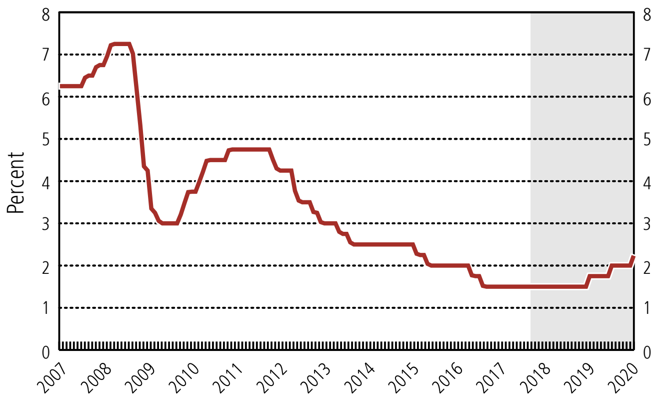
Defying weakness in the household sector and sluggish GDP growth, operating conditions remained near the highest levels seen since the global financial crisis, according to NAB's business survey in June. In contrast, consumer confidence fell to a 16-month low in August 2017, a trend observed in general since mid-2016, per Westpac-Melbourne Institute.

Government spending was much stronger in second quarter 2017, in large part driven by a surge in public investment, consistent with the increase of infrastructure programs. Public investment is expected to remain high because of a large number of infrastructure projects, but the growth rate may have peaked. Underlying business investment is forecast to be modestly higher in 2017 (1.2 percent) accelerating to 4.3 percent and 6.3 percent growth, respectively, in 2018 and 2019.

The RBA has left the official cash rate steady for 13 straight meetings at 1.5 percent, even as peer central banks around the world increasingly signal plans to normalise crisis-era monetary policy settings. Buoyed by the economic outlook and improved business confidence, experts are increasingly forecasting that the RBA will raise rates in late 2018. While the cash rate is likely to move upwards next, the RBA will proceed at an extremely cautious pace given its concerns about household balance sheets.

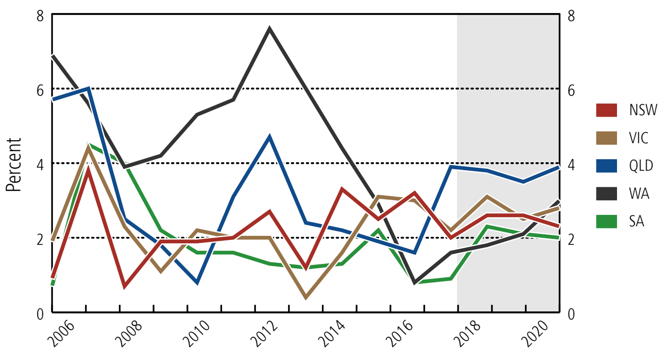
Over the past year, economic growth has increased the most in the Victoria, up 4.7 percent, and the South Australia, up 4.0 percent. Although Western Australian demand contracted by 4.3 percent over the year, the rate of contraction is decreasing, which may indicate that the worst for the state might be over. Queensland's economic recovery continued with its sixth consecutive quarter of economic growth after contracting for the six preceding quarters.

Exhibit 16. Australian Interest Rate



Note: Shaded area indicates forecast.
Sources: Reserve Bank of Australia, Urban Property Australia, October 2017.

Exhibit 17. State Economic Growth



Note: Shaded area indicates forecast.
Sources: Reserve Bank of Australia, Urban Property Australia, October 2017.

Employment in Australia has increased for 11 consecutive months with the improvement broad-based across the states.

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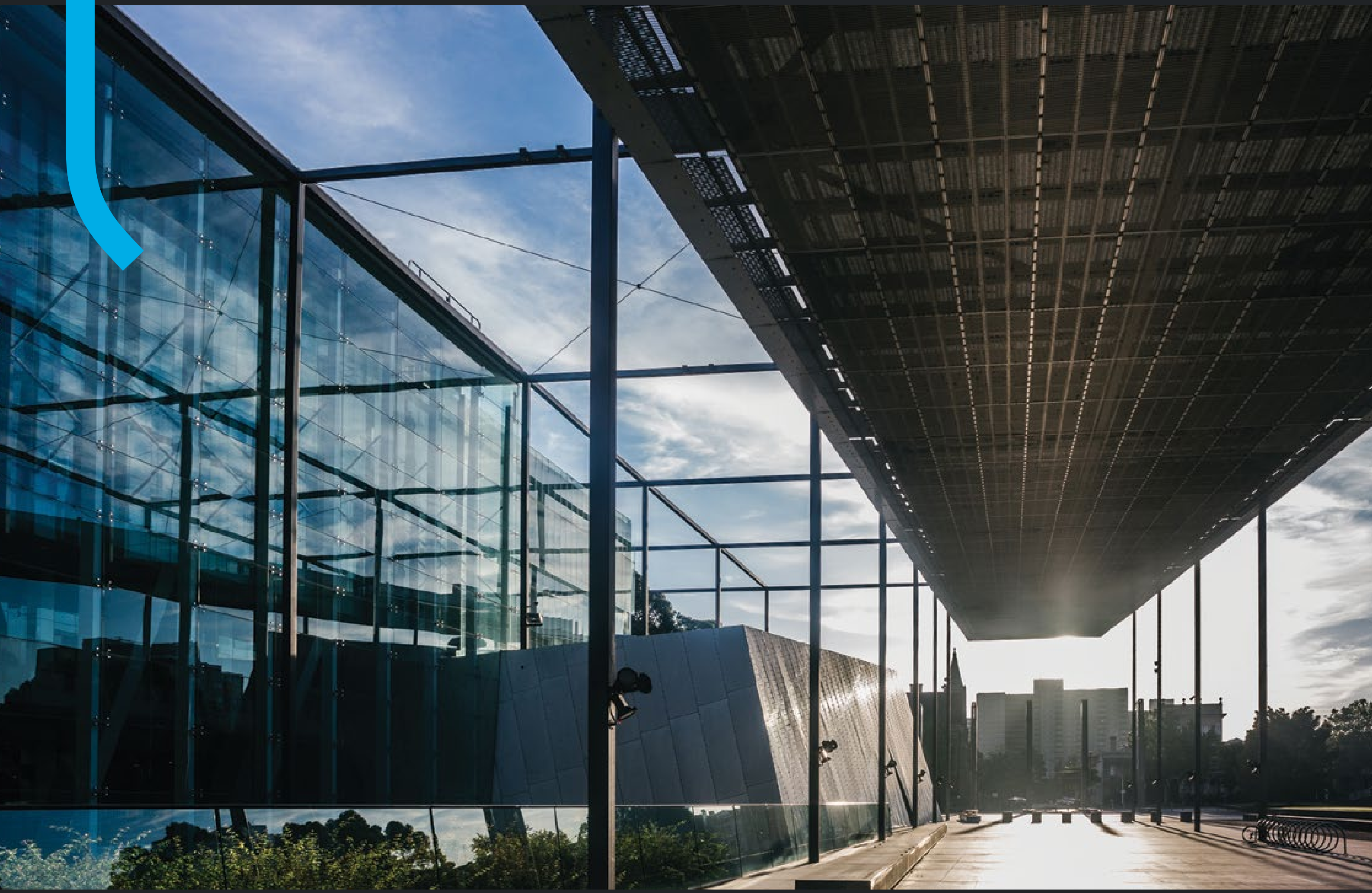

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AMAZON'S PROPOSED ENTRY IN AUSTRALIA

In 2012, Amazon Web Services was launched and a Kindle Store was started on Amazon.com.au in 2013. In April 2017, Amazon confirmed its plans to formally enter the Australian market. The next stage is local ordering and local delivery of goods from and within Australia. In the short term, Amazon will be delivering a range of dry goods, or non-perishables, such as canned food and other household necessities such as tissues. Currently, Amazon employs almost 1,000 people in Australia with estimates that Australian consumers already spend between $700 million and $1 billion a year on Amazon.com.au and Amazon overseas sites.

According to Hitwise data, the most popular categories for Amazon shoppers in the US are Kindles, health and beauty, consumer electronics and groceries. For Australian shoppers viewing Amazon's US website, the top categories excluding Kindle include paperbacks and hardcover books, computers, electronics, toys, health and beauty, and apparel.

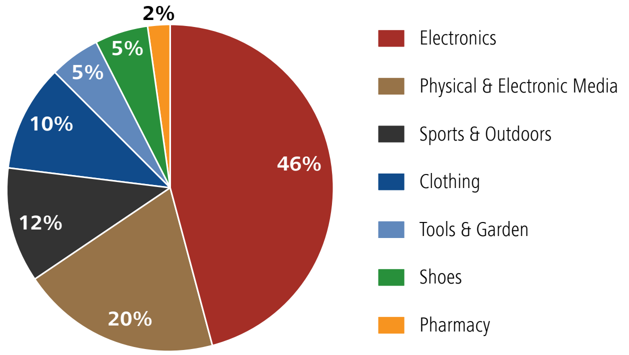
Citigroup estimates that Amazon's Australian sales could reach $4 billion within five years, representing about 14 percent of all online sales and 1.1 percent of total retail sales in Australia. In comparison, in the US Amazon now accounts for almost 5 percent of total retail sales and 38 percent of online retail sales, while its share of UK retail spending is estimated to be around 4 percent and its share of online sales 24 percent. Other analysts estimate that Amazon's Australian sales could reach $14.5 billion by 2025, representing 25 percent of online sales.

More than 1,000 Australian companies already sell their wares on Marketplace, which gives them access to customers in Australia and overseas. About 50 percent of Amazon's revenues come from third-party sellers, some of whom pay the e-commerce retailer commissions and fees to store and deliver their goods under a service called Fulfilment by Amazon, which has been growing 70 percent a year.

Given Amazon's strengths in books, consumer electronics, clothing and sporting goods, Australian brick-and-mortar retailers most exposed will include JB Hi-Fi, Harvey Norman, Myer, Dymocks, Super Retail, BIG W, Kmart and Target. Online retailers and marketplaces such as eBay, Booktopia and The Catch Group will also feel the heat from Amazon's wide product range, low prices and fast delivery.

Amazon may also open small fulfilment centres or delivery stations in large shopping centres after it launches Prime Now and may partner with Australian food wholesalers and independent retailers to speed delivery of fresh foods when it launches Amazon Fresh.

Exhibit 18. Global Amazon Sales by Category



Source: Amazon.

Amazon's Australian sales are predicted to reach $4 billion within five years, about 14 percent of all online sales in Australia.

Online Retailing in Australia

Australian consumers spent approximately $22.74 billion online in the 12 months to June 2017, accounting for about 7.4 percent of spending at traditional brick-and-mortar retailers over the year. According to the National Australia Bank, online retail sales rose by 0.7 percent in June, with online sales for the year to June 2017 up 7.6 percent. In June 2017, online sales of homeware and appliances accounted for 20.1 percent of all online retail sales followed by media (17.2 percent) and groceries (16.6 percent).

The entry of Amazon is expected to boost online sales growth; however, as a proportion of the total retail market, Amazon and other online retail retailers will remain small. Overall, online retail is forecast to acquire a further 0.5 percent off traditional brick-and-mortar retailers per annum to 2022.

The impact of Amazon's arrival on convenience-based non-discretionary retail, however, is expected to be limited. In the US, Amazon accounts for only 5 percent of total retail sales, even after 20 years of establishment. And most US online sales are for discretionary purchases – 63 percent of Amazon's sales are in electronics and electronic media.

Effects on Australian Retailers

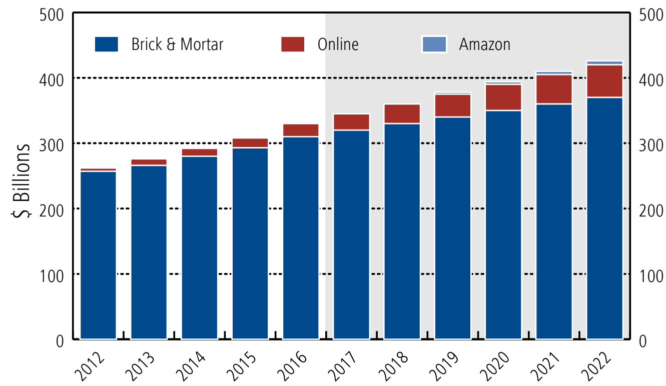
While rising online retail sales has adversely affected traditional (typically fashion-based) retailers, conversely the evolution of retail trade has fuelled demand for industrial space from e-commerce, retailers and third-party logistic groups.

Australia, with its largely stable retail environment and high per-head disposable income of about US$32,680, represents a huge opportunity for Amazon. Adding to its attractions are the absence of big regional e-commerce players, along with a consumer appetite for online shopping, as seen by the popularity of Click Frenzy, an online shopping festival inspired by the US's Cyber Monday sales.

Despite increasing costs and competition, Coles and Woolworths continue to occupy about 70 percent of the Australian grocery retail market. In preparation of Amazon's arrival, Coles and Woolworths have been focusing on boosting their digital offerings. Amazon will also face competition from German discount chain Aldi, while Kaufland and Lidl have also announced plans to establish Australian operations. Coles's primary rival, Kmart, has already announced that it will match Amazon's low prices. Meanwhile, Harvey Norman has launched a click-and-collect app for its customers.

In order to be able to a grab a significant share of the retail market, Amazon will also have to lure a country of brick-and-mortar shoppers to go online for their everyday needs. E-commerce accounted for only 7 percent of Australia's retail sales. Despite a 7 percent year-over-year increase in sales in June 2017, the country's online market is smaller than that of other western countries and less tempting than Asian markets such as South Korea, China and India.

Exhibit 19. Total Australian Retail Sales by Point-of-Sale Transaction



Note: Shaded area indicates forecast.
Source: Urban Property Australia, ABS, NAB, Situs RERC, 3Q 2017.

Australian online retail sales remain modest, accounting for 7.4 percent of total retail sales.

SITUS RERC/UPA SURVEY EXPERTS WEIGH IN ON AMAZON

The September 2017 Situs RERC/UPA survey results reveal that 93 percent of total respondents believe that Amazon will be a success in Australia with 41 percent of respondents stating that Myer and David Jones are the most vulnerable to Amazon's entry into Australia.

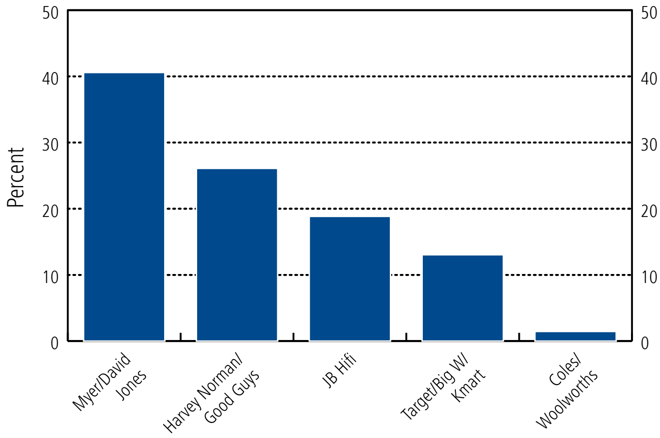
The September 2017 Situs RERC/UPA survey results reveal that the greatest impact of Amazon will be felt on the bulky goods and high street retail sectors with the least impact on the CBD retail sector.

Amazon's arrival will widen options for consumers while putting pressure on prices. The retail offer in Australia (both local online and offline channels) generally has been weaker, but with Amazon's entry into Australia — along with other international retailers in recent years — an increase in the quality of the competition likely will lead to weaker retailers being pushed out. For landlords, it shows the shopping centre is not static, and remixing must be an ongoing and central strategy for a shopping centre to maintain its relevance. Amazon will simply be another factor pushing property owners to remix with secondary centres, the most vulnerable to the impact of online retail.

Effects on the Australian Industrial Market

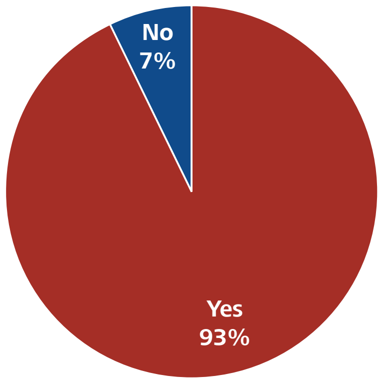
The arrival of Amazon will not only shake up the Australia retail sector but also support the expansion of small online traders, further boosting the demand and development of distribution centres and warehouses to fulfil consumers' requirements of prompt delivery of online purchases.

Exhibit 20. Which Major Retail Chain Will Be Impacted the Most By the Amazon/Alibaba Effect?



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Exhibit 21. Will Australia Be a Success for Amazon/Alibaba?



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Amazon will simply be another factor pushing property owners to remix with secondary centres, the most vulnerable to the impact of online retail.

The continued growth in e-commerce (with online retail sales up 7.6 percent over the last year), was demonstrated with by the strong take-up of industrial facilities by retailers and associated suppliers, as many attempted to improve and consolidate their supply chains. Over the year to July 2017, logistic and transport companies, retailers and wholesale traders accounted for 60 percent of all Australian industrial take up.

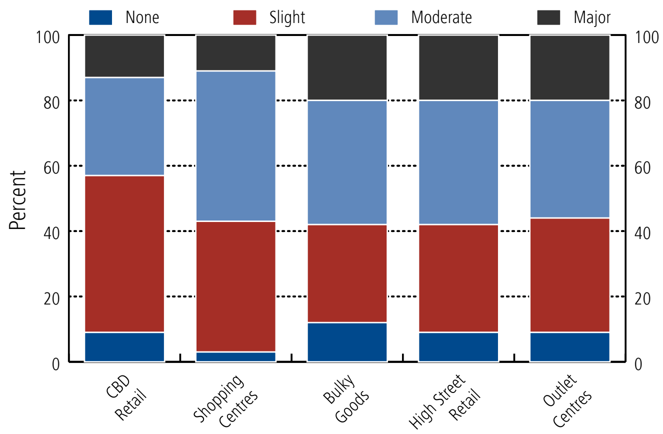
According to CBRE research, E-commerce operators require an estimated average of three times more space than traditional warehouse users due to the way items are packaged and the volume of goods handled.

Recently, Amazon has agreed to lease the 24,387-square-metre former Bunnings distribution centre at Dandenong (in South East Melbourne). The vacant warehouse, which stands on a 7.7-hectare site, could potentially be doubled in size to suit Amazon's needs.

Amazon's logistics network believed to include one fulfilment centre in each of Brisbane, Sydney and Melbourne, with hundreds of 250-500-square-metre metropolitan delivery centres to service customers. Fulfilment centres are the massive sorting centres of up 100,000 square metres with robots called Kivas. Amazon also uses fresh food distribution centres, which average about 40,000 square metres, across the 14 countries Amazon operates within.

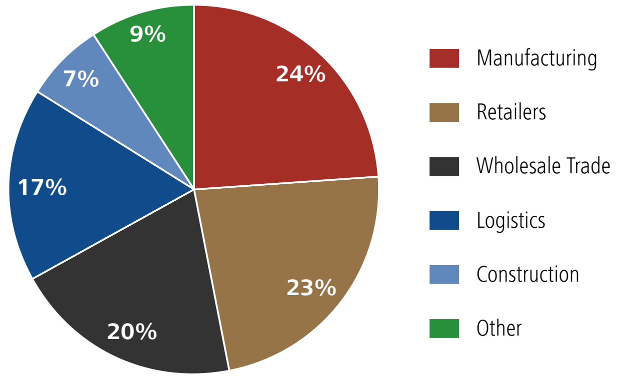
In addition, Amazon incorporates delivery centres, the last leg of the chain, which are typically much smaller (250-500 square metres) and use multiple courier services to send products to customers.

Exhibit 22. Impact of Amazon by Retail Asset Type



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

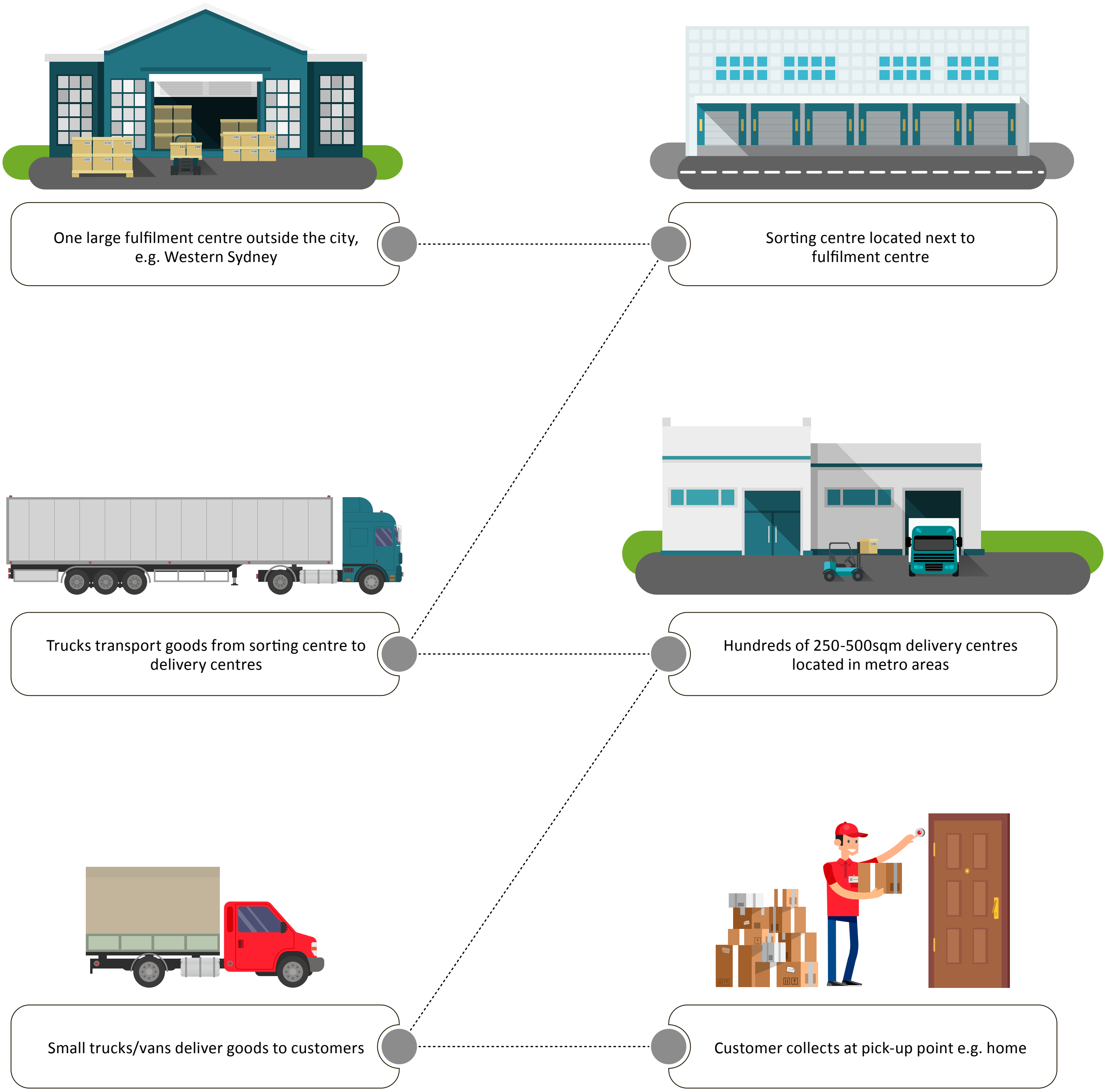
Exhibit 23. Australian Industrial Leasing Activity



Source: Urban Property Australian.

E-commerce operators require three times more space than traditional warehouse users due to the way items are packaged and the volume of goods handled.

Exhibit 24. Possible Amazon Logistics Network in Australia



5 INVESTOR SENTIMENT

INVESTOR SENTIMENT

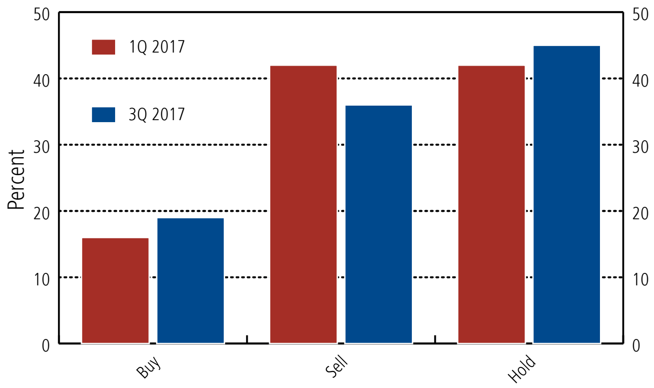
As part of the third quarter 2017 Situs RERC/UPA Australian Market Expectations Survey, respondents were asked to provide insight for commercial real estate across five of the capital Australian cities (Adelaide, Brisbane, Melbourne, Perth and Sydney) during 2017 and beyond.

Respondents who contributed to the third quarter 2017 Situs RERC/UPA Australian Market Expectations Survey included landlords, fund managers, investment bankers, REIT analysts, superannuation fund managers, valuers/appraisers, financiers, private investors and real estate agents. The variety of respondents ensured that the analysis of the survey offers insight into investor sentiment and provides a useful tool to evaluate investment trends for the commercial real estate market.

Buy-Sell-Hold Recommendations

Overall, the third quarter 2017 survey results revealed that 45 percent of respondents indicated that it was a good time to hold Australian commercial real estate, followed by 36 percent who believed it was the best time to sell Australian commercial real estate (see Exhibit 25). Despite Australia's strong property performance in comparison to other regions in recent years, buying commercial real estate was the least appealing investment option to respondents. It accounted for 19 percent of all responses, up from 16 percent in the first quarter of 2017.

Exhibit 25. Buy-Sell-Hold Recommendations



Note: Results are for Australia overall and include data from Adelaide, Brisbane, Melbourne, Perth and Sydney.
Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Buying Australia commercial real estate was the least preferred investment option for survey respondents, accounting for only 19 percent of best investment option.

Investment Conditions

For Australia overall, investment conditions for each CBD office, suburban office and industrial were considered slightly above average in the third quarter of 2017. For the CBD office sector, 46 percent of respondents said that investment conditions were above average or excellent, as shown in Exhibit 26. The most prevalent response for the suburban office market was that investment conditions were above average or excellent (39 percent), down from the 57 percent recorded as at the first quarter of 2017. Possibly alarmed by the structured changes, survey respondents regarded investment conditions for the retail shopping centres and retail big box/bulky goods/large format sectors slightly below average overall.

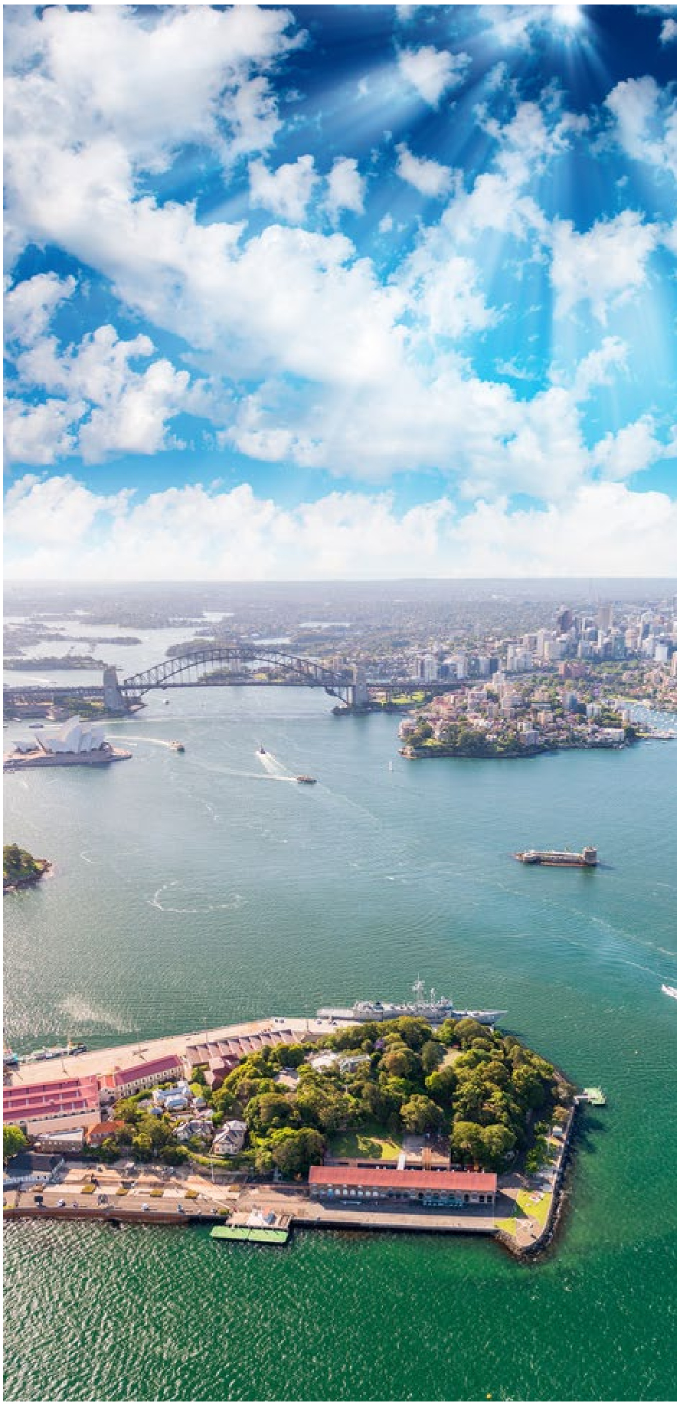
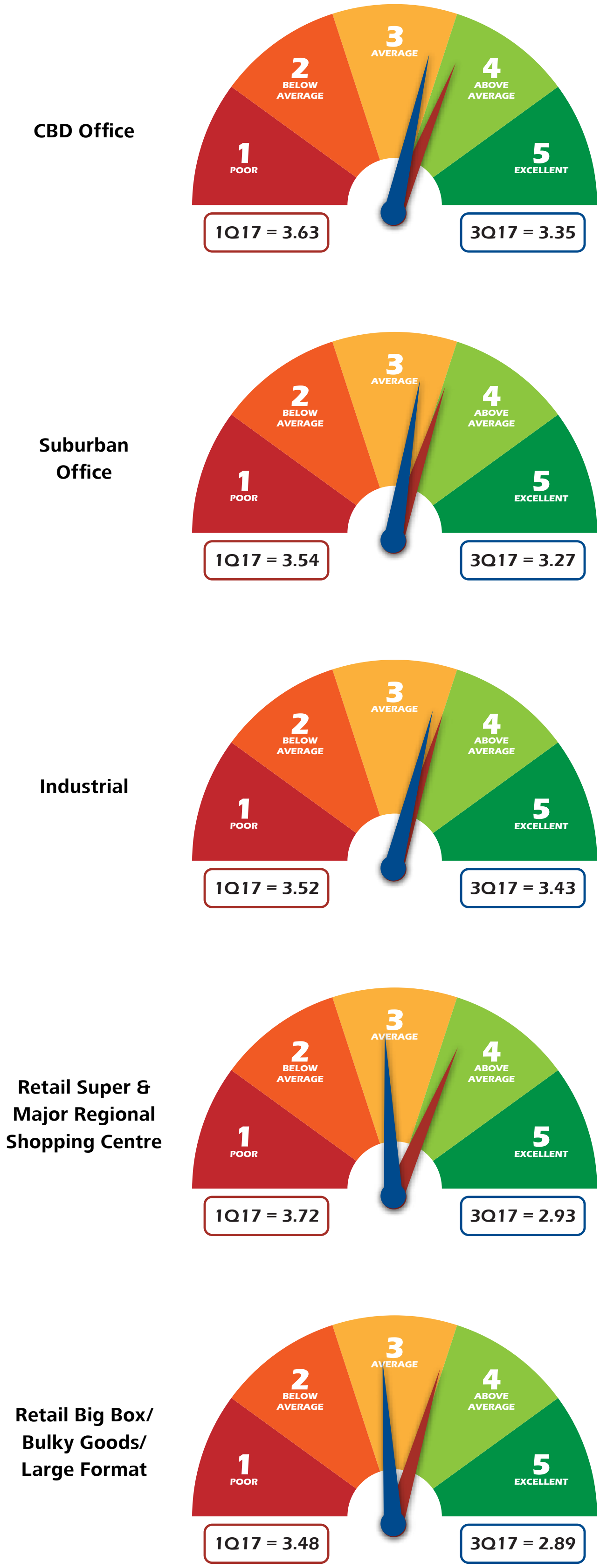


Exhibit 26. Investment Conditions by Asset Type

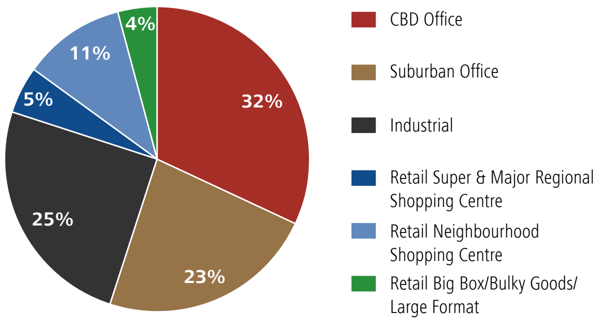


Note: Results are for Australia overall and include data from Adelaide, Brisbane, Melbourne, Perth and Sydney.
Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Investment Opportunities

While the CBD office sector was the preferred asset class for investment over other property sectors in the next 12 months, industrial and suburban office properties increased in investor focus (see Exhibit 27). For Australia overall, 32 percent of respondents said the CBD office sector was the best investment opportunity for commercial real estate. The proportion of industrial property as the best investment opportunity increased to 25 percent in the third quarter of 2017, up from 16 percent in the first quarter of 2017. Some 23 percent of respondents said that the suburban office sector was the best investment opportunity, up from 14 percent as at the first quarter of 2017. The retail big box/bulky goods/large format sector was considered the best investment opportunity by only 4 percent of respondents.

Exhibit 27. Best Investment Opportunity (By Asset Type)

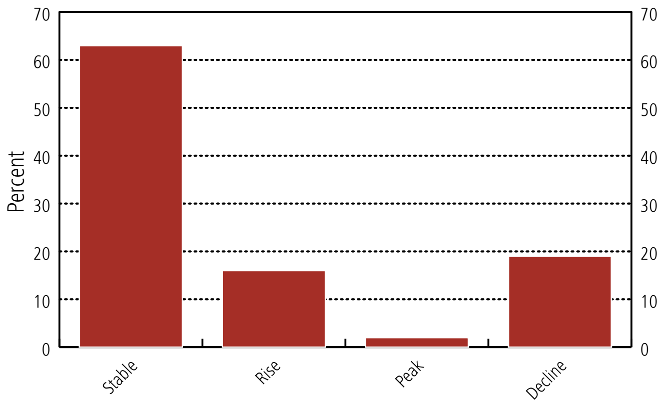


Note: Results are for Australia overall and include data from Adelaide, Brisbane, Melbourne, Perth and Sydney.
Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Australian Economy and Interest Rate Outlook

In terms of the performance of the Australian economy during the next 12 months, the majority of survey respondents (63 percent) indicated that the Australian economy will remain stable, while 16 percent of respondents predicted that the Australian economy will rise (see Exhibit 28). In contrast, 19 percent of survey respondents indicated the Australian economy will decline in the 12 months to July 2018, more pessimistic than the 9 percent recorded as at the first quarter of 2017.

Exhibit 28. Performance of Australian Economy in 2017



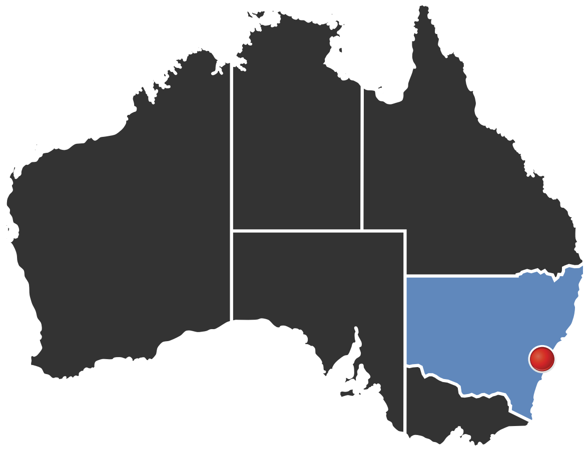
Note: Results are for Australia overall and include data from Adelaide, Brisbane, Melbourne, Perth and Sydney.
Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

The best investment opportunities are in the CBD office and industrial sectors, according to respondents.

6 CAPITAL CITY UPDATES

SYDNEY

Sydney is the state capital of New South Wales and the most populous city in Australia and Oceania, with a population of about 5 million. Sydney has an advanced market economy with strengths in finance, manufacturing and tourism. There is a significant concentration of foreign banks and multinational corporations in Sydney, attracted in part because its time zone spans the closing of business in North America and the opening of business in Europe. In addition to being a leading global financial hub, Sydney is amongst the top 15 most-visited cities in the world.



Economy

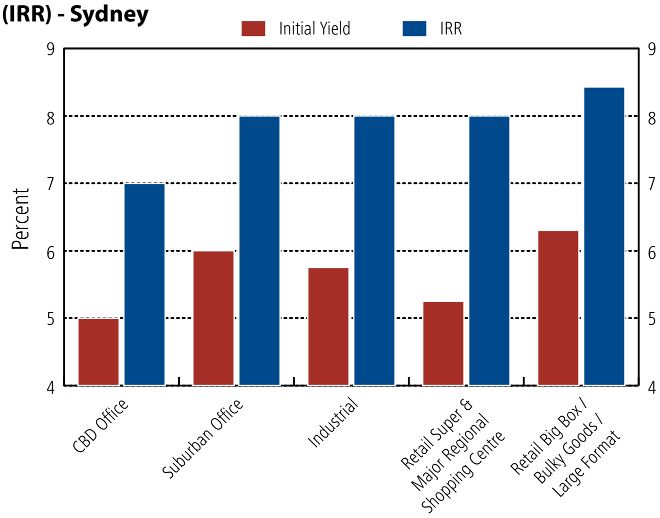
The New South Wales (NSW) economy outperformed all other Australian states in the year to July 2017 and is forecast to do so again in 2017-18, with above-trend economic growth forecast over the next three years. The NSW economy will continue to benefit from low interest rates, a lower Australian dollar, strong demand from Asia, above-trend population growth and a historically large infrastructure and residential construction program. Business investment, public infrastructure and dwelling construction are all showing significant strength, lifting construction activity and employment to record levels. The state's $72.7 billion, four-year infrastructure program is expected to boost economic growth. Similarly, the labour market is forecast to improve in line with the strength in economic activity, with above-trend employment growth.

Office Market

The Sydney CBD office market is Australia's largest CBD office market, comprising 5.1 million square metres, but holds the lowest total office vacancy rate of 5.9 percent as of July 2017. Strong demand was seen in the upper grades of office space, particularly in premium office space where the vacancy rate dropped from 12.5 percent to 9.5 percent. On the back of declining vacancy, Sydney CBD effective rents have risen across the grades. Sydney CBD's prime and secondary gross effective rents have increased by 10.3 percent and 16.3 percent respectively over the year to July 2017. Sales activity is expected to increase in 2017 with $2.3 billion already transacted to date in the Sydney CBD office market, with a further $2.0 billion in due diligence. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for prime Sydney CBD assets is 5.0 percent with an average Internal Rates of Return (IRR) of 7.0 percent.

NSW has five of the top 10 markets with the lowest vacancy rates in Australia, demonstrating the strong employment growth recorded across the state in recent years. Buoyed by significant government and corporate pre-commitments, the office vacancy in Parramatta has fallen to a record low of 4.3 percent. Office stock in Parramatta is forecast to reach 1 million square metres by 2022, making it the largest office market in NSW outside of the Sydney CBD. The North Sydney office market vacancy rate fell to 6.4 percent on the back of positive tenant demand stemming from both expansion and inbound migration. The increased demand from multiple purchaser types have resulted in further yield compression across Sydney non-CBD office markets over the past 12 months, particularly in the secondary

Exhibit 29. Initial Yields (Unlevered) & Internal Rates of Return (IRR) - Sydney



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

$50 billion of transport infrastructure projects are currently being developed in and around the Sydney CBD, making the city attractive to investors.

market. While opportunities for prime assets continue to be constrained by the lack of available stock on the market, opportunistic investors are targeting properties that offer potential for repositioning or redevelopment. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Sydney suburban office assets is 6.0 percent with an average IRR of 8.0 percent.

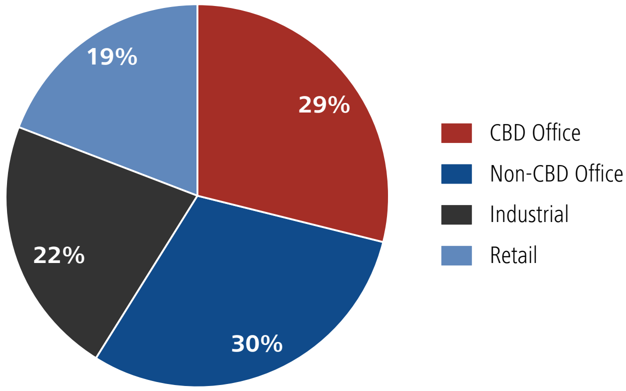
Industrial Market

Occupier demand in the Sydney industrial market continues to be robust with leasing activity levels above the long-term average. Given the difficulty in acquiring prime-grade stock, many institutions have sought to expand development pipelines and increase assets under management. The arrival of Amazon is expected to have a positive impact on the industrial sector. In addition to the direct impact from associated warehouse space requirements, increased e-commerce trade is likely to lead into increased investment in areas such as automation. Strong rental growth was recorded across Sydney's industrial market, boosted by robust tenant demand and a scarcity of larger available facilities. Transaction volumes remain in line with long-term averages but constrained by lack of prime-grade assets. Sales activity is expected to be driven by transactions of secondary assets and value-add opportunities over the next 12 months. According to the September 2017 Situs RERC/UPA survey results, the average unlevered yield for prime Sydney industrial assets is 5.75 percent with an average IRR of 8.0 percent.

Retail Market

A strong NSW economy continues to provide a positive environment for retail spending growth. NSW retail sales increased by 3.7 percent over the 12 months to July 2017, above the growth of 3.5 percent recorded the preceding year. Tourism has also bolstered retail trade with 12.8 million domestic and international tourists visiting Sydney. The number of tourists to Sydney, led by mainland Chinese visitors who accounted for 18 percent of all tourists, has resulted in international and domestic luxury brands continuing to roll out stores across NSW. Solid population growth of NSW has underpinned strong retail sales in supermarkets (5.6 percent increase over the 12 months to July 2017) and furniture (8.1 percent increase). In contrast, department stores was the only retail category to record a decline in sales (-1.8 percent) with soft growth also recorded in clothing and footwear (1.1 percent). NSW accounted for the greatest share of retail transactions across Australia in the 12 months to 2017 with $2.4 billion sales recorded, albeit slightly lower than $2.5 billion transacted in 2015/16. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for Sydney Super & Major Regional Shopping Centre assets is 5.25 percent with an average IRR of 8.00 percent. Sales of large format retail centres in NSW totalled $600 million, accounting for 25 percent of all NSW retail transactions in the year to July 2017. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Sydney large format retail assets is 6.30 percent with an average IRR of 8.43 percent.

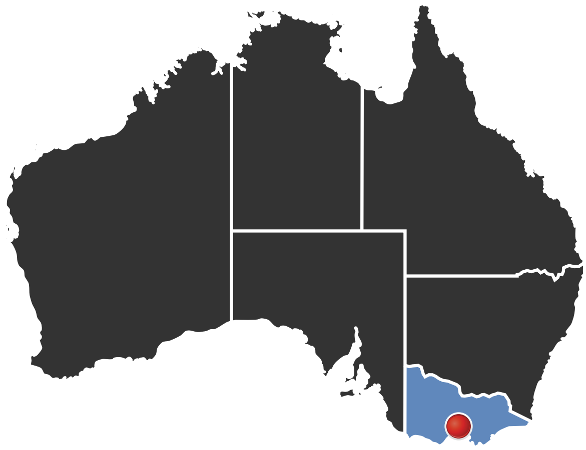
Exhibit 30. 2016 Sydney Property Investment by Asset Type



Source: Urban Property Australia, October 2017.

The majority of commentators believe that the Sydney CBD office vacancy is forecast to fall to 3 percent in 2018 with the next wave of new supply expected to arrive in 2020.

MELBOURNE



Melbourne is the second-most populous city in Australia, with a population of about 4.7 million. According to the Economist Intelligence Unit, for seven consecutive years to 2017, Melbourne has been ranked as the world's most liveable city. Melbourne has a highly diversified economy with particular strengths in finance, manufacturing, research, IT, education, logistics, transportation and tourism. The city is home to Australia's largest and busiest seaport, which handles more than $75 billion in trade every year and 39 percent of the nation's container trade. Melbourne is Australia's leading centre for superannuation (pension) funds, with 40 percent of the total, including the $109 billion Federal Government Future Fund.

Economy

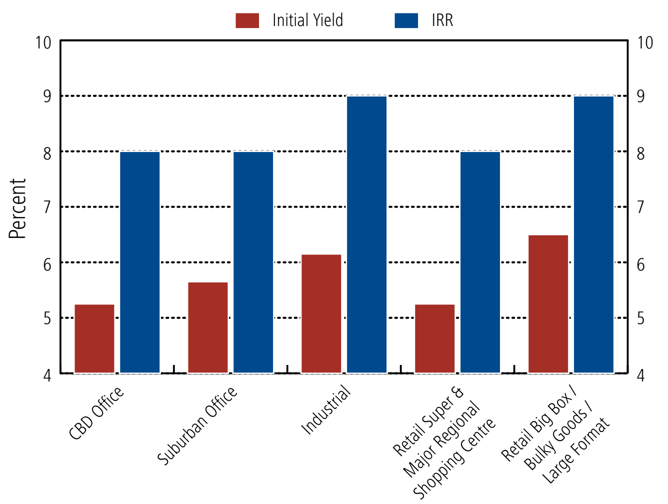
The national transition from mining investment to broader-based sources of growth continues to benefit Victoria with economic conditions in the state strong. Household consumption, business investment, dwelling investment and the government's infrastructure investment are expected to contribute to state economic growth over the next three years. Over the 12 months to 2017, employment in Victoria grew by 90,000 – the most among the states. Looking forward, employment is forecast to grow at an above-trend pace. Over the year to June 2016 (latest data available), Victoria's population grew by 2.1 percent – again, the highest growth rate of all the states. Net overseas migration has been the largest contributor to population growth, accounting for more than 50 percent of the state's population increase over the year to June 2016.

Office Market

Melbourne's CBD office market has stabilised over the past six months with the vacancy rate decreasing from 7.1 percent to 6.5 percent over the 12 months to July 2017. Melbourne continues to host the second lowest vacancy rate amongst all of Australia's CBDs. Reflecting Victoria's strong employment growth, the CBD recorded the highest volume of tenant absorption nationally in the 12 months to July 2017. On the back of vacancy falling to its lowest level in four years, prime CBD effective rents grew at their strongest rate in six years. Boosted by a number of significant transactions, investment activity in 2017 within the Melbourne CBD office market has already surpassed $2.2 billion. Recent transactions continue to set new benchmark low yields for the Melbourne CBD office market with purchasers confident of further rental growth. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for prime Melbourne CBD assets is 5.25 percent with an average IRR of 8.0 percent.

While the trend of tenants to centralise into the CBD remains prevalent, the continuation of withdrawals of stock largely for residential conversion continues to lead to vacancy falls across Melbourne's non-CD office markets in 2017. With new supply remaining muted, stock levels across Melbourne's non-CBD are forecast to contract over the short term, which is expected to place further pressure on vacancy levels in the next three years. With limited large prime options available for lease, tenant demand robust and decreasing stock levels, rents have grown above average in the 12 months to

Exhibit 31. Initial Yields (Unlevered) & Internal Rates of Return (IRR) - Melbourne



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Over the year to July 2017, 90,000 additional jobs were created in Victoria – accounting for 36 percent of Australia's employment growth over the year.

July 2017, particularly in fringe CBD office markets. Investment volume in the Melbourne's non-CBD office markets remains above average with institutions keen to capitalise on the strong rental outlook. Investment activity across Melbourne's non-CBD office markets totalled $2.2 billion in the year to July 2017, surpassing the $2.1 billion transacted in 2015/16. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Melbourne non-CBD office assets is 5.65 percent with an average IRR of 8.0 percent.

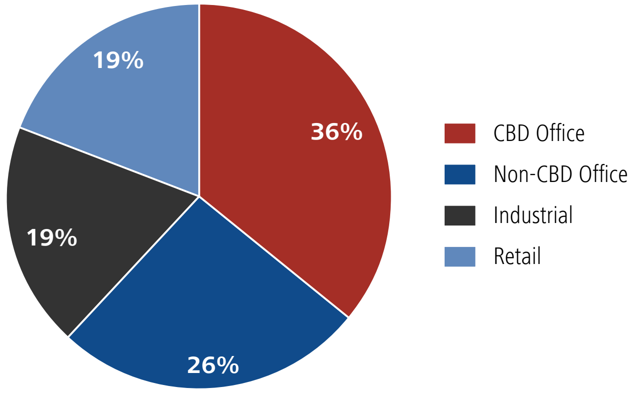
Industrial Market

Occupier demand for industrial space in Melbourne remains robust, with low interest rates supporting the retail and housing sectors. The pre-commitment market remains buoyant, led by demand from retailers and third-party logistic occupiers. Melbourne's industrial vacancy rate has declined through 2017, falling to its lowest level in six years. The increased pipeline of infrastructure projects for Melbourne is expected to offset the closure of several car manufacturers, which will leave the state in the next 18 months. Solid tenant demand has underpinned rental growth across Melbourne industrial precincts with institutions increasing speculative developments to capitalise on the robust occupier demand. With an ever-increasing pool of investors keen to increase their exposure to Australia's largest industrial market, sales activity remains above average levels. In the 12 months to July 2017, $1.5 billion was transacted across the Melbourne industrial market – the second highest financial year volume on record. According to the September 2017 Situs RERC/UPA survey results, the average unlevered yield for prime Melbourne industrial assets is 6.15 percent with an average IRR of 9.0 percent.

Retail Market

Underpinned by its nation-leading population growth, Victoria's retail sales grew by 5.2 percent in the year to July 2017, the highest rate across Australia. According to the Australian Bureau of Statistics, retail trade growth was led by sales of clothing and footwear, which grew by 5.0 percent over the year and household retail trade (6.9 percent). Whilst consumers appear to be cautious, with consumer confidence levels falling to 18-month lows, investor appetite for retail assets remain undiminished. Over the year to July 2017, retail transactions in Victoria totalled $1.6 billion with investors focused on centres more aligned on non-discretionary retail spending with neighbourhood centres accounting for the highest proportion of sales. Offshore investors were also active in Melbourne, accounting for 32 percent of Melbourne-based retail sales in the year to July 2017, highlighted with two sales above $200 million. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for Melbourne super and major regional shopping centre assets is 5.25 percent with an average IRR of 8.00 percent. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Melbourne large format retail assets is 6.5 percent with an average IRR of 9.0 percent. While retail trade appears solid, disruption within the retail sector is gaining momentum as global retailers such as Amazon and Kaufland are soon to establish operations, which will require domestic retailers to continue to innovate to remain relevant.

Exhibit 32. 2016 Melbourne Property Investment by Asset Type

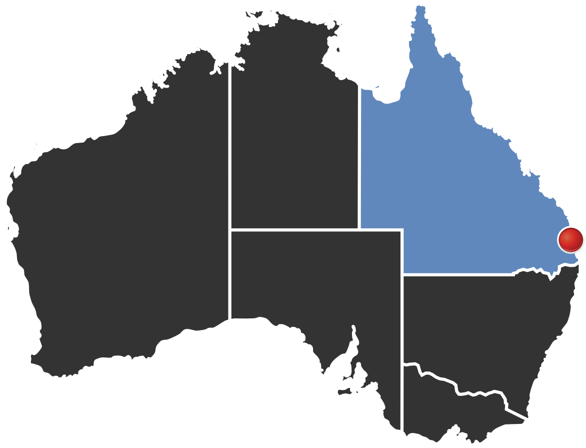


Source: Urban Property Australia, October 2017.

Recent transactions continue to set new benchmark low yields for Melbourne CBD office properties.

BRISBANE

Brisbane is a popular tourist destination, serving as a gateway to the state of Queensland, particularly to the Gold Coast and the Sunshine Coast. Queensland has the largest area of agricultural land of any Australian state and the highest proportion of land area dedicated to agriculture. Some 30,500 businesses carry out agricultural activity in Queensland, and agricultural industries contribute more than $10 billion to the state's economy each year. Over the past two decades, Queensland's economic growth has generally exceeded the national average.



Economy

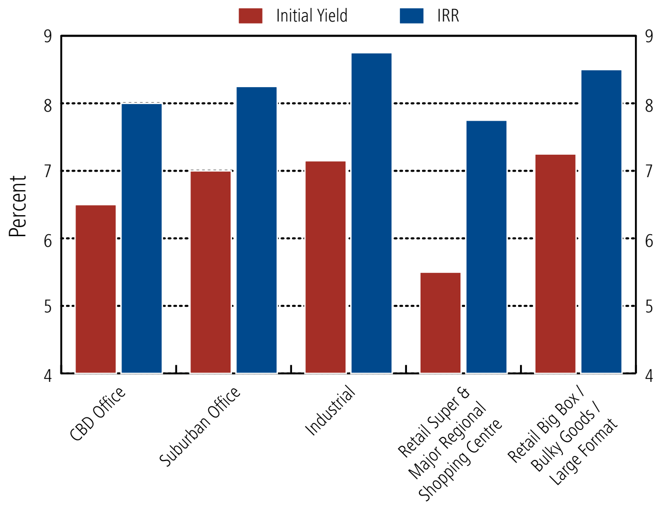
Following an unprecedented resources investment boom, the Queensland economy continues its transition to more broad-based growth, although Tropical Cyclone Debbie had reduced exports in the first quarter of 2017. Reflecting the trend of a broader economic recovery, overall growth in the Queensland economy is forecast to strengthen over the next three years. An increased level of infrastructure spending by the state government is expected to help fill the void left by the impending slowdown in residential apartment construction. The benefit of the lower Australian dollar has already resulted in increased tourism and more international students choosing to study in Queensland.

Office Market

Although the Brisbane CBD office vacancy rate increased to 15.7 percent as of July 2017, it remains below the cyclical high recorded in mid-2016 of 16.9 percent. Brisbane's CBD office market is expected to decrease further, assisted by limited new supply and increased levels of stock withdrawals. Improved business confidence has resulted in a number of occupiers increasing their CBD office space and tenants relocating into the CBD. Although modest, Brisbane CBD office rents increased in 2017 to date after declining from 2013 through to the end of 2016. Investor interest has continued to build in the Brisbane CBD market due to the Sydney and Melbourne CBDs setting new benchmark low yields. Additionally, the increasing view that Brisbane CBD office market has bottomed has boosted investors seeking countercyclical opportunities. Despite this growing interest, particularly from offshore buyers, the level of transactions in the Brisbane CBD over the year to July 2017 totalled $1.2 billion, lower than the $1.7 billion transacted in the preceding year. Despite the relatively limited opportunities, offshore investors, who accounted for 40 percent of Brisbane CBD office sales transacted in the 12 months to July 2017, increased their exposure to the Brisbane market. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for prime Brisbane CBD assets is 6.50 percent with an average IRR of 8.0 percent.

The vacancy rate for the Brisbane Fringe office market increased to 14.4 percent, impacted by a number of tenants who migrated into the CBD, taking advantage of the competitive rents offered in the CBD. The vacancy rate for the Brisbane Fringe office market has increased to its highest level since 1994. Although varied across

Exhibit 33. Initial Yields (Unlevered) & Internal Rates of Return (IRR) - Brisbane



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

Occupier demand in the Brisbane CBD office market is expected to strengthen through 2017-2018 with business confidence improving.

precincts, the overall vacancy rate for the Brisbane Fringe office market is expected to decrease over the next five years as the Queensland economy continues to recover. Rental growth in the Brisbane Fringe office market is expected to remain hampered in the short term, impacted by competition from the CBD, after recording five years of declining rental levels. Despite the elevated vacancy rate, Brisbane Fringe office transaction levels totalled $700 million in the year to July 2017, only slightly below the $730 million recorded in the prior financial year. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Brisbane non-CBD office assets is 7.0 percent with an average IRR of 8.25 percent.

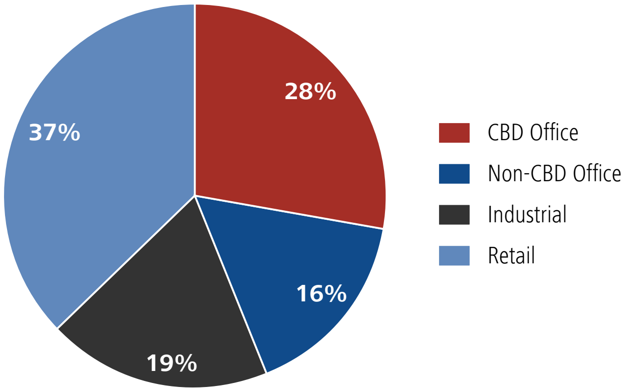
Industrial Market

After relatively sluggish tenant demand during 2016, the Brisbane industrial market has seen a sharp decline in the amount of vacant space over 2017 to date as tenant demand converted into activity with above levels of take-up recorded. Total vacancy in the Brisbane industrial market has fallen 30 percent since the start of 2017. The improved activity of late 2016 and into 2017 has triggered the first significant improvement in prime rental rates in two years with annual growth of 4.4 percent recorded in the year to July 2017. After investment activity reached an all-time record high of $1.2 billion in 2015-16, sales activity in the 12 months to July 2017 declined with transactions totalling $800 million. While investor demand remains buoyant, opportunities for quality assets with long weighted average lease expiry (WALE) remain tightly held, limiting transaction volume. According to the September 2017 Situs RERC/UPA survey results, the average unlevered yield for prime Brisbane industrial assets is 7.15 percent with an average IRR of 8.75 percent.

Retail Market

Retail spending in Queensland appears to have passed the recent trough, reflecting the improving state economic and labour market conditions. Over the year to July 2017, Queensland retail sales increased by 2.3 percent, up from 2.1 percent recorded in the previous financial year. According to the Australian Bureau of Statistics, retail trade growth was led by household retail trade, which grew by 3.7 percent over the year, supermarket retail sales (3.3 percent) and cosmetics (5.3 percent). In contrast, clothing and footwear retail sales declined 0.6 percent over the 12 months to July 2017, with take-away food sales also lower (-3.4 percent). Queensland accounted for 24 percent of retail transactions across Australia in the 12 months to July 2017 with $1.56 billion in sales recorded, slightly lower than the volume of Queensland-based retail assets transacted in 2015-16. Investors were focused on neighbourhood shopping centres in the year to July 2017, which accounted for 53 percent of all Queensland retail sales ($825 million) followed by CBD retail assets, which totalled $280 million. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for Brisbane super & major regional shopping centre assets is 5.5 percent with an average IRR of 8.75 percent. Sales of large format retail centres in Queensland totalled $110 million, accounting for 7.0 percent of all Queensland retail transactions in the year to July 2017. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Brisbane large format retail assets is 7.25 percent with an average IRR of 8.5 percent.

Exhibit 34. 2016 Brisbane Property Investment by Asset Type

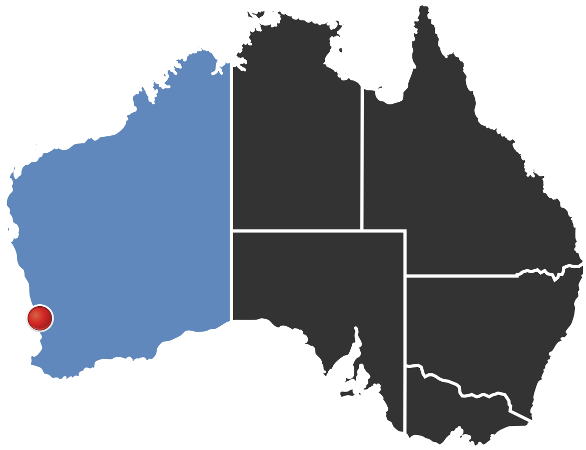


Source: Urban Property Australia, October 2017.

Total vacancy in the Brisbane industrial market has now fallen by 30 percent since the start of 2017.

PERTH

Perth is the capital and largest city in the state of Western Australia. It is the fourth-most populous city in Australia, with a population of around 1.94 million. Western Australia's economy is largely driven by extraction and processing of a diverse range of mineral and petroleum commodities. Western Australia's overseas exports accounted for 46 percent of Australia's total exports, boosted by global demand for minerals and petroleum, especially in China (iron-ore) and Japan (for LNG). Six of the world's seven top international energy companies are headquartered in Perth – Australia's largest concentration of global oil and gas company headquarters.



Economy

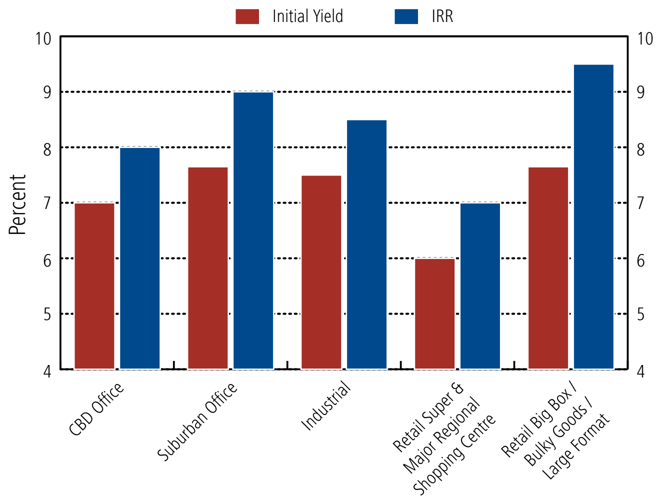
The Western Australian economy is showing signs of recovery after a protracted slowdown over the past five years. Growth in Gross State Product (GSP) is forecast to rise to 3 percent in 2017-2018, after an estimated record low of 0.25 percent in the year to July 2017. Consistent with recent strength in full-time employment, which has increased for 10 consecutive months to July 2017, and an improvement in business confidence and advertised job vacancies, employment is expected to rebound to grow by 1.5 percent in 2017-2018. The state's population growth is expected to remain subdued at 1 percent in 2017-2018.

Office Market

The first signs of recovery have begun to emerge in the Perth CBD office market, with strong tenant demand for prime grade triggering a significant decline in prime vacancy in the first half of 2017 – the first recorded since 2012. The Perth CBD office vacancy fell to 21.1 percent, with office market recording the highest net absorption level of all Australian CBD markets in the six months to July 2017. However, Perth still has the highest vacancy rate of any capital city and much higher than the national average of 10.2 percent. The gap in performance between prime and secondary-grade assets remains considerable, with tenants continuing to seize the opportunity to relocate into better quality space. While prime rents have stabilised with incentives also appearing to have peaked, secondary rents continue to fall as a result of reduced demand. Following a subdued start to 2017, transactional activity within the Perth CBD has rapidly picked up, reflecting the strong investor appetite for countercyclical assets. The weight of capital is still placing downward pressure on yields, resulting in further tightening. Despite this trend, the wide yield spread between Perth and other major Australian office markets remains very attractive, providing significant incentive to investors looking at countercyclical opportunities. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for prime Perth CBD assets is 7.0 percent with an average IRR of 8.0 percent.

The vacancy rate of the West Perth office market fell to 15.0 percent, with tenant demand in the first half of 2017 reaching its highest half-year level since 2012. Vacancy in West Perth remains largely concentrated across secondary buildings as opposed to prime assets. About 75 percent of total vacancy in the West Perth office market is in secondary-grade buildings. There is a limited pipeline for the West Perth market with no new office projects under construction. No new office buildings have been completed over the last 18 months and no office

Exhibit 35. Initial Yields (Unlevered) & Internal Rates of Return (IRR) - Perth



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

The Perth CBD office vacancy rate decreased in the first half of 2017, its first fall recorded since 2012.

developments are planned for the short term. Although investment activity in West Perth office market was subdued between 2015 and 2017, sales activity has increased substantially in the first half of 2017. Over the 12 months to July 2017, four offices in the West Perth market have sold, totalling $51 million, with all of the sales recorded in the first quarter of 2017. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Perth suburban office assets is 7.65 percent with an average IRR of 9.0 percent.

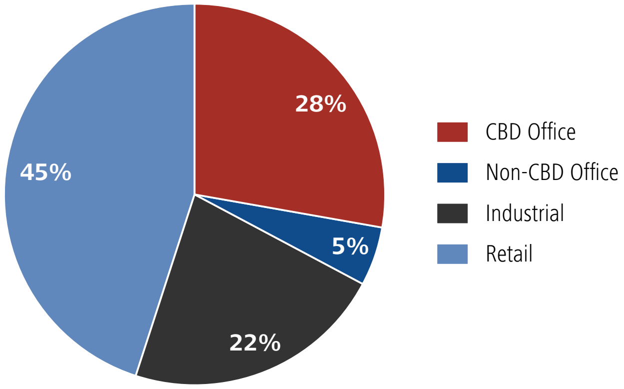
Industrial Market

Leasing activity across the Perth industrial market continues to gather momentum over 2017. Encouraged by favourable leasing conditions, tenants are increasingly relocating and expanding. Over the 12 months to July 2017, demand for Perth industrial property was led by the wholesale trade, retailers and transport sectors – a trend observed across Australia's industrial markets. Tenant demand remains strongest for prime facilities in key locations, particularly for large-scale properties. Although vacancy remains high in the Perth market, the majority of vacancy is within older, secondary facilities. Prime Perth industrial rents have declined over 2017, impacted by vacant supply on the market coupled with developers aggressively securing pre-commitments. Transactional activity continues to remain subdued in the Perth industrial market with sales in the 12 months to July 2017 totalling $207 million from 18 transactions. In the 2017 financial year there were only three sales over $10 million. Prime yields have remained unchanged through 2017, following a strong degree of compression between 2015 and 2016. According to the September 2017 Situs RERC/UPA survey results, the average unlevered yield for prime Perth industrial assets is 7.5 percent with an average IRR of 8.5 percent.

Retail Market

While Western Australia's retail sales grew the slowest amongst Australia's states, rising by 1.4 percent in the year to July 2017, this was an improvement compared to the growth of 0.6 percent in 2015-2016. Consumer spending growth is expected to remain subdued in 2017-2018, constrained by a weak outlook for wealth and income growth, as well as slow population growth. While an improvement in these indicators from 2018/19 is projected to support consumer spending over the medium term, growth is expected to remain below the long-run annual average of 4 percent. According to the Australian Bureau of Statistics, cafes and restaurants recorded the highest retail trade growth in the year to July 2017, increasing by 10.2 percent while department store retail sales grew by 2.0 percent over the year. Declines in retail sales were recorded in clothing and footwear (-5.7 percent), electronic goods (-3.2 percent) and household goods (-4.1 percent) over the course of 2016-2017. Rents across Perth retail centres remained stable over the 12 months to July 2017 with tenant demand subdued. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for Perth Super & Major Regional Shopping Centre assets is 6.0 percent with an average IRR of 7.0 percent. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime Perth large-format retail assets is 7.65 percent with an average IRR of 9.5 percent.

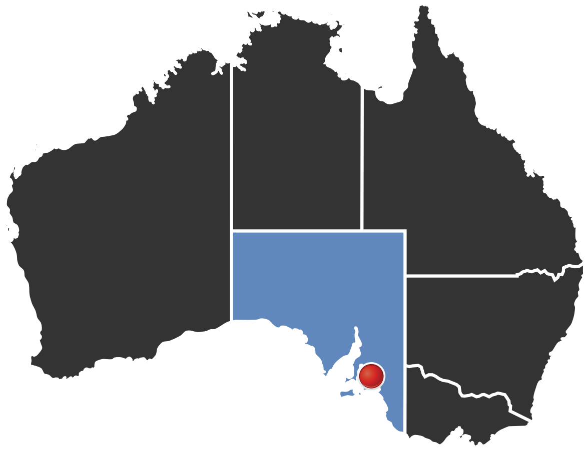
Exhibit 36. 2016 Perth Property Investment by Asset Type



Source: Urban Property Australia, October 2017.

Housing price falls, subdued employment growth and easing population growth continues to weigh on the Perth retail sector.

ADELAIDE



Adelaide is the capital city of the state of South Australia, and has the most centralised population of any state in Australia, with more than 75 percent of its people living in greater Adelaide. South Australia's largest employment sectors are health care followed by the retail trade sector. Adelaide is also home to a large proportion of Australia's defence industries, which contribute over $1 billion to state's economy. Major defence technology organisations in Adelaide include BAE Systems Australia, Lockheed Martin Australia, Saab Systems and Raytheon.

Economy

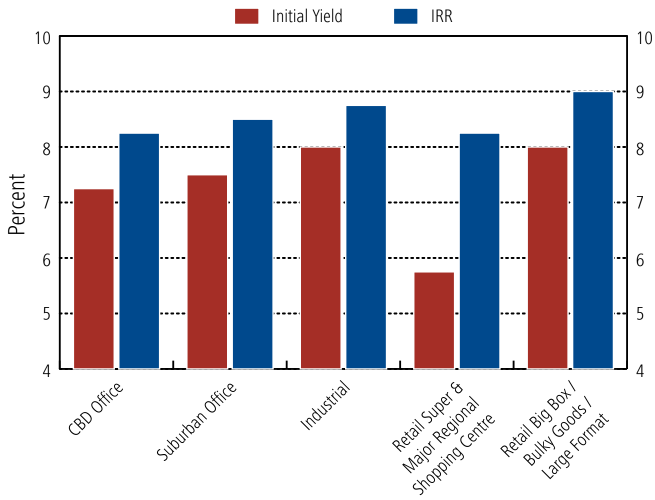
South Australia, an economy that has largely underperformed, posted quarterly economic growth of 1.7 percent in the second quarter of 2017, the strongest growth of all Australian states. Over the year, South Australia's economy grew by 4.0 percent, its strongest growth in 12 years. Non-residential construction was a key driver of growth with investments in public spending and utilities. South Australia will continue to face a range of challenges over the next few years arising from the cessation of car manufacturing later this year. The Department of Defence's new continuous shipbuilding program centred at Port Adelaide will generate increasing job opportunities from 2017 onwards. With these positive business conditions, the unemployment rate is forecast to decrease, albeit marginally. The South Australian economy is expected to increase 2.25 percent annually over the next five years.

Office Market

The total vacancy rate in the Adelaide CBD was largely unchanged in the six months to July 2017, decreasing from 16.2 percent to 16.1 percent, and remaining well above the 10-year average of 9.9 percent. The lack of supply over the short term is likely to provide the opportunity for the market to absorb existing stock. While tenant demand is improving in the Adelaide CBD office market, rents have remained stable for the first half of 2017. Offshore purchasers have played an increasingly larger role in sales activity in the Adelaide market in in 2017, accounting for all prime-grade transactions that have settled in the year to date. CBD sales currently stand at $240 million, down from $550 million transacted over the same period last year, and is expected to fall below the total of $1.18 billion recorded in 2016. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for prime Adelaide CBD assets is 7.25 percent with an average IRR of 8.25 percent.

The Adelaide Fringe office market vacancy rate decreased to 10.1 percent in the first half of 2017, down from 11.3 percent. Net absorption in the six months to July 2017 in the Adelaide Fringe totalled 3,300 square metres – its highest half-year level since the second half of 2011. Like the CBD secondary market, investment yields in the Fringe have also remained unchanged in the six months to July 2017. Demand for prime investments with secure and stable tenancy profiles remains strong. Given Adelaide's value proposition and increased interest from overseas and institutional investors, there is potential for the firming bias of yields to continue in the short term within the prime market, particularly for assets without exposure to leasing risk. Survey responses from the September 2017 Situs RERC/UPA survey reveal that the average unlevered yield for prime

Exhibit 37. Initial Yields (Unlevered) & Internal Rates of Return (IRR) - Adelaide



Source: Situs RERC/UPA Australian Market Expectations Survey, 3Q 2017.

South Australia posted the strongest quarterly economic growth of all Australian states.

Adelaide Fringe office assets is 7.5 percent with an average IRR of 8.5 percent.

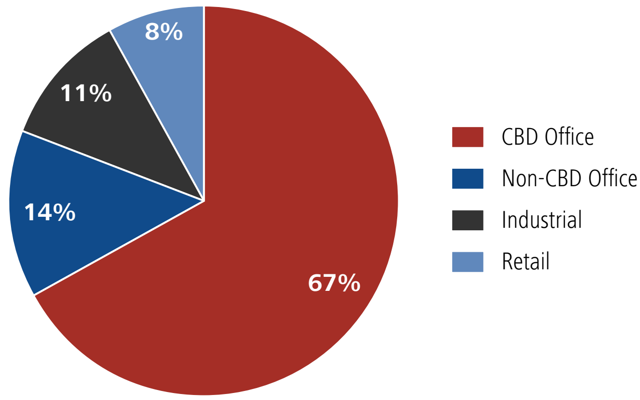
Industrial Market

Increased enquiry levels at the start of 2017 have slowly begun to translate into leasing commitments. Major tenant leases have totalled 21,000 square metres in 2017 to date despite a scarcity of prime vacant industrial accommodation that is hindering further occupier activity. Defence-affiliated occupier demand is expected to increase over the short term as the commencement of the Australian Defence Force ship and submarine building and maintenance programs in the North West precinct nears. Investment activity has continued to gather momentum over 2017 with $90 million transacted to date, already surpassing the entire volume of $87 million transacted in calendar year 2016. Investment activity is likely to be aided over the short to medium term by the South Australian state government phase-out of stamp duties on commercial property transactions. According to the September 2017 Situs RERC/UPA survey results, the average unlevered yield for prime Adelaide industrial assets is 8.0 percent with an average IRR of 8.75 percent.

Retail Market

South Australia's retail sales grew 2.7 percent during the year to July 2017, down from 4.7 percent in 2015-2016. According to the Australian Bureau of Statistics, retail trade growth was led by cafes and restaurants, which grew by 8.9 percent over the year and household goods (5.5 percent). In contrast, clothing and footwear retail sales declined 0.4 percent over the 12 months to July 2017, with department retail sales also lower (-1.9 percent). After a modest recovery in the second half of 2016, leasing conditions have softened for shopping centres in South Australia in the first half of 2017, impacted by the closure of a number of Australian fashion retailers. During the year to July 2017, retail property transactions in South Australia totalled $60 million, below the five-year average. Private investors were most acquisitive for South Australia retail assets in the year to July 2017. The September 2017 Situs RERC/UPA survey results reveal that the average unlevered yield for Adelaide Super & Major Regional Shopping Centre assets is 5.75 percent with an average IRR of 8.25 percent. According to the Situs RERC/UPA survey, unlevered yields for large-format retail Adelaide assets averaged 8.0 percent and an average IRR of 9.0 percent.

Exhibit 38. 2016 Adelaide Property Investment by Asset Type



Source: Urban Property Australia, October 2017.

Investment activity is likely to be aided by the phase-out of stamp duties on commercial property transactions.

INVESTMENT TERMS AND METHODOLOGY

Using Situs' global valuation and loan advisory capabilities, Situs RERC's research and analytics capabilities and UPA's Australian market expertise, the Australia Real Estate Trends is intended to offer investors, lenders and agencies research-based insight into investor sentiment and to the investment environment for commercial real estate. Below are the definitions of terms used throughout the report.

Capital Cities/Metros: Adelaide, Brisbane, Melbourne, Perth, Sydney

Effective Rent: Rent received net of all applicable expenses.

Foreign Capital: Funds originated outside of Australia.

Initial Yield: Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchaser's costs.

Interest Rate: Also known as the official cash rate (OCR), it is the rate of interest that the Reserve Bank of Australia (RBA) charges on overnight loans to commercial banks.

Internal Rate of Return (IRR): The IRR for unleveraged investments is the rate of interest that discounts the pre-income tax cash flows back to a present value that is exactly equal to the amount of the equity investment.

Investment Conditions Rating: A general survey-based rating classifying the general conditions for investing in CRE as either poor, below average, average, above average or excellent. Rating considerations include economic factors, capital market factors, CRE fundamentals and other miscellaneous factors.

Investment Surveys: Situs RERC and UPA conducts confidential surveys of investment trends with Situs RERC and UPA clients and contacts throughout Australia. We then collect results from the survey, analyse and interpret the information gathered, and report investor sentiment based on the results from the investment surveys. Because of sample size, results were not statistically significant, but the data are useful for trends analysis.

Property Sectors: CBD Office, Suburban Office, Industrial, Retail Super and Major Regional Shopping Centre, Retail Big Box/Bulky Goods/Large Format, and Retail Neighbourhood Shopping Centre.

Relative Ratings and Assessments: The ratings and opinions reflected in this report are relative to markets and metros included in our analyses. Interpretation of the ratings presented are intended to be viewed as explanations of trends within the particular market and not as definitive statistical evidence.

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