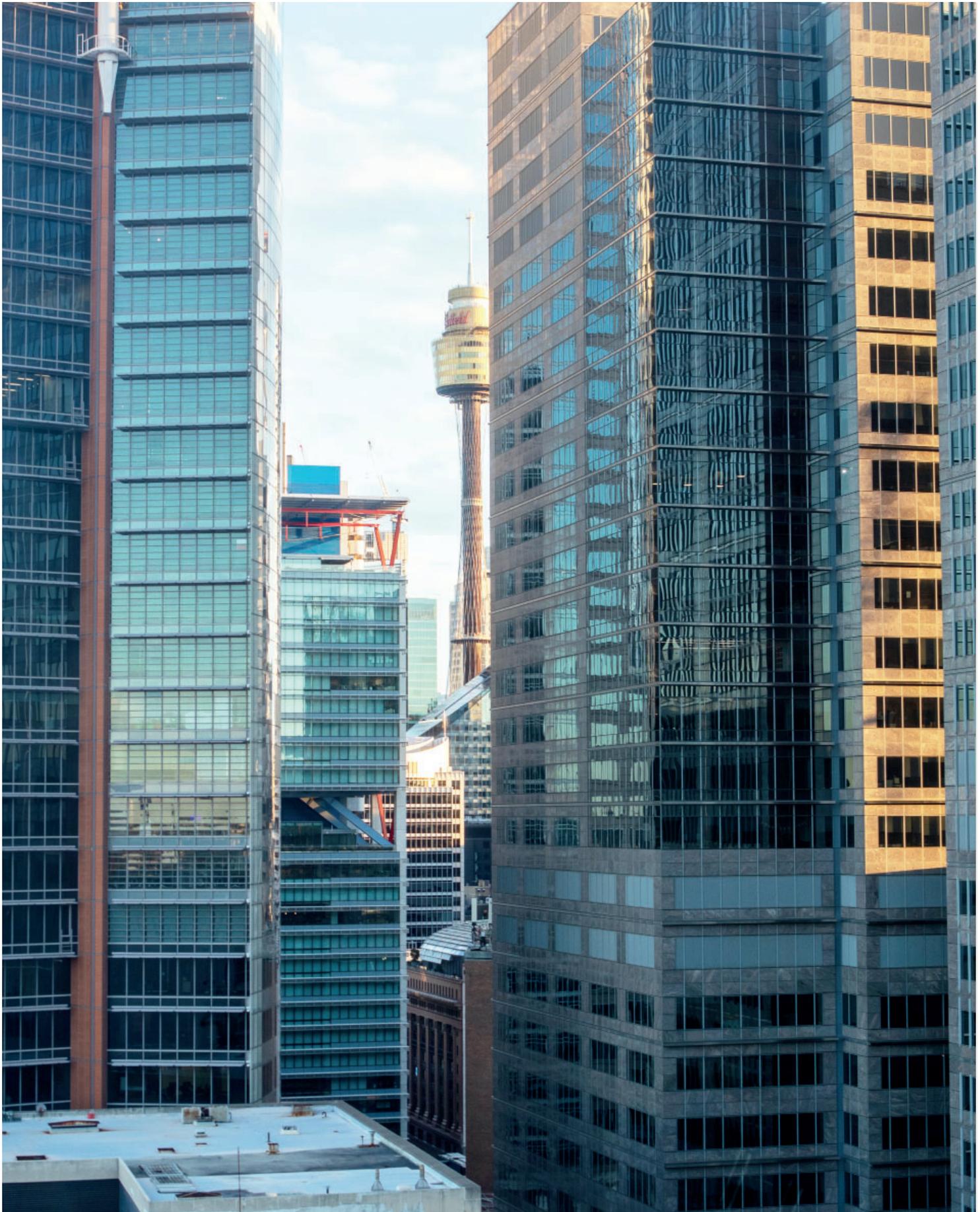
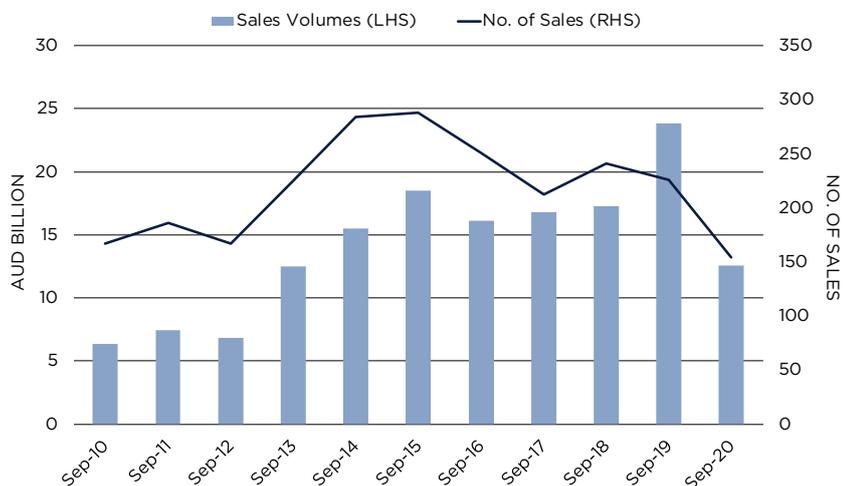


Australia Offices



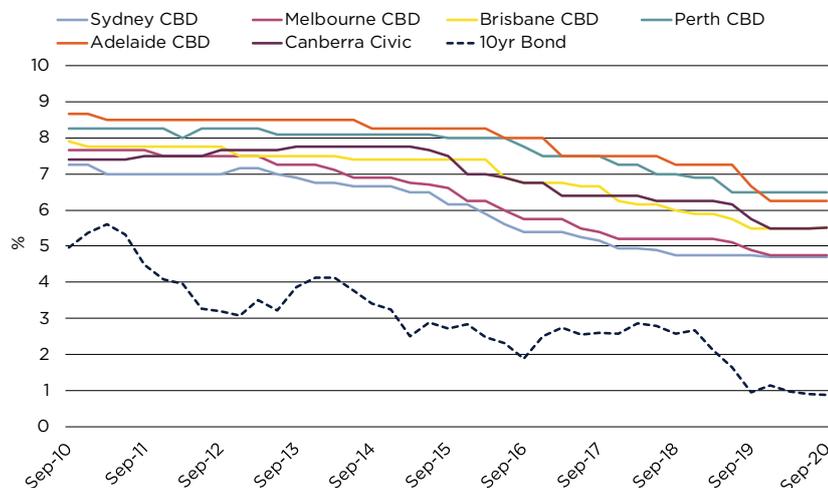
Demand for quality office assets in Australia remains high

GRAPH 1: Office Sales Volumes (AUD5+ million), September 2010 to September 2020



Source Savills Research

GRAPH 2: Office A Grade Yields vs. 10yr Government Bond, September 2010 to September 2020



Source Savills Research

AUSTRALIA'S PROPERTY MARKETS

Property as a whole remains an attractive asset class particularly when comparing yields to bond rates, combined with the current low interest rate climate. With the Reserve Bank of Australia cutting the official cash rate to a record low of 0.10% in November, and further quantitative easing

measures introduced we will see bond yields fall closer to zero. The COVID-19 pandemic has impacted all property asset classes in Australia to some extent, with both positive and negative outcomes.

The retail sector has been the hardest hit as a result of store closures, reduced foot traffic and weak consumer spending.

Total returns for the sector were recorded at -9.4%, with capital growth falling -13.1% (MSCI latest available). It is evident that retail as an asset class will continue to face the greatest amount of challenges throughout this recession, and despite a lack of forced sellers currently in the market this may change in the next 6-12 months, as government stimulus packages such as the JobKeeper and JobSeeker which have helped to keep unemployment relatively low, continue to reduce and near an end.

Industrial property has been a prime beneficiary of the shift in consumer spending, which has translated into strong investor interest in well located warehouse and storage facilities which service densely populated areas. Domestic institutional players have continued to aggressively acquire properties throughout 2020, with many funds seeking quality assets to bury into 'core' portfolios. Office assets have continued to trade both on and off market throughout the year. Total returns for the office sector were recorded at 8.0% in the 12 months to June, falling below double digits for the first time since 2014. This was mainly due to a drop in capital returns to 2.8%, down from a peak of 8.8% in 2018.

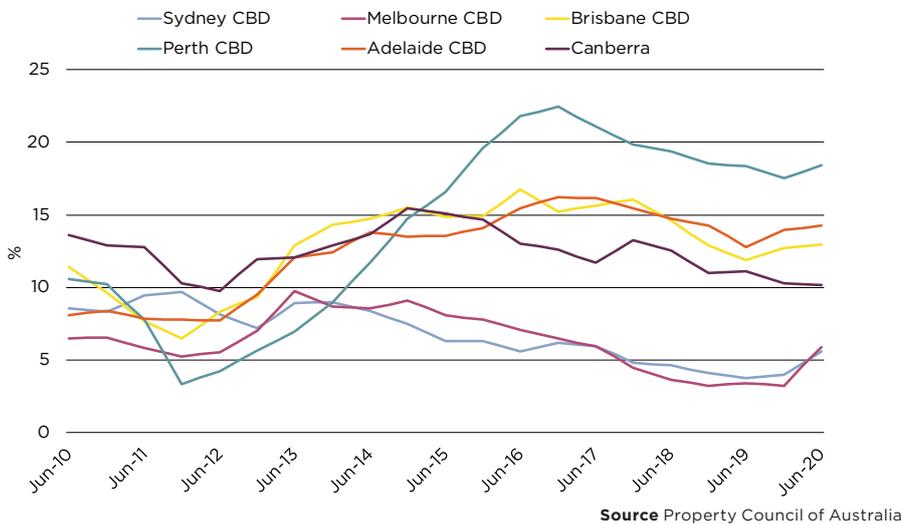
OFFICE INVESTMENT MARKET

Foreign investment has been a key feature of Australia's office market over the last decade. Funds from Asia, Europe and America have demonstrated strong interest as a result of our stable geo-political environment where investments are deemed relatively low risk, with above average cap rate yield returns. This stability is further emphasised with the government's handling of the pandemic, which has allowed us to keep case numbers and deaths low in comparison to the vast majority of developed nations around the globe. However, it is likely we will see foreign investment into Australia decrease in the short term, with temporary changes to FIRB policies having an impact on the timeframe and completion of foreign investment in Australia. This was reflected in the office sales volumes over the last 12 months which

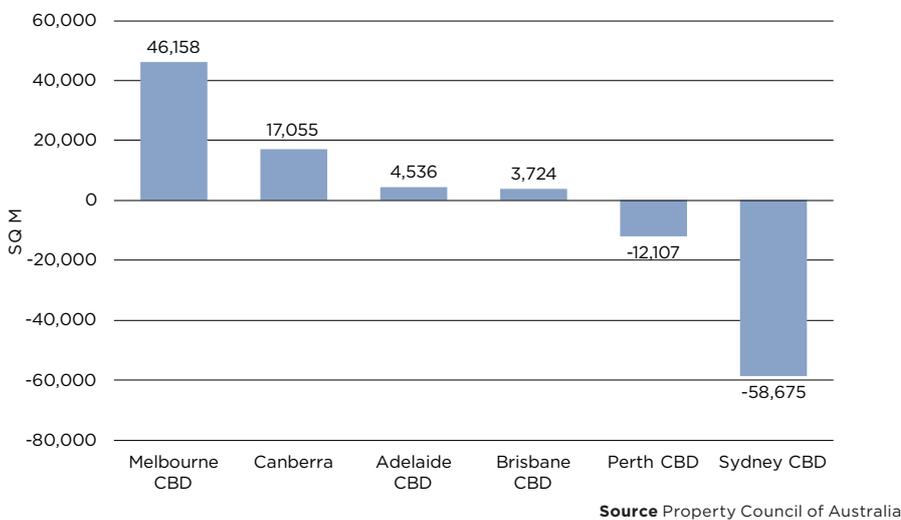
were nearly half of the year prior. In the 12 months to September 2020 Savills recorded AUD12.6 billion of office transactions (above AUD5 million). Domestic institutional groups remained the most dominant purchasers over the last 12 months, contributing close to 42% of total volumes (in dollar terms).

A strong government focus on infrastructure spending and investment will help to stimulate economic activity to the benefit of Australia’s commercial property markets.

GRAPH 3: Total Vacancy By Market, June 2010 to June 2020



GRAPH 4: Six Month Net Absorption By Market, 6 months to June 2020



OFFICE OCCUPIER MARKET

As a result of the pandemic there has been a significant reduction in office demand and the amount of space available continues to increase across all office markets. Over the first six months of the year office vacancies across all major CBD’s increased as occupiers reassessed space requirements on the back of government advice to work from home where possible, resulting in a sharp increase in sublease space as tenants look to cut costs. As case numbers in Australia continue to fall and workers begin to return to the office, a key consideration that will have an impact on future demand is changes to workplace density and workspace ratios which will change the space requirements of occupiers in the short to medium term.

LOOKING FORWARD

From both an investor and an occupier point of view we continue to see a flight to quality thematic become increasingly evident. Tenants are seeking quality office space with more flexible terms and we anticipate that as a result of this there will be a divergence of vacancy where secondary stock will find it difficult to compete. Investors continue to seek prime assets with long WALE and diversified tenant compositions, with these assets achieving record yields and capital values. With several large transactions coming to the market around the country or in due diligence we expect to see a strong finish to the year and into 2021.

TABLE 1: Major Transactions In Last 12 Months

PROJECT	LOCATION	VENDOR	PURCHASER	PRICE (AUD MILLION)
525 Collins Street (50% interest)	Melbourne	St Martins Properties	GIC/Dexus	644
45 Clarence Street	Sydney	Dexus	Peakstone	530
452 Flinders Street	Melbourne	Dexus	Deka Immobilien	457
66 Eagle Street	Brisbane	Lendlease PPF/ADIA	Deka Immobilien	380

Source Savills Research



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