WORLD RESEARCH - 1H/ 2019

REPORT

Savills Research

World Office Yield Spectrum

savills

INTRODUCTION

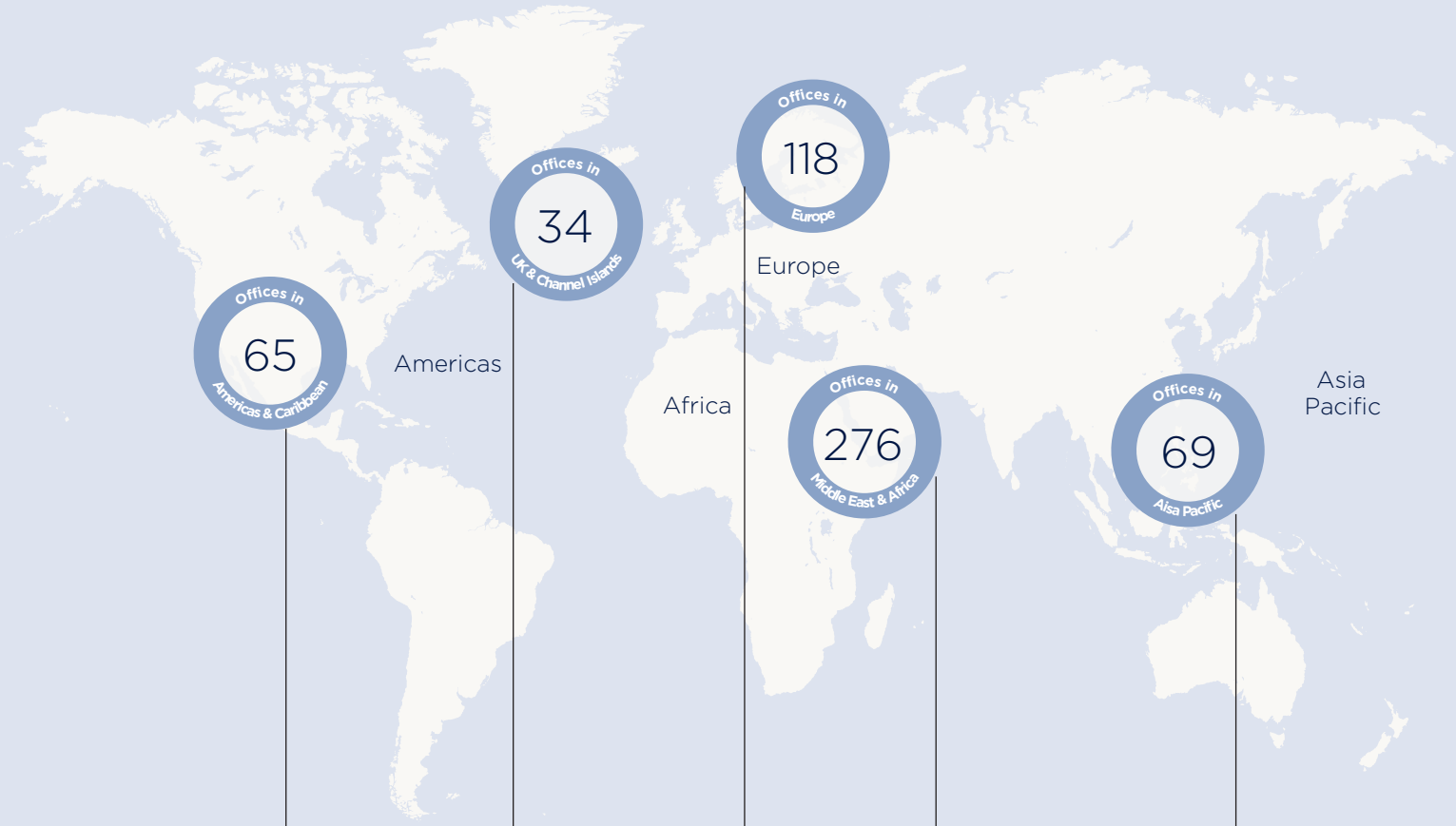
With investment capital becoming more global in its search for returns and diversification, the need for a standardised set of indicators to make sense of opportunities, risk and return expectations has become critical.

The Savills World Office Yield Spectrum is designed to fill a void in market knowledge. For too long the global property investment community has been denied a credible, factual yields series which can be reliably used to compare 'apples with apples.' This unique global publication is the culmination of substantial work by dozens of researchers in the international Savills team.

Savills Research trusts you find this body of work useful, illuminating and of value to you in your endeavours. As always your thoughts, feedback and ideas are most welcome. Please feel free to contact your Savills representative with regard to this publication.

CONTENT

OUR GLOBAL NETWORK



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Bahamas
Barbados
Canada
Cayman Islands
Colombia
Grenada
Mexico
St Kitts & Nevis
St Lucia
Turks & Caicos
United States

UK & Channel Islands
England
Guernsey
Jersey
Scotland
Wales

Europe
Austria
Belgium
Croatia
Czech Republic
Denmark
Finland
France
Germany
Gibraltar
Greece
Hungary
Ireland & Northern Ireland
Italy
Luxembourg
Monaco
Montenegro
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Zambia
Zimbabwe

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India
Indonesia
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Macau
Malaysia
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Philippines
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Taiwan
Thailand
Vietnam

ABOUT SAVILLS

With a rich heritage and a reputation for excellence that dates back to 1855, Savills is a leading global real estate provider listed on the London Stock Exchange. Savills advises corporate, institutional and private clients, seeking to acquire, lease, develop or realise the value of prime residential and commercial property across the world's key markets.

Savills is a company that leads rather than follows with more than 600 owned and associate offices throughout the UK, Europe, Americas, Asia Pacific, Africa and the Middle East. With more than 35,000 staff, we seek out people who possess that rare mix of entrepreneurial flair and rock solid integrity, and are focused on delivering clients with advice and expertise of the highest calibre.

A powerful combination of global connections and deep local knowledge provides Savills with an almost unparalleled ability to connect people and property. Savills extensive Asia Pacific network spans 50 offices throughout Australia, New Zealand, China, Hong Kong, India, Indonesia, Japan, Korea, Macao, Malaysia, Myanmar, Philippines, Singapore, Taiwan, Thailand and Vietnam.

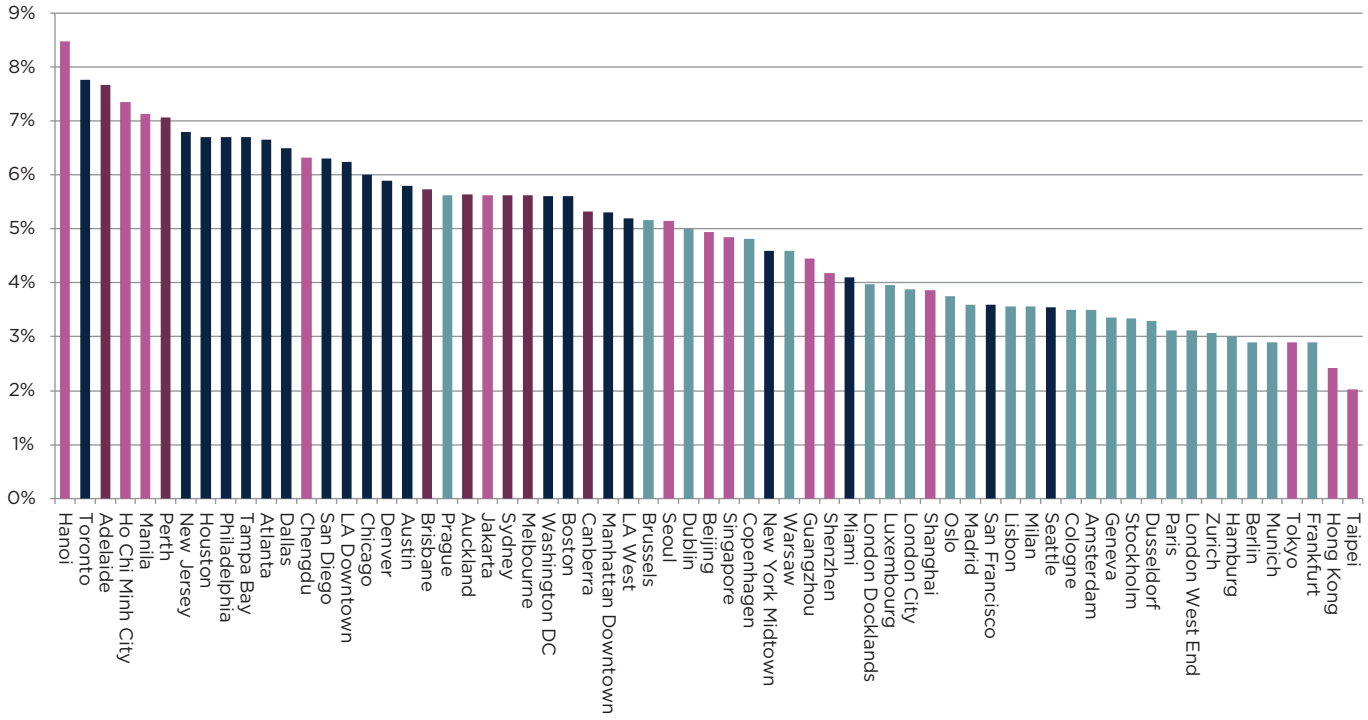
Savills offers the full spectrum of services from providing strategic advice to managing assets and projects and transacting deals. With a firmly embedded corporate culture that values initiative, innovation and integrity, clients receive outstanding service and can be assured of the utmost professionalism. For advice that gives advantage, contact Savills.

Source: RCA/Savills Research

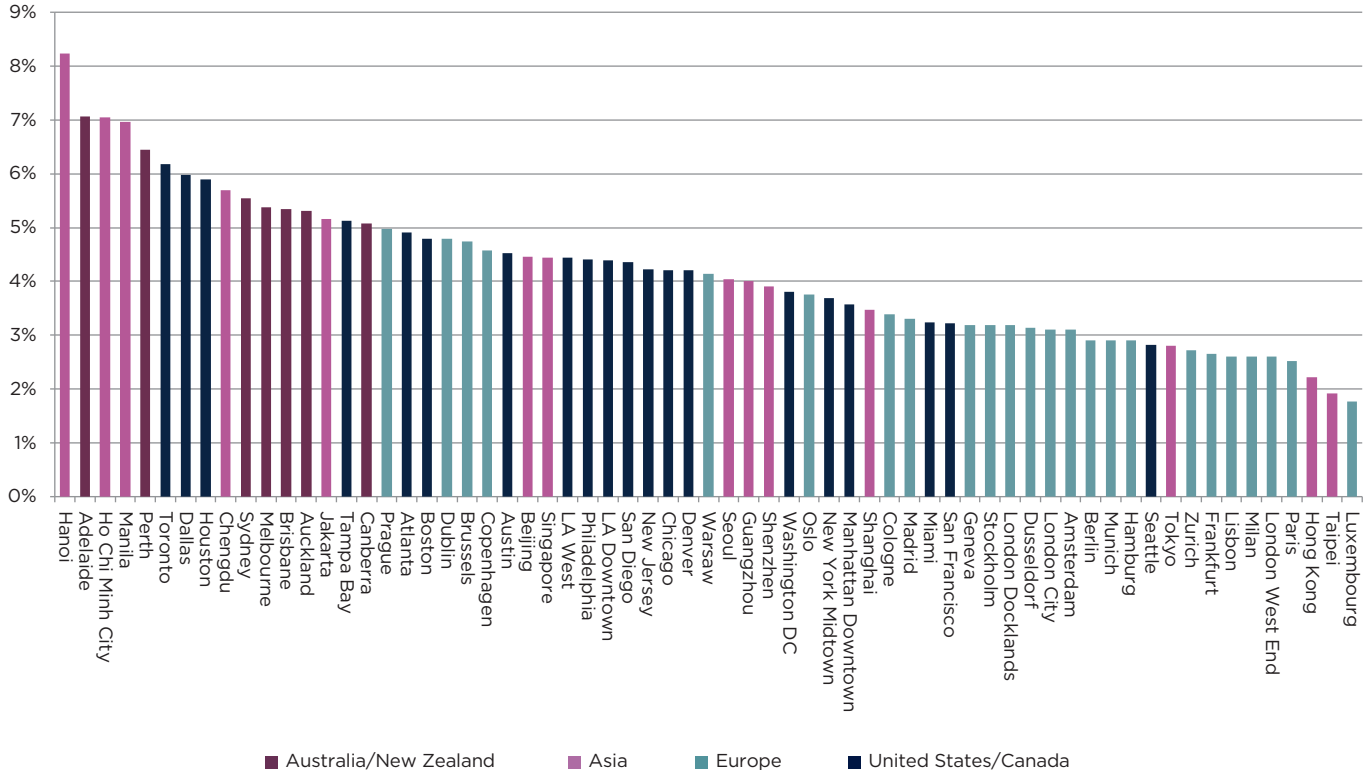
WORLD CITIES

Dec 2018

World Office CBD Grade A Market Yields (%) by Region and City



World Office CBD Grade A Effective Yields (%) by Region and City

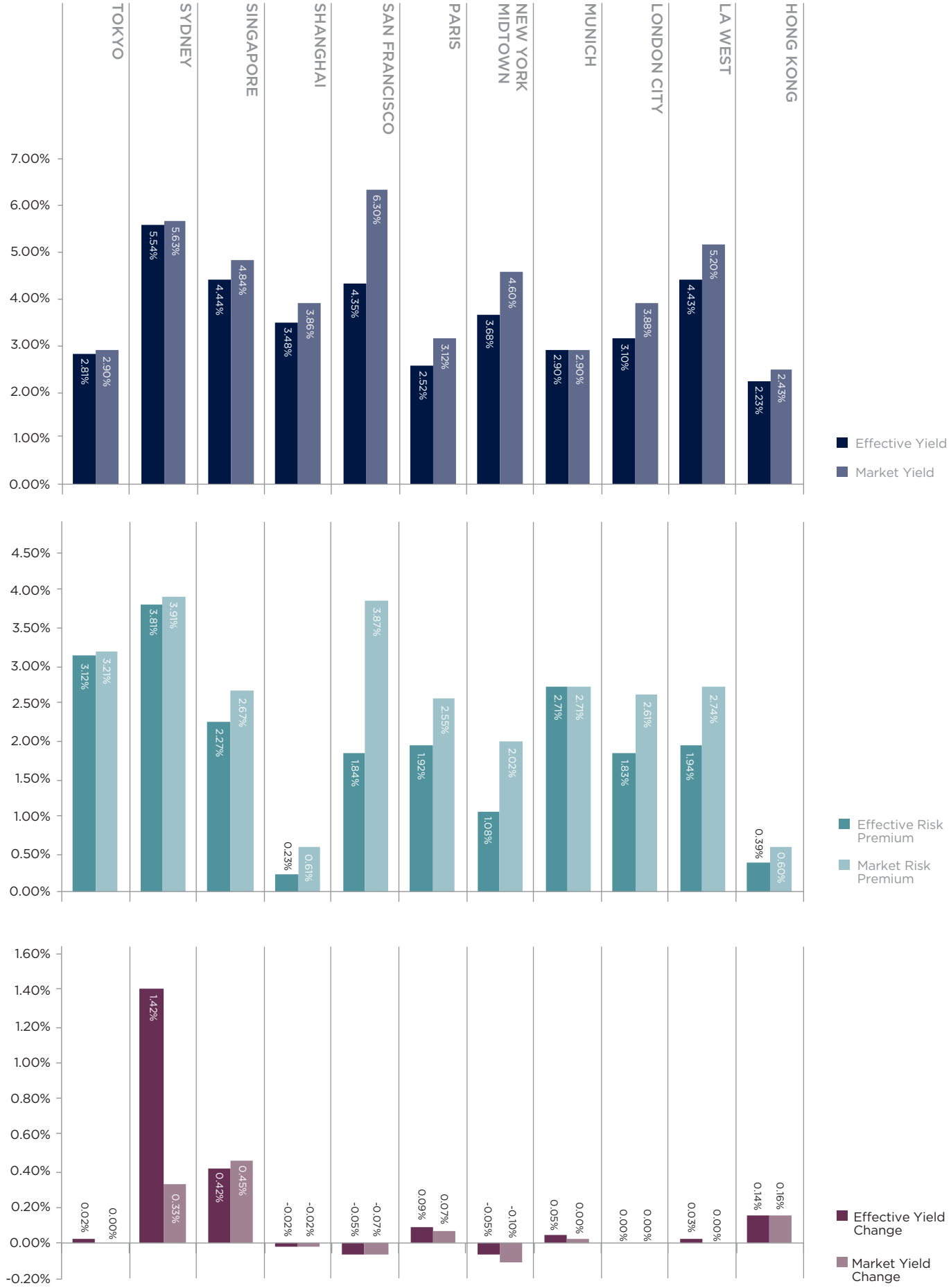


Australia/New Zealand Asia Europe United States/Canada

Source: Savills Research

World Cities/CBD/Grade A Office

Dec 2008 to Dec 2018



ASIA

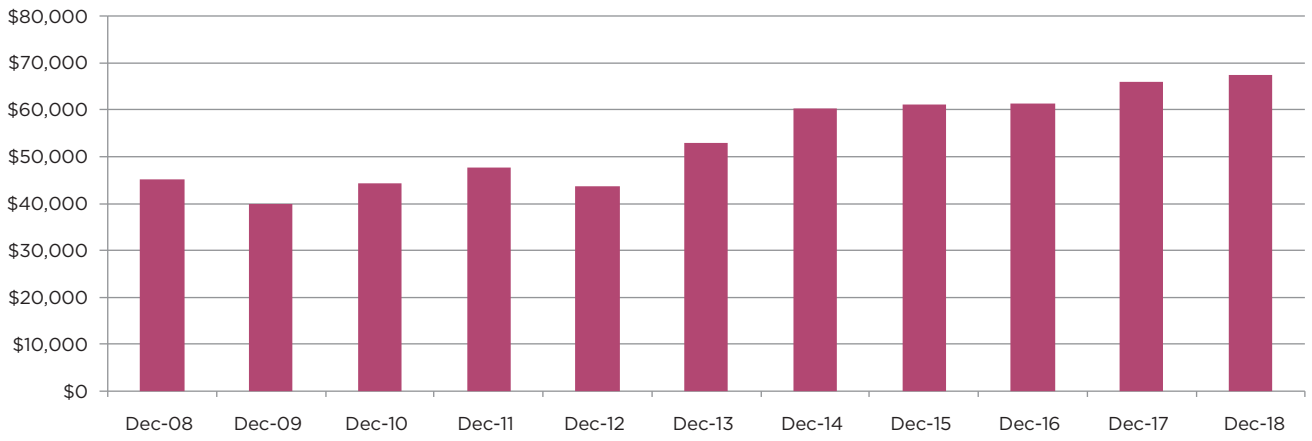
COMMENTARY

While investment activity in the office sector started the year strongly, deal volumes in the second half of 2018 started to decline amid weakening sentiment, tighter liquidity and the unresolved US-China trade dispute. This led to a modest 2% YoY increase in Asia's transaction volume in 2018, and a 14 bps YoY fall in the average office market cap rate to 4.60% over the second half. Office inbound investment in China plummeted by 28% YoY, and outbound investment sank dramatically with only six deals registered. In Hong Kong, the transaction volume in the second half accounted for only 18% of the yearly total. Nonetheless, Shenzhen and Manila recorded further yield compression because of continued growth in capital values. In Singapore, rental growth boosted yields.

Source: Savills Research

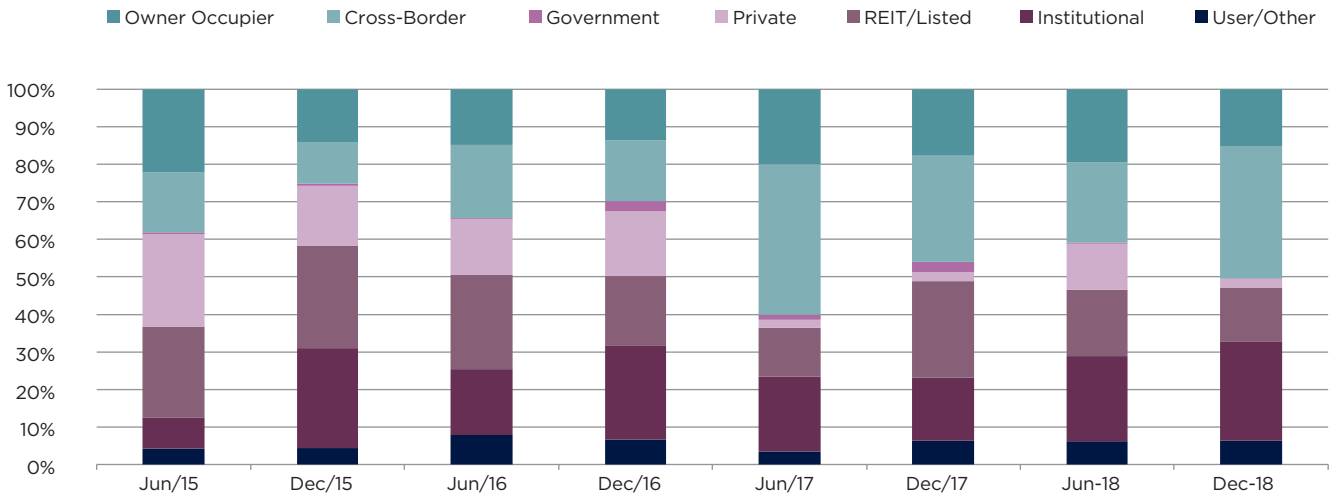
Office Property Sales (US$M)

Dec 2008 to Dec 2018



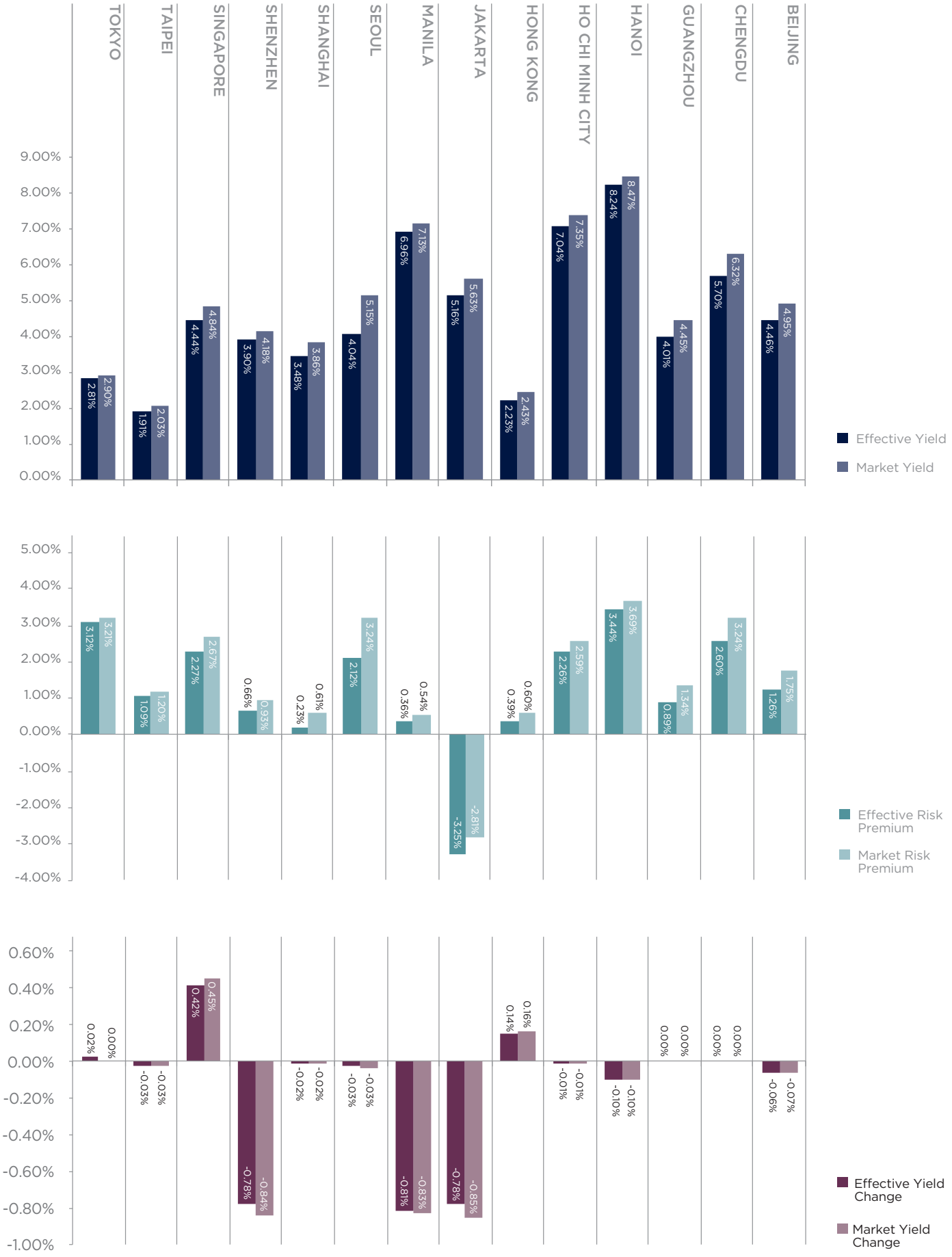
Office Property Buyer Profile

Jun 2015 to Dec 2018



CBD/Grade A Office

Dec 2018



UK/EUROPE

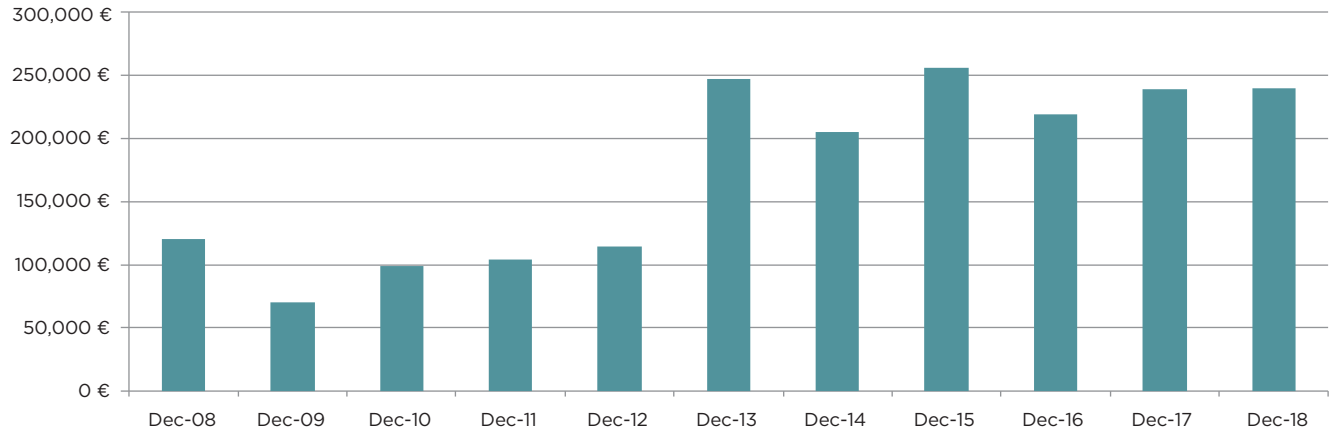
COMMENTARY

European investment markets witnessed another strong year in 2018, with overall transaction volumes reaching €239bn, 12% above the previous five-year average. Over half of 2018's European capital flows were invested equally in Germany and the UK, despite concerns surrounding the future relationship between the UK and the EU. France recorded commercial investment transaction volumes 19% above the previous year, as several key deals were completed in 2H/2018. Cross-border investment into Europe accounted for circa 54% of the total, in line with the record proportion during 2017. Prime office yields are at record lows, however this asset will remain a top pick in 2019, especially for risk averse strategies. As economists do not expect a rise of interest rates this year, we believe that prime yields will remain mostly stable.

Source: Savills Research

Office Property Sales (US$M)

Dec 2008 to Dec 2018



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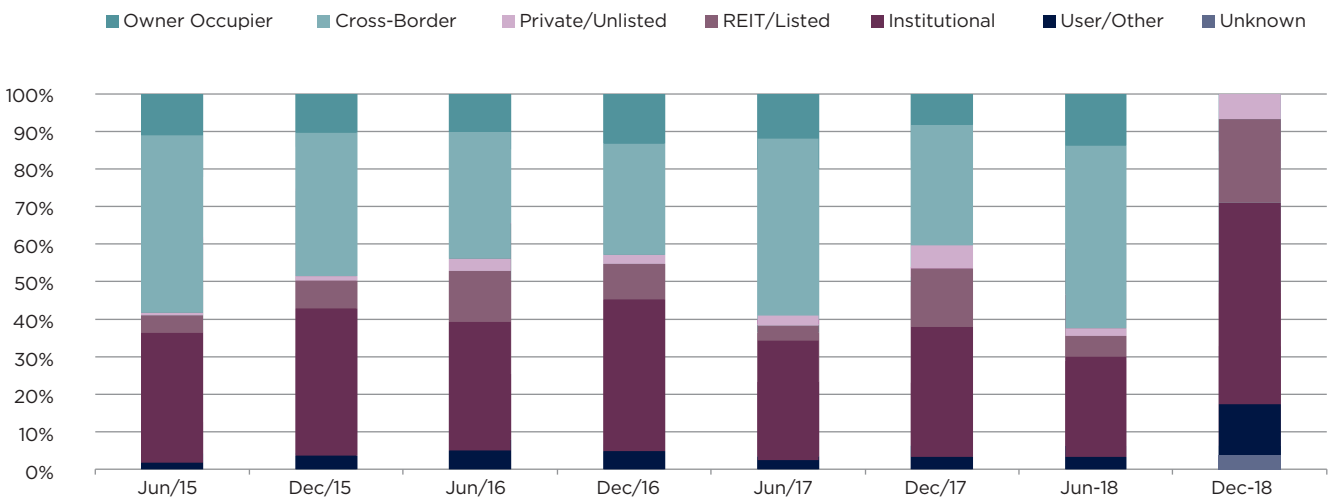
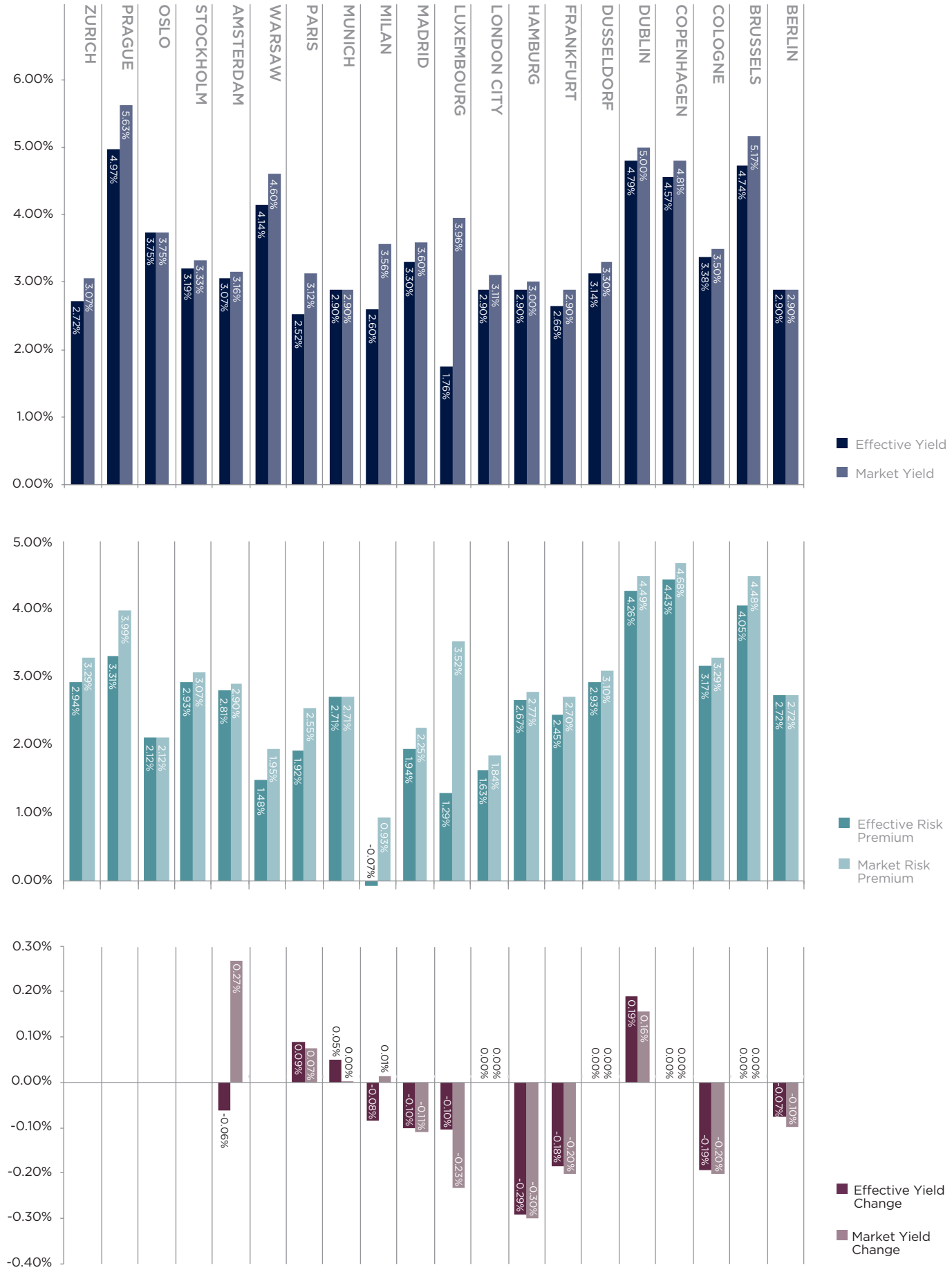


CBD/Grade A Office

Dec 2018



UNITED STATES

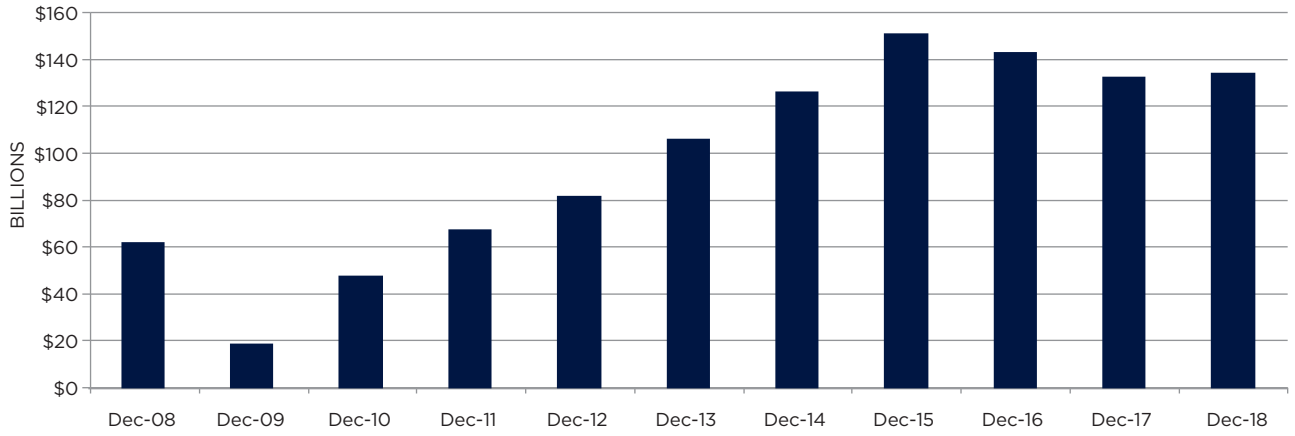
COMMENTARY

The U.S. economy continued to expand at a robust pace, with real GDP rising by 2.9 percent in 2018 versus 2.2 percent in 2017. Fiscal stimulus from the Tax Cut and Jobs Act of 2017 underpinned growth in the corporate sector, with the labor market continuing to show positive momentum. Consistent with the strength in hiring, office leasing volumes increased in 2018. Particularly strong markets included Dallas/Ft. Worth, New York, San Francisco and Washington D.C., each of which saw net absorption of Class A space in excess of 4 MSF. Nationally, growth in asking rents softened from 2017's pace, although markets including Atlanta and Charlotte each saw asking rents for Class A space rise by more than 5 percent. Investment sales activity also increased, reversing a string of declining volumes in 2016 and 2017. Activity was fueled by strong cross-border investment. Despite four increases in the central bank policy rate, yields on 10-year interest rates ended the year lower than they began, which supported broad-based gains in investment sales volume. Sales activity in office, hotel and the multi-family sectors all increased, with notable strength in both the industrial and retail segments. New York City continued to attract the bulk of investment, followed by Los Angeles and Dallas.

Source: Savills Research

Office Property Sales (US$M)

Dec 2008 to Dec 2018



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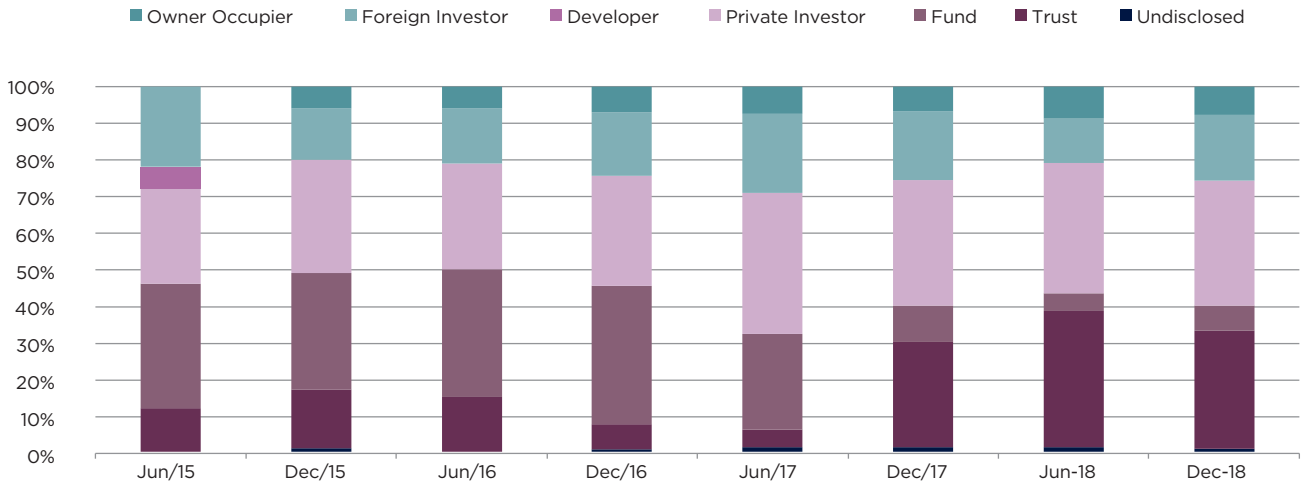
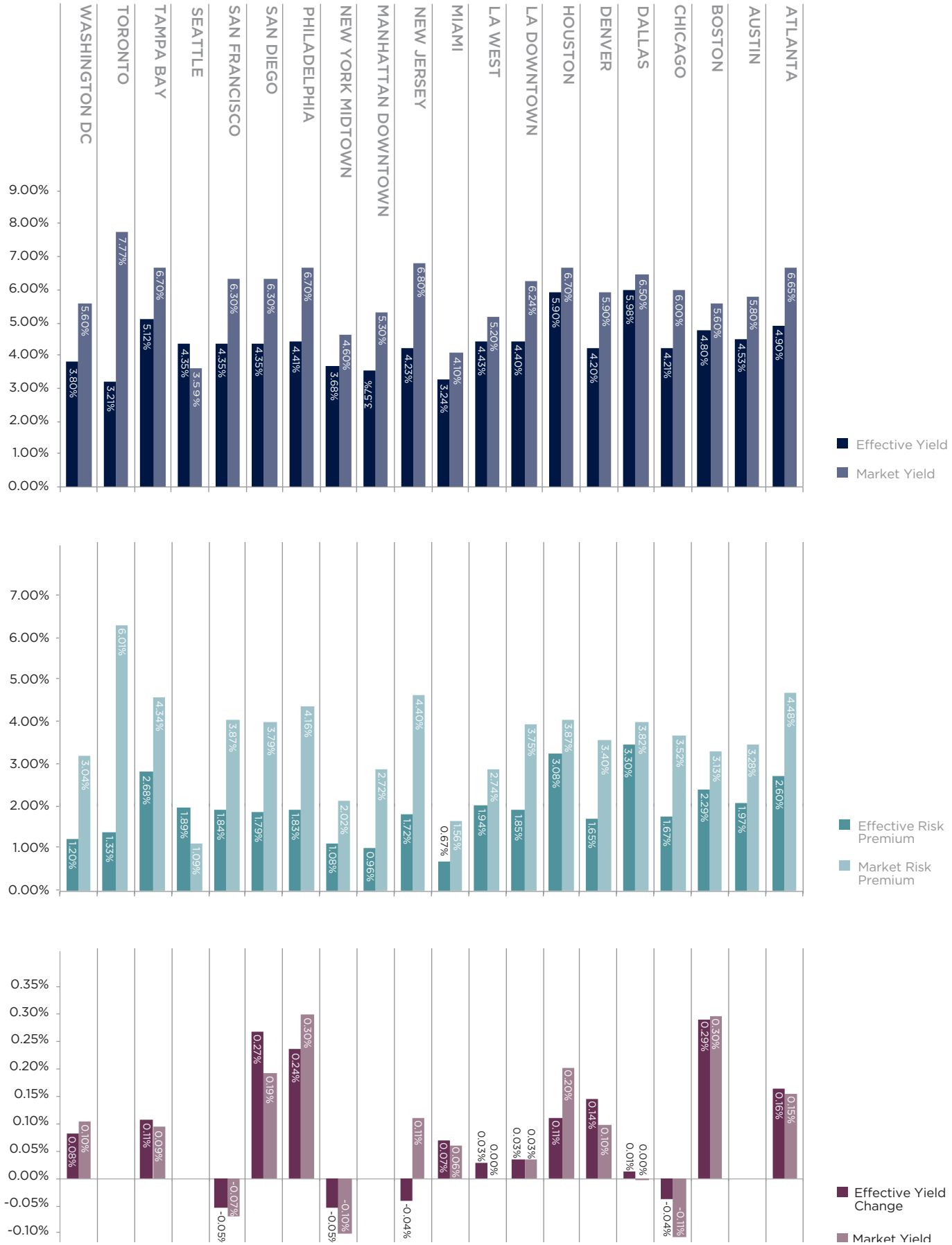


CBD/Grade A Office

Dec 2018



AUSTRALIA/NEW ZEALAND

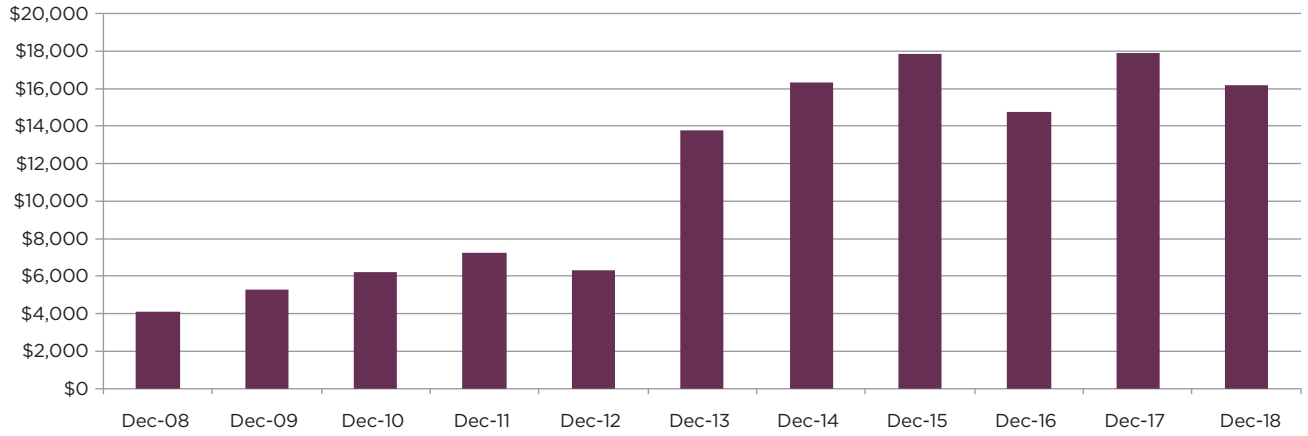
COMMENTARY

Australian's office property sector continued to record notable capital value growth with ongoing yield compression recorded across all CBD and fringe markets nationally. Investor appetite remained as strong as ever for Australian office assets in 2018, with record high capital values in Sydney and Melbourne driving both domestic and foreign investors to other CBD markets. Much of the conversation over 2018 revolved around how much longer the yield compression cycle across Australian office property would last, particularly for the Sydney CBD and Melbourne CBD markets. However, total sales volumes remained strong, with $16.16 billion of office assets transacting in 2018, with total volumes in Q4/2018 boosted by commercial property fund manager Charter Hall's purchase of two office buildings in Sydney for $804 million (AUD). Total returns in the office sector continued to be boosted by capital value growth, with total returns recorded at 14.4% in the 12 months to September 2018 (latest available from MSCI / IPD). The Sydney CBD and fringe markets drove this performance with returns recorded at 18.0% in Parramatta and 17.1% in Sydney CBD. Positively, total returns in Brisbane CBD and Perth CBD continued their upward trend, returning 9.8% and 8.7% respectively.

Source: Savills Research

Office Property Sales (US$M)

Dec 2008 to Dec 2018



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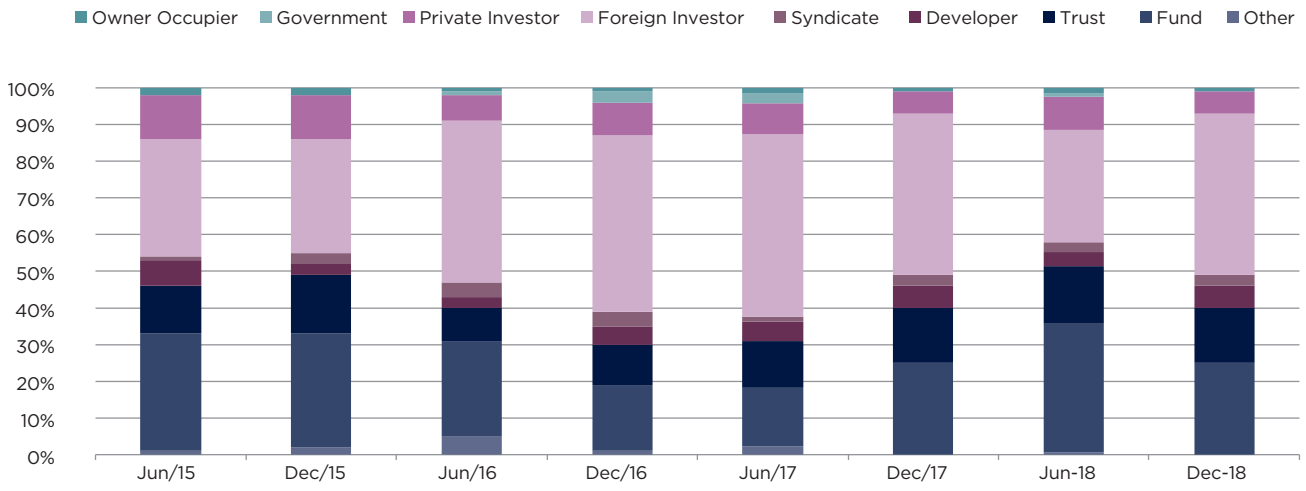
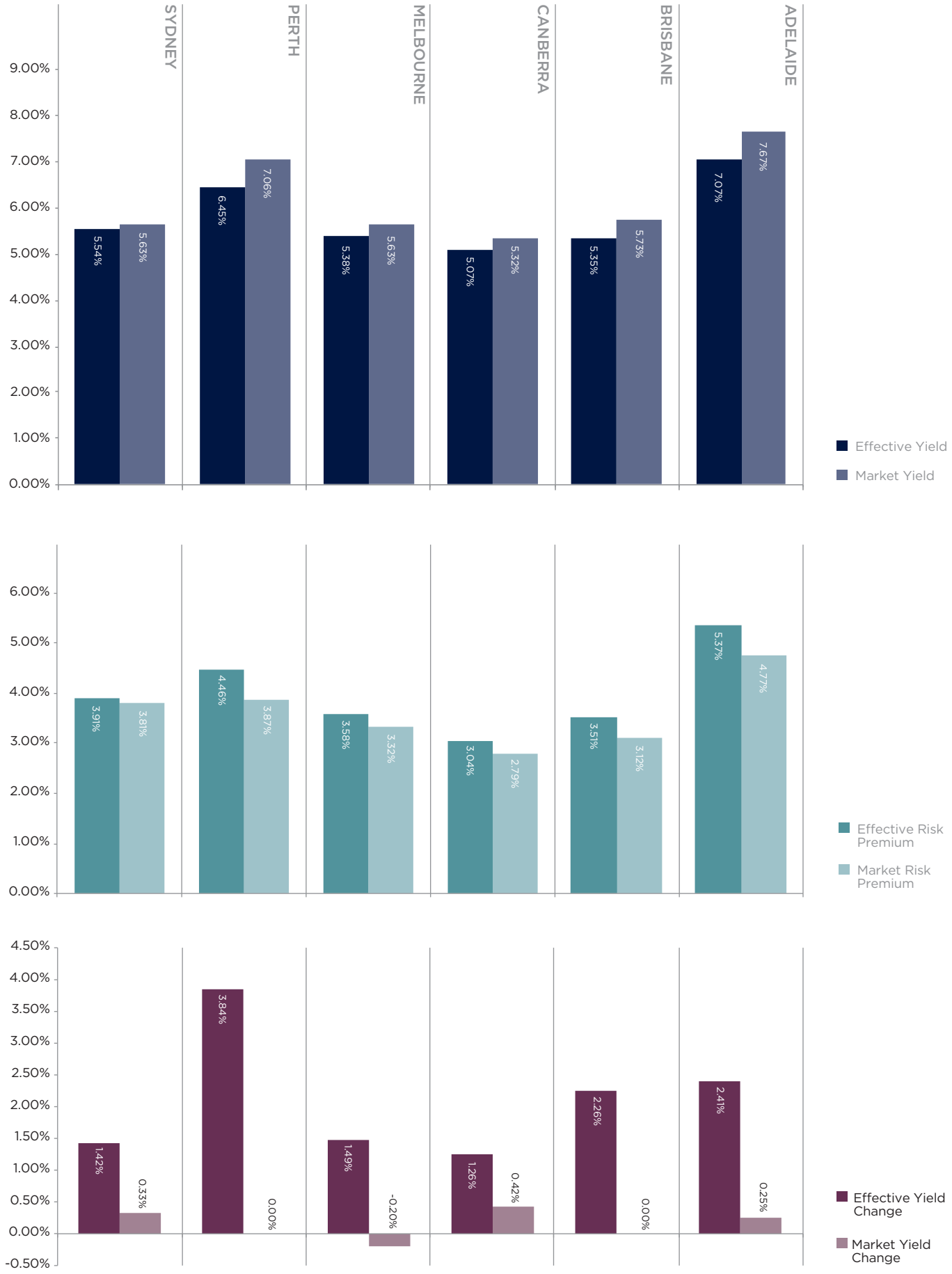


CBD/Grade A Office

Dec 2018



METHODOLOGY

MARKET YIELDS

This yield is derived by capitalising current market rents (Net Face) against current capital values for office buildings. The Net Face rent is the rent payable by the tenant excluding both statutory and operating outgoings (recoverables) and includes the value of any incentive paid to the tenant by way of fitout, cash, rental rebate or rent free. The capital value is calculated to be for the office component only and excludes retail, excess car parking, signage, storage and other "non-office" sources of income.

EFFECTIVE YIELDS

This yield is derived by capitalising current market rents (Net Effective) against current capital values for office buildings. The Net Effective rent is the rent payable by the tenant excluding both statutory and operating outgoings (recoverables) and excludes the value of any incentive paid to the tenant by way of fitout, cash, rental rebate or rent free. The capital value is calculated to be for the office component only and excludes retail, excess car parking, signage, storage and other 'non-office' sources of income.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The WACC is derived by having reference to the rents described above, the rental growth outlook and the management fee recoverable from owning the building (in sum a proxy for equity) and the current cost of debt. Using a 30 percent/70 percent equity/debt split, a WACC is calculated.

ACCRETIVE PREMIUMS

By subtracting the effective and market yields derived above from the WACC we can calculate the 'accretion' inherent in each market using the metrics as described.

MARKET RISK PREMIUMS

Having reference to the market yield calculated above we subtract the risk free rate (10 year bond) then add the expected annual income growth rate to establish the 'expected return for risk.'

EFFECTIVE RISK PREMIUMS

Having reference to the effective yield calculated above we take that yield, subtract the risk free rate (10 year bond) then add the expected annual income growth rate to establish the 'expected return for risk.'

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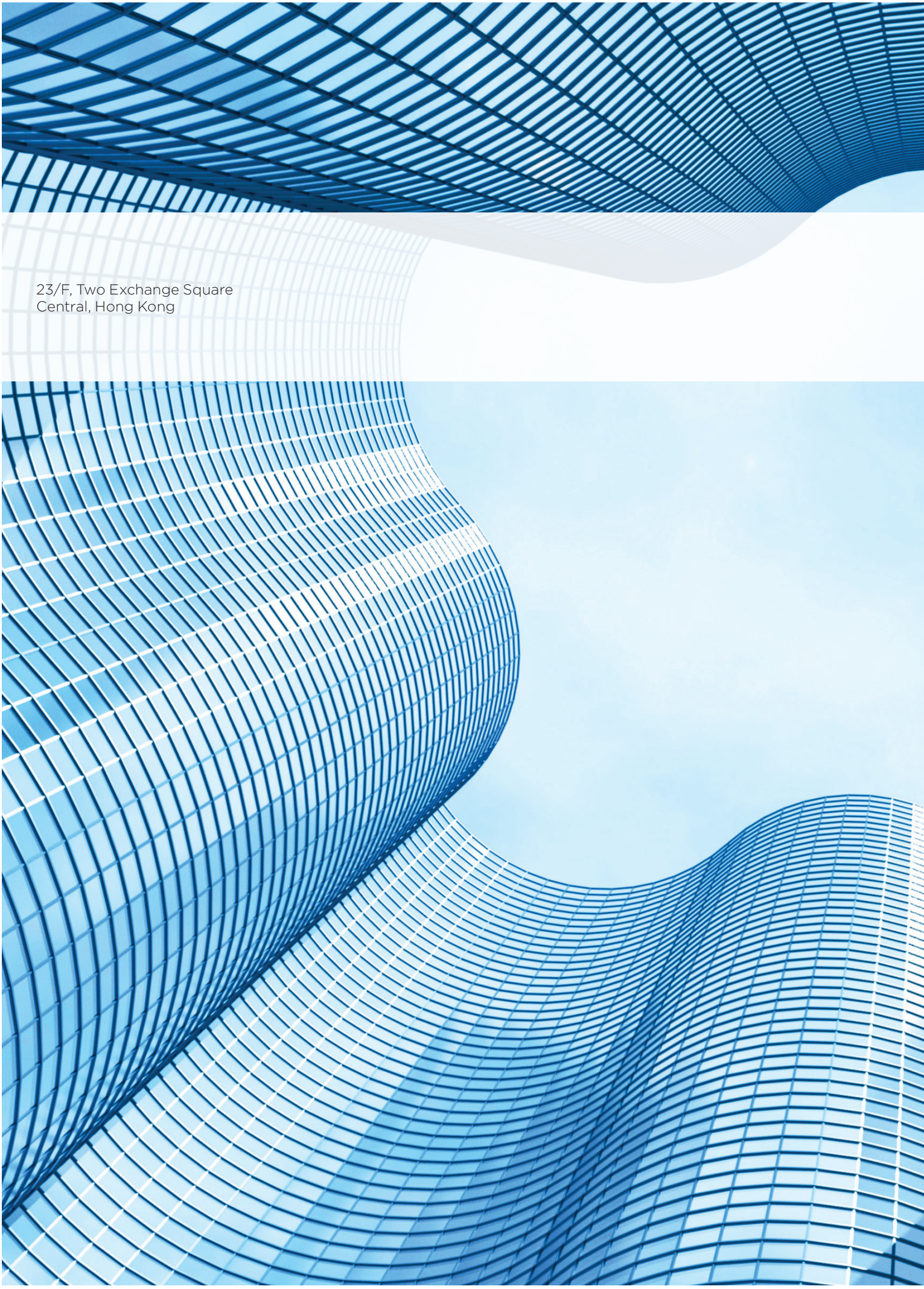

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