AUSTRALIA

INVESTMENT REPORT

CUSHMAN & WAKEFIELD

Natural Bridge in Queensland, Australia

INVESTMENT CASE FOR AUSTRALIA

CONTENTS

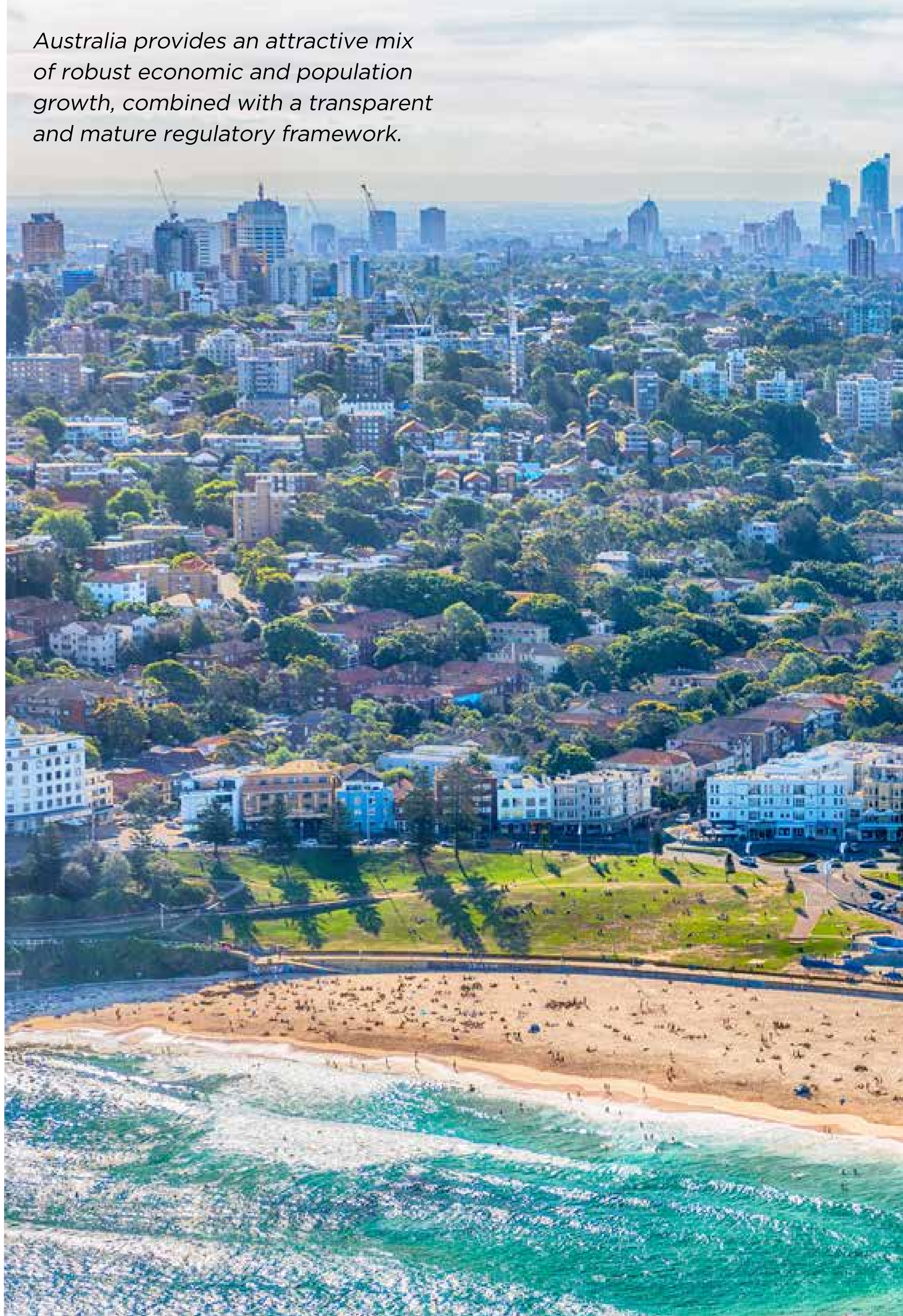
EXECUTIVE SUMMARY OVERVIEW

Australian real economic growth is currently running a little below the trend rate of 3%, having been sluggish over the past few years, with New South Wales and Victoria leading the country. Interest rates are at record lows, with the cash rate at 1.5% and inflation at 1.3%, below the central bank's target rate of 2%-3%. Notwithstanding this, the job market is comparatively tight with national unemployment at circa 5.6%.

In line with economic performance, New South Wales and Victoria commercial real estate markets lead across all sectors with generally higher demand, tighter vacancy, higher rents and tighter yields. This is mainly being driven by service sector growth as well as strong growth in the residential market. Australia's resource oriented states and territories, which include Queensland and Western Australia, are at varying stages of recovery. Broadly Queensland is now past the worst of the effects of the decline in mining investment, while Western Australia still has a little way to go. In line with this, we estimate these markets are now at or near the bottom of the cycle, but recovery is likely to be relatively protracted.

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

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



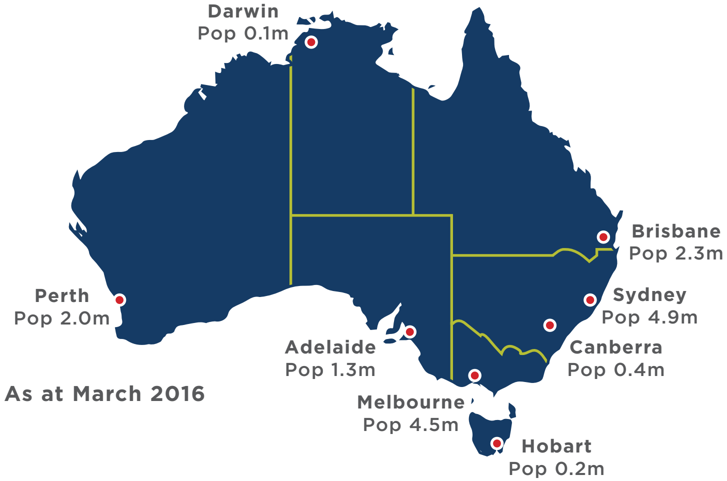
Bondi Beach, Sydney

GENERAL COUNTRY OVERVIEW

GEOGRAPHIC OVERVIEW

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

MAP 1: Australian major city population size



As at March 2016

MAP 2: Australian landmass compared to USA and Europe

AUSTRALIA IS THE
6TH LARGEST
COUNTRY
IN THE WORLD

DEMOGRAPHIC OVERVIEW

Australia has a population of approximately 24 million, placing it 53rd in global rankings. In light of the size of the country, overall population density is low at just three people per square kilometre. However, much of the country's interior is classified as desert and is unpopulated. Most of the population is therefore concentrated in two coastal regions – the south-east and east, and the south west – and is 90% urban.

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

The national population grows by 1.4% per annum (pa) on average. Natural increase over the past five years has contributed around 44% of population growth with approximately 56% due to immigration. Overall population growth over the next five years is forecast to be 1.3% pa (Deloitte Access Economics).

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

For the 25 years preceding the Global Financial Crisis (GFC), Victoria was a net exporter of interstate migrants. However this reversed after the GFC and has recently strengthened as the Victorian economy has improved. As such Victoria had the highest net internal migration gain in the year to March 2016. Queensland traditionally received the greatest proportion of internal migrants, however weaker economic performance over recent years has affected this. In contrast, New South Wales has consistently experienced net interstate migration losses over the past 35 years. Similarly, though at a lower level, South Australia is a regular interstate migration exporter while the direction of interstate migration to/from Western Australia is heavily tied to its economic productivity.

TABLE 1: Australian state population and economic size and growth

STATE/TERRITORY	CAPITAL	POPULATION[1]	POPULATION GROWTH RATE[2]	GROSS STATE PRODUCT (GSP)[3]	GSP GROWTH RATE[2]
New South Wales	Sydney	7.7m	1.4%	$507bn	2.4%
Victoria	Melbourne	6.0m	1.9%	$356bn	2.5%
Queensland	Brisbane	4.8m	1.3%	$300bn	0.5%
South Australia	Adelaide	1.7m	0.6%	$99bn	1.6%
Western Australia	Perth	2.6m	1.2%	$276bn	3.5%
Tasmania	Hobart	0.5m	0.4%	$25bn	1.6%
Northern Territory	Darwin	0.2m	0.4%	$22bn	10.5%
Australian Capital Territory	Canberra	0.4m	1.3%	$35bn	1.4%
Australia	**Canberra**	**24.0m**	**1.4%**	**1,620bn**	**2.3%**

AUSTRALIA HAS A POPULATION OF APPROXIMATELY **24 MILLION**

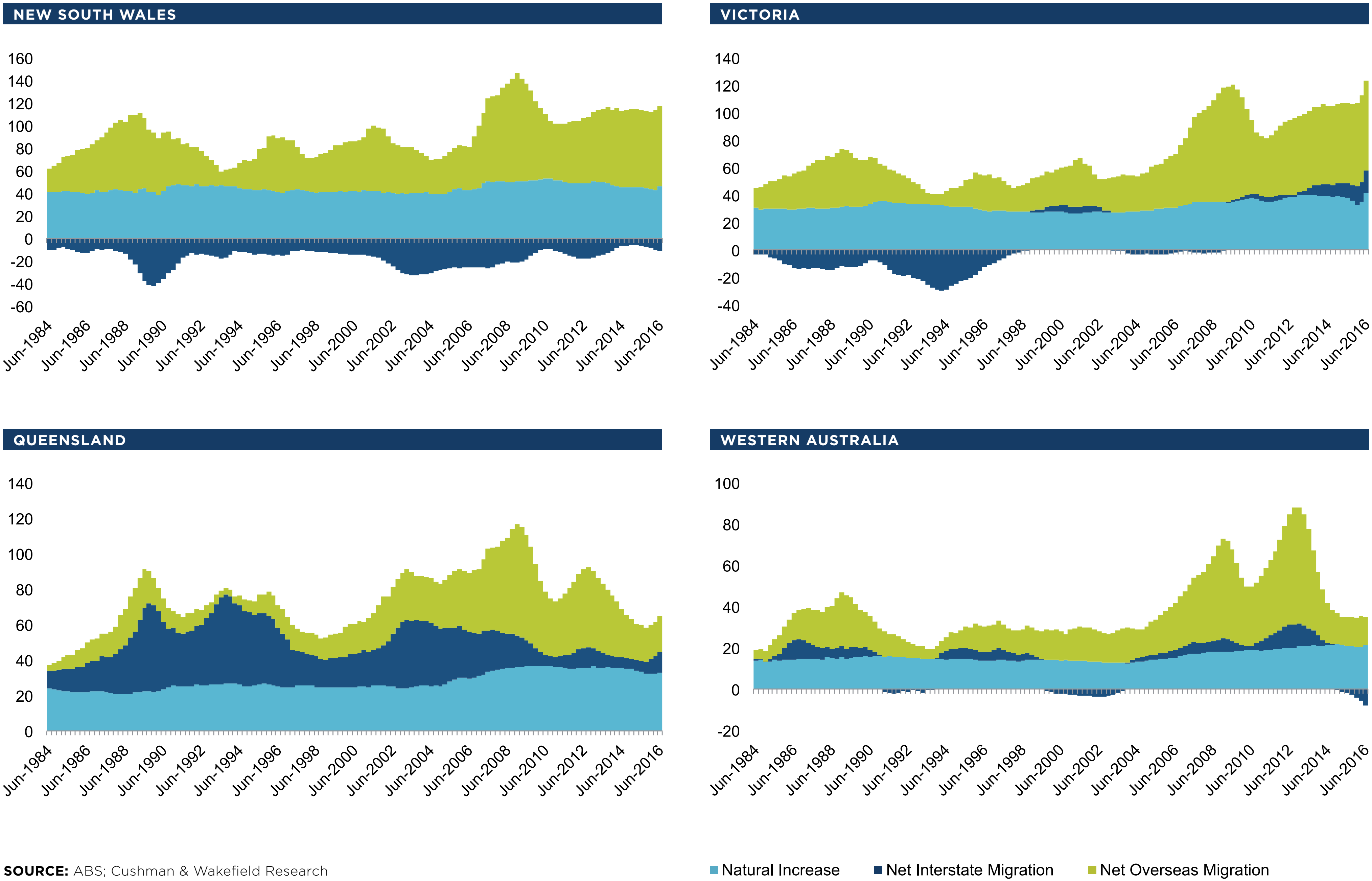
12.1 MILLION OF THE POPULATION LIVE IN THE **EAST COAST CAPITALS**

1: Estimated residential population as at March 2016.
2: Change over previous year growth rate.
3: As at June 2015.
SOURCE: ABS; DAE; Cushman & Wakefield Research

Perth City, Western Australia

Manly Beach, Sydney

FIGURE 1: Rolling annual components of population growth by State



SOURCE: ABS; Cushman & Wakefield Research

TABLE 2: Demographic characteristics by capital city

2011 CENSUS		SYDNEY		MELBOURNE		BRISBANE		PERTH		ADELAIDE		AUSTRALIA	
		#	%	#	%	#	%	#	%	#	%	#	%
Population	Total	4,028,525		3,847,570		1,977,315		1,670,953		1,198,467		21,507,719	
Age (# persons)	Median Age	36		36		35		36		38		37	
Household Income (per week)	Median Hhold Income	$1,490		$1,337		$1,404		$1,454		$1,103		$1,234	
Dwelling Structure (occupied private dwellings)	Detached	816,995	59%	990,761	72%	549,800	79%	475,180	78%	357,774	77%	5,864,574	76%
	Townhouse/ Semi-det	179,828	13%	163,949	12%	62,213	9%	74,109	12%	57,625	12%	765,980	10%
	Flat/Unit	383,072	28%	217,351	16%	85,215	12%	56,552	9%	49,357	11%	1,056,236	14%
Dwelling ownership (occupied private dwellings)	Owned Outright	415,780	31%	450,968	34%	190,068	28%	179,353	30%	146,261	33%	2,488,148	33%
	Mortgaged	482,422	36%	501,725	38%	256,788	38%	239,433	41%	168,665	38%	2,709,432	36%
	Rented	445,825	33%	379,976	29%	234,826	34%	169,370	29%	132,559	30%	2,297,458	31%
Household Structure (occupied private dwellings)	Couple no Children	325,721	23%	337,512	24%	184,844	26%	164,000	27%	122,271	26%	2,072,941	27%
	Couple with Children	515,446	37%	481,682	35%	233,845	33%	200,731	33%	136,349	29%	2,511,992	32%
	Lone Parent	155,181	11%	149,341	11%	81,086	12%	63,330	10%	53,472	11%	867,968	11%
	Group	61,373	4%	65,828	5%	37,544	5%	26,326	4%	18,505	4%	321,008	4%
	Lone Person	309,190	22%	322,999	23%	154,146	22%	145,333	24%	129,477	28%	1,888,700	24%
	Other	20,526	1%	21,136	2%	10,691	2%	8,918	1%	5,931	1%	97,713	1%
	Average Hhold size	2.7		2.6		2.7		2.6		2.4		2.6	
Employment (#workers)	White Collar	1,400,711	75%	1,314,795	73%	676,866	71%	558,442	68%	388,070	70%	6,837,007	69%
	Blue Collar	469,910	25%	497,864	27%	278,224	29%	259,421	32%	165,977	30%	3,032,302	31%

SOURCE: ABS; Cushman & Wakefield Research

Mount Painter, Canberra

Sydney City at night

AUSTRALIAN POLITICAL AND ECONOMIC OVERVIEW

AUSTRALIAN POLITICAL OVERVIEW

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

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

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

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

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

The Liberal/National Coalition holds government following the 2016 Federal Election and is led by Prime Minister Malcolm Turnbull. The Government's ability to pass legislation is hampered by a lack of control of both Houses.

Parliament House, Canberra

Whilst having a slim majority in the Lower House, the Coalition only holds 30 seats in the Senate and relies on the support of either the opposition Labor Party (26 seats) or at least nine of the cross-bench (minor parties or independents) to pass legislation.

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

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

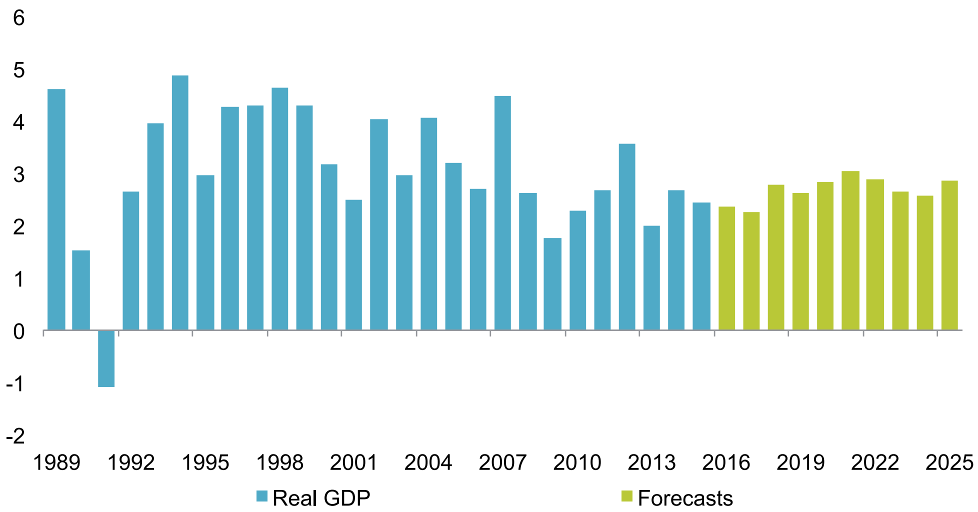
State and Territory Governments are also responsible for a range of taxes or charges such as land tax or transaction fees such as 'stamp duty' on property transactions. These fees vary depending on factors such as the State or Territory the property is located in, the value of the property and the whether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

3 **Local Government:** There are approximately 560 local government bodies or Councils in Australia. The powers of local government vary from State to State and are the responsibility of State Governments.

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

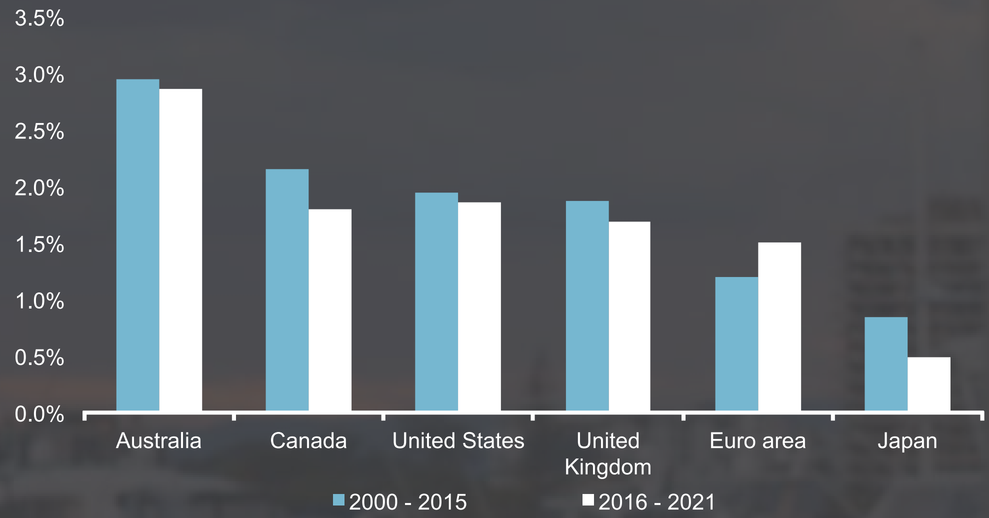
Local government revenue comes from three main sources - taxation (rates usually based on property ownership), user charges and grants from Federal and State/Territory governments.

FIGURE 2: Australian real GDP growth rate (% per annum)



SOURCE: DAE; Cushman & Wakefield Research

FIGURE 3: Comparative GDP growth rate for selected countries (% per annum)



SOURCE: IMF; Cushman & Wakefield Research

FIGURE 4: GSP growth rate for selected States/Territories (% per annum)

SOURCE: DAE

AUSTRALIAN ECONOMIC OVERVIEW AND OUTLOOK

In 2017, the Australian economy is expected to enjoy its 26th year of continuous, stable economic growth. The growth compares favourably with other advanced economies and is expected to continue over the next 5 to 10 years.

Across the nation, growth in the resource-based states (Queensland and Western Australia) has slowed as mining related construction winds down. However, population growth, reviving tourism and increased export volumes are helping to reduce the impact. Lower interest rates and a weaker exchange rate are providing a boost to housing and corporate activity, particularly in New South Wales and Victoria, while slowing manufacturing is likely to limit growth in South Australia. Tasmanian economic growth is improving, aided by the weaker currency.

IN 2017 THE AUSTRALIAN ECONOMY IS EXPECTED TO ENJOY ITS
26TH YEAR OF
STABLE ECONOMIC GROWTH

Main Beach, Gold Coast, QLD

Lake Burley Griffen, Canberra

INFLATION

Australian consumer price data for Q4 2016 indicates price pressure remains very low. The ‘headline’ measure of inflation recorded annual growth of just 1.5%. The headline figure includes some items with volatile pricing, such as fruit, vegetables and fuel. Underlying inflation measures such as the Trimmed Mean and Weighted Median were also relatively soft, rising by an average of 1.6% over the 12 months to December, below the RBA’s target range of 2%-3%. Looking forward, as deflationary factors such as fuel and utility costs stabilise, inflation is expected to move back to the RBA’s target band.

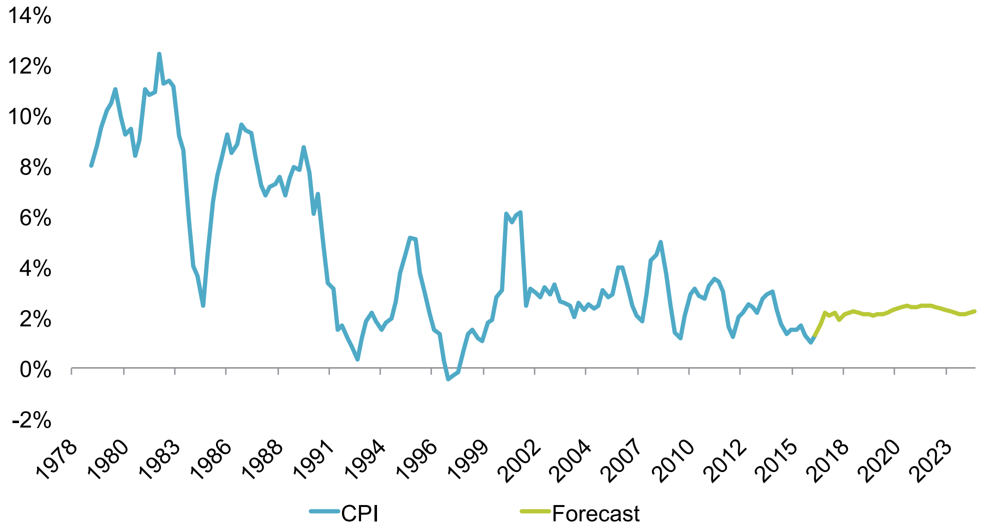
INTEREST RATES

The RBA lowered the target cash rate by 25 basis points to 1.5% in August 2016, the lowest rate since the Bank began targeting inflation in the early 1990's.

With economic growth expected to remain a little below trend the market, as indicated by 30 Day Interbank Cash futures, in February 2017 is suggesting rates are likely to remain stable over much of 2017 with the chance of rate rise late in the year or in early 2018.

While rates may or may not be cut again, they are not expected to move higher for the next 12 to 24 months. Bond yields have moved higher in late 2016 with higher US bond yields, but still remain relatively low compared to history with the cash rate.

FIGURE 5: Actual and forecast annual CPI growth (%)



SOURCE: DAE; Cushman & Wakefield Research

FIGURE 6: Target cash rate and 10-yr Government bond yield

SOURCE: RBA; Cushman & Wakefield Research

EMPLOYMENT

The unemployment rate in H2 2016 has averaged a relatively low 5.7%. While the unemployment rate is low, employment growth has slowed to just 0.8% pa in December, down from a peak of 3.0% in November 2015. The decline has been mainly driven by a slowdown in the resource dominated states of WA and QLD.

NEW SOUTH WALES GDP GROWTH TO AVERAGE
2.4%
OVER THE NEXT 3 YEARS

STATE ECONOMIC OUTLOOKS

NEW SOUTH WALES

The New South Wales economy is expected to continue to perform solidly, though the pace of growth should slow a little in 2017 as the housing sector cools from its recent strong performance. Deloitte Access Economics forecasts real GDP growth to average 2.4% over the next three years compared to average annual growth of 2.3% for the past 10 years.

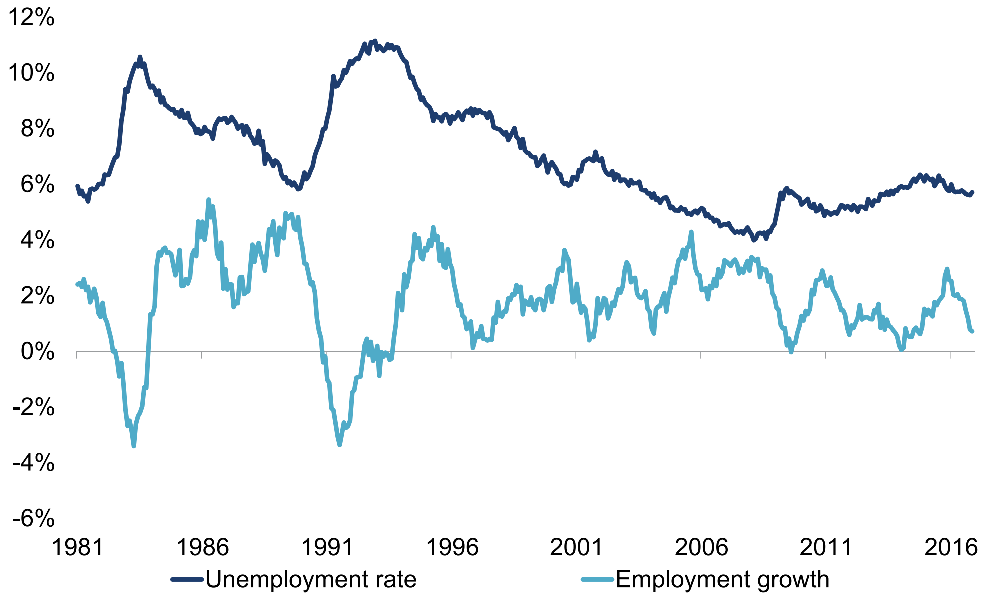
Key drivers are expected to be continued low interest rates and the reduced exchange rate. These factors should provide ongoing support for the housing industry and corporate sector. A relatively large pipeline of infrastructure projects is also expected to support the state's growth.

Key risks for the NSW economy include the housing sector and global economy. Following extensive price gains, there is a risk of a housing market correction which would damage consumer sentiment and hurt state economic growth. In addition, the strong presence of the finance and insurance sector in Sydney increases the economy's sensitivity to global events.

VICTORIA

The Victorian economy is expected to achieve relatively strong growth over the next three years with Deloitte Access Economics forecasting average annual growth of 2.6%. Like NSW, lower interest rates and the weaker exchange rate should underpin growth in Victoria. Relatively strong population growth is also forecast to be a key driver of the Victorian economy. Areas of potential downside for the Victoria include a possible oversupply of apartments as well as the risk to income and consumer sentiment from car manufacturing plant closures.

FIGURE 7: National unemployment rate and annual employment growth (%)



SOURCE: ABS

DELOTTE ACCESS ECONOMICS

VICTORIA FORCASTED AVERAGE ANNUAL GROWTH OF
2.6%

QUEENSLAND FORCASTED AVERAGE ANNUAL GROWTH OF
3.7%

QUEENSLAND

Queensland's economic recovery is expected to gather momentum in 2017. The change follows several years of relative weakness associated with the end of the commodities boom and a contraction in Queensland's public service. Deloitte Access Economics forecast real GDP growth to average 3.7% per annum over 2017, 2018 and 2019. Key drivers of Queensland's growth are expected to be increased export volumes and a resurgence in the housing sector. The lower Australian dollar should also help tourism. Key risks for the Queensland economy include a further slowing in the global economy, weaker commodity prices and a potential apartment oversupply in Brisbane.


Super Pit - Biggest Australian gold mine - WA

SOUTH AUSTRALIA

In 2017, South Australia is expected to have one of the slower economic growth rates of Australia's states and territories. Deloitte Access Economics forecasts real GDP growth to average 1.8% per annum over 2017, 2018 and 2019. Weighing on the South Australian economy is the closure of the Holden manufacturing plant. However, infrastructure spending has been increased and ongoing defence spending is a positive for the economy as well as the support the weaker AUD provides for the agricultural sector. Key risks for the state include further slowing in the manufacturing sector as well ongoing commodity price weakness.

WESTERN AUSTRALIA

The Western Australia economy is expected to be at or near its low point in this cycle. The winding down of the construction phase of the mining boom, combined with weaker commodity prices has resulted in lower consumer confidence and reduced economic growth. Growth is expected to begin to improve from 2017 with Deloitte Access Economics forecasting real GDP growth to average 1.8% per annum over 2017, 2018 and 2019. While this is an improvement from the 2016 low, it is considerably lower than the 5.1% per annum average of the previous 10 years. Growth is expected to be driven by the export phase of the commodity boom along with improved industrial production and increased tourism from the weaker Australian dollar as well as relatively strong population growth. Key risks include weaker than expected Chinese growth and ongoing commodity price weakness.

Busselton Jetty, Western Australia

Sydney City

COMMERCIAL PROPERTY MARKETS

The value of institution grade Australian commercial real estate (CRE) market in 2016 was estimated to be around $743 billion.

AUSTRALIAN COMMERCIAL REAL ESTATE
WAS ESTIMATED TO BE
$743 BILLION IN 2016

MARKET SNAPSHOT

OFFICE MARKET SIZE AND STRUCTURE

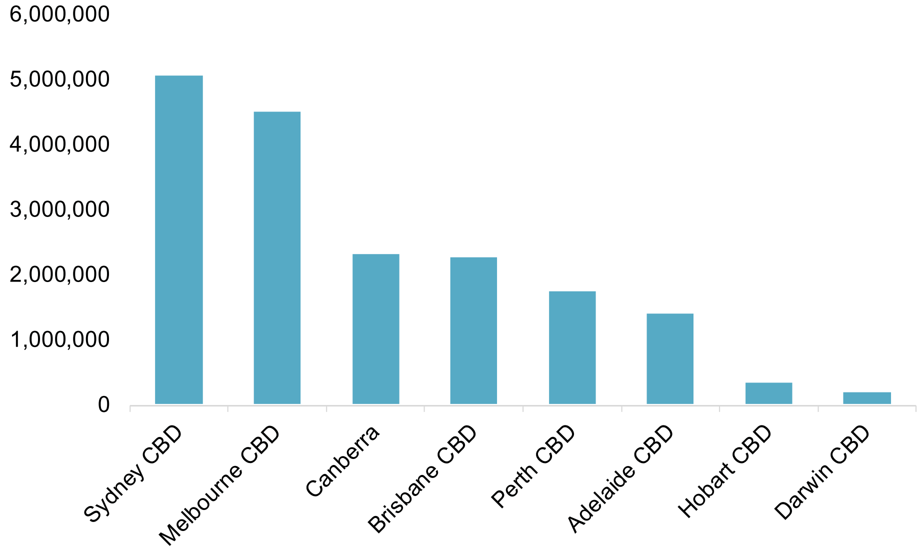
The Australian office market totals approximately 25 million sq m of floor space or gross lettable area (GLA). Most stock, about 18 million sq m is situated in the capital city CBD markets with the remainder, around 7 million sq m, outside the CBDs.

VACANCY

Vacancy rates in Australia's CBD office markets have tended to reflect state economic growth. Stronger demand for space and generally lower vacancy rates in the service sector driven states of New South Wales (Sydney) and Victoria (Melbourne) and higher vacancy rates in the markets dominated by resources, namely Brisbane, Perth and Darwin. Canberra in the Australian Capital Territory is dominated by federal government uses and is experiencing elevated, though declining, vacancy as a result of cuts to the federal public service in the recent past.

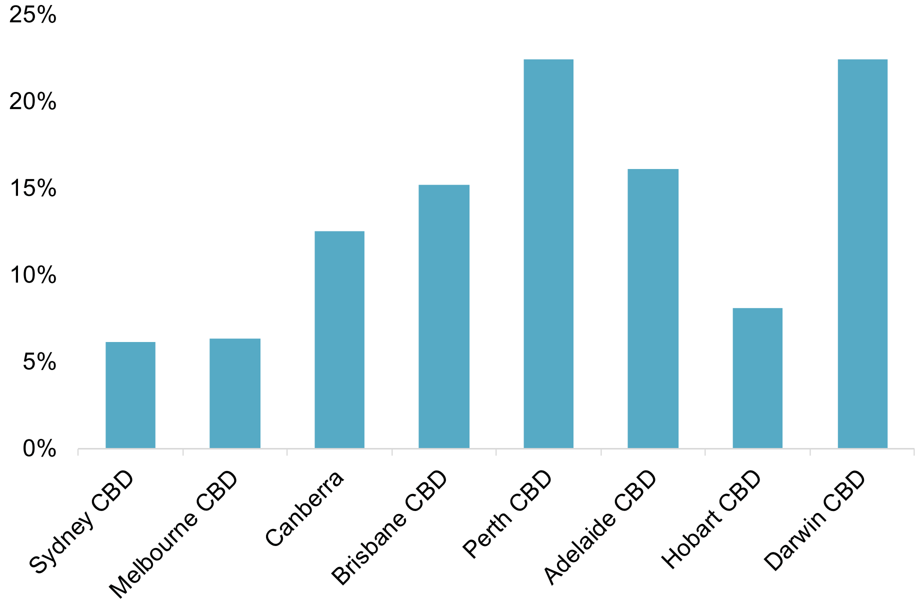
AUSTRALIAN OFFICE MARKET TOTALS APPROX
25 MILLION SQ M
OF FLOOR SPACE

FIGURE 8: Capital city CBD office market stock (sq m)



SOURCE: PCA (December 2016); Cushman & Wakefield Research

FIGURE 9: Capital city CBD office vacancy rate



SOURCE: PCA (December 2016); Cushman & Wakefield Research

MAJOR MARKET SUMMARY

SYDNEY

17,964 sq m 12 month Net Absorption

6.2% Vacancy

$894/sqm Gross Effective Rent

22% Incentive

MELBOURNE

117,253 sq m 12 month Net Absorption

6.4% Vacancy

$503/sqm Gross Effective Rent

24% Incentive

BRISBANE

94,601 sq m 12month Net Absorption

15.3% Vacancy

$444/sqm Gross Effective Rent

36% Incentive

PERTH

-29,245 sq m 12 month Net Absorption

22.5% Vacancy

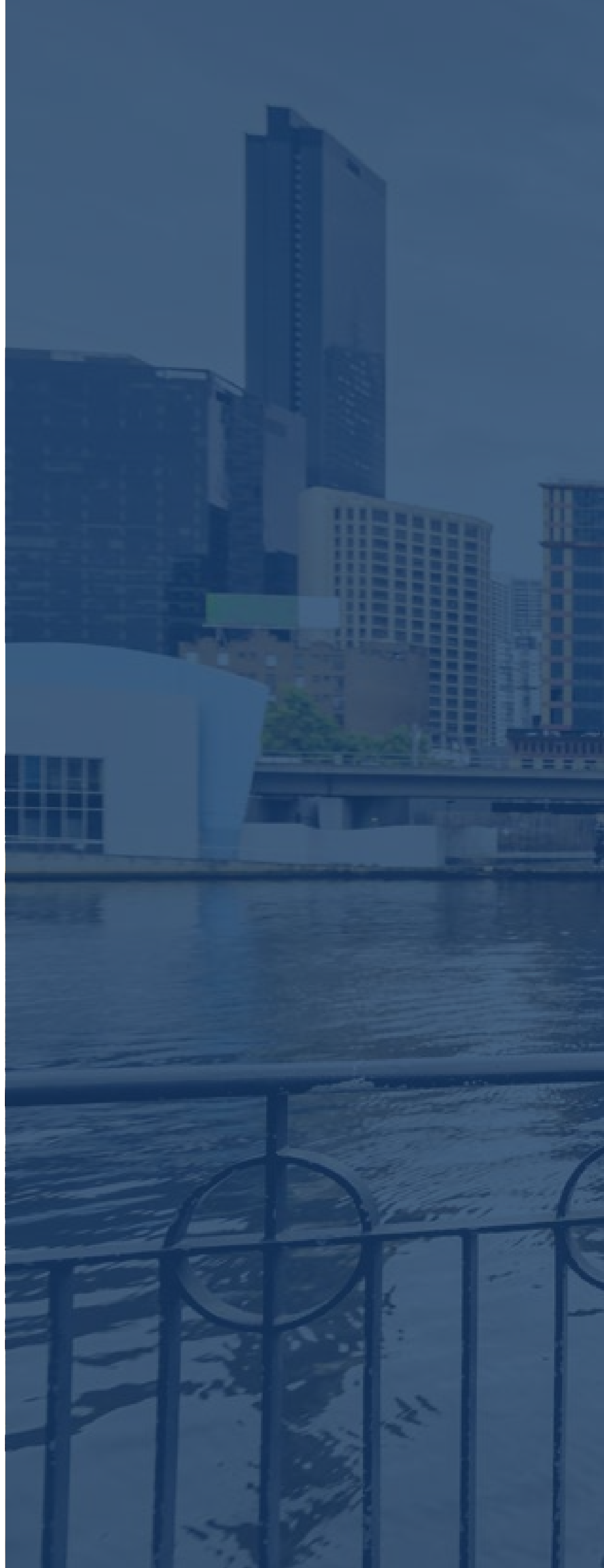
$400/sqm Gross Effective Rent

45% Incentive

SOURCE: Cushman & Wakefield; PCA (end December 2016)

SYDNEY OFFICE MARKET

The Sydney CBD office market is currently experiencing its strongest tenant demand since pre-GFC. The strength of the NSW economy combined with stock withdrawals for residential and hotel developments as well as construction of the Sydney Metro has led to a shortage of non-premium CBD floor space, where vacancy rates are at or near record lows. Total market vacancy has tightened significantly to 6.2%. The decline in vacancy has driven solid face rent growth as well as a decline in incentives. Cushman & Wakefield Research data indicate Prime gross effective rent rose by 20% over the 12 months to December 2016 to $894 per sqm per annum. With limited new supply until 2020, vacancy is expected to fall below 3% and drive strong rental growth until the next supply cycle post 2020.



MELBOURNE OFFICE MARKET

The Melbourne CBD office market is also experiencing declining vacancy on positive net absorption and limited supply. Total market vacancy fell to 6.4% in December 2016 after peaking at 9.8% in 2013. The decline in available space has underpinned modest growth in prime gross effective rents, which rose by 1.4% quarter-on-quarter, to $503 per sq m per annum in Q3 below 8.4% year-on-year. Looking ahead, robust demand for CBD stock coupled with restricted supply will place upward pressure on effective rents.

BRISBANE OFFICE MARKET

The Brisbane CBD office market appears to be stabilising after several years of rising vacancy and falling rents. Subdued demand in the Queensland economy as the commodity boom wound down has resulted in negative net absorption, which combined with new supply has caused vacancy to rise to 15.3% at December 2016. Incentives have risen with vacancy, Prime gross incentives are now circa 37% after being near zero in 2008. With the supply pipeline slowing and a moderate improvement in economic growth expected, vacancy should now begin to stabilise and decline. However, significant rental growth is not expected in the near term.

RETAIL MARKET SNAPSHOT

There are approximately 1,600 shopping centres across Australia, with a gross lettable retail area (GLAR) of more than 24 million sq m. Centres are usually categorised by their size and tenant mix, with most centres either regional (including super and major regionals), sub-regional or neighbourhood.

The larger regional centres dominate total floor space with a GLAR of over 9 million sq m compared to neighbourhood centres with a GLAR of nearly 5 million sq m. Neighbourhood centres are more numerous with over 920 centres compared to around 145 regional centres.

Yarra River, Melbourne CBD

Ownership of regional centres is dominated by institutions with ownership more diversified amongst the smaller centres. For example, AREITs Scentre and Vicinity own around 115 centres, predominantly regionals or sub-regional centres, with a total GLAR of about 6 million sq m.

Total shopping centre space for Australian regional, sub-regional and neighbourhood centres is about 0.35 sq m per capita. The equivalent ratio in the US is about 1.25 sq m, indicating the US has more than two and a half times more retail space per capita than Australia. The main categories of shopping centres, as defined by the Property Council of Australia, include:

SUPER REGIONAL CENTRE

The largest shopping centres in Australia, typically incorporating two full line department stores, one or more full line discount department stores, two supermarkets and over 250 specialty shops. Total gross lettable area retail exceeds 85,000 sq m.

MAJOR REGIONAL CENTRE

A major shopping centre typically incorporating at least one full line department store, one or more full line discount department stores, one or more supermarkets and around 150 specialty shops. Total gross lettable area retail generally ranges between 50,000 and 85,000 sq m.

REGIONAL CENTRE

A regional shopping centre typically incorporates one full line department store, a full line discount department store, one or more supermarkets and around 100 or more specialty shops. Total gross lettable area retail typically ranges between 30,000 and 50,000 sq m.

Pitt Street Mall, Sydney

SUB REGIONAL CENTRE

A medium sized shopping centre typically incorporating at least one full line discount department store, a major supermarket and around 40 or more specialty shops. Total gross lettable area retail will typically range between 10,000 and 30,000 sq m.

NEIGHBOURHOOD CENTRE

A local shopping centre comprising a supermarket and up to around 35 specialty shops. Total gross lettable area retail will typically be less than 10,000 sq m.

CITY CENTRE

Retail premises within an arcade or mall development owned by one company, firm or person and promoted as an entity within a major Central Business District. Total gross lettable area retail exceeds 1,000 sq m.

BULKY GOODS

A medium to large sized shopping centre dominated by bulky goods retailers (furniture, white goods and other homewares), occupying large areas to display merchandise. Typically contain a small number of specialty shops. Generally greater than 5,000 sq m (GLAR) in size.

OUTLET CENTRE

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

THE U.S. HAS MORE THAN

$2\frac{1}{2}$x MORE RETAIL SPACE
PER CAPITA THAN AUSTRALIA

TABLE 3: Number of retail centres by category

CLASSIFICATION	2015
City Centre	153
Super Regional	26
Major Regional	50
Regional	53
Sub Regional	273
Neighbourhood	969
Large Format Retail*	534
Themed	17
Market	6
Outlet Centre	13
Other Retail	39
Freestanding	50
TOTAL	**2,183**

TABLE 4: GLA of retail centre by category (sqm)

CLASSIFICATION	2015
City Centre	1,181,651
Super Regional	2,655,583
Major Regional	3,060,975
Regional	2,066,187
Sub Regional	4,847,806
Neighbourhood	4,480,122
Large Format Retail*	7,810,264
Themed	140,792
Market	44,930
Outlet Centre	345,062
Other Retail	202,092
Freestanding	202,474
TOTAL	**27,037,938**

*Includes freestanding LFR (Bunnings, Masters, IKEA)

SOURCE: PCA; Cushman & Wakefield Research

TABLE 5: Capitalisation rate ranges[1] by retail centre categories

	METROPOLITAN		REGIONAL	
Centre Cap Rates	**RANGE**	**AVERAGE**	**RANGE**	**AVERAGE**
City Centre	4.50% - 6.50%	5.40%		
Super Regional	4.75% - 6.25%	5.50%	5.75% - 5.75%	5.75%
Major Regional	5.25% - 6.75%	6.00%	5.75% - 6.25%	6.05%
Regional	5.75% - 7.00%	6.20%	5.75% - 7.75%	6.35%
Sub Regional	5.75% - 7.25%	6.55%	5.75% - 8.50%	7.10%
Neighbourhood	6.00% - 8.50%	6.85%	6.25% - 8.50%	7.20%
Outlet	6.00% - 7.75%	6.85%		

Based on A-REIT cap rates for 296 Centres with GLA of approximately 9 million sq m from 2015 and 2016 reporting.

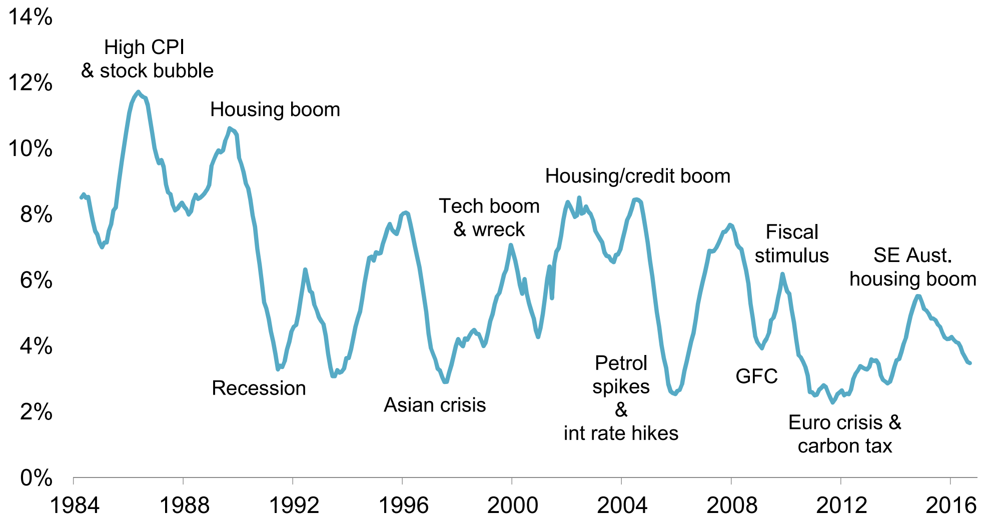
SOURCE: Company reports; Cushman & Wakefield Research

AUSTRALIAN RETAIL TRADE

Over the 12 months to September 2016, retail sales Moving Annual Turnover (MAT) has grown by 3.5%, below the long-term average (being the low inflation period from 1993) of 5.2% pa. The rate of growth has been limited by sub-trend income and economic growth.

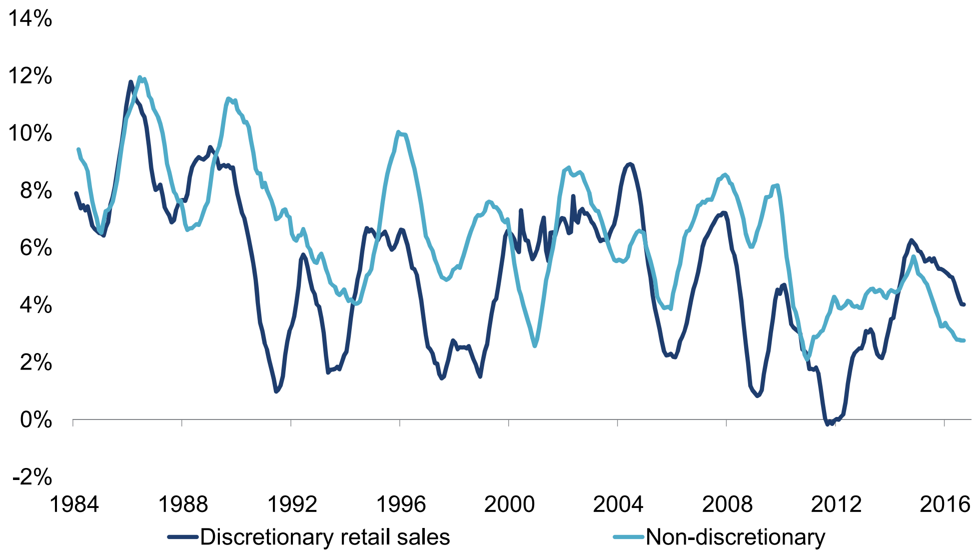
Discretionary sales growth is solid but a little below average, supported by the housing boom in South Eastern Australia. Non-discretionary or food growth has slowed, mainly due to supermarket pricing competition.

FIGURE 10: National retail sales growth



SOURCE: ABS; Cushman & Wakefield Research

FIGURE 11: Discretionary versus non-discretionary retail sales growth



SOURCE: ABS; Cushman & Wakefield Research

TABLE 6: Moving annual turnover growth by expenditure category, as at September 2016

BY CATEGORY	FOOD	H'HOLD GOODS	CLOTH & FOOT	DEPT STORES	OTHER	CAFÉS ETC	TOTA	DISCRET	NON-DISCRET	ONLINE*
Total MAT (AUD bn)	120	52	23	19	41	41	296	176	120	21
% total	40.0%	18.0%	8.0%	6.0%	14.0%	14.0%	100.0%	60.0%	40.0%	7%
QoQ %	0.7%	0.6%	1.5%	-0.5%	0.7	1.4%	0.7%	0.8%	0.7%	NA
HoH %	1.2%	1.3%	2.9%	0.5%	1.8%	2.1%	1.5%	1.8%	1.2%	NA
YoY %	2.8%	4.2%	5.7%	2.6%	3.8%	3.5%	3.5%	4.0%	2.8%	11.9%
20-year average	6.0%	5.0%	4.6%	2.6%	5.0%	6.3%	5.3%	4.8%	6.0%	NA

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

TABLE 7: Moving annual turnover growth by State and Territory, as at September 2016

BY CATEGORY	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	AUST
Total MAT (AUD bn)	96	75	60	19	34	6	3	5	298
% total	32%	25%	20%	7%	11%	2%	1%	2%	100%
QoQ %	0.9%	0.7%	0.7%	1.1%	0.0%	1.1%	-0.2%	1.6%	0.7%
HoH %	2.0%	1.8%	0.1%	2.0%	0.3%	2.3%	-0.1%	2.9%	1.5%
YoY %	4.3%	4.5%	2.2%	3.6%	0.9%	4.6%	0.8%	5.7%	3.5%
20-year average	4.7%	5.4%	6.3%	4.9%	6.0%	4.1%	5.7%	4.9%	5.3%

SOURCE: ABS; NAB; Cushman & Wakefield Research

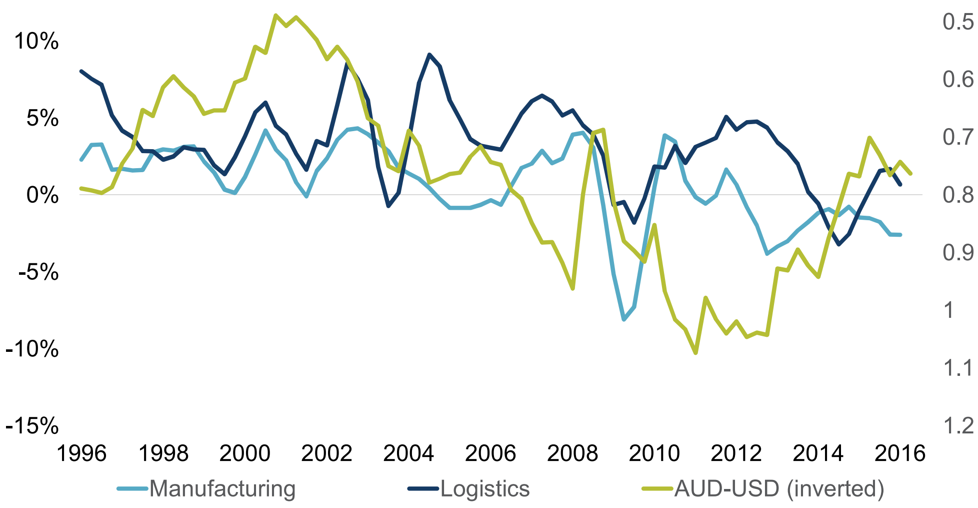
Sales growth trends by state have been similar to economic growth. In recent years, service-based states (NSW, VIC, SA, TAS and ACT) have had stronger sales growth. Over the past 10 years, the mining boom saw strong sales growth in the resource-based states (QLD, WA and NT) to outperform.

INDUSTRIAL MARKET SNAPSHOT

Australia's industrial sector is undergoing transition away from traditional manufacturing, towards increasing logistics and warehousing usage. There have been several reasons for the decline in manufacturing, but some of the main drivers derive from increasing production costs through labour costs and a strengthening AUD, as well as increased competition from low cost producers such as China. A clear example has been the closure of car manufacturing in Australia by Holden, Ford and Toyota over the 2016-2017 period.

Logistics - Import & Export

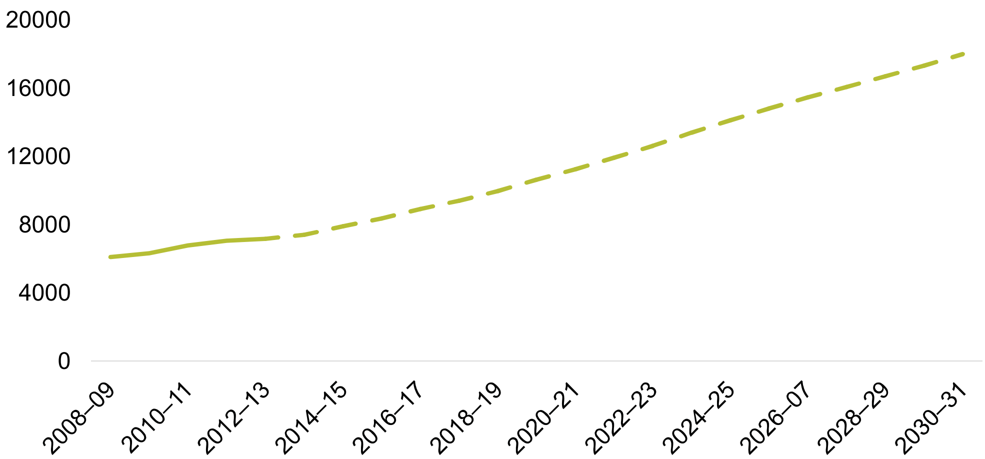
FIGURE 12: Manufacturing, Logistics GVA growth (YOY) against AUD-USD



SOURCE: ABS; NAB; Cushman & Wakefield Research

The transition towards logistics and warehousing, not least due in part to the rise of internet retailing as well as recent strength in the housing sector driving imports, has coincided with an increase in containerised trade port movements. As the national population continues to increase and real income increases, port movement is expected to continue on an upward trend.

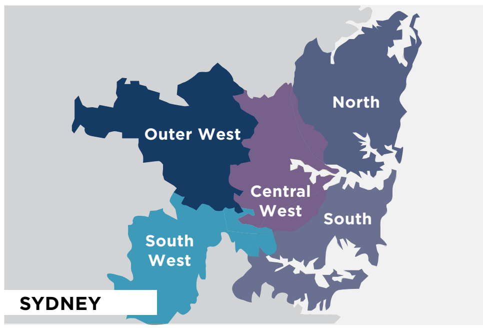
FIGURE 13: Import and Export containerised trade port movements, 1995-2030

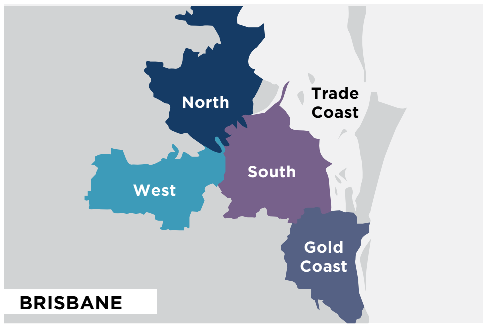


SOURCE: BITRE; Cushman & Wakefield Research

These macro trends, together with the recent residential construction boom have shaped industrial markets "on the ground". As the residential construction boom has gathered momentum, developers have targeted near city sites in former industrial areas to promote gentrification and urban renewal. This residential encroachment has started to drive industrial users away from these near city areas to dedicated industrial precincts towards the outer edges of Australia's major cities, not least due to the conflict of uses but also the financial tax impost resulting from increasing land values.

At the same time, the growth of logistics and warehousing has driven the need for ever greater sites to create positive economies of scale. Again this has been a driver of industrial tenants moving to larger sites on the outer edges of cities. Equally the need to be near high quality (multi-nodal) transport infrastructure and away from the congestion found nearer the city has also been an influencing force. As a result, the growth of inter-modal terminals (IMTs) is an increasingly conspicuous aspect of Australia's industrial landscape.





MAJOR MARKET SUMMARY

SYDNEY

Prime Net Face Rents:
< 4,000 sq m: $105-$190 sq m
> 4,000 sq m: $105-$169 sq m
Market Capitalisation Rate: 7.1%

MELBOURNE

Prime Net Face Rents:
< 4,000 sq m: $78-$85 sq m
> 4,000 sq m: $73-$80 sq m
Market Capitalisation Rate: 7.0%

BRISBANE

Prime Net Face Rents:
< 4,000 sq m: $110-$130 sq m
> 4,000 sq m: $104-$115 sq m
Market Capitalisation Rate: 7.3%

SOURCE: Cushman & Wakefield Research; (September 2016)

SYDNEY INDUSTRIAL MARKET

The Sydney industrial market is relatively diverse with wide variations in rents across its five submarkets. Infrastructure projects are shaping supply-demand dynamics across the submarkets, with compulsory land resumptions withdrawing stock, but new infrastructure opening up new precincts. South Sydney has seen significant stock withdrawal for residential conversion as well as new transport infrastructure, which has tightened vacancy greatly and pushed up rents. South Sydney is now experiencing average prime gross face rents between $170 and $190 sq m. This is close to double the $105 sq m being achieved in the South West

MELBOURNE INDUSTRIAL MARKET

Melbourne's four industrial precincts (North, East, South East and West) are all experiencing positive tenant demand. Rents are generally lower in the West, where there is a greater supply of developable land. As such, they are circa $75 sq m (net face) for prime grade space and approximately $58 sq m for secondary space. In other precincts rents average circa $58-$80 sq m. Moving closer to the city, rents increase, especially for city fringe locations. Underlying fundamentals are expected to remain robust over the near term, leading to ongoing tenant demand.

BRISBANE INDUSTRIAL MARKET

Transport and logistics users are the strongest contributors to leasing demand across Brisbane industrial market. With the exception of the Trade Coast, key rents remain comparable across precincts at circa $115 sq m net face. Trade Coast prime net face rents average $130 sq m for assets <4,000 sq m, approximately $10-$20 sq m more than being achieved elsewhere due to its close proximity to the CBD and a range of transport infrastructure. Tenant demand is expected to recover in line with State economic growth. Land sales are expected to be led by the South and West markets, which feature an array of land development opportunities.

Brisbane Skyline

INVESTMENT MARKET

YIELDS

TABLE 8: Average investment yields by grade and sector

	OFFICE	RETAIL	INDUSTRIAL
Prime	6.1%	5.6%	7.1%
Secondary	7.1%	6.3%	7.6%

SOURCE: IPD; Cushman & Wakefield Research

RISK AND RETURN

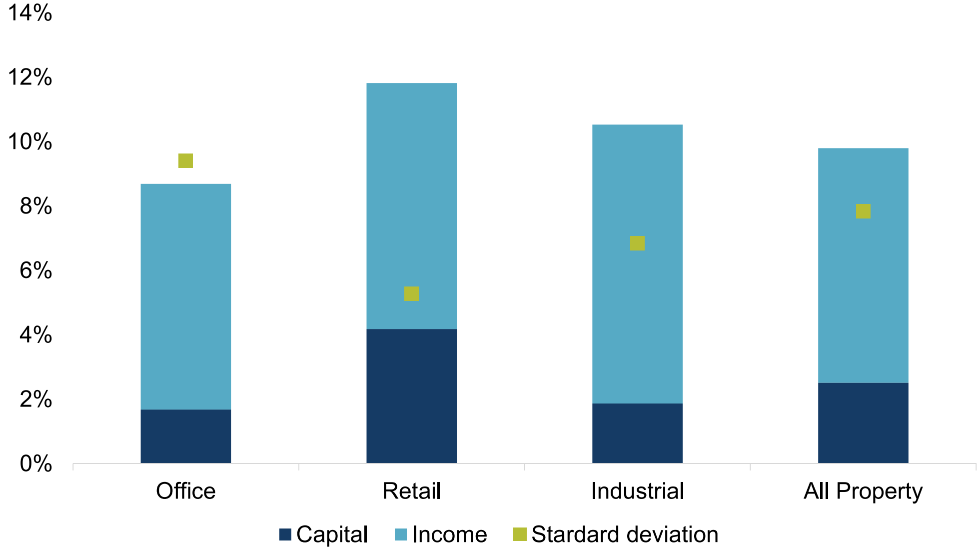
Australian property markets for the past few decades have generally provided solid returns with limited volatility. MSCI data indicate the 'All Property' average annual total return was 10.0% between December 1984 and June 2016. Over the same period, the office sector's total return averaged, 9.1% pa, retail 12.1% and industrial 10.7%. The office sector has a slightly lower overall return as it suffered more during the 1991 recession and GFC than the retail and, to a lesser extent, industrial property. The standard deviation of annual returns of the All Property Index between December 1984 and June 2016 was 7.8% with the standard deviation of annual returns for the office sector 9.4% pa, retail 5.3%% and industrial 6.8%.

RETURN OUTLOOK

Australian commercial property yields are approaching historic lows. In absolute terms, this suggests the market could be near a peak. However, there are a number of factors to suggest yields could compress a little further in the short to medium term. Compared to both fixed interest markets and many international markets, Australian commercial property appears relatively good value. Figure 16 indicates that income returns currently appear relatively good value when compared to risk free alternatives such as government bonds.

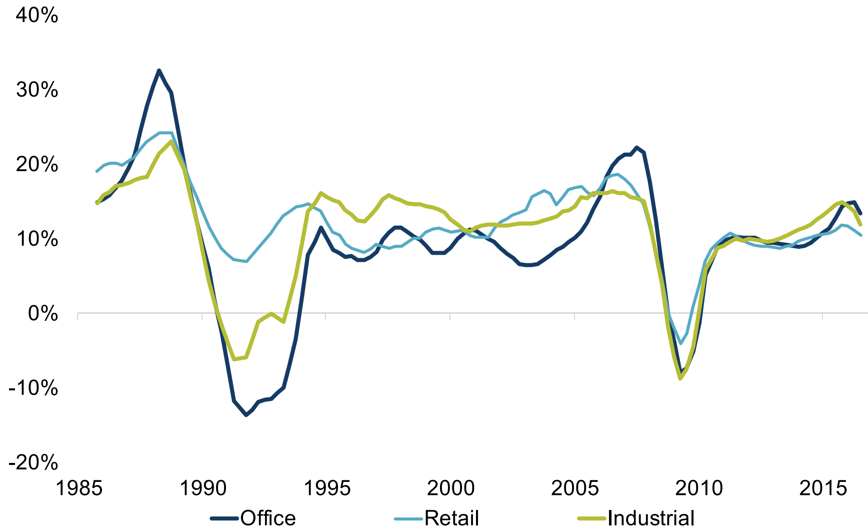
Australian CRE yields are relatively high when compared to other countries (Figure 17), and should continue to attract investor interest from around the world.

FIGURE 14: Australian commercial property average total return and standard deviation by sector



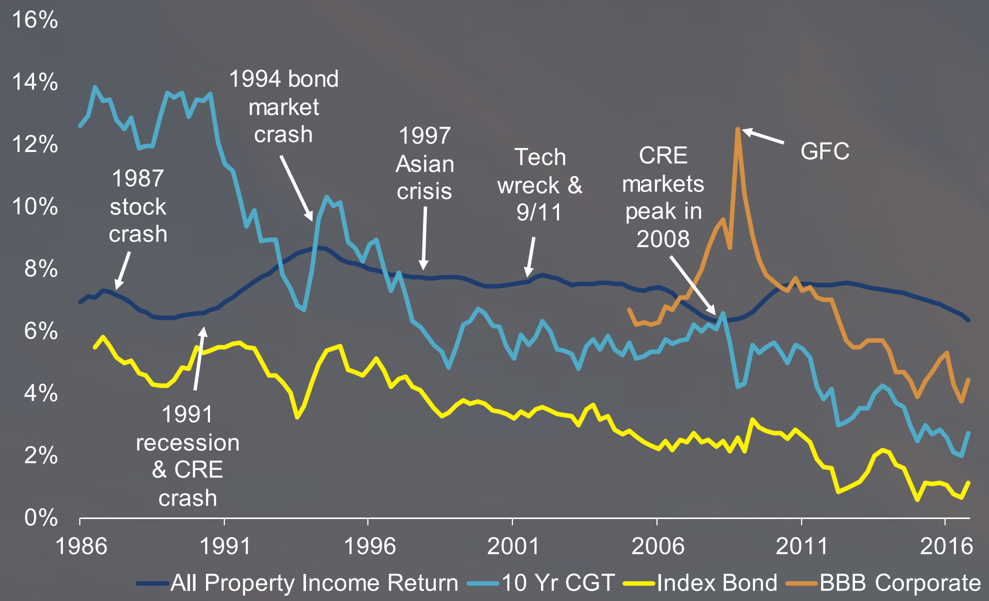
SOURCE: IPD; Cushman & Wakefield Research

FIGURE 15: Australian commercial property annual total return by sector



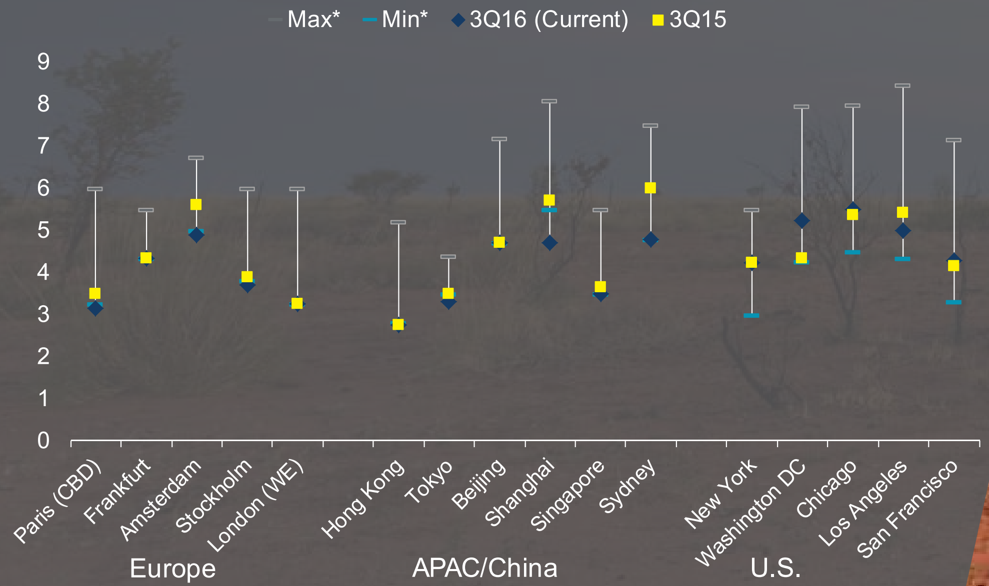
SOURCE: IPD; Cushman & Wakefield Research

FIGURE 16: All property income return, 10 year CGT[1] and index bond yields



SOURCE: IPD; RBA; Cushman & Wakefield Research 1: Commonwealth Government Treasuries

FIGURE 17: Prime office capitalisation rates



SOURCE: Real Capital Analytics; Cushman & Wakefield Research

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