



TRENDS IN MELBOURNE 2019

Welcome to The Commercial Property
Cashflow Webinar

TRENDS IN MELBOURNE 2019 – RESIDENTIAL MARKET

- Generally in declining growth for residential property across Melbourne- 7% fall in prices in 2018 (Just below Sydney's 8.9% decrease *)
- However there's still a strong interest in Melbourne property, over Sydney and Singapore (*Most potential development and investment in Asia-Pacific*)
- *Melbourne's tight office supply pipeline is a major factor for strong investor interest. ***
- *Office vacancies have dropped and could inspire an increase in rents ***
- * Core Logic's Hedonic Home Value Index- Jan 2019
- ** Your Investment Property Magazine Australia

A modern office building with a large glass facade reflecting the sky and trees. The building has a white base and a glass upper section. The address number 15120 is visible on the white part of the building. There are some bushes and a parking lot in the foreground.

TRENDS IN MELBOURNE 2019

15120

Offices

TRENDS IN MELBOURNE 2019 – OFFICE

- Growth in Melbourne will slow due to increased supply and softer demand amidst the slowing economy. ***
- Over the next few years the national supply pipeline is ramping up: net supply over 2019-20 will total 744,000sqm. ***
- The Melbourne CBD will account for 54% (399,000sqm) of growth, and in conjunction with our view of slower economic growth and softer tenant demand for 2019-20, we expect vacancy will rise and net effective rents will start to fall ***.
- We forecast Melbourne CBD vacancy will bottom at 3.1% in 2019 and then peak at 9.3% in 2022. ***
- *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

TRENDS IN MELBOURNE 2019 – OFFICE

- Personal insights...
- Yields for Melbourne CBD offices were averaging at 9%- 10% yields about 2 1/2 to 3 years ago
- Now they are averaging about 7% to 8% yields, so market yields are tightening and values are increasing
- Reports....
- <http://www.cushmanwakefield.com.au/en-gb/research-and-insight/2018/office-leasing-trends-and-outlook-2019> & <http://www.cushmanwakefield.com.au/en-gb/research-and-insight/australia/melbourne-office-snapshot> & https://f.datasrvr.com/fr1/218/93461/2019_Trends_and_Outlook_Report_web.pdf

TRENDS IN MELBOURNE 2019 – OFFICE

- Personal insights...
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TRENDS IN MELBOURNE 2019 – OFFICE – JUNE 2017



June 2017 Yield 8.28%

| Unit | Area sqm | Price (Ex GST) | Income | Yield | Comments |
|------------------|----------|----------------|--------|-------|---------------------|
| Level 6 Suite 09 | 58 | \$189,600 | | 0 | Tenanted Investment |

GST – Unless stated otherwise, all dollar amounts stated are exclusive of GST.

Description

This quality tenanted office suite on offer in this fantastic building provides an incredible investment opportunity located in one of Melbourne's most active commercial precincts. Main features include:

Suite 609

- 58.2 sqm approximately
- Leased to The Council of Ambulance Authorities Incorporated
- 3 year lease expiring 10/10/18
- Returning \$15,700.00 per annum net at 1st April 2017
- Body corporate fees of \$7,421.60 per annum.

Location

Asia Pacific House at 434 St Kilda Road, Melbourne is centrally located in the popular St Kilda Road boulevard between Arthur Street and Kings Way.

TRENDS IN MELBOURNE 2019 – OFFICE – JULY 2017

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Listed July 2017

314/566 St Kilda Road, Melbourne VIC 3000

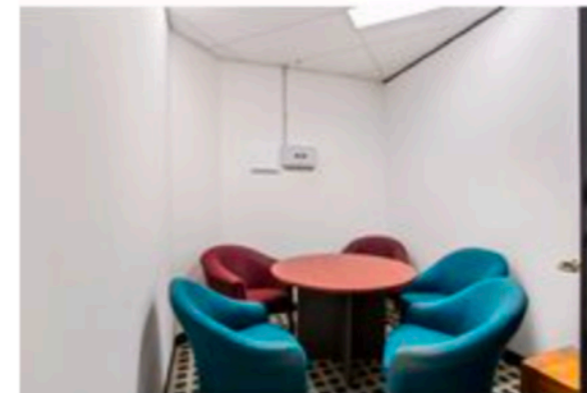
Currently lease to Migration Consultants Australia **-9.6%**

- Returning \$18,267.00* p/a plus GST and Outgoings with 3% fixed increases on the anniversary of the commencement date.
- 1 year lease from September 2015, with 3 additional 1 year options
- Total area 54.9m2*
- 2 tandem car spaces included
- Perfect for the first time investor or self-managed super fund
- Convenient location minutes away from CBD & Major arterials
- Building facilities include on-site gym, cafe, on-site car park, florists and gift store.
- Call now to inspect - you will not be disappointed!

Property history

Aug 2016 SOLD \$190k PRIVATE TREATY Sold by(agency unknown)

TRENDS IN MELBOURNE 2019 – OFFICE – FEB 2019



LEASE RENEWED ACT NOW LONG TERM SECURE INVESTMENT

Offices

909A/530 Little Collins Street, Melbourne, Vic 3000

Floor Area: 54 m²

Property Description

- TENANT RENEWED FOR 2 MORE YEARS!
- LONG LEASE TENANT!
- WELL SIZED SUITE!

- Long Secured Tenant - Same tenant since 2010
- Returning \$25,873 + GST + Outgoings
- 2 year lease from January 2019, with 2 options of 2 years
- 3% fixed annual increase
- Total area 53.9m²*
- Perfect for investors or self-managed super fund

For Sale

\$355,000

Sale by Negotiation

\$25,873/\$355,000 = 7.28% yield

15th Feb 2019

Additional Details

Tenure Type

Tenanted
Investment

TRENDS IN MELBOURNE 2019 – OFFICE

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- Reports....
- <http://www.cushmanwakefield.com.au/en-gb/research-and-insight/2018/office-leasing-trends-and-outlook-2019> & <http://www.cushmanwakefield.com.au/en-gb/research-and-insight/australia/melbourne-office-snapshot>

The screenshot displays the Cushman & Wakefield website interface. At the top, a browser address bar shows the URL www.cushmanwakefield.com.au/en-gb/research-and-insight. Below the address bar is a navigation menu with links: WHAT'S NEXT, SERVICES, SECTORS, RESEARCH & INSIGHT (highlighted), NEWS, CAREERS, and INVESTOR RELATIONS. A secondary navigation bar includes links for PROPERTY LISTINGS, PEOPLE FINDER, and OFFICES. The main content area features six featured articles in a 2x3 grid:

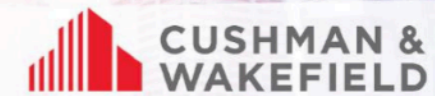
- Office Space** / 25 Jan 2019 / SYDNEY OFFICE SNAPSHOT
- Office Space** / 25 Jan 2019 / MELBOURNE OFFICE SNAPSHOT
- Office Space** / 25 Jan 2019 / BRISBANE OFFICE SNAPSHOT
- Trends Forecasting** / 14 Nov 2018 / THE PREPPED CITIES INDEX
- Trends Forecasting** / 28 Oct 2018 / OFFICE LEASING TRENDS AND OUTLOOK 2019
- Office Space** / 21 Sep 2018 / OPERATING IN THE OFFICE OF THE FUTURE

The website also includes a cookie use notification banner at the top, social media icons (Facebook, LinkedIn, Twitter, YouTube, Email), and a search icon.

TRENDS IN MELBOURNE 2019 – OFFICE CBD LARGE OFFICES

MELBOURNE CBD OFFICE

DECEMBER 2018



MARKETBEATS

\$445
Prime net effective
rents (per sqm p.a)

14%
A-Grade Net effective
rent annual increase

27%
Prime Net
Incentives

WHAT'S NEXT

HIGHLIGHTS

Numerous multi-floor leases cap a big year

In 2018, around 20 leases of ≥5,000 sqm were formalised. Demand came from both the public and private sectors, and was supported by lease expiries, strong business confidence and nation-leading state final demand and population growth. While many of these leases were precommitments for 2020, near-term demand for space has also been strong and is expected to stay that way in 2019, holding vacancy at 3-4%.

Double digit rent growth for 2018

All grades recorded rent growth in 2018. On a net effective basis Premium rents grew 6% year-on-year (YoY), A-Grade rents 14% YoY, and B-Grade rents 19% YoY. Historically, B-Grade net effective rents have been about 70% of Prime. Strong market conditions have prompted a narrowing of the spread with B-Grade net effective rents now over 80% of Prime, with both Prime and B-Grade net incentives around 27% to 28%.

Conditions to remain tight for 12-18mths

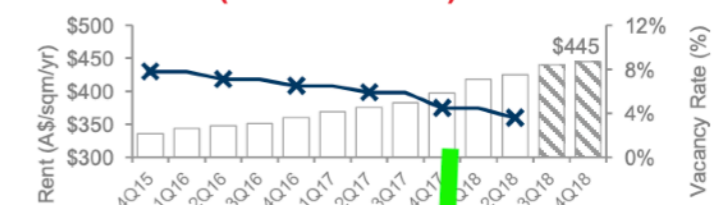
Despite 92,000 sqm of new additions in 2018 and 53,000 sqm set to be added in 2019, supply is not expected to eclipse demand for another 12-18 months. Through this period landlords will be motivated to secure tenants before the wave of major supply additions. Come 2020, and into early 2021, 450,000 sqm of new stock will reach completion, bringing occupiers more neutral market conditions.

ECONOMIC INDICATORS

| | Q2 18 | Q3 18 | 12-Month Forecast |
|----------------------------------|-------|-------|----------------------|
| GDP Growth (National)* | 2.8% | 2.8% | ■ |
| State Final Demand Growth (VIC)* | 4.6% | 4.4% | ▼ |
| Unemployment (VIC)† | 5.5% | 4.6% | ■ |

*Average annual growth rate, †Seasonally adjusted
Source: ABS; Deloitte Access Economics; Cushman & Wakefield Research

PRIME NET EFFECTIVE RENT, OVERALL VACANCY (6 MONTHLY)



Source: Cushman & Wakefield Research; PCA

SUPPLY PIPELINE



A Cushman & Wakefield
Research Publication

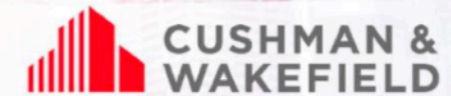
DATA
INTO
ACTION

www.cushmanwakefield.com

TRENDS IN MELBOURNE 2019 – OFFICE – FRINGE

MELBOURNE FRINGE

DECEMBER 2018



MARKETBEATS

5.1%

St Kilda Rd net effective rental growth (QoQ)

\$10

Increase in Southbank's net effective rents

4.9%

A-Grade total vacancy in St Kilda Rd (Jul-18)

WHAT'S
NEXT

HIGHLIGHTS

Landlords spending to attract tenants

Landlords in Melbourne's fringe office markets have been undertaking capital expenditure to aid in tenant attraction and retention. Upgrades have included end of trip facilities, lobbies, lifts and HVAC (Heating, Ventilation and Air-Conditioning). The upgrades have helped attract new tenants such as JB HiFi and Asahi and contributed to multiple renewals over past six months.

Rental increases across all precincts

A lack of choice across all precincts has given tenants little option but to renew their current leases. Vacancy in Melbourne's fringe is considerably low, with Southbank's precinct declining to a mere 2% (excluding vacancy in Convention Centre Way). As a result, rents in all precincts have increased, most noticeably in St Kilda Road where gross effective rents for A-Grade assets surged by \$16 per sqm over the past six months.

Rental growth likely to continue

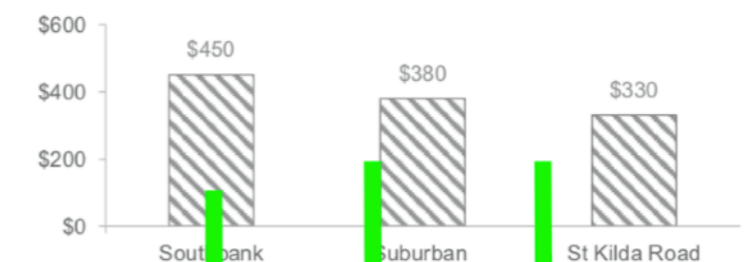
Demand and supply conditions suggest upward pressure on rents will continue in 2019. The Victorian economy is forecast to grow by a solid 3.1% in 2019 and contribute to ongoing demand for office space in Melbourne's office markets. Supply is likely to remain tight in the fringe with just over 36,000 sqm of new stock expected to complete next year.

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A-GRADE FRINGE NET EFFECTIVE RENTS



MELBOURNE FRINGE SUPPLY PIPELINE



Source: Cushman & Wakefield Research; PCA

A Cushman & Wakefield
Research Publication

DATA
INTO
ACTION

www.cushmanwakefield.com

A modern, multi-story commercial building with a large glass facade reflecting the sky and surrounding trees. The building has a white base and a glass upper section. The address number 15120 is visible on the white base. In the foreground, there are green bushes, a sidewalk, and a parking lot with some cars. The sky is blue with some clouds.

TRENDS IN MELBOURNE 2019

15120

Retail

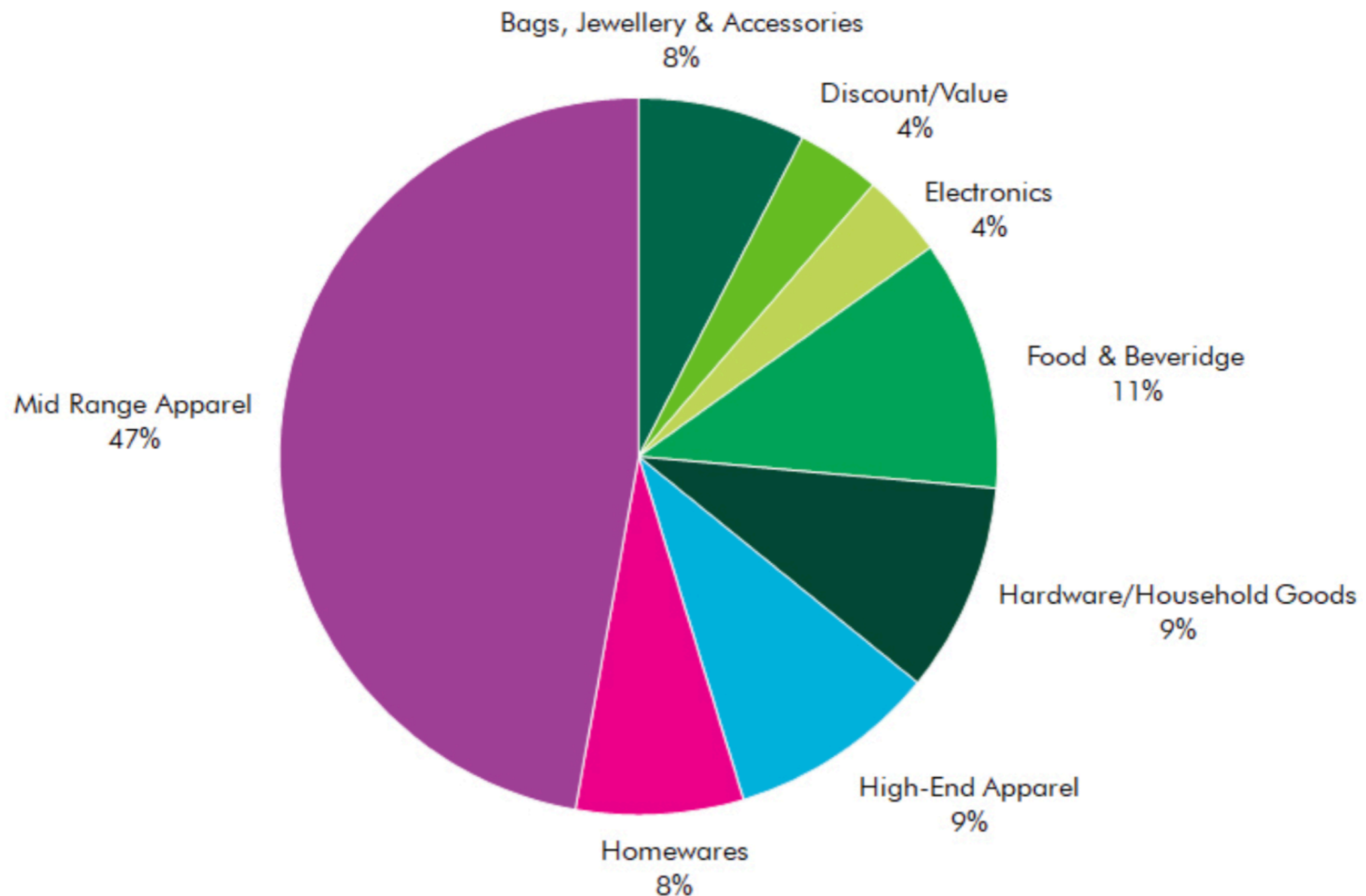
TRENDS IN MELBOURNE 2019 – RETAIL

- The retail environment is changing dramatically, transforming the way consumers shop and spend money, putting pressure on many retailers ***
- Cafes, restaurants and takeaway food maintained consistent growth throughout 2018, as consumers continue to spend healthily on leisure and experience-based retail such as dining out. ***
- However, spending in in restaurants & Cafes is slowing and will likely continue unless consumer confidence rebounds.***
- *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

TRENDS IN MELBOURNE 2019 – RETAIL

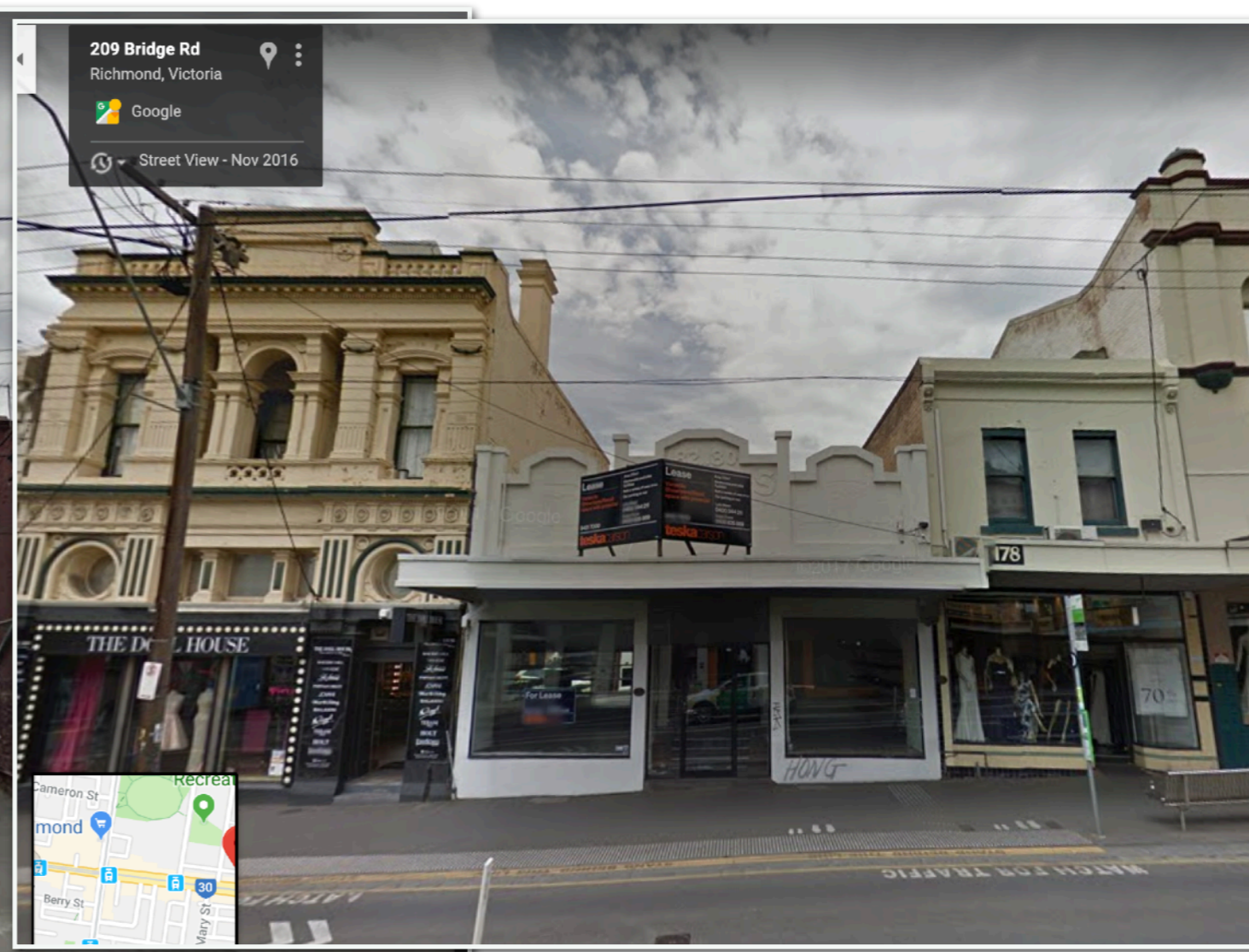
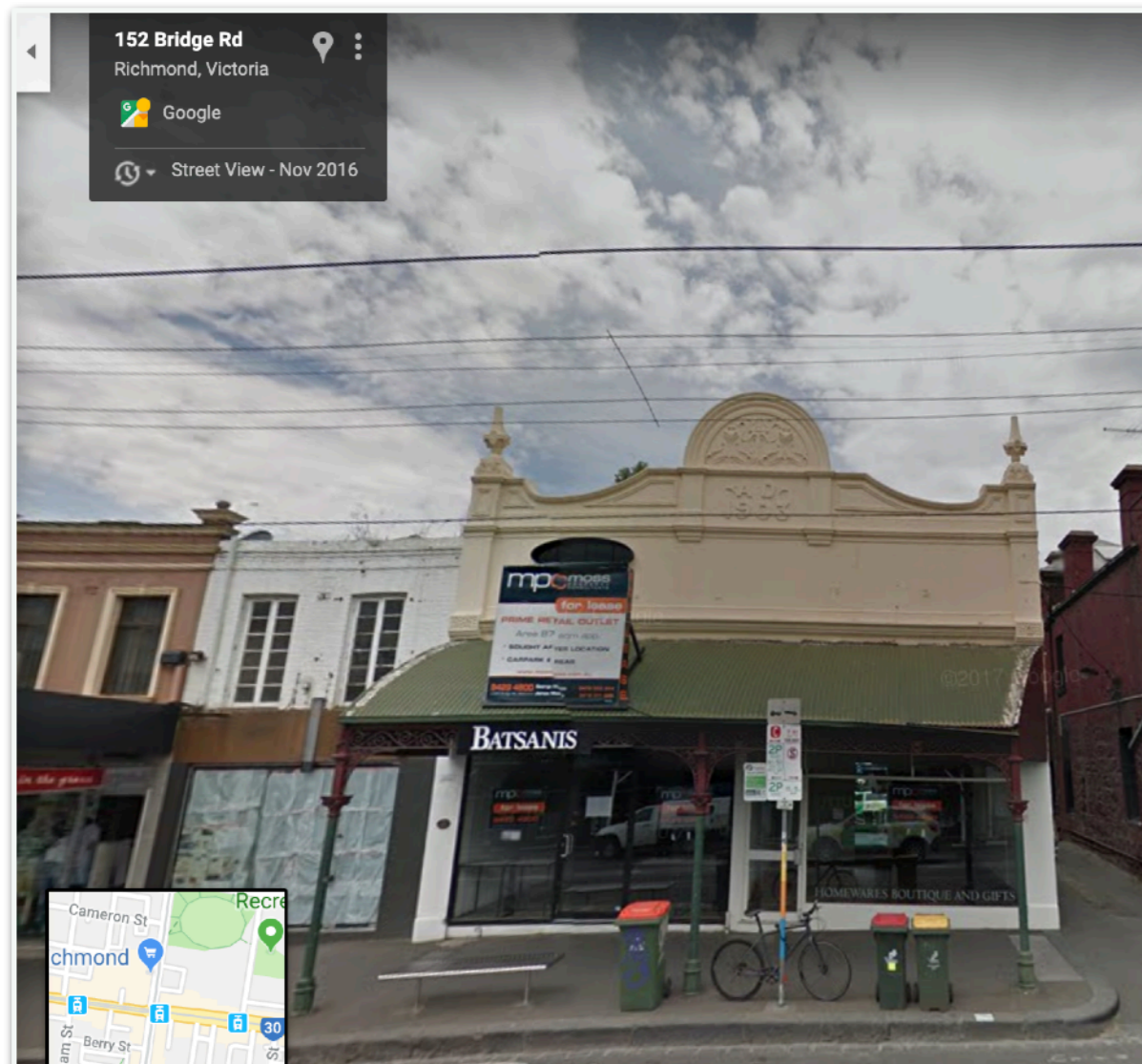
➤ *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

Figure 4: Insolvent retailers 2015 – 2018



TRENDS IN MELBOURNE 2019 – RETAIL

- Notably, traditional popular areas for retail shopping like Bridge Road & Swan street in Richmond, is showing signs of slow retail with many vacancies.. 2016 to 2018



TRENDS IN MELBOURNE 2019

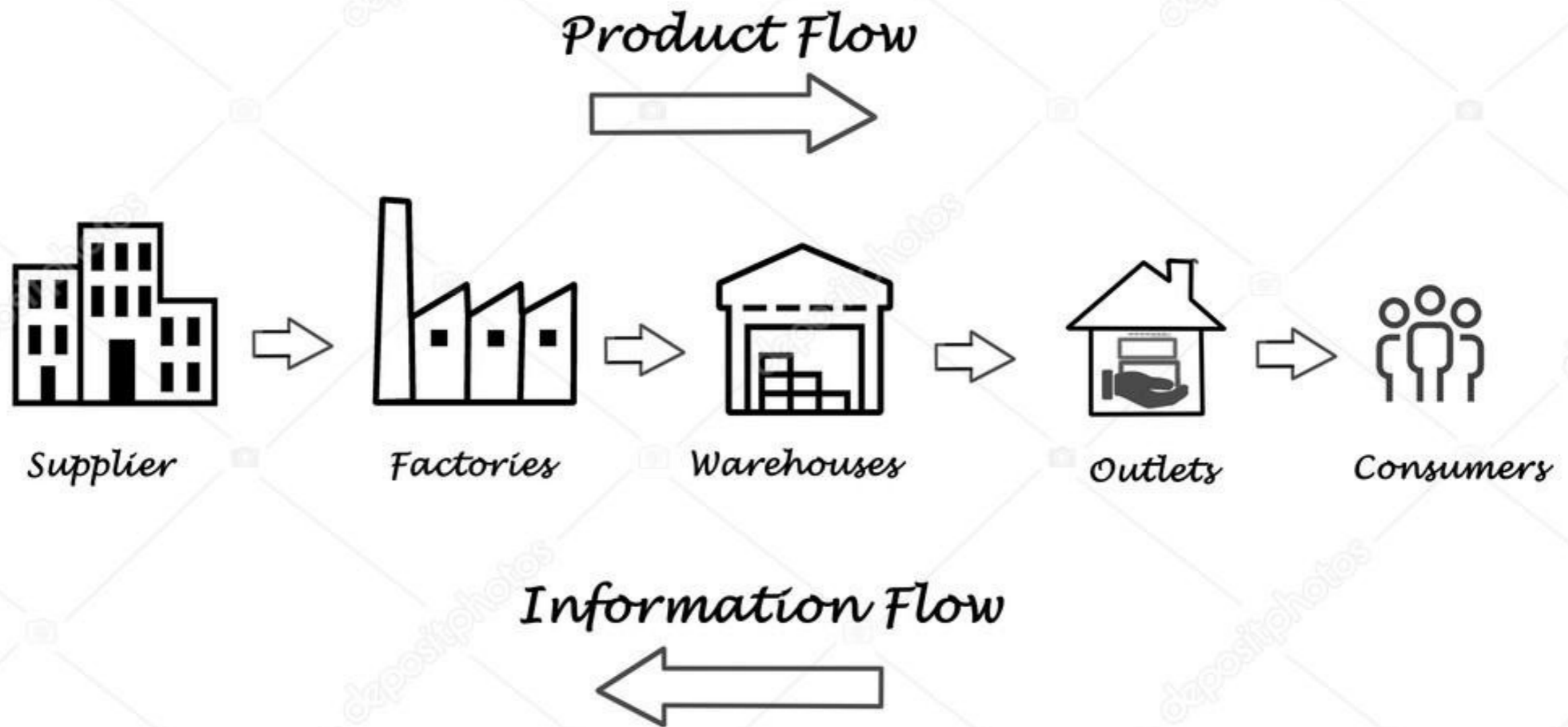
15120

Industrial

TRENDS IN MELBOURNE 2019 – INDUSTRIAL / WAREHOUSE

- Australia's industrial and logistics economy continues to perform strongly, with the rise of e-commerce, creating structural change, resulting in continued demand and growth in the industrial and logistics sector.***
- Yields compressed further in 2018, primarily driven by growth in land values. This was largely driven by super prime markets in Sydney and Melbourne ***
- As supply chain efficiency becomes increasingly important, location is increasingly important for warehousing.***
- *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

INDUSTRIAL / WAREHOUSE – SUPPLY CHAIN & LOGISTICS



INDUSTRIAL / WAREHOUSE – SUPPLY CHAIN & LOGISTICS

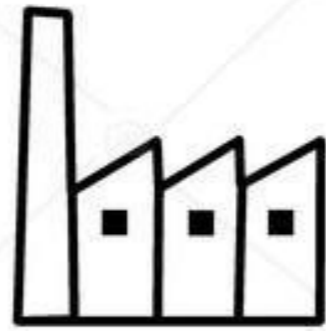
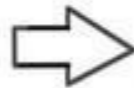
Product Flow



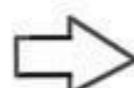
Retail Outlets are not required for e-commerce businesses- who can ship product directly form Warehouse to consumers



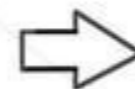
Supplier



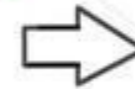
Factories



Warehouses



Outlets



Consumers

Information Flow



TRENDS IN MELBOURNE 2019 – INDUSTRIAL / WAREHOUSE

- Half of total supply chain costs come from transport, while just 5% comes from occupancy costs, showing the importance of locating an industrial and logistics asset in an optimum location with good access to suppliers and customers. ***
- Particularly Melbourne & Sydney, this land is located in close proximity to the ports and the city centre ***
- *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

TRENDS IN MELBOURNE 2019 – INDUSTRIAL / WAREHOUSE

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- CBRE expects that well located industrial areas with land availability constraints, such as the Port of Melbourne and South Sydney, will see proposals for multistorey warehouses in 2019.***
- Large scale multistorey development currently does not exist in Australia given the relatively cheap and plentiful availability of land, limiting the viability for developers to implement this type of asset.***
- Land values have now reached a level where multistorey developments will begin to become feasible and CBRE expects them to become a key part of Australia's industrial and logistics landscape.***
- CBRE has determined that e-commerce will create demand of an additional 350,000sqm of new industrial and logistics space in Australia each year until 2022.
- *** <https://www.cbre.com.au/research-reports/australia-real-estate-market-outlook-2019>

LEGAL RESOURCES FOR CONTRACTS AND DOCUMENTS

15120
Watch Helen's Demo

RESOURCE FOR LEASE DOCS AND CONTRACTS

- www.lawdepot.com as resource
- Contracts, leases, JV confidentiality etc..
- Plus Letter of intent - for a potential new tenant- then pass details onto your solicitor when tenant agrees and signs.
- Helen demonstrated in 2nd half of webinar
- Also rpemery.com.au as resource
- PS: in Buying Vacant property - there's a strategy to become a temporary tenant yourself, to avoid GST- plus refurbishment work to prepare the premise for new tenants Create a minimum 12 months lease- with a “get out of jail clause” like “Tenant gives notice 30 days etc to close business and vacate.”