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Charter Insight
Australia in 2050

October 2015
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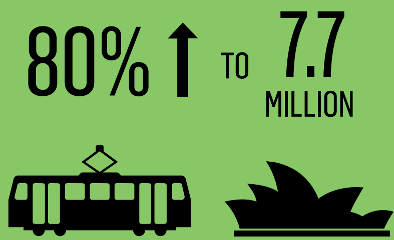
The number of people living in Australia is expected to jump 60% from 23.8 million today to nearly 38 million by 2050.

Sydney and Melbourne's populations are projected to explode by 80% to reach almost 7.7 million residents each.

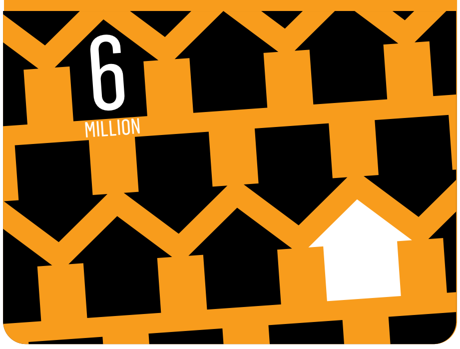


This means we will have to find the room and resources to accommodate 14 million residents by the middle of this century.

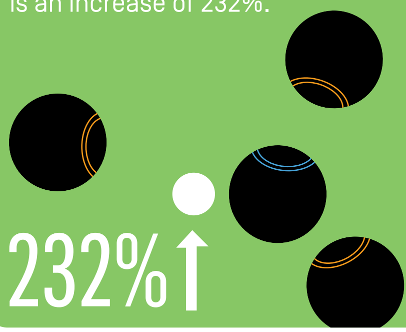
We need 20 million sq.m. more office space. That's equivalent to 220 more buildings the size of Chifley Tower.

We need 7 million sq.m. of retail space, which is proportionate to more than 54 Chadstone Shopping Centres.

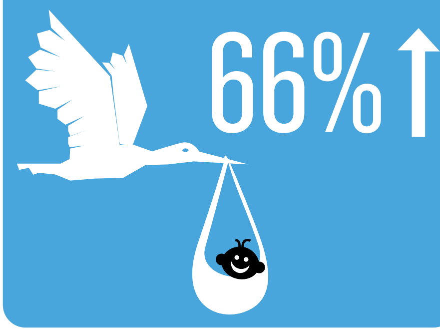
We need to build another 6 million additional homes in our cities.



Our retirement facilities will need to hold 610,000 more residents than they hold now in 2015, which is an increase of 232%.



And Child care facilities will need to increase their equivalent to capacity by 66%.



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WHAT IS YOUR OPPORTUNITY RIGHT NOW, AND HOW WILL THAT AFFECT WHAT YOU'RE DOING IN 2050?

Charter can show you the true value of your property portfolio and set clear strategies for growing your wealth.

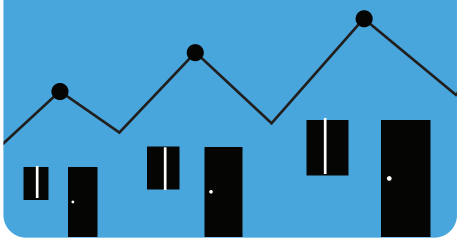
Charter can show you the true value of your property portfolio, and set clear strategies for growing your wealth.

Advisory

We can give you the insight you need to inform your property development and investment strategy.

Research

And the market intelligence you need to maximise returns.



Valuations

Our forensic approach identifies the real value of your property assets.

Projects

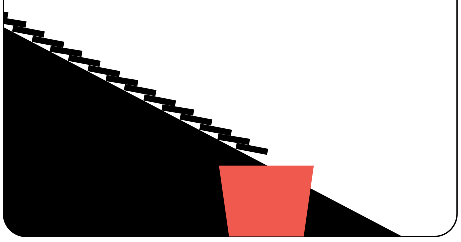
And we can manage the construction process from start to finish.

We are Australia's largest independent property advisory firm, with offices in Melbourne and Sydney.

AUSTRALIA'S LARGEST INDEPENDENT PROPERTY ADVISORY FIRM

The world is changing all the time, and only with a real understanding of how an event affects the other can you take advantage of the opportunities that exist.

Engaging the expertise at Charter will empower you to react to the changing world and how to take advantage of it.



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September 2015

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Our Changing World

With some super cities growing at a rate of 50 - 60 people per hour, sustainability is difficult to achieve at such an accelerated rate of urbanisation. Melbourne is experiencing its own growing pains at 12 people per hour (100,000 p.a.), as it marches towards a population of 7 - 8 million by 2050.

As Melbourne's self-appointed CEO for the next 5 minutes and I want to give you my vision for the city. I want to build brand Melbourne beyond its current global identity as the world's most livable city.

SUSTAINABILITY IS A COMPLEX SUBJECT...

Managing the scale of future growth in Australian cities in a sustainable way is truly unprecedented in the national context.

» Apartments in Melbourne represent 3.3% total housing stock (Sydney10.2% / Brisbane 2.9%).

» These figures compare to global cities with similar populations (Vancouver15% / Toronto 27%).

» By international standards this places Melbourne as a truly low density suburban city (underutilised). Melbourne is half the population of Greater London but we have a substantially larger real estate footprint.

» In order to sustainably manage our growth to 7 million by 2050, apartments as a percentage of housing stock will need to increase to at least 20%.

» Mobility is another key factor to the success of any city. In Melbourne the average annual commute is 22 days (massive financial and social cost). This unveils the compelling truth about the state of Melbourne's transport infrastructure.

» Melbourne and Sydney shouldn't be competing against each other, they should be competing globally for that coveted economic advantage.

» In relation to the five characteristics of successful cities we need to look for inspiration from some of the world's great cities (London, Paris, Barcelona etc).

Think about what you want Melbourne to look like in a 100 years, it will begin to open your mind to enormous challenges and spectacular opportunities. Think about this in the context of economic, social and environmental prosperity.

In the words of Professor Ricky Burdett from the London School of Economics (2013) *"Melbourne you are truly a beautiful city, can you remain so long term".*

Extracts from a speech by **PETER HUTCHINS**, Managing Director
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Scott Keck,
Executive Chairman,
Charter Keck Cramer

Opportunities Remain, Just The Challenges Are Now Different

Special report by Scott Keck, Executive Chairman, Charter Keck Cramer

Since our last Asian Executive magazine article, the same issues of a challenged economy, poor productivity and a rise in interest rates remain of concern as they may lead to a slowing of rental growth and a relaxation of yield compression. Notwithstanding, the "passion for ownership" of Australian property, especially from China, remains strong and a major market influence.

Values for commercial property have now moved beyond what can be supported by yield and growth fundamentals, taking annual returns (IRR) down to levels not previously recorded in Australian markets. We have a strong sense that this is peaking and may soon ease, the catalyst for which, also to be felt in the share market, will be the strengthening US economy and the certainty of a series of interest rate increases later this year, and, increasingly, unpredictable decisions from within China.

APRA and RBA desire to cool market.

Whilst residential may not be as interest rate sensitive, or yield responsive, APRA and RBA determination to cool that market by guidance to the finance sector, is already having effect through more stringent mortgage approvals. Investment loan interest rates are rising, greater deposit/equity is required, loan to value ratios are lowering and probably, there will

be further tightening measures. This must have impact the consequence being that what may be sobering in the residential sector, could overflow to sentiment across the broader markets. (Refer current Charter Insight: "Global Capital and Relative Values of Australian Residential Real Estate - August 2015").

机会依然存在，只是现在面临的挑战不同

撰文：斯科特 · 凯克，执行主席

自从我们上期《亚洲势代》的文章发表以来，经济面临挑战、生产率下降、利率上升这些问题仍然令人关注，因为它们可能导致租金增长的放缓和收益率下降的放松。尽管如此，对澳洲房产"所有权的激情"（特别是来自中国）依然保持强劲的势态，并具有较大的市场影响力。

现在对商业地产的评估已经超越了收益率和增长基础这些原则，其年回报率（IRR）下降到澳大利亚以前从未有过的水平。我们有强烈的预感市场已经见顶，并可能即将放缓，股市也是一样，催化剂就是美国经济的走强，以及美国在今年晚些时候会有一系列加息，另外来自中国的决策的不确定性造成的影响也越来越强。

"Given the extent to which the market has heated, there is expectation that it is now vulnerable to a slowdown".

Scott Keck, Executive Chairman, Charter Keck Cramer

Whether analysis, or anecdotal, there is bewilderment at the extent to which the market has heated and an expectation, that it is vulnerable to a slowdown… many suggest a correction. Whether a "self-fulfilling" expectation, or attributable to the factors emerging, common sense suggests caution, and that for commercial property contemporary strategy is required. Whilst as an asset class property will always be popular, if only for diversification, moving forward, the following should be considered:

- A lease is only as reliable as Lessee. Is the Lessee a business model that will be sustained in the new commercial/IT age?
- Investment needs to be "defensive" against a challenged economy, low rental growth and post lease reversionary prospects.
- To justify a current acquisition, strategy may be weighted between "long term ownership" and short to medium term "returns".
- Higher returns than cash, less volatility than the Share Market - property can still offer stability to anchor broad investment spectrum.
- Building specification fundamentals adaptable to new age technology and corporate need.
- Co-location within recognised precinct with leading and sustainable brands
- Limited exposure to recurring capital investment but with future development possibilities are positive attributes.
- Land acquisition, build and hold is a wiser strategy than acquiring established property.

There are positives but property becoming more complex.

In recent discussion papers, we recommended a "buckle-up" approach to property investment but also suggested there were positives including heightened overseas interest for "ownership" of Australian property, opportunities within the context of vertically integrated business models, reliable fundamentals for inner urban redevelopment and a new era of opportunity for Joint Venture participation between overseas capital and local expertise - these remain propositions around which strategies can be modelled. The dollar has not yet reached its low point, US65c - US70c considered probable within 18 months. That factor alone would stimulate further overseas interest.

Apart from economic factors, property is becoming more complex whether the financial aspects, the development approval pathway or construction complexities. No longer is an "experienced sense" sufficient, even those with a career history finding new challenges and ideas. Accordingly and particularly for overseas interests which do not have a deep understanding of the Australian scene, it is imperative that Due Diligence be fundamental in the decision process.

澳大利亚的审慎监管机构（APRA）和澳洲联储（RBA）希望市场能冷却。

虽然住宅跟商业地产相比，对利率和收益率的敏感性都较低，但APRA和RBA决心通过对金融部门的指导来给市场降温，他们对抵押贷款的批准要求更为严格，这已经造成了一定的影响。投资的贷款利率在上升，要求更多的押金和抵押资产净值，贷款价值比率在降低，而且很可能会有进一步的紧缩措施。这必然会对市场造成影响，住宅市场降温的市场情绪会蔓延，从而传导到更广阔的市场中。参考当前的Charter杂志，洞悉："全球资本和澳大利亚的住宅房地产的相对价值–2015年8月"）。

无论是分析还是传闻，人们对市场到底过热到什么程度比较困惑，也预期会受到经济放缓的影响，很多人都认为市场会修正。无论是预期的"自我实现"，还是因为其他出现的因素，常识建议我们要谨慎行事，目前商业地产的策略需要如此。虽然作为一种资产类别，地产永远是受欢迎的，但如果仅是为了分散投资，那么往下看，下面列出了你需要考虑的因素：

- 租赁是否可靠取决于承租方是否可靠。承租人的商业模式在新的商业/IT时代是否是可持续的？
- 面对具挑战性的经济形势、低租金增长以及后期租赁倒退的前景，投资应具备抵御性。
- 要评估当前的收购，投资人应该在"长期所有权"和中短期"收益"间进行战略性的权衡。
- 房产的收益比现金高，波动率比股票市场小，因此在广阔的投资标的中，仍然能够提供稳定的收益。
- 建筑的建设规范的原则应适应新时代的技术和企业需要。
- 在可辨识的地区与领先的可持续性的品牌相邻，这点很重要。
- 有限的涉足具有未来发展潜力的反复资本投资，这点很有益。
- 比起购买造好的地产，自行购买、建造和持有土地是更为明智的战略。

市场中有积极的因素，但变得更为复杂。

在最近的讨论文件中，我们推荐了一种"系好安全带"的房产投资办法，不过我们也认为市场中还是有积极因素，包括海外对澳大利亚房产"所有权"的兴趣提升、纵向一体化商业模型中产生机会、内城重建基本面可靠，以及海外资本与本地企业建立合资公司的新时代来临等，围绕这些提议，我们可以建立战略模型。美元汇率还没有达到最低点，在18个月内，美元汇率可能会到US65c - US70c区间内。单单这个因素将进一步激起海外市场的兴趣

除了经济因素，金融因素、开发审批途径和建造的复杂性都使房地产市场变得越来越复杂。现在只有"经验常识"已经不够了，即使是有经验的市场从业者也面临新的挑战和想法。因此，特别是那些并不深刻了解澳大利亚市场的海外投资人，当务之急是决策过程应基于尽职调查。

"考虑到市场已经过热，市场很可能会面临放缓"。

斯科特 · 凯克执行主席，Charter Keck Cramer

Charter Insight
Major Developments - Lowering the Risk

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The greatest risk with large developments is the commitment to time frames which extend beyond the known demand and economic parameters crucial to viability. Any project that cannot be completed from concept to fruition within two years is assuming great risk due to the incalculable changes that may occur. There are numerous examples of office, retail and industrial projects which, commenced in the buoyant period 1988 to 1990, were by the recession, irreversible and when completed in 1991 - 1992 were devastated by the reduced economy. Smaller projects with a time frame of up to 18 months significantly avoid this risk.

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Projects which seek to provide alternative or competing accommodation, involve more risk than those which simply seek to satisfy an assessable lack of supply. The absence of supporting research is an indication that full risk may not have been appreciated.

Too often the catalyst for development is the success of an initial project but which may not be able to be repeated.

Innovation and the pursuit of excellence are to be admired but increase the risk of cost and time over runs due to inevitable design changes, supply shortages, currency fluctuations in relation to imported finishes, and the time associated with the coordination of specialist consultative teams.

It can be said that the risks associated with developments of grand vision is that they can often be too ambitious.

For larger projects where the concept, management, marketing and "driving force", are with one individual, typically, the charismatic developer, there is greater risk than with those managed by a development team, such as is with a corporate developer.

Not to underestimate the brilliance of some individuals, it is apparent that the team approach involves debate of key decisions, recognition of the best aspects of differing views, diligence derived from a range of specialists that one individual can't provide, the reluctance to take risk that can be the greed of the individual and the moderating sense of responsibility that is more likely from a board of directors with experience and a maturity with which few individuals can compete.

Although there is the view that mixed use projects spread risk, examples indicate that tenancy harmony and market acceptance are not always achieved.

Design compromise in favour of one component to another, the separation of different pedestrian and vehicle flows and access, the priority for exposure and the "roll on" effect of the failure of one component to the other sections all increase risk. By comparison, single category projects although not necessarily of simple concept have the benefits of an exclusive target market, fewer design considerations, involve easier preliminary research and are more popular with portfolio investors.

An entirely speculative commitment, lacking owner occupation, forward tenancy agreements or end purchaser take out are at greater risk than those with some commitment. The excitement of an imaginative concept, and the confidence of usually good economic conditions which characterise the commencement of most large projects often lead to the crucial need for some form of underwriting or guarantee not to be taken as seriously as it warrants.

The dangerous correlation seems to be that the more understood a concept and the greater the comfort of the parties the lesser need for, pre-development commitment. If ultimate success is to be evidenced by sale, there is a risk with large developments that cannot be sold "piecemeal", for in Australia there are few purchasers for single holdings of $50m or more. An ability to sell in sections is a flexibility which reduces the risk of final sale outcome.

My observations are general and are not to indicate that there is a lack of development opportunities, although in summary the following table of Risk Indication, is worth keeping in mind.

REASON	LOWER RISK	HIGHER RISK
Time Frame	Not Beyond 2 Years	Over 2 Years
Target Market	Under Supplied	Competing / Alternative Choice
Quality	Medium - High	Grand Vision / Too Ambitious
Developer	Corporation	Single Entrepreneur
Use	Single Purpose	Mixed Use
Occupancy	Some Pre-Commitment	Speculative
Marketability	Medium Value - Subdivisional	High Value - Single Holding

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Australia Offers Low Risk Real Estate Opportunities

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The unfolding crisis in global financial markets, currently centered in Europe, has become initially manifested in Australia through an erratic share market and is leading to an understandable crisis of confidence. In the commercial property markets, especially those that are of lower value and less influenced by institutional investment drivers, there is good reason to believe a flight to excessive caution may not be the most appropriate financial strategy.

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At the time of any crisis there is an almost inevitable reaction that over-shoots the need for caution. Without doubt, times are now tough - and investment decisions difficult - but importantly such difficulty is not unprecedented given historic cyclicality of property markets. For financially able and patient investors, there is an emerging counter-cyclical "ripeness" about likely near-term market conditions.

Fundamental real estate investment principles dictate that holding periods should at least be over the medium term, if not longer. It is therefore necessary to look through the cloudiness of immediate ills of the day and hold sight upon fundamentals that will play out in the economy over the next decade and consequently become the drivers of property market performance.

At Charter we are observing that those segments of the commercial community with appropriately measured confidence and, importantly, with demonstrated history of astute judgement, are already engaging the markets.

Decisive investments are being made in quality income producing assets such as retail centers, office buildings and other well-leased commercial, retail and industrial properties. These real estate plays are not driven by higher risk development objectives given the undeniable headwinds facing the economy and property markets.

Commercial real estate markets in Australia are still highly influenced by domestic factors. The strength of fundamentals has been undermined by global events but they remain more favourable than in almost all other developed countries with characteristics of low inflation, declining interest rates, robust population growth and modest unemployment.

Most importantly to property markets, commercial accommodation is in shortage given the limited new supply that has been delivered since the late 2000s due to the initial round of impacts following the 2008 GFC.

One of the impacts of the financial market and economic malaise in Europe, is the outflow of investment funds from this region. Where does this money go and to what asset class? The American economy remains unattractive and many other economies are subdued or have underlying high levels of Sovereign Risk. The share market is embedded with high risk and volatility. In these circumstances, Australia stands out as a low-risk, politically stable, fiscally responsible and robust economy.

It is therefore no surprise that international investment is now increasingly targeting Australian property given its longer-term investment timeframe and stability. The settling down of the Australian dollar returns a competitive opportunity back to foreign investors and the attractive total returns flowing from quality Australian commercial property offer a very substantial margin above increasingly lower returns elsewhere.

Carefully selected retail, commercial and industrial properties provide regular compounding rental growth and capital return to the combined effect of Internal Rates of Return within the range of 8%- 12% p.a. This overall return does not anticipate strong capital growth in the short term given the constraints imposed by the prevailing economic circumstances which highlights the need for a longer-term property investment strategy.

A noteworthy observation from the Charter office about current market dynamics, is the increasing activity by private syndicates. A number of parties are pooling an equity fund of up to $30 M to allow leveraged investment(s) of up to $70 M. With a strategy for near neutral gearing, syndicates have targeted fundamentally good quality assets in good locations that are currently underperforming due to a lack of reinvestment in the GFC affected era. This activity is a reflection of the changing nature of investment by an aging demographic, seeking safer superannuation investments.

This internally generated demand for property assets is now competing with strong investment from overseas. Investors from many of Australia's near Asian neighbours recognise the high returns and low risk with Australian property and seek to engage with our local markets.

A recent Dun & Bradstreet analysis of the world's safest trade and foreign investment destinations listed Australia equal with Canada, Germany, Norway, Sweden and Switzerland as the safest, with Australia occupying the top spot for investment in the Asia-Pacific region, beating Hong Kong, Singapore and New Zealand.

Amidst the whirlwind of activity, more complex markets and changing circumstances, a highly professional approach to real estate investment strategy is required. In response to this environment and Client requirements, Charter has expanded its range of services and is being increasingly engaged to act as an independent and objective Guardian on behalf of local and overseas investors.

Charter can provide an independent advisory service drawing from its multi-disciplinary professional team to international investors seeking to engage with the Australian market, but needing to rely upon a trusted advisor disassociated from Marketing Agents and Financial Advisors. Working closely in association with major professional services firms and financiers, Charter now has regular strategic business engagements emanating from Singapore, Malaysia and China as well continuing to engage with long established Asian clients already in Australia.

As our name "Charter" implies, the firm is rightfully recognised as a Custodian or Guardian of the real estate affairs of its private clients and in protecting those interests, operates from the most sophisticated and independent perspectives.

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A Case Study by Charter Advisory

THE CLIENT

Australasian Food Group Pty Ltd
Trading as "Peters Ice Cream"

THE BACKGROUND / KEY CONSIDERATIONS

The substantial property was in part surplus to the requirements of the business, with Charter initially engaged to determine the property's future development potential.

Charter utilised expertise across various facets of the business to forensically analyse the underutilised and underperforming asset, with the intent being to set a clear strategy to release capital from the property to reinvest in core business activities.

SOLUTIONS / MARKET DETERMINATIONS

Engaged Charter Land Surveying & Civil Engineering into exploring the specific issues associated with a subdivision and sale of the surplus components of the site.

Engaged and project managed external consultants to investigate Town Planning; Masterplanning; Environmental and Traffic considerations.

A key solution was the identification of the requirement for a new corporate office building on site for the Peters business.

Preparation of base building and fit-out performance specifications for this building were coordinated by Charter Project Management, with cost estimates and depreciation schedules prepared by Charter Quantity Surveying.

THE KEY STEPS IN OUR METHODOLOGY - WHAT DID WE DO?

- Utilising the extensive information gathered from various sub-consultants, undertook an Options Analysis considering a range of sale, lease and develop scenarios.
- Devised a Divestment Strategy including a long-term leaseback from the business over part of the site, with the purchaser to provide the new corporate office building.
- Reviewed and assembled all relevant information (pre-sale due diligence) for the sale process.
- Appointed and managed the most appropriate selling agent.
- Finalised the draft Lease, Development Agreement and Contact documentation.
- Managed the divestment process including the public EOI campaign and post-sale negotiation / exclusive due diligence phase.

WHAT DID WE ACHIEVE?

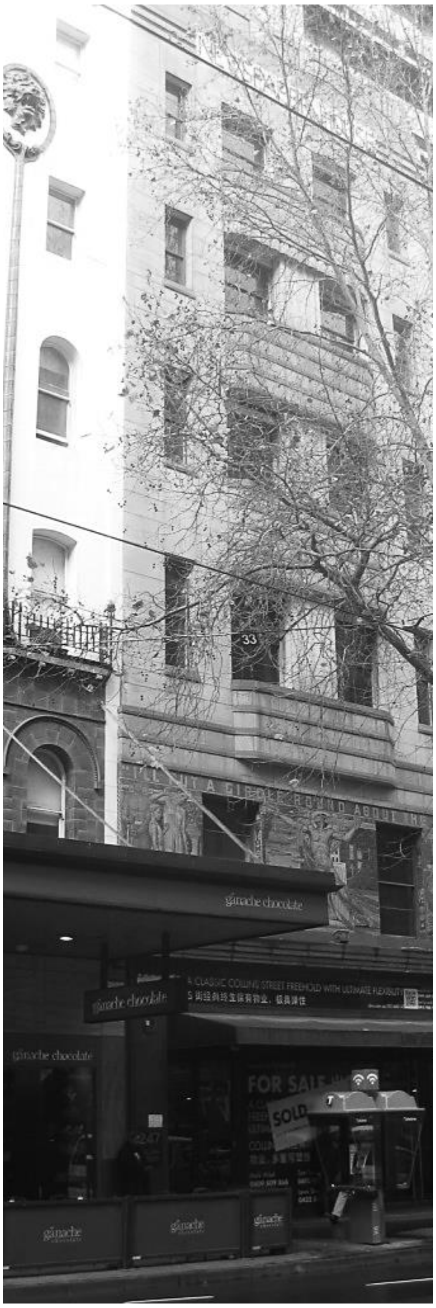
The property was sold in 2014 to Charter Hall for $62,000,000 - with exchange of documents and simultaneous settlement occurring in line with timing expectations.

Charter Insight

Commercial Intelligence
Valuation Factors in 2015
Melbourne Market

August 2015
charterkc.com.au

COMMERCIAL VALUATIONS



Office - CBD

OCCUPIER DEMAND

Stable conditions with a gradual increase in the number of leasing deals coming through which has been reflected in a fall in the vacancy rate to 8.1%. The CBD remains attractive due to its affordability.

SUPPLY

Few new buildings on the horizon with a number of older buildings being purchased for residential redevelopment either in the short or medium term. As a result, supply is anticipated to remain stable in the short to medium term.

RENTS & PRICES

As noted in early 2015, rents have remained steady with incentives having peaked at 25% - 30%. We anticipate a gradual increase in effective rents will start to occur as leasing activity picks up. There has been continued downward pressure on yields but remains a differential between yields and interest rates / bond rates.

MARKET CONSIDERATIONS 2015 / 2016

Continued demand from developers absorbing older existing stock. The CBD remains a focus for offshore capital with local investors also competing creating the strongest market activity since before the GFC. In addition, owner occupiers have been active both for small, more affordable properties in the sub-$5M range, but also for subdivided office floors which have experienced capital growth over the last 6 - 12 months.

Chris Holroyd
Director - CBD Valuations

Office - Suburbs

OCCUPIER DEMAND

Stable demand environment given the lack of new office developments to enter the suburban market over recent years. New/quality stock will continue to perform well, with secondary stock at a reasonable level. Incentives in the 10% to 15% range.

SUPPLY

Very little activity in the city fringe/inner Melbourne suburbs, with development sites largely being purchased for residential/mixed use purposes. Some *Commercial 2 Zoned (C2Z)* sites are being speculatively purchased for a future re-zone which would allow residential redevelopment. Nevertheless, leasing opportunities will soon become available within a few recently constructed/soon to be completed developments in Collingwood and Richmond (Cremorne).

RENTS & PRICES

Rents likely to see increase as a result of limited new stock. Given the low interest rate environment and the strength of the inner suburban development site market, yields may further compress for the balance of 2015.

MARKET CONSIDERATIONS 2015 / 2016

There has been an increased level of market activity during 2015 for commercial investments at the sub $20 million capital value range within the inner Melbourne suburban market, with strong demand being shown for a mix of local and Asian based investors. Owner occupiers have also been keen to secure affordable properties given the low interest rate environment. Sales campaigns have generally attracted a broad mix of purchasers.

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Retail - CBD

OCCUPIER DEMAND

Vacancy increased slightly over the first part of 2015 but there continues to be a relatively good level of demand, particularly from food retailers. Melbourne is still attracting new major brands with a number continuing to search for suitable sites.

SUPPLY

St Collins Lane (former Australia on Collins) is the only major development to provide new supply in the short term, although there are other buildings such as Emirates House which are also under refurbishment. New residential development outside the retail core continues to deliver ground floor retail accommodation.

RENTS & PRICES

Retail rents have remained generally steady over the first half of 2015 but there has been further compression of yields to historically low levels. Prime yields are now consistently in the 3% - 4% range.

MARKET CONSIDERATIONS 2015 / 2016

We anticipate the current strength in demand to continue for the remainder of the year, particularly for those tenancies occupying prime retail locations. The impact of the Melbourne Metro rail project on tenant demand and rental levels on Swanston Street will be one to watch.

Chris Holroyd
Director - CBD Valuations

Retail - Suburbs

OCCUPIER DEMAND

Recent trends show that established retail strips are experiencing solid lessee interest from food & beverage operators which is replacing more traditional local traders. Well located and modern bulky good developments are attracting renewed interest from all segments of the lessee market.

SUPPLY

Supply has been evident in those sectors of the market which has experienced the strongest retail demand and which has been primarily in the neighbourhood shopping centre and bulky good markets.

RENTS & PRICES

Generally, food & beverage operators from a leasing perspective have been able to outbid local traditional retailers which has caused an upward trend in rental levels for those strip centres that are already well patronised. In relation to asset prices, competition between local and offshore purchasers has been one of the main impetuses for several retail holdings achieving results well above vendor expectations.

MARKET CONSIDERATIONS 2015 / 2016

Sale transaction activity is continuing to demonstrate that purchasers have confidence in the retail investment market and particularly for those assets that feature strong lease covenants offering security of income.

Bernard Cussen
Director - Retail Valuations

Industrial

OCCUPIER DEMAND

Stable occupier demand with the transport and logistics sectors most active. The western industrial market remains very attractive due to its affordability.

SUPPLY

Increasing level of supply from both speculative construction and pre-lease activity.

RENTS & PRICES

Limited rental growth with landlords having to offer larger incentives for both pre-lease and existing accommodation. Significant weight of capital from local and international investors together with historically low interest rates will continue to place pressure on yield compression, particularly for prime A-grade assets.

MARKET CONSIDERATIONS 2015 / 2016

There has been an increase in the number of sale and leaseback transactions which has been driven by strong investment demand.

Anthony Witton
Director - Industrial Valuations

Recent Transactions of Significance

PROPERTY / ADDRESS	SALE PRICE ($ MIL) / PASSING YIELD	VALUE RATE ($ P.S.M. BUILDING)	COMMENT
RETAIL			
123 Swanston Street **Melbourne**	**$15.80 / 2.65%**	**$12,500**	Eight level retail / commercial building occupying a prime retail location. Significant demand particularly from other Swanston Street owners. Purchased prior to close of EOI campaign by a local Chinese investor. **Charter Commercial Valuations: Advisory**
166 Russell Street **Melbourne**	**$5.01 / 3.79%**	**$19,494**	First strong sale of 2015 setting a new level of value. Purchased by a local investor.
Masters Home Improvements **Williams Landing**	**$36.00 / 6.04%** (Passing)	**N/A**	A recently completed facility located within Cedar Wood's Williams Landing development. The result attracted attention due to the yield outperforming many of the previously sold Bunnings Warehouses. **Charter Commercial Valuations: Advisory**
661-665 Glenferrie Road **Hawthorn**	**$8.45 / 5.27%** (Passing)	**N/A**	A major retail building located within the highly active Glenferrie Road, Hawthorn retail shopping strip. Sold with a single lease covenant to the CBA for a five year term commencing July 2014. **Charter Commercial Valuations: Valuations**
OFFICE			
460 Lonsdale Street **Melbourne**	**$98.00 / 5.72%**	**$8,435**	Modern 18 level office building located within the legal precinct. Well contested with 13 Expressions of Interest provided. Notably, a local investor outbid all off-shore interests. **Charter Commercial Valuations: Advisory**
247 Collins Street **Melbourne**	**$22.68 / VP**	**$11,689**	Seven level retail / commercial building which was completely vacant at the date of sale. Purchased by a Singaporean investor. **Charter Commercial Valuations: Mortgage Valuation**
415-417 Collins Street **Melbourne**	**$8,888,888 / 2.26%**	**$9,532**	Who can forget the sale price here? Even received international press coverage. **Charter Commercial Valuations: Mortgage Valuation**
172-186 Moreland Road **Brunswick**	**$20.95 / 6.45%** (Initial)	**$4,966**	Contemporary two level commercial office building complemented by basement car parking for 79 vehicles. NLA of 3,291 sq.m. Leased to government tenant on a long-term basis, whilst benefitting from longer term redevelopment upside. Purchased by a local private investor.
34-36 Prospect Street **Box Hill**	**$7.00 / 6.17%** (Initial)	**$5,018**	Circa 1980s two level commercial office building. Leased until 2017 to a single tenant. Purchased by local developer.
INDUSTRIAL			
20-50 Waterview Close **Dandenong South**	**$6.20 / VP**	**$667**	Older style industrial facility which previously sold in late 2013 for $4,500,000.
31-69 Western Avenue **Westmeadows/ Tullamarine**	**$16.00 / VP**	**$664**	Former Age printing facility which was vacant at the date of sale. Purchased by an intending owner occupier. **Charter Commercial Valuations: Mortgage Valuation**

Charter Insight

Sydney: More Likely in a Frothy Boom than a Bubble

June 2015
charterkc.com.au

RESEARCH

Sydney is both a major global centre of economic activity city and Australia's largest city, hosting the most dynamic drivers of the national economy. Sydney's property markets, both housing and commercial, operate differently to other markets around the country.

A UNIQUE CITY

Over the last two years, Sydney has returned to its role as Australia's best performing economic region, which has coincided with a more stable political environment and commencement of major infrastructure projects.

Sydney recently has been Australia's strongest housing market. Charter Keck Cramer (Charter) believes that Sydney is not experiencing a house price bubble, but rather a catch-up in growth after a long period of underperformance. In reality, Sydney's geographic constraints and a planning system controlled by protective local interests have created an acute shortage of readily available development sites in both its inner and outer regions.

Sydney's fundamental factors will continue to drive strong demand, but new development opportunities are still scarce. This imbalance is now being manifested as a "boom" in both house and development site prices.

IMPORTANCE OF HOUSING INVESTMENT

Investment in housing absolutely underpins Australia's wealth position. In 2014 Australia's residential real estate was collectively worth $5.6 trillion, which was three times the value of both superannuation funds and of Australian listed stock. The value of housing was also eight times the value of commercial real estate.

Given the central position of housing in the economy it is little wonder that recent media speculation about the emergence of a housing price bubble in Sydney is raising alarm bells for policy makers and investors alike.

PLANNING FOR GROWTH

Sydney's population grew by 84,000 in 2013-14, which is the highest rate since the late 1960s /early 1970s, and significantly higher than in the early-mid 2000s.

A Plan for Growing Sydney is the State Government's metropolitan strategy which highlights that 33,200 dwellings must be produced annually to meet the harbour city's housing requirements from its forecast population growth of 1.8% per annum.

The metropolitan strategy reinforces the importance of urban renewal and expects "infill" housing to comprise at least 70% of the city's new housing needs. New development across outer greenfield locations will also be important. However, given Sydney's geographical constraints there are limited opportunities for suburban expansion. The designated North-West and South-West Growth Centres are the key greenfield release areas which will collectively account for 180,000 houses and a population of 500,000 over the coming 25-30 years.

STATE OF THE MARKET

In 2014 almost 25,000 dwellings were completed, which was the highest number achieved since 2000. Charter's proprietary apartment database highlights that approximately 14,000 of these new dwellings were apartments.

Despite the higher, but still insufficient, level of recent residential construction, prices continue to sky-rocket for all types of dwellings, with weekend auction clearance rates for established houses at historic highs (consistently upwards of 85%).

The combination of historically low interest rates, strong population growth, renewed business and consumer confidence and unprecedented levels of investor activity has helped propel the city's median house price to $914,000 at an annual growth rate of 15%.

While investors and owner-occupiers are very active in the current market, first home buyers are increasingly missing out. First home buyers now account for less than 15% of market activity compared to the long term average of 25%.

FOREIGN CAPITAL

One of the more publicised dimensions of the current housing boom is the participation of off-shore capital. Given that regulations restrict foreign purchasers to newly developed dwellings, the majority of activity is focussed in the off-the-plan apartment market at prices between $500,000 to $1 million.

Foreign capital is also being invested in apartment development projects with an increasing number of major entities entering the Sydney market and achieving success.

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CRANES ON THE SKYLINE

According to Charter's National Apartments Database, as at the end of April 2015 there were over 19,000 apartments under construction across the Core Sydney markets, and 21,700 being marketed.

An interesting difference in the Sydney apartment development landscape compared to Melbourne (where 82% of new apartment supply is within approximately 10km of the CBD) is the more dispersed distribution of supply. Only 45% of Sydney's new supply is within 10km of its CBD, with 55% being approximately 10-20km of the CBD.

This "suburbanisation" of apartment development is related to a range of factors including:

- Relative maturity of the medium and higher density sector in Sydney (NSW was the first jurisdiction in the world to introduce strata title legislation);
- Lack of site availability in the central city; and
- The unique structure and operation of Sydney's localised housing submarkets - related to topography and transport infrastructure provision.

Charter considers that the Sydney apartment market is at the early stages of its supply cycle, which will be underpinned over a longer period by the shortage of available development sites and difficulties in securing development approval.

THE SYDNEY GREENFIELDS ARE BOOMING TOO

While media focus has been directed to the apartment market, the greenfield market is also operating at peak levels. The National Land Survey Program (NLSP), undertaken by Charter, clearly indicates the extremely tight supply conditions which are driving extraordinary lot price growth.

In the South-West corridor, the median lot price has grown by 25% over the last year to $390,000. In the North-West, the more acute shortage of new releases has driven price growth of 47% in the last year to a median of more than $600,000.

SIGNIFICANT INFRASTRUCTURE INVESTMENT TO UNDERPIN GROWTH

In order to help Sydney reach its growth targets, the NSW Government has committed to investing in a range of "city shaping" infrastructure projects.
These projects include:

- Sydney Rapid Transit (Stage 1): North West Rail Link which will deliver a metro service with eight new stations connecting Epping to the North West Growth corridor;
- Sydney Rapid Transit (Stage 2): Second Harbour Rail Crossing which will connect the North West Rail Link (via Chatswood) to the CBD;
- WestConnex: 33km motorway which will form a vital link in Sydney's Orbital Road Network; and
- CBD and South East Light Rail: New light rail network through the CBD between Circular Quay, Central Station with further connection to the Randwick Education & Health Precinct.

Each of these projects will be accompanied by an integrated urban revitalisation program to leverage the capital investment and deliver many thousands of new dwellings, jobs and heightened urban amenity.

BUBBLE TROUBLE?

Sydney still has a significant backlog of unmet housing demand created from almost a decade of undersupply.

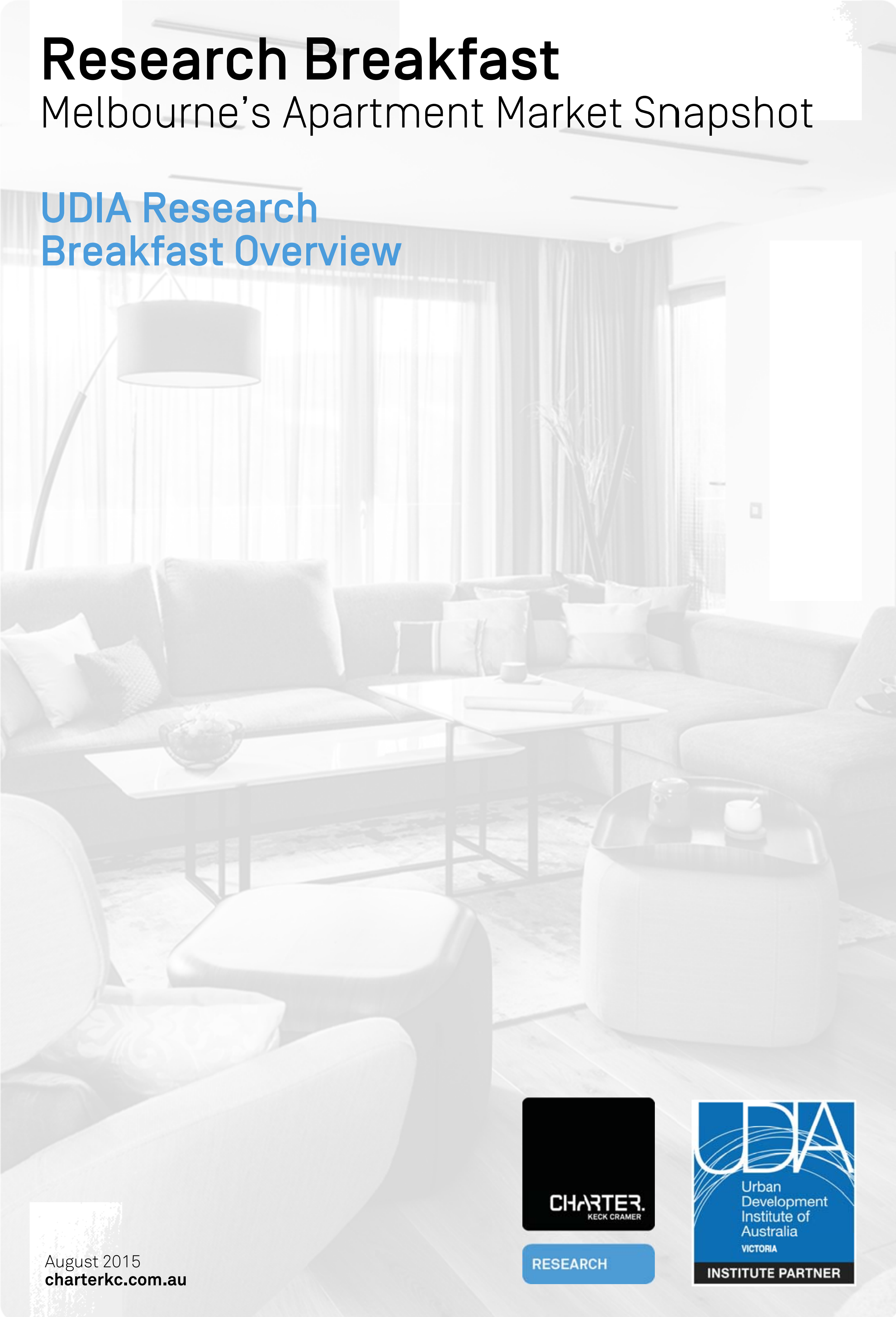
Charter's research indicates that across the Sydney greenfield market there has been less than one month's supply ready for market since mid-2013. Residential land is simply being consumed faster than it can be produced.

The two key biggest risks for the Sydney market appear to be the continued upward pricing trajectory for dwellings pushing towards affordability thresholds as well as the scarcity of development sites.

While forecasting is always a (fraught) crystal ball exercise, the view from Charter is that Sydney is not in a bubble situation, but rather a "frothy" boom underpinned by solid fundamentals. Conditions should gradually moderate through 2016 without the feared price crash given Australia's benign economic conditions will reduce the likelihood of a rapid return to higher interest rates.

Research Breakfast
Melbourne's Apartment Market Snapshot

UDIA Research Breakfast Overview



RESEARCH

INSTITUTE PARTNER

August 2015
charterkc.com.au

Summary of Key Findings

There is no doubt that the structure of Melbourne's housing market has fundamentally shifted since the mid-1990s. This change is due to the advent of contemporary apartments becoming a legitimate, and increasingly since 2010, preferred form of housing for a broadening range of households.

There are a number of myths about Melbourne's apartment market which have emerged because

MATURITY

The maturity of Melbourne's apartment market has become particularly pronounced since 2010 as stock has grown from 63,000 contemporary apartments to 112,000 (2015) with more than 160,000 anticipated by 2018. New completions are now running at an average of over 15,000 p.a. in the current cycle compared to less than 5,000 p.a. in the last peak in the early 2000s. See chart over page.

SUPPLY DISTRIBUTION

Despite the perception that a very large proportion of apartments are contained in CBD skyscrapers, only 38% of completed Melbourne's apartments are in the Central City, with a further 31% in the City Fringe (@2-5 km radius of the CBD) and 19% in the Inner (@5 -10 km) Regions.

The future distribution is however changing with more going into the Inner and Middle (@10-20 km) Regions. Melbourne's apartment supply is increasing in core locations but also spreading out into the suburbs. It is not fully appreciated just how widely distributed Melbourne's apartment supply actually is.

ROLE OF APARTMENTS

The growth of contemporary apartments, as a form of housing across Melbourne's near 1.7 million dwelling stock, represents a growing maturity of products being delivered. It also shows the awareness of this type of housing by consumers, developers and other industry participants. This changing awareness is now being reflected in the emerging policy discussion about the potential introduction of new apartment design guidelines.

Based on a sample of currently released projects across Melbourne, the overall median for a one bedroom apartment was at $400,000, but ranged between $340,000 and $430, 000 across Central and Middle regions. For two bedroom apartments, the overall median was $570,000 with a greater range of $410,000 to $610,000 across Melbourne.

This pricing dynamic further highlights the important role of apartments as more affordable housing options especially in established areas where the median detached house prices are much higher (in the order of $1.1 million for standalone houses in Central and Inner suburbs).

NATIONAL CONTEXT

In the current supply cycle, Melbourne has delivered more apartment supply than any other capital city. Between 2010 - 2014 Melbourne has accounted for 47% of Australia's Core Capital City new apartment supply. Going forward, Melbourne will still account for 44% of new completions between 2015 - 2019. See chart over page.

INTERNATIONAL VS LOCAL DEVELOPMENT

Latest research by Charter Keck Cramer indicates that, in contrast to wide-held notions, Local developers still control the majority of new supply even though International developers are growing in their influence. Local developers have delivered 92% of recent supply and will also deliver 70% of supply in the near term. There is an emerging dislocation within the Melbourne apartment market with the Central City increasingly influenced by the globalisation of high-rise apartments as a form of investment which is leading to 52% of its forthcoming supply controlled by International developers.

OVERSUPPLY OR MARKET DEMAND?

Melbourne is undoubtedly facing historic high levels of forthcoming supply of apartments but this measure, in isolation, should not be relied upon as a simplistic indicator of "oversupply". Furthermore, approved or mooted are only potential longer-term supply which may not eventuate.

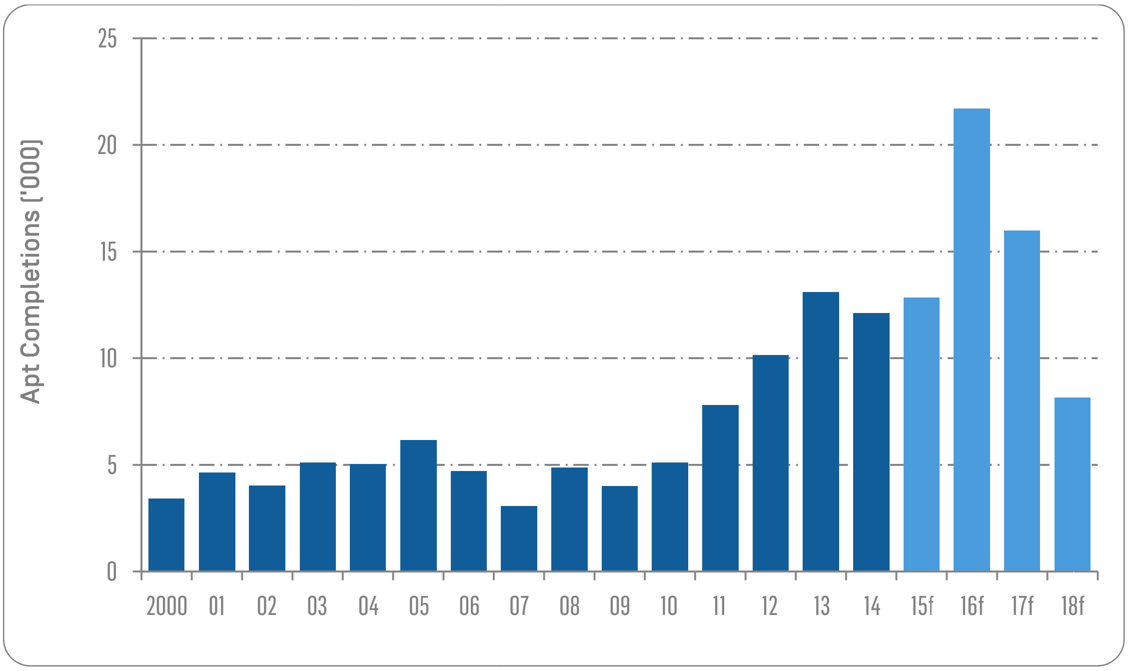
Currently, purchaser demand is at a new peak although with price growth for new off-the-plan apartments are remaining modest and new releases are being continuously absorbed.

In the occupier market, which is primarily driven by locally-generated household growth, market indicators are still suggesting stable vacancies and rents.

CHARTER KECK CRAMER
RESEARCH

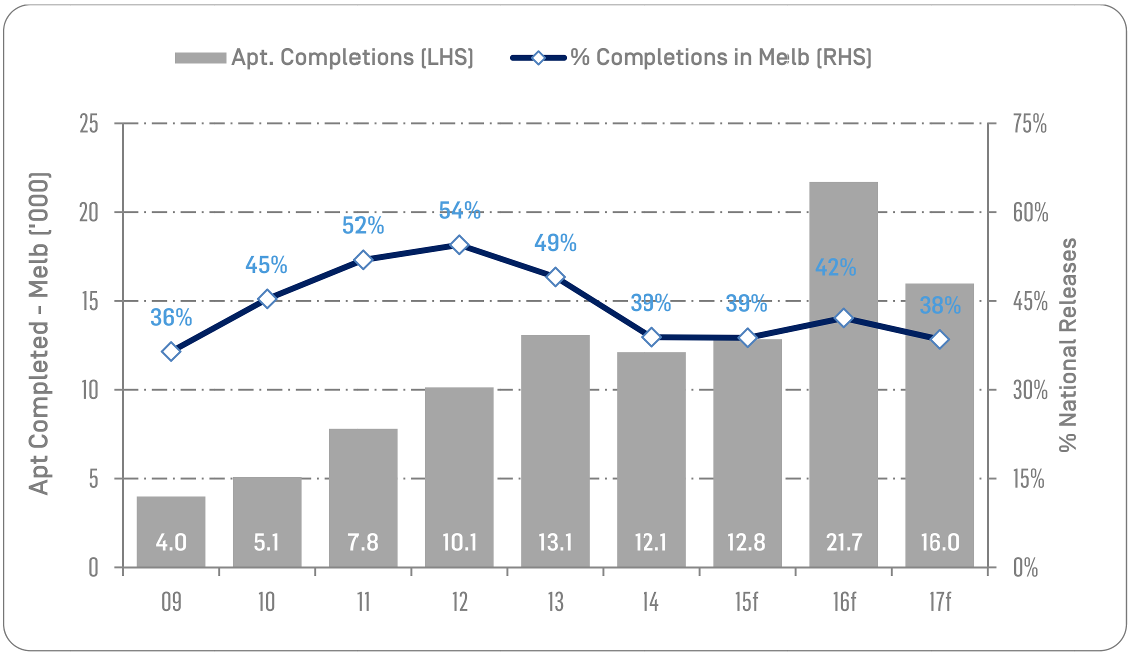
Urban Development Institute of Australia VICTORIA
INSTITUTE PARTNER

METROPOLITAN MELBOURNE: HISTORIC AND FORECAST APARTMENT COMPLETIONS



SOURCE: Charter Keck Cramer

METROPOLITAN MELBOURNE: SHARE OF NATIONAL CAPITAL CITY APARTMENT COMPLETIONS IN MELBOURNE



SOURCE: Charter Keck Cramer

UDIA Research Breakfast

NLSP Melbourne Greenfield Market Snapshot

September Quarter 2015

www.nlsp.com.au

NLSP
National Land Survey Program.

UDIA
Urban Development Institute of Australia
VICTORIA

Summary of Key Findings

The greenfield land market continues to perform a critical role in Melbourne's overall housing market given that it is still attracting very high levels of purchaser (primarily owner-occupier) demand with current activity at unprecedented levels. Market conditions have fundamentally changed in the last year across Melbourne except for prices, which are still at 4% discount to the previous cyclical peak in 2010.

The outlook for the Melbourne greenfield market is for sale volumes to begin moderating from current peak levels as production capacity becomes impacted by construction industry constraints, lower investor appetite and slowing approval of new releases.

SALES VOLUMES

Almost 1,900 lot sales per calendar month were recorded during the September 2015 quarter across over 150 active trading estates. The current activity is 25% higher than the previous cyclical high in late 2009 when First Home Owner incentives were over $30,000 per lot.

Across 2015 around 19,000 lot sales can be anticipated with higher sales being posted in nearly all sub-markets. Record greenfield lot sales will continue to underpin historic-high levels of new housing production in 2016.

Currently, Melbourne is accounting for 35% of national greenfield sales which is double the market share achieved in early 2013 but still not as dominant as observed in the previous 2009 -2010 peak.

PRICES

The median lot price across Melbourne for the September 2015 quarter was $211,000 which represents annual growth of only 3.4%. Despite the strength of demand driven by both record low interest rates and a robust established housing market, prices remain flat.

Melbourne lot prices are by far the most affordable of the big cities given they are $250,000 cheaper than observed in metro Sydney, almost $40,000 below Perth and almost $50,000 less expensive than South East Queensland.

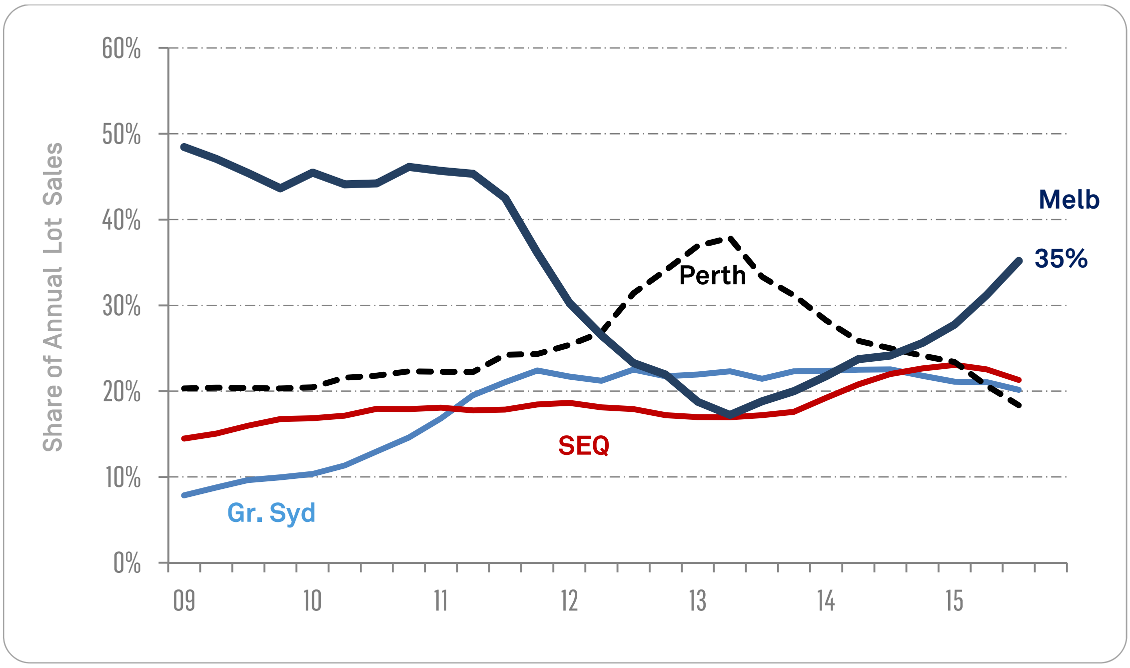
STOCK OVERHANG

Notwithstanding that Melbourne projects released a record of over 5,400 lots for sale over the September quarter, the strong weight of demand implied that stock overhang still fell by 15% in the quarter to be 1.3 months of demand and at the lowest levels since late 2010.

NLSP
National Land Survey Program.

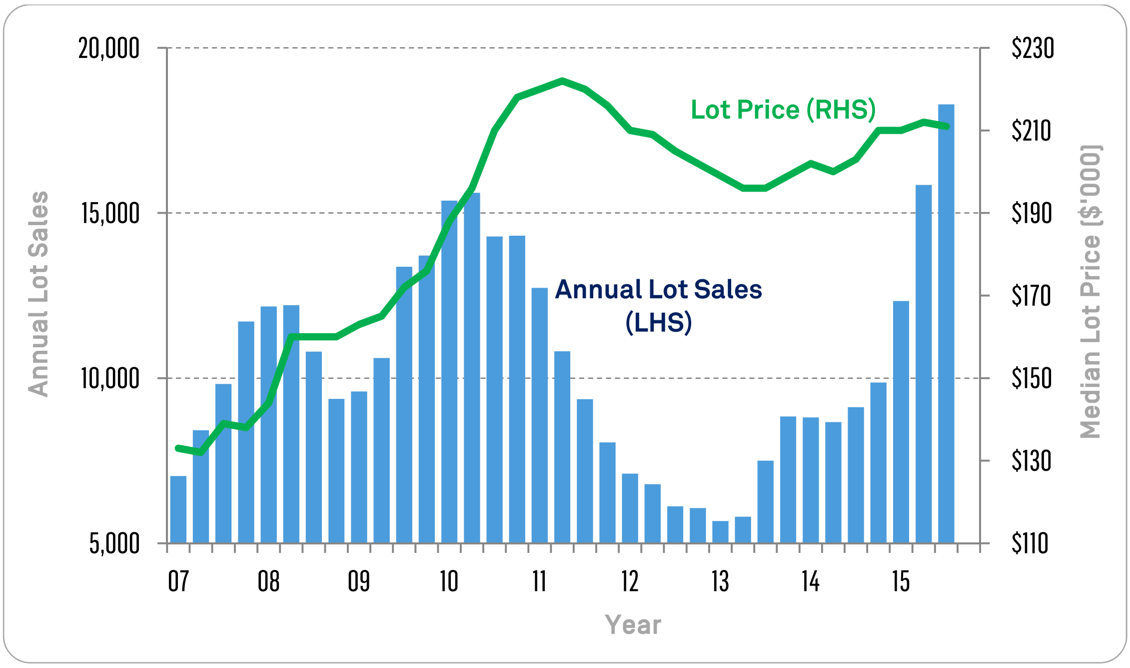
UDIA
Urban Development Institute of Australia
VICTORIA

METROPOLITAN MELBOURNE: SHARE OF NATIONAL GREENFIELD LOT SALES



SOURCE: National Land Survey Program

METROPOLITAN MELBOURNE: GREENFIELD ANNUAL LOT SALES AND MEDIAN LOT PRICE



SOURCE: National Land Survey Program

Charter Insight

Global Capital & Relative Values of Australian Residential Real Estate

August 2015
charterkc.com.au

RESEARCH

International investment into Australian housing markets has become an increasingly significant and controversial issue. The growing participation and influence of international investors is changing the positioning of Australian residential real estate within the global context. It is a complex issue with multiple factors driving recent changes. This charter Insight seeks to briefly explore the evolving narrative of international investment into Australian Residential Real Estate.

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GLOBALISATION AND REAL ESTATE

Australia's residential real estate markets are increasingly subject to the related factors of globalisation and asset commoditisation. The strength of demand for Australian housing is being facilitated by the increased opportunity for global investors to acquire international housing as investments.

Global capital is impacting Australia's real estate markets because whilst real estate is geographically anchored, capital from institutions, corporates, and more recently households, has become increasingly mobile and willing to cross borders to maximise returns, minimise risks and seek portfolio diversification.

GFC AND THE FUNDAMENTAL CHANGE IN CROSS-BORDER CAPITAL FLOWS

Comparative isolation and smaller scale markets have historically sheltered Australian housing markets from international interest. In the pre-GFC era international housing investment was dominated by European, American and Middle Eastern sources. However, the weight of capital and favourable conditions that emerged post-GFC across Asia is altering the traditional functioning of Australian housing markets.

FOREIGN EXCHANGE AND RELATIVE PURCHASING POWER - SAME ASSETS, DIFFERENT NARRATIVES

Foreign exchange and the relative purchasing power of international investors have become significant in Australian housing markets.

Changes in currency values have a greater impact in the residential market where individual purchasers are more likely to be exposed to foreign exchange risk given they are less likely to adopt hedging strategies to the extent that institutional investors in commercial real estate markets are likely to adopt.

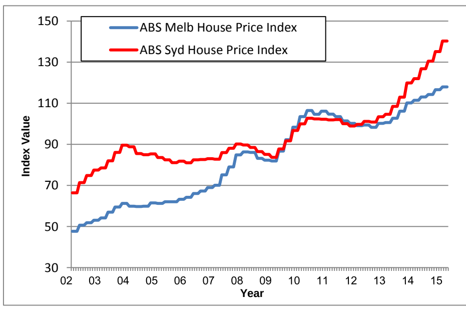
Capital mobility and the relative difference in the value of international currencies imply that the price of Australian assets to an international purchaser can be very different to that of a domestic purchaser. In the case of China, the structural changes in capital mobility and desire for international investment by a growing middle class have had a significant impact upon the Australian real estate market narrative. The relatively cheaper pricing of Australian assets, because of advantageous currency values, has intensified the level of capital investment into Australia.

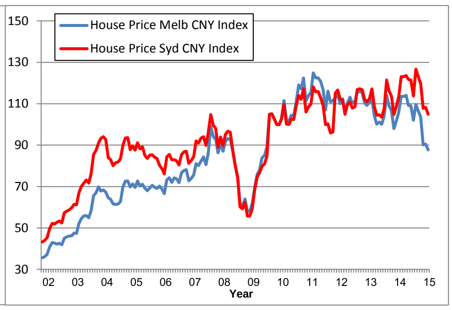
To local purchasers, house prices across Melbourne and Sydney have trended upwards since the early 2000s with some intermittent moderations. This price increase has accelerated (especially in Sydney) since 2012 and highlighted housing affordability issues once again (although asset price rises are only one element of this debate).

Alternatively, however, from an international purchaser's perspective (in this case China) when the relative purchasing power from currency values are taken into consideration Chinese purchasers have experienced a very different price story. From the Chinese perspective, house prices in Melbourne have recorded a general decline in price from 2010/2011 (in Chinese Yuan terms) and Sydney prices have been stable, despite the acceleration in prices to domestic purchasers.

PUSH-PULL FACTORS AND CURRENCY

It is interesting to note that through the early 2010s, Chinese investment in Australian housing was still significant, despite the fact that Australian prices were relatively more expensive to Chinese purchasers at the time





than they were to local purchasers. This situation suggests significant push factors that were affecting Chinese decision-making beyond the pure financial parameters.

This phenomenon highlights the differing means by which international and domestic purchasers may value and price residential real estate as an investment. Australian housing represents a store of wealth that is underpinned by confidence in domestic institutions (property rights, freehold title and transparent markets, among others) which foreign purchasers may pay a relative premium for, but which domestic participants expect and therefore do not attribute any additional value towards.

The impacts of relativity in asset value and pricing demonstrates the overarching importance of global macro-conditions in incentivising international purchasers and capital flows beyond local targeted interventions (taxes/levies on international purchasers), unless these interventions are equally significant.

Whilst Chinese purchaser participation has been evident in Australia for a number of years it will be interesting to watch how the compounding factors of a comparative discount, coupled with volatile and still opaque Chinese equity and capital markets, will impact the Australian domestic property market in the short term. These factors will only be intensified by the continued liberalisation and greater (albeit still controlled) openness of Chinese capital markets.

The new reality for the Australian property market is that it is feeling the first round impacts from profound cyclical and structural changes in a new source of purchaser demand. This is causing distortions in market activity and performance that has been especially concentrated in Sydney and Melbourne.

THE EVOLVING DYNAMIC OF LOCAL REAL ESTATE MARKETS

The internationalisation and commoditisation of residential real estate is causing a decoupling of the relationship between the Australian purchaser (as investors) and rental markets. Current prices are no longer dictated by rational yields.

Real estate assets now have a greater pool of potential and willing purchasers to draw from, given global participation. In addition the motives of some international purchasers appear to be divorced from the asset's inherent capacity to earn a comparable yield to that anticipated by a local purchaser.

This changing context is contrasted against the rental market where the pool of potential occupiers is still limited by a smaller localised 'renter' population. Although the influx of international purchasers may, conversely, be growing the pool of renters from those locals unable to enter the market as purchasers, the proportion of this growth is lower than the increase in global purchasers.

There is a growing risk that higher levels of supply may be produced by the development industry in response to absorption by the greater pool of international purchasers. However, local investors will still have to navigate the softer rental conditions without the capacity of international participants to balance and clear the occupier market.

In short, it is easier to match assets with purchasers at a global scale (where capital is able and willing to be deployed) than match those same assets with occupiers at the local scale.

THE UNITED STATES IMPACT

While the narrative regarding the weight of Chinese and broader Asian capital into Australia is well documented, a less explored component remains the potential impact of a recovering United States (US) economy and how normalisation of its monetary policy may indirectly place pressure on Australian real estate prices. This impact will not necessarily derive from increasing US outbound capital but rather enhancing the purchasing power of Asian capital into Australia, especially to the extent Asian currencies (including Chinese Yuan) are linked to the United State Dollar (USD).

As US cash rates normalise, it can be expected that the AUD will fall (as capital finds a relatively increased return in a safer global reserve currency). While this may increase the international competitiveness and rebalancing of the Australian economy away from resources, it could also translate into a further effective decrease in the relative value of real estate for international purchasers.

The Federal Reserve has signalled this normalisation is likely to commence in the later stages of 2015, with these impacts to be priced further into the currency when there is more clarity around the timing of the move.

NEW REAL ESTATE REALITY

Australia has entered a new period in the internationalisation of its real estate markets. Capital markets are more open and willing to invest, and for the first time since the early 2000s (except for the Global Financial Crisis) real estate asset prices are relatively cheaper in the eyes of many international purchasers than they are to local purchasers.

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