News Release

Capital Markets commentary: 2018 end of year wrap and 2019 outlook

<u>According to Paul Roberts and Ben Schubert, Partners, Joint Heads of Institutional Sales, Australia</u>

“The overall strength of the Australian economy bodes well for commercial real estate markets throughout 2019. However, the gradual tightening of global credit conditions could result in higher borrowing costs in Australia and weigh on the market, ending the recent pattern of broad based yield compression.

“We are continuing to see strong appetite for Australian real estate from offshore capital groups. There is particularly strong interest from these groups in Hong Kong, Singapore and Europe who are seeking core assets with fundamental stability. Local wholesale funds and superannuation groups also remain just as competitive.”

<u>According to Tyler Talbot, Partner, Institutional Sales, Sydney Metro, NSW</u>

“2018 has seen strong demand for North Shore and metropolitan assets, with offshore buyers being the dominant purchaser group. In North Sydney alone they accounted for around 80% of all deals.

“Strong demand is likely to continue in 2019 from both local and offshore purchasers with a large weight of capital still looking for a home, yields therefore are predicted to remain firm with solid rental growth still coming through in most markets.”

<u>According to Scott Timbrell, Partner, Head of Western Sydney, NSW</u>

“Knight Frank Western Sydney has had one of its biggest years selling five out of 11 assets in Parramatta CBD in 2018, with an end value above $379 million. The interest in commercial assets in Western Sydney has been strong with an even stronger purchaser pool to draw upon for all on- and off-market transactions that have completed in 2018.

“With a state and national election looming next year, we will generally see the market slow as purchasers take extra caution on larger transactions. This may minimise transactions and new sales campaigns for the first part of next year, however we are expecting the market to bounce back into action towards the end of 2019.”

<u>According to Justin Bond, Partner, Head of Institutional Sales, QLD</u>

“The maturity of the Brisbane investment market is becoming more defined, as many investors are drawn to Brisbane due to the infrastructure committed by the State Government and private sector. The Cross River Rail, Queens Wharf development, Brisbane Live project and the expansion of the Brisbane Airport are some of the projects boosting the confidence of investors considering Brisbane as a destination for investment.

"In 2019 we expect to see an improvement in the occupier market which should drive further demand from foreign capital, along with continued interest from Australian investors who have been priced out of the Sydney and Melbourne markets."

According to Guy Bennett, Partner, Head of Institutional Sales, VIC & SA

"Melbourne's strong underlying economic fundamentals have resulted in historically low vacancy rates, high levels of net absorption, strong face rental growth and receding incentives – this is expected to continue through 2019, then slowing following the supply influx into 2020.

"Domestic and offshore investors continue to have strong appetite for the tightly held Melbourne CBD stock and as such 2018 has seen further downward pressure on yields and returns. There remains a high level of unsatisfied investor appetite and the scramble for CBD sites suitable for large office development continues, with many permitted residential sites being converted to alternate uses.

"A firming leasing market underpinned by long-term white-collar employment linked to major defence contracts will continue to buoy capital investments in to Adelaide through 2019. The Adelaide market is poised for strong capital growth in the next 12 months."

According to Todd Schaffer, Partner, Head of Commercial & Institutional Sales, WA

"2018 has seen a near-record transactional year with around $900 million of fringe and CBD office buildings either under contract or sold. This represents an increase of 28% on the 2017 calendar year. In the first half of 2018 the majority of transactions were value-add properties to off-shore groups, with sales in the latter part of the year being long WALE assets to Australian groups. Recent sales have shown yield compression which should continue into 2019, however supply levels will most likely be down."

According to Sean North, Partner, Head of Canberra & Institutional Sales

"While sales volumes are down in 2018, a flurry of activity in the fourth quarter of 2018 will reaffirm the positive market sentiment for both passive and multi tenanted investments. Demand for value-add propositions remains particularly firm in core locations and these favourable market conditions are expected to continue into 2019".

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Notes to Editors

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