

AUSTRALIAN CBD & NON CBD OFFICE

TOP SALES TRANSACTIONS 2016

Key Facts

\$15.07 billion of office assets transacted during 2016, with non-CBD (51%) transactions outweighing CBD activity (49%)

The **Sydney market** dominated, accounting for **51% of total investment**

Offshore investors (43%) remained the **dominant** purchaser type, but faced **greater competition** from **unlisted funds (31%)** in 2016.

Yields, particularly for core assets, **continued to firm** throughout 2016. Weight of funds, despite the potential for higher interest rates, will **maintain a tightening bias**.



MATT WHITBY
Head of Research and Consulting

Follow at @KnightFrankAu

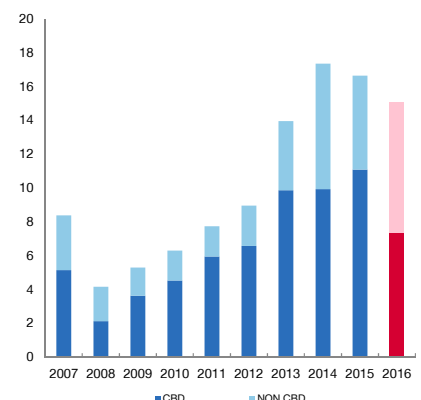
The Sydney and Melbourne CBDs recorded lower turnover levels during 2016 as stock further reduced, forcing a change of focus to alternate CBD markets like Brisbane and Adelaide and further entrenching non-CBD investment

Office sales (\$10 mill+) transacted during 2016 totalled \$15.07 billion, which is 9.4% lower than 2015 and the second year that transaction volumes have fallen. Suffering from limited available stock, turnover in the CBD markets fell by 34% in 2016, recording \$7.37 billion. Sydney remained the CBD with the greatest investment (47% of CBD sales) followed by Melbourne with 19% of CBD transactions. As investor interest broadened and value-add investment continued to gain favour, the Brisbane (14%) and Adelaide (11%) markets also saw significant investment in their CBDs.

Reacting to ever-tighter yields and limited stock for sale in the CBD markets, the non-CBD market reached new heights with investment increasing by 39% in 2016 to a new high of \$7.71 billion, higher even than the break-out year of 2014 (\$7.42 billion). While off-shore investors continue to embrace non-CBD markets, accounting for 44% of transaction activity, unlisted funds also accounted for 26% of sales. Once again Sydney dominated, with 54% of non-CBD transactions by value followed by Melbourne with 33%.

Despite increasing global expectations of a tightening interest rate environment in the future, the weight of money seeking investment in the Australian market has continued to place yields on a firming trend, with this expected to continue in 2017.

FIGURE 1
Australia CBD & Non-CBD Sales Volumes
\$ billion total transaction value (\$10million+)



Source: Knight Frank Research

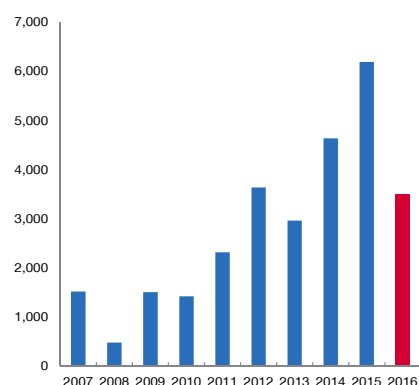
SYDNEY CBD

Investment sale volumes in the Sydney CBD subsided in 2016 following a strong surge in the prior three years. The total investment volume fell by 47% YoY to reach \$3.49 billion. Part of this slowdown can be attributed to the lack of core assets and portfolio offerings on the market, while offshore capital inflows have moderated from their peak in 2015.

Notably, the market in 2016 has seen local bidders gaining the upper hand over offshore buyers, which dominated the market in the previous five years. The total purchase volume by local unlisted funds and syndicates has risen strongly by 19% YoY to \$1.49 billion, accounting for 43% of the total volume. On the other hand, whilst foreign investors remained active net buyers in 2016, their investment levels were lower than previous years. Foreign investment into the Sydney CBD fell 64% YoY to \$1.35 billion or 39% of the total deal value. As CBD asset prices continue to rise amid the lack of opportunities, offshore buyers are being driven up the risk curve to target suburban and non-core assets.

By the number of transactions, there were 24 properties (\$10m+) exchanged in 2016, slightly fewer than the total of 28 deals closed in 2015. Transaction numbers have declined for the sixth year in a row, reflecting the continued tightening of available stock in the Sydney CBD, a trend expected to continue over 2017. Suburban locations and value-add properties will be in favour by both offshore and local investors.

FIGURE 2
Sydney CBD Sales Volumes
\$ million total transaction value (\$10million+)



Source: Knight Frank Research

1. 420 GEORGE ST

Price: \$592.50 million[^]

Date: April (75%) & July (25%) 2016

NLA: 37,688m²

Rate/m² of NLA: \$15,721

Yield: c.5.21% core market (5.31% initial)

Vendor: Fortius (FAPT1)-75%/Lendlease (APFPC)-25%

Purchaser: Investa (ICPF)/Mercer

Comments: A-Grade office building in the Mid-Town Precinct with dual frontage to George St and Pitt St Mall. Fully leased with anchor tenants including State Street and AECOM. **Sold with a WALE of 5.2 years.**

2. MACQUARIE GROUP BUILDING, 1 SHELLEY ST

Price: \$525.00 million

Date: May 2016

NLA: 32,985m²

Rate/m² of NLA: \$15,916/m²

Yield: 5.36% core market (4.90% initial)

Vendor: Brookfield (Leasehold)

Purchaser: Charter Hall (CPOF)/Morgan Stanley (MSREI)

Comments: Two A-Grade office buildings completed in 2009. Leasehold interest expires in 2108. **Fully leased to Macquarie Group with a WALE of 7.5 years.**

3. AMP BUILDING, 33 ALFRED ST

Price: c.\$430.00million (reported)

Date: December 2016

NLA: 31,759m²

Rate/m² of NLA: c.\$13,539/m²

Yield: Undisclosed

Vendor: AMP Life Ltd.

Purchaser: ADPF* and AWOFF#

Comments: The 26 storey A-Grade office building was sold to AMP's two wholesale funds; ADPF and AWOFF. **The subject property is adjacent to the proposed Circular Quay Sydney (QQS) Tower at 50 Bridge St.**

4. COLONIAL BUILDING, 39 MARTIN PL

Price: \$332.00 million

Date: November 2016

NLA: 16,341m² (inc. 1,816m² retail)

Rate/m² of NLA: \$20,317/m² (blended)

Yield: N/A

Vendor: DEXUS Property Group-50%/DEXUS Wholesale Property Fund-50%

Purchaser: Transport for NSW

Comments: The property was acquired for the construction of the Sydney Metro project. **The existing building is expected to be demolished in the first half of 2017.**

5. 55 CLARENCE ST

Price: \$169.00 million (reported)

Date: December 2016[±]

NLA: 14,896m²

Rate/m² of NLA: \$11,345/m²

Yield: c.6.0% initial

Vendor: Eureka (obo Aria Property Fund)

Purchaser: AEW Capital Management

Comments: A refurbished 22 storey B-Grade office building located in the Western Corridor Precinct of the Sydney CBD. **The property was sold fully leased with a WALE of 2.2 years.**

6. 77 KING ST (EX. APPLE STORE)

Price: \$160.00 million

Date: January 2016

NLA: 13,626m²

Rate/m² of NLA: \$11,742/m²

Yield: 5.76% core market (5.70% initial)

Vendor: Keppel REIT (Singapore)

Purchaser: Invesco Asia Core Fund

Comments: 18 level A-Grade office building and retail component (ex. Apple store). Major tenants include Apple, Capgemini and CEB International. **The building was sold at a WALE of 4.2 years.**

[^] Acquired by Investa and Mercer in two tranches

* AMP Capital Diversified Property Fund # AMP Capital Wholesale Office Fund.

± Contract date. Settlement is expected in February 2017.

7. 71 MACQUARIE ST

Price: \$158.50 million

Date: May 2016

NLA: 9,447m²

Rate/m² of NLA: \$16,778/m²

Yield: N/A

Vendor: AMP Life Ltd.

Purchaser: Macrolink/Landream

Comments: The property was purchased for conversion into a 20 storey apartment building comprising residential units, service apartments and retail space.

8. 179 ELIZABETH ST

Price: \$148.80 million

Date: January 2016

NLA: 15,024m²

Rate/m² of NLA: \$9,904/m²

Yield: 6.67% core market (6.96% initial)

Vendor: LaSalle Asian Opportunity Fund III

Purchaser: M6 Property Trust

Comments: A 21 level A-Grade office building to be redeveloped into an apartment and hotel complex.

9. 140 SUSSEX ST & 29A KING ST

Price: \$130.00 million

Date: June 2016

NLA: 12,400m²

Rate/m² of NLA: \$10,450/m²

Yield: 5.75% core market (5.79% initial)

Vendor: RREEF Real Estate

Purchaser: Bank of China

Comments: B-grade property completed in 1991 and subsequently refurbished in 2001. The building is fully occupied with a WALE of 1.2 years.

10. 149 CASTLEREAGH ST

Price: \$120.00 million

Date: March 2016

NLA: 12,854m² (inc. 2,468m² retail)

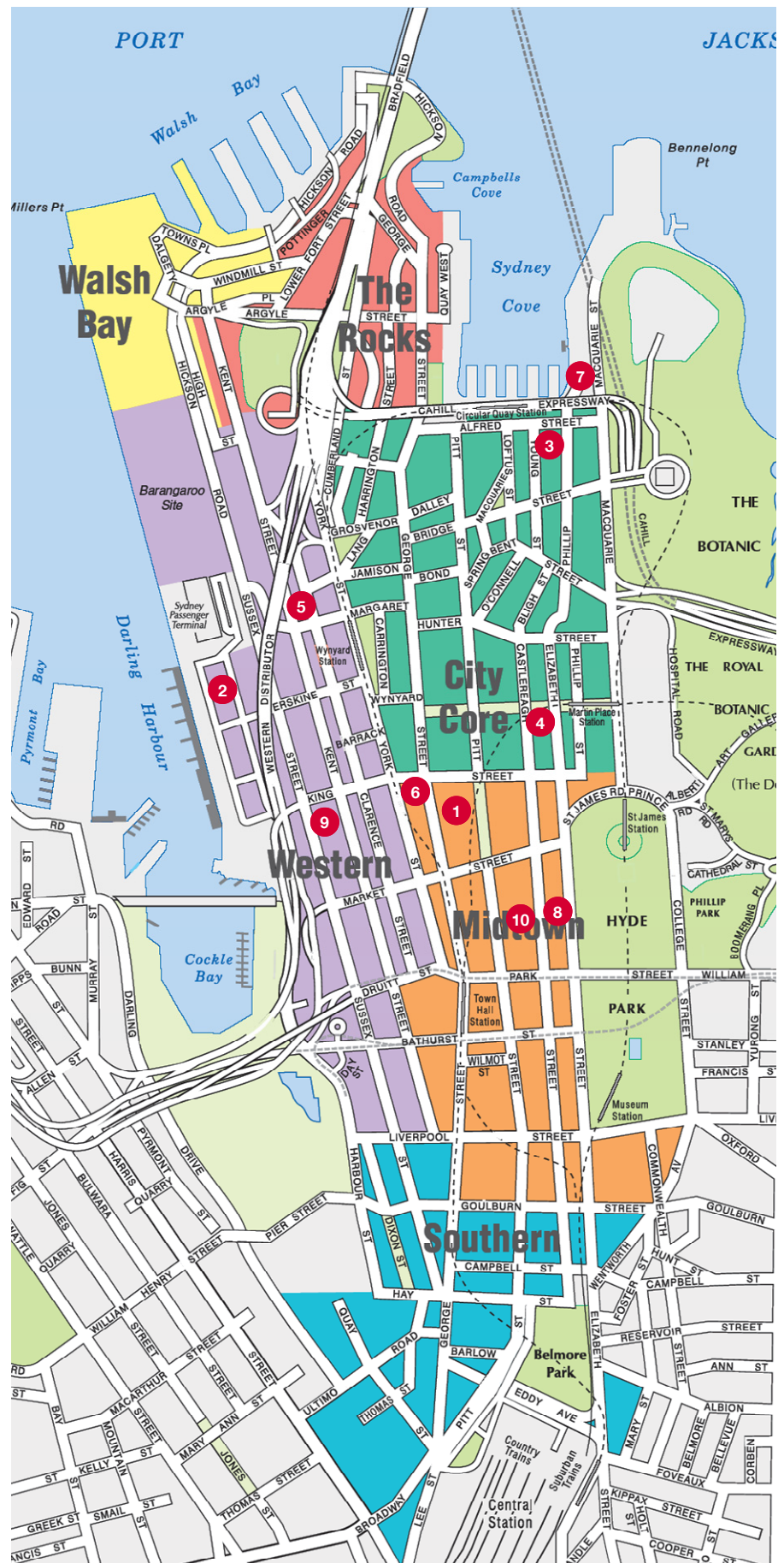
Rate/m² of NLA: \$9,336/m² (blended)

Yield: 6.04% core market (5.57% initial)

Vendor: Blackstone (obo Acorn II)

Purchaser: Deutsche AM (obo Oak Invest.)

Comments: A 13 storey office tower located in the Midtown Precinct of the Sydney CBD. The property was sold with a WALE of 4.4 years.



MELBOURNE CBD

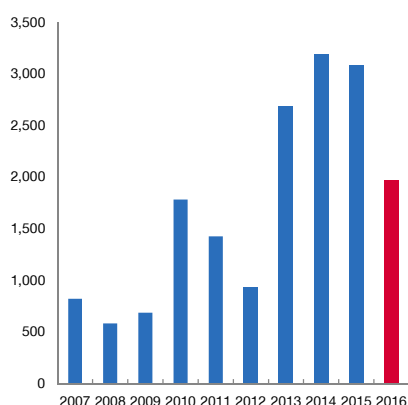
Impacted by a scarcity of investment opportunities, rather than a lack of investor appetite, office investment sales activity (\$10m+) in 2016, within the Melbourne CBD, fell by 36% from the preceding 12 months. In 2016, \$1.97 billion was transacted across 23 properties within the Melbourne CBD office market, down from the \$3.08 billion recorded in 2015.

Domestic unlisted funds and syndicates acquired 45% of all sales by value. While offshore groups still accounted for 35% of all sales, cross-border investment into Melbourne totalled \$687 million, well down from the \$2.26 billion invested in 2015. Singaporean and Chinese-based investors acquired the majority of CBD assets purchased by foreign investors, however Swiss-based investors also were active.

Outside of the CBD, office investment in the Southbank office market reached record highs, with sales totalling \$1.22 billion, including Melbourne's largest office sale in 2016—the Southgate Complex for \$578.0 million.

Buoyed by Melbourne's rental outlook, yields have continued to compress, evidenced by the 207 basis point compression of the core market yield recorded for 380 La Trobe Street since its last transaction in November 2013.

FIGURE 3
Melbourne CBD Sales Volumes
\$ million total transaction value (\$10million+)



Source: Knight Frank Research

1. SOUTHGATE COMPLEX*

Price: \$578.00 million

Date: August 2016

NLA: 76,208m² ‡

Rate/m² of NLA: \$7,585

Yield: Undisclosed

Vendor: DEXUS

Purchaser: ARA Asset Management & Entities including Suntec REIT

Comments: The Southgate complex contains **two A-grade offices, the HWT tower (30,124m²) and the IBM Centre (36,228m²) plus a three level retail plaza (9,856m²).**

2. 839 COLLINS ST

Price: c. \$450.00 million tbc

Date: December 2016

NLA: c. 39,00m²

Rate/m² of NLA: c. \$11,538/m²

Yield: Reported c. 5.0%

Vendor: Lendlease

Purchaser: Undisclosed

Comments: The under construction campus-style building is located adjacent to ANZ's headquarters in the Victoria Harbour precinct of the Docklands. The development is **scheduled for completion in mid-2019.**

3. 28 FRESHWATER PL*

Price: \$286.00 million

Date: August 2016

NLA: 33,992m²

Rate/m² of NLA: \$8,414/m²

Yield: 5.91% core market (6.54% initial)

Vendor: GPT / Frasers Property Australia

Purchaser: JP Morgan Asset Management

Comments: The fully leased A-grade 26 level tower was completed in 2009 is leased to a range of tenants including Incitec Pivot, CPA Australia and WSP Parsons Brinckerhoff and was sold with a **WALE of 3.56 years.**

4. 100 QUEEN ST

Price: \$274.50 million

Date: December 2016

NLA: 36,630m²

Rate/m² of NLA: c. \$7,494/m²

Yield: Undisclosed

Vendor: ANZ Bank

Purchaser: GPT Wholesale Office Fund

Comments: **ANZ will fully lease back the iconic Gothic-style building, located on the corner of Collins and Queen Streets until 2019, prior to their move to their new Docklands office.**

5. 75 DORCAS ST*

Price: \$166.00 million

Date: June 2016

NLA: 23,811m²

Rate/m² of NLA: \$6,972/m²

Yield: 6.85% core market (6.80% initial)

Vendor: SachsenFonds

Purchaser: Growthpoint Properties

Comments: Constructed in 2002 and partly refurbished in 2015, the 11-storey A-grade office, **fully leased to the ANZ Bank (57.7% of NLA), Mondelez (19.2%) and BMW (15.4%),** was sold with a WALE of 4.5 years.

6. 120 SPENCER ST

Price: \$165.00 million

Date: April 2016

NLA: 33,258m²

Rate/m² of NLA: \$4,961/m²

Yield: Undisclosed

Vendor: Harry Stamoulis

Purchaser: Anton Capital

Comments: The 23-level office building, located opposite the Southern Cross Station, offers large floorplates is **occupied by a range of government and educational tenants** with 10% of the NLA vacant at the time of sale.

‡ Includes 9,856m² retail accommodation

BRISBANE CBD & FRINGE

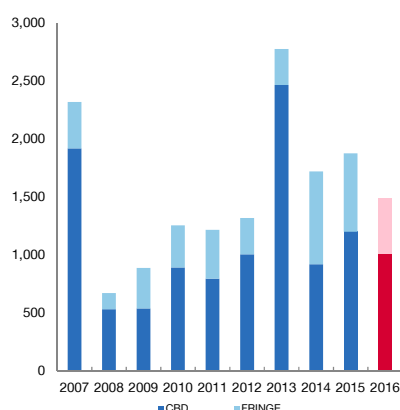
Investment demand for Brisbane office assets remained elevated throughout the course of 2016. However, on a par with the other major East Coast cities, the investment turnover for 2016 was at lower levels than for recent years. With only four assets transacting above \$100 million, the lack of core assets and assets of significant scale has limited activity. Nevertheless offshore investment activity has continued to grow, reaching \$677.2 million or 39%, however below unlisted funds with 59% of transactions.

Transaction levels (\$10 million+) within the key office markets of the Brisbane CBD and Fringe, totalled \$1.48 billion for 2016. This total is below the \$1.72 billion and \$1.87 billion recorded in 2014 and 2015 respectively. The CBD accounted for 68% of this total with the Fringe continuing to consolidate as a genuine investment alternative with 42%. 2017 is expected to see continued high investment activity with 307 Queen St, CBD under contract for a reported \$152 million and Green Square South Tower, Fortitude Valley under contract for c\$200 million. Campaigns have also recently completed for 35 Boundary St, South Brisbane and 50 Ann Street CBD.

Yields remained on a firming trend over 2016, with the Brisbane CBD continuing to have a substantial margin of c130 basis points to the Sydney and Melbourne across the prime markets.

FIGURE 4

Brisbane CBD & Fringe Volumes
\$ million total transaction value (\$10million+)



Source: Knight Frank Research

1. 111 EAGLE STREET, CBD

Price: \$284.20 million (33%)

Vendor: ADIA

Date: December 2016

Purchaser: GPT Wholesale Office Fund

NLA: 63,800m²

Comments: Premium 47 level office building located on the Brisbane River and completed in 2012. This 33% share was purchased via the exercise of an option by GWOFF. **Typical floors of 1,450m².**

Rate/m² of NLA: \$13,363/m²

Yield: undisclosed

2. 300 QUEEN STREET, CBD

Price: \$188.00 million

Vendor: Seymour Group

Date: June 2016

Purchaser: ARA Asset Management

NLA: 19,364m²

Comments: 22 level office building constructed in 1984 and refurbished 2010/11. Central location with 1,234m² of ground level retail and parking for 128 cars. **Sold with WALE of 4.57 years and limited vacancy.**

Rate/m² of NLA: \$9,709/m²

Yield: 6.73% core market (7.32% initial)

3. 41 GEORGE STREET, CBD

Price: \$159.80 million

Vendor: QIC

Date: January 2016

Purchaser: Basil Property Trust

NLA: 29,960m²

Comments: 27 level office building constructed in 1979 and refurbished 1997. Fully leased to Qld Government until June 2021. (WALE of 5.2 yrs). **Located opposite the Queens Wharf development site.**

Rate/m² of NLA: \$5,334/m²

Yield: 8.58% core market (8.70% initial)

4. 324 QUEEN STREET, CBD

Price: \$132.00 million

Vendor: Brookfield Property Partners & DEXUS Wholesale Fund

Date: December 2016

Purchaser: Abacus Property Group & Investec Australia property Fund

NLA: 19,874m²

Comments: 22 level office building located on a high profile corner and large ground floor retail component. Property was circa 80% leased at the time of sale with a WALE of 3.2 years. **Well located value-add opportunity.**

Rate/m² of NLA: \$6,642/m²

Yield: 7.17% core market (6.96% initial)

5. 215-247 CORONATION DRIVE, MILTON

Price: \$94.90 million

Vendor: Investa Commercial Property Fund

Date: August 2016

Purchaser: Shayher Group

NLA: 20,823m²

Comments: Office park with a total NLA of 20,823m² across four office buildings – KR1 (3,907m², 1989), KR2 (5,803m², 1991) and KR3+4 (11,113m², 1996). **Medium to longer term development site, WALE 1.4 yrs.**

Rate/m² of NLA: \$4,706/m²

Yield: 7.79% core market (7.21% initial)

6. 100 SKYRING TERRACE, NEWSTEAD

Price: \$93.10 million (50% interest)

Vendor: PSP Investments

Date: February 2016

Purchaser: Charter Hall DOF

NLA: 24,665m²

Comments: Modern office building with large floorplates of 2,200m² and largely leased to Bank of Queensland, showing a WALE of 10.1 years. **Transfer between joint venture partners.**

Rate/m² of NLA: \$7,550/m²

Yield: 6.78% core market (5.90% initial)

7. 15 BUTTERFIELD ST, HERSTON

Price: \$81.47 million

Date: February 2016

NLA: 11,253m²

Rate/m² of NLA: \$7,240/m²

Yield: 7.12% core market (7.23% initial)

Vendor: Private Investor

Purchaser: Australian Unity Healthcare

Comments: Fully leased to QLD Health with a WALE of 4.5 years.

8. 10 BROWNING ST, SOUTH BRISBANE

Price: \$65.50 million

Date: June 2016

NLA: 11,214m²

Rate/m² of NLA: \$5,841/m²

Yield: 7.61% core market (8.10% initial)

Vendor: Armada Syndicate

Purchaser: Forza Property Holdings

Comments: Three level building with hotel and retail component. WALE of 5.2 years.

9. ROMA STREET TRANSIT CENTRE, CBD

Price: \$62.60 million (50%)

Date: March 2016

NLA: 29,521m²

Rate/m² of NLA: \$4,242/m²

Yield: 8.38% core market

Vendor: GPT Wholesale Office Fund

Purchaser: APPF Commercial Fund

Comments: 50% interest transfer between previous joint owners. 754 bay car park and 3,205m² retail concourse.

10. 80 ANN ST & 89 TURBOT ST, CBD

Price: \$62.50 million

Date: March 2016

NLA: 14,429m²

Rate/m² of NLA: \$4,332/m²

Yield: n/a

Vendor: QIC Investment Management

Purchaser: Wee Hur Holdings

Comments: Development site with office building to Ann St (to be vacated by QLD Govt by April 2017) site to the rear.

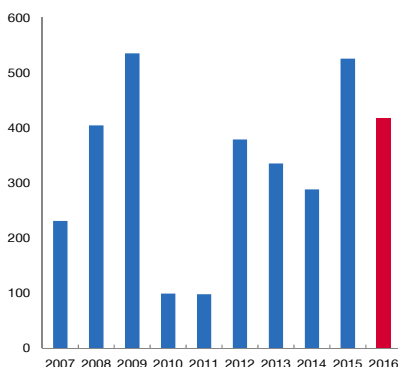


CANBERRA

Investment activity in the Canberra office market remained solid throughout 2016 as both local and offshore investors were drawn to the elevated yield metrics on offer when compared to Sydney and Melbourne. In 2016, office sales (\$10m+) totalled \$418.65 million, down 20% from the heights recorded in 2015. However, by number, transaction volumes remained elevated in 2016 with 2015 volumes by value skewed by the sale of the Louisa Lawson building (\$224.5 million). Sales activity remains focussed in the Civic precinct where an improvement in leasing fundamentals has occurred. Notable sales in Civic included Infrastructure House for \$76.5 million and 62 Northbourne Avenue for \$58.5 million (gross). With both assets trading at sub 7% core market yields, further clarity to the firming of yield metrics in the CBD was provided.

With buying opportunities remaining limited in the prime market, investors are increasingly becoming more willing to move up the risk curve and purchase secondary assets with more leasing and vacancy risk. In addition, an improving residential market has increased demand from opportunistic purchasers seeking value add/change of use opportunities, highlighted by the sale of NRMA House (92 Northbourne Ave, Civic) for \$25.025 million. Investment activity in 2017 is expected to remain strong with a number of assets either in DD or on the market for sale including 50 Marcus Clarke Street, Civic and 39 Brisbane Avenue, Barton amongst others.

FIGURE 5
Canberra Sales Volumes
\$ million total transaction value (\$10mil+)



Source: Knight Frank Research

1. INFRASTRUCTURE HOUSE, 111 ALINGA ST, CIVIC

Price: \$76.50 million<

Date: August 2016

NLA: 16,413m²

Rate/m² of NLA: \$4,661/m²

Yield: 6.97% core market

Vendor: Brookfield Australia

Purchaser: Prime Super ‡

Comments: Eight level A-grade building built in 1987 with extensive refurbishment works between 2007 and 2009. **100% leased to Department of Infrastructure & Regional Development with a WALE of 10 years.**

2. SCARBOROUGH HOUSE, 8 ATLANTIC ST, WODEN

Price: \$72.33 million

Date: November 2016

NLA: 16,782m²

Rate/m² of NLA: \$4,310/m²

Yield: 7.0% initial

Vendor: IRIT #

Purchaser: Centuria Property Funds Ltd

Comments: Located in the Woden town centre, the property was built in 1972, however underwent a \$32 million upgrade in 2005. **The Department of Health occupy 98% of the building. WALE of 9.9 years.**

3. AVIATION HOUSE, 16 FURZER ST, PHILLIP

Price: \$68.07 million

Date: May 2016

NLA: 14,812m²

Rate/m² of NLA: \$4,596/m²

Yield: 8.09% core market

Vendor: Mirvac Commercial Sub SPV Pty Ltd

Purchaser: Patella Properties Pty Ltd

Comments: Modern A-grade office building completed in 2007 incorporating ground floor retail and eight office levels. **Occupied by four tenants (including café), anchored by Civil Aviation Safety Authority. WALE of 4.8 years.**

4. 62 NORTHBOURNE AVE, CIVIC

Price: \$58.50 million ∞

Date: September 2016

NLA: 10,218m²

Rate/m² of NLA: \$4,747/m²

Yield: 6.49% core market

Vendor: Credit Suisse ^

Purchaser: Ascot Capital Pty Ltd

Comments: Constructed in 1987, the seven level office complex is **100% occupied by the Department of Infrastructure & Regional Development who recently renewed for a further 10 years. WALE of 9.8 years.**

5. 14 MORT ST, CIVIC

Price: \$41.50 million

Date: February 2016

NLA: 9,384m²

Rate/m² of NLA: \$4,423/m²

Yield: 7.42% core market

Vendor: Charter Hall

Purchaser: Ascot Capital Pty Ltd α

Comments: Eight level office complex incorporating 62 car spaces. Built in 1996 with 2013-14 refurbishment works, the building is fully leased to the Department of Employment. **WALE of 9.1 years.**

6. 73 NORTHBOURNE AVE, CIVIC

Price: \$29.20 million

Date: April 2016

NLA: 6,112m²

Rate/m² of NLA: \$4,777/m²

Yield: 7.85% core market

Vendor: Hume Partners Property

Purchaser: South Haven Group

Comments: Fully leased to five tenants, the six level office building was built in 1987. Anchored by The Australian Fisheries Management Authority, the building was sold with a **WALE of 3.1 years.**

7. 92 NORTHBOURNE AVE, BRADDON >

Price: \$25.025 million

Date: July 2016

NLA: 3,465m²

Rate/m² of NLA: \$7,222/m²

Yield: VP

Vendor: IAG

Purchaser: Geocon

Comments: An existing six level office building purchased for alternative use. The 6,270m² site will be developed to accommodate residential, hotel and commercial uses. **Sold as vacant possession.**

8. LIMESTONE AVE, CAMPBELL *

Price: \$20.00 million

Date: June 2016

NLA: 6,123m²

Rate/m² of NLA: \$3,266/m²

Yield: VP

Vendor: Abacus Property Group

Purchaser: Doma Group

Comments: Currently home to a 6,123m² office building, the site was the former headquarters of the CSIRO. The 4.1 hectare site was purchased for redevelopment into residential uses. **Sold as vacant possession.**

9. 197 LONDON CCT, CIVIC ±

Price: \$13.525 million

Date: January 2016

NLA: 5,883m²

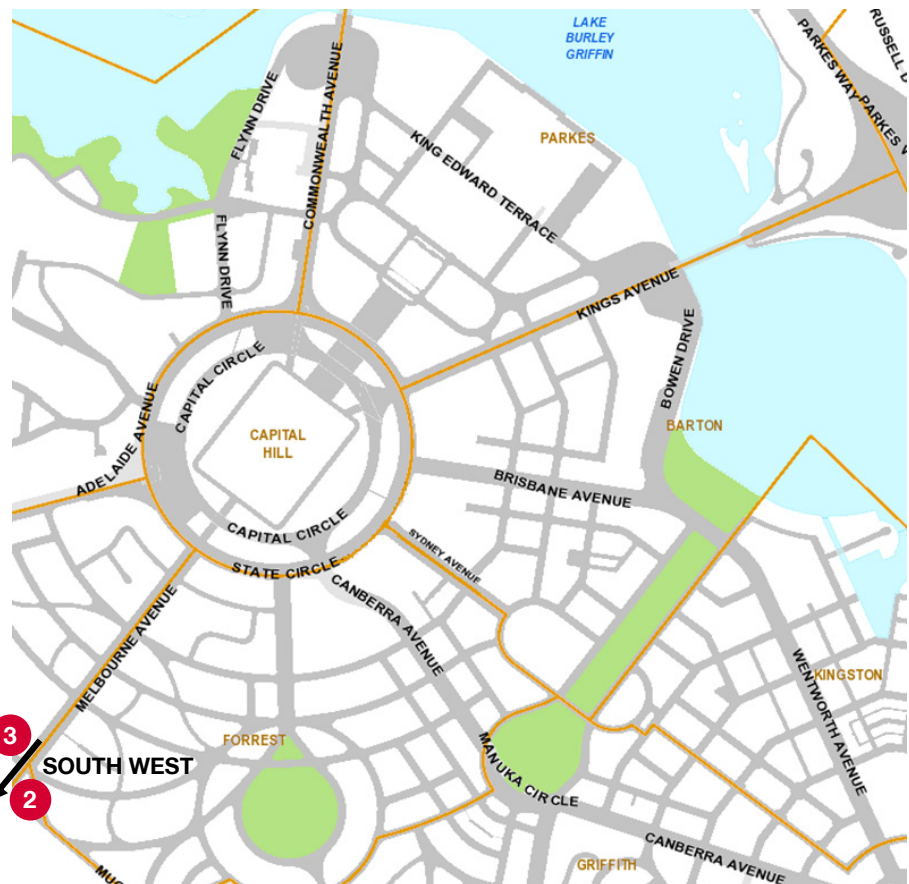
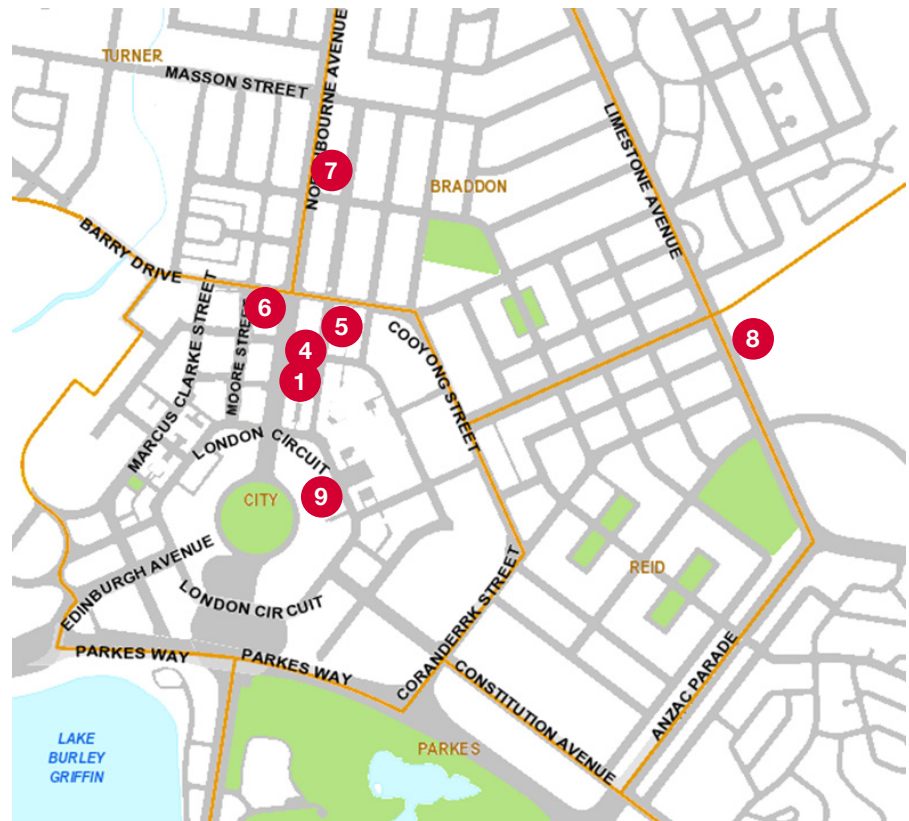
Rate/m² of NLA: \$2,299/m²

Yield: 9.82% core market

Vendor: Private Investor

Purchaser: Zapari Group

Comments: An 11 level C-grade office building constructed in 1967. The building is occupied by the ACT Government while there was a 3.6% vacancy at the time of sale. It is understood that the purchaser was seeking to redevelop the site to accommodate a hotel given the **WALE** of 0.9 years.



Map source: ACT Planning and Land Authority (ACTMAPi)

‡ Prime Super Infrastructure House Pty Ltd

Indigenous Real Estate Investment Trust

^ Credit Suisse Real Estate Fund International

∞ Sale price to be adjusted by \$10 million to cover the abatement over the term of the lease. The 'net sale price' is \$48.5 million

α Ascot Capital 14 Mort Street Property Trust > NRMA House * CSIRO Building VP: Vacant Possession ± Also known as Eclipse House

< The price illustrated is the agreed amount prior to adjustments for outstanding incentives (rental abatement over the term of the lease) and Landlord Upgrade Works.

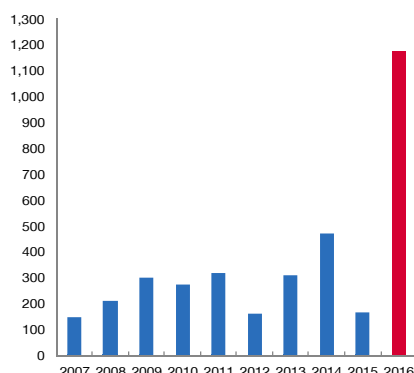
ADELAIDE

Calendar year office sales (\$10 million+) have reflected the recent high level of investor interest in Adelaide. Results in 2016 were significant, with total transactions of \$1.18 billion recorded, a figure well above the \$173.8 million achieved in the previous calendar year. Transaction levels were boosted by the sale of several assets considered to offer some of Adelaide's best office accommodation including 91 King William Street and 25 Grenfell Street.

Investment activity was concentrated over two periods, with a number of transactions occurring at the beginning of the year, before gaining significant momentum toward the end of 2016. A handful of additional assets are currently under contract or in due diligence which, if they proceeded, will result in settlements that carry over into 2017. Despite this, there were few Frame, Fringe or metropolitan sales above \$10 million during the year.

Adelaide has experienced increased activity from overseas and institutional investors focused within the CBD Core, with 2016 headlined by Blackstone's purchase of 80 Grenfell Street and Rundle Place for \$400 million, and Credit Suisse's purchase of 25 Grenfell Street for \$125.1 million. Adelaide presents as an alternative investment opportunity for investors, with prime yields remaining 100-150 basis points higher than the eastern seaboard.

FIGURE 6
Adelaide Sales Volumes
\$ million total transaction value (\$10mil+)



Source: Knight Frank Research

1. 80 GRENFELL STREET AND RUNDLE PLACE

Price: \$400.00 million

Date: January 2016

NLA: 46,635m² (Office & Retail)

Rate/m² of NLA: \$8,577/m²

Yield: c 6.50% core market

Vendor: epc.Pacific

Purchaser: Blackstone Singapore Pte. Ltd.

Comments: A modern 12 level A-Grade office tower and retail shopping complex sold with a WALE of 9.8 years and fully leased to Bendigo & Adelaide Bank. The Office tower component represents approximately 45% of the value.

2. 12-26 FRANKLIN STREET

Price: \$266.13 million

Date: October 2016

NLA: 36,802m²

Rate/m² of NLA: \$7,125/m²

Yield: 6.00% core market (6.56% initial)

Vendor: Charter Hall Prime Office Fund

Purchaser: Charter Hall Long WALE REIT

Comments: A 20 level A-Grade office tower sold with a WALE of 10.8 years. The Australian Taxation Office occupies 91% of the building's total NLA until 2027. Sold with income support to negate effective mid term rent reviews.

3. 25 GRENFELL STREET

Price: \$125.10 million

Date: December 2016

NLA: 25,544m²

Rate/m² of NLA: 4,929/m²

Yield: 7.48% core market (6.67% initial)

Vendor: GDI Funds Management Limited

Purchaser: Credit Suisse

Comments: A 20 level Premium Grade office tower and retail plaza sold with a WALE of 5.0 years. The major tenant, the Minister for Transport (SA Govt), occupies 23% of the building's total NLA until January 2024.

4. 91 KING WILLIAM STREET

Price: \$88.50 million (50% interest)

Date: December 2016

NLA: 31,395m²

Rate/m² of NLA: \$5,638/m²

Yield: 7.00% core market (6.78% initial)

Vendor: Abacus Funds

Purchaser: Local Private Syndicate

Comments: A 31 level Premium Grade office tower and Adelaide's tallest building sold with a WALE of 3.1 years. The major tenant, the Minister for Transport (SA Govt), occupies 31.6% of the building's total NLA until 2020.

5. 108 NORTH TERRACE

Price: \$86.50 million

Date: September 2016

NLA: 20,073m²

Rate/m² of NLA: \$4,309/m²

Yield: 8.48% core market (6.40% initial)

Vendor: Abacus Funds

Purchaser: Local Private Syndicate

Comments: A 10 level A-Grade office tower sold with a WALE of 3.6 years. Optus Administration occupies 37% of the building's total NLA until 2022. Sale includes an adjoining Community Strata Titled car park.

6. 30 FLINDERS STREET

Price: \$63.50 million

Date: February 2016

NLA: 13,838m²

Rate/m² of NLA: \$4,589/m²

Yield: 7.30% core market (7.61% initial)

Vendor: Shakespeare Property Group

Purchaser: Private Investor

Comments: An 11 level B-Grade office building that recently underwent extensive refurbishment. Sold with a WALE of 4.4 years assuming early termination rights are exercised by three of the major tenants (58% of the NLA).

7. 19 GRENFELL ST

Price: \$39.20 million

Date: February 2016

NLA: 10,786m²

Rate/m² of NLA: \$3,634/m²

Yield: 8.86% core market (8.21% initial)

Vendor: Private Investor

Purchaser: Shakespeare Property

Comments: A 17 level B-Grade office building sold with a WALE of 2.1 years and vacancy of 20.9%. Mechanical services were recently upgraded.

8. 97 KING WILLIAM ST

Price: \$29.00 million

Date: December 2016

NLA: 15,115m²

Rate/m² of NLA: \$1,919/m²

Yield: 6.62% core market (5.97% initial)

Vendor: Charter Hall (CPOF)

Purchaser: Centennial Property Group

Comments: An 11 level B-Grade office/retail building sold fully leased to Westpac (BankSA) with a WALE of 4.8 years. Passing rent is below market levels.

9. 30 CURRIE ST

Price: \$28.75 million

Date: February 2016

NLA: 9,184m²

Rate/m² of NLA: \$3,130/m²

Yield: 8.22% core market (4.51% initial)

Vendor: Private Investor

Purchaser: Shakespeare Property

Comments: A 10 level B-Grade office building sold with a WALE of 1.1 years and vacancy of 46.2%. The building has a 2.0 Star NABERS Energy Rating.

10. 233 NORTH TCE

Price: \$21.00 million

Date: December 2016

NLA: 4,102m²

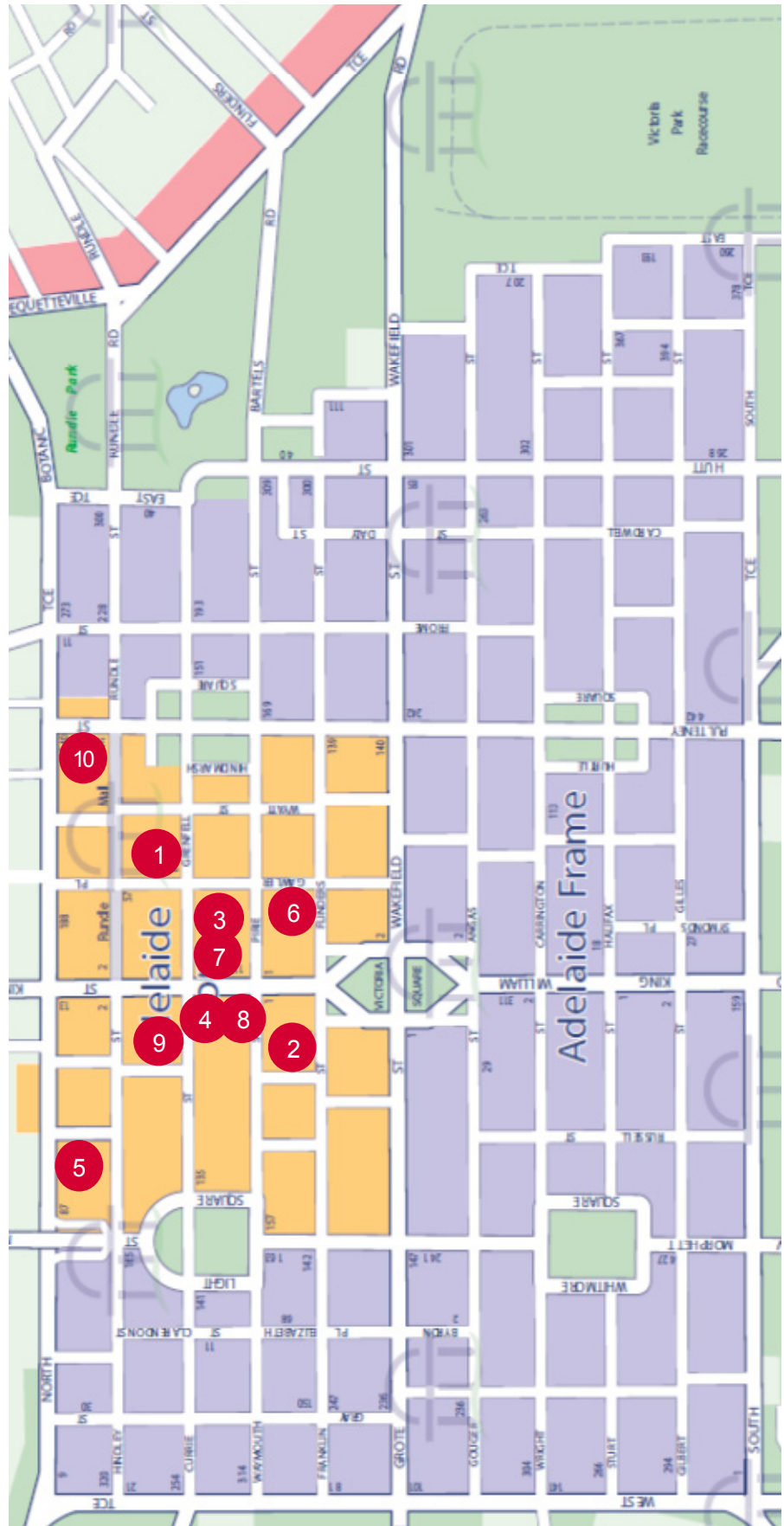
Rate/m² of NLA: \$5,119/m²

Yield: 6.81% core market (6.81% initial)

Vendor: Australian Fashion Labels

Purchaser: Private Investor

Comments: A circa 1925, six level office building sold on a 10 year leaseback basis. The building recently received an extensive refurbishment.



Map Source: Property Council of Australia

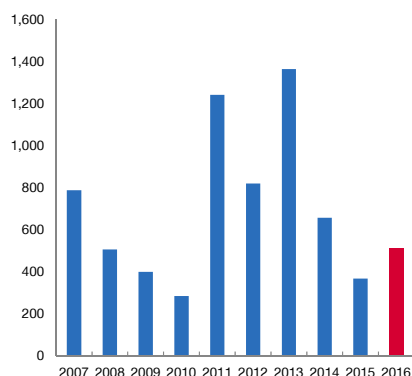
PERTH

Investment activity remained subdued in Perth over 2016 with total transaction value of \$508.6 million. While this represented a recovery in transaction turnover of almost 40% against 2015 levels, turnover remains well below the peak activity of 2013 when \$1,363.5 million in office assets was transacted.

Offshore buyers dominated purchasing activity in 2016, accounting for 78% of investments. Groups such as YT International, ARA Group, Zone Q and GAW Capital Partners have been drawn to the value-add opportunities within the Perth market. The largest office market transaction of 2016 was the \$193.60 million purchase of 219-221 St Georges Terrace in early 2016. Purchased by YT International this was the first major office asset divested by the Insurance Commission of WA's (ICWA) portfolio sale. Also divested by ICWA in 2106 was 167 St George's Terrace, purchased by Zone Q for \$87 million. The third major office asset in the portfolio, Westralia Square, remains in ICWA's ownership.

With investment opportunities diminishing in the major East-Coast markets and investors demonstrating greater appetite for value-add investments it is expected that Perth will receive greater investment demand and activity over the course of 2017. The investment market is set to begin strongly in 2017 with WorkZone East under contract over the New Year period for \$68.25 million.

FIGURE 7
Perth Sales Volumes
\$ million total transaction value (\$10mil+)



Source: Knight Frank Research

1. 219-221 ST GEORGES TERRACE, CBD

Price: \$193.60 million

Date: February 2016

NLA: 31,434m²

Rate/m² of NLA: \$5,423/m²

Yield: 7.77% core market (7.33% initial)

Vendor: Insurance Commission of WA

Purchaser: YT International Pty Ltd

Comments: Opened in 1986, this 31-storey office building includes a tennis court, swimming pool and conference facility. Refurbishments were completed to the internal and external façade.

2. 2 THE ESPLANADE, CBD (50% SHARE)

Price: \$110.00 million

Date: March 2016

NLA: 34,432m²

Rate/m² of NLA: \$6,389/m²

Yield: 7.34% core market (6.47% initial)

Vendor: Colonial Private Property Syndicate

Purchaser: Primewest

Comments: Premium Grade 41-level office development with 5 levels of basement car parking. The building was originally completed in 1992 and has since undergone lobby refurbishments to be completed in late 2016. Leasehold site.

3. 81 ST GEORGES TERRACE, CBD

Price: \$82.95 million

Date: March 2016

NLA: 12,225m²

Rate/m² of NLA: \$6,785/m²

Yield: 7.08% core market (7.08% initial)

Vendor: Nick Tana

Purchaser: ARA Group

Comments: B-grade office building with 11 levels of office accommodation with retail on the ground floor and 2 levels of car parking. The property has easterly views along St Georges Terrace.

4. 167 ST GEORGES TERRACE, CBD

Price: \$87.00 million

Date: July 2016

NLA: 10,585m²

Rate/m² of NLA: \$8,219/m²

Yield: 6.22% core market (8.77% initial)

Vendor: Insurance Commission of WA

Purchaser: Zone Q

Comments: Westralia Plaza is a 2010 constructed building comprising of 11 levels of office accommodation above four retail tenancies, fronting a ground level pedestrian thoroughfare. The building has two levels of basement parking and end of trip facilities.

5. 80 STIRLING ST, NORTHBRIDGE

Price: \$35.00 million

Date: September 2016

NLA: 19,862m²

Rate/m² of NLA: \$1,762/m²

Yield: n/a

Vendor: CorVal Value Active Fund

Purchaser: GAW Capital

Comments: The eight level building is fully leased to Telstra until August 2017. The purchaser is planning to convert the building into a 600+ bed student accommodation facility. Located on a large site of 6,071m² to the north of the Perth CBD.

Note. Sales include transactions that occurred in CBD surrounding suburbs

SYDNEY NON-CBD

Sydney non-CBD office markets enjoyed a stellar year of investment activity in 2016 with the total investment value jumping by 15% YoY to \$4.18 billion. This is the second strongest investment level since the GFC and the first time in eight years that non-CBD markets have surpassed the CBD market in value terms. Diverse opportunities coupled with improved leasing fundamentals and attractive pricing metrics have been the key attributes enticing investment into Sydney non-CBD office markets in 2016.

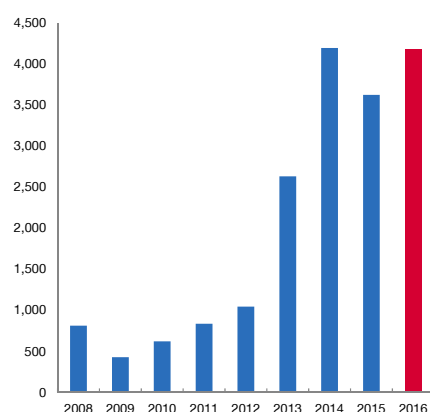
Offshore investors were the most active net buyers for non-CBD assets with a total acquisition value of \$1.78 billion in 2016, a substantial increase of 40% YoY. Almost half of transactions outside of the Sydney CBD (43% of total value) in 2016 were purchased by cross-border buyers. Among them, Chinese investors were the most acquisitive with a total purchase of \$497 million, followed by Singaporean institutions with \$493 million worth of non-CBD office acquisitions.

There were 54 non-CBD office properties (\$10m+) sold in 2016. Even though the number of transactions was lower compared to the previous year (68 deals), the average deal size has increased by 45% to \$77 million. This is attributed to a number of significant transactions of over \$100 million and the increased participation of institutional investors in the suburban office markets in 2016.

FIGURE 8

Sydney Non-CBD Sales Volumes

\$ million total transaction value (\$10mil+)



Source: Knight Frank Research

1. 100 MOUNT ST, NORTH SYDNEY

Price: \$508.00 million (est.)*

Vendor: Laing O'Rourke

Date: April 2016

Purchaser: DEXUS Property Group & DWPF

NLA: 41,419m²

Comments: Fund through development deal with Laing O'Rourke being the builder. **The new development will incorporate a 34-level premium office building with planned staged practical completion from June 2018 to December 2018.**

Rate/m² of NLA: \$12,341/m²

Yield: N/A

2. 1 WOOLWORTHS WAY, BELLA VISTA

Price: \$336.45 million

Vendor: Mirvac

Date: January 2016

Purchaser: Inmark (obo S. Korean institutions)

NLA: 44,828m²

Comments: A-Grade campus style property fully leased to Woolworths with a 15.9 year WALE. The site comprises of three existing office buildings with DA approved for a 4th building and a multi-storey car park for 958 vehicles.

Rate/m² of NLA: \$7,505/m²

Yield: 5.78% core market (6.07% initial)

3. 100 ARTHUR ST, NORTH SYDNEY

Price: \$313.25 million

Vendor: Townwood Ltd. (advised by Altis)

Date: January 2016

Purchaser: Ascendas-Singbridge

NLA: 27,395m²

Comments: A-Grade 20-storey office building completed in 2007 with expansive harbour views and 137 parking spaces. **The property was sold fully leased with a WALE of 3.7 years.**

Rate/m² of NLA: \$11,435/m²

Yield: 6.30% core market (6.20% initial)

4. 821-843 PACIFIC HWY, CHATSWOOD

Price: \$279.05 million

Vendor: DEXUS-50%/GPT-50%

Date: May 2016

Purchaser: Centuria-50%/Blackrock-50%

NLA: 44,300m²

Comments: A-Grade twin office towers with 21 levels and parking for approximately 799 cars. **The asset was sold fully leased with a WALE of 2.6 years and a 12 month rental guarantee on approximately 8.5% of NLA.**

Rate/m² of NLA: \$6,299/m²

Yield: 7.50% core market (8.60% initial)

5. 3 & 5 RIDER BLVD, RHODES

Price: \$235.00 million

Vendor: Mirvac

Date: June 2016

Purchaser: Altis (AREEP 3)

NLA: 41,713m²

Comments: Two A-Grade office buildings located adjacent to Rhodes Waterside Shopping Centre. **Property was sold 98.3% leased with a 2.9 year blended WALE.** Major tenants include Alcatel and SITA.

Rate/m² of NLA: \$5,634/m²

Yield: 7.70% core market (7.70% initial)

* includes a site cost of \$41 million and development cost of \$467.5 million.

MELBOURNE SUBURBAN OFFICE

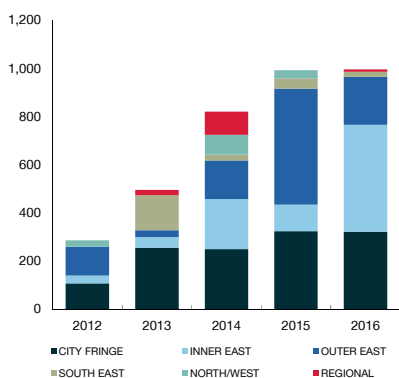
For the third consecutive year, office investment activity in the Melbourne suburban office market reached an all time high.

Investment sales activity (above \$10 million) in 2016 within the suburban office market totalled \$995.81 million from 23 properties. The volume of sales achieved in 2016 was in fact 224% higher than the long term average. Moreover, suburban office investment accounted for 23% of all office transactions (by value) across all Melbourne's office markets.

Domestic unlisted funds and syndicates suburban office acquisitions also reached record high levels in 2016. Australian unlisted funds and syndicates acquired 42% of all sales by value spending \$423 million. While offshore groups still accounted for 23% of all sales, cross-border investment into the Melbourne suburban office market totalled \$228 million, down from the \$323 million invested in 2015. Chinese-based investors acquired the majority of suburban assets purchased by foreign investors with the acquisitions focused on redevelopment opportunities.

The Inner East precinct was the focal point of investment activity accounting for 45% of all suburban office transactions (by value) with \$443 million spent in the precinct followed by City Fringe located offices with sales totalling \$322 million.

FIGURE 9
Suburban Office Sales \$10 million+
By Region (\$m)



Source: Knight Frank Research

1. 650 CHAPEL ST, SOUTH YARRA

Price: \$202.7 million

Vendor: Mirvac

Date: May 2016

Purchaser: Newmark Property Group

NLA: 25,693m²

Comments: The Como Centre, also includes 6,650m² of retail space, a 113-room hotel and a 614-bay car park. The office component is spread across four towers.

Rate/m² of NLA: \$7,889

Yield: 5.98% initial

2. 800 TOORAK RD, HAWTHORN EAST

Price: \$140.5 million (50% interest)

Vendor: Investa Office Fund (IOF)

Date: September 2016

Purchaser: Charter Hall Direct Office Fund

NLA: 39,400m²

Comments: The Melbourne office headquarters of Wesfarmers' subsidiary Coles is 100% leased to the Coles Group for an initial 15 year lease term expiring March 2030.

Rate/m² of NLA: \$7,132

Yield: 5.45% initial

3. 350 WELLINGTON RD, MULGRAVE

Price: \$87.6 million

Vendor: Frasers Property Australia

Date: April 2016

Purchaser: Stockland

NLA: 21,125m²

Comments: Located on a 2.2 hectare site, the business park comprises of three office buildings, fully leased to Kmart, Toll and Coles Group, and sold with a WALE of 8.69 years.

Rate/m² of NLA: \$4,147

Yield: 7.50% initial

4. 452–484 JOHNSTON ST, ABBOTSFORD

Price: \$80.8 million

Vendor: Computershare

Date: June 2016

Purchaser: LYZ Property Group (Hengmao Group)

NLA: 16,577m²

Comments: Computershare has an initial seven-year, triple net leaseback over the facility with options until 2029. The property sits on a 16,920m² site with frontage also onto the Yarra River.

Rate/m² of NLA: \$4,875

Yield: 6.56% initial

5. BUILDING 10, 658 CHURCH ST, RICHMOND

Price: \$45.5 million

Vendor: Frasers Property Australia

Date: April 2016

Purchaser: BlackRock Asset Management

NLA: 8,038m²

Comments: Constructed in 2000, the six-storey building was sold with a WALE of 3.1 years. The asset is 100% occupied by a range of tenants including The Smart Group, Country Road Group and The Commonwealth of Australia.

Rate/m² of NLA: \$5,661/m²

Yield: 7.25% core market (7.39% initial)

KEY GRAPHS

On a national basis offshore investors remained the dominant buyer type with 43% of total transactions in 2016. However they faced greater competition from local Unlisted Funds & Syndicates which grew their share of the market from 22% in 2015 to 31% for 2016

Both Sydney and Melbourne recorded higher non-CBD sales turnover than CBD, which helped to take the non-CBD market investment to new record levels. Offshore investors continued to embrace non-CBD markets, accounting for 44% of investment in this sector during 2016.

The changing investment allocation from 2015 to 2016 is clear to see. Both offshore and total investment reduced in the Sydney and Melbourne CBDs with greater investment activity in other Australian CBDs and Sydney and Melbourne non-CBD markets.

FIGURE 10

Australian Office Turnover by Purchaser Type

\$ billion total transaction value (\$10mil+)

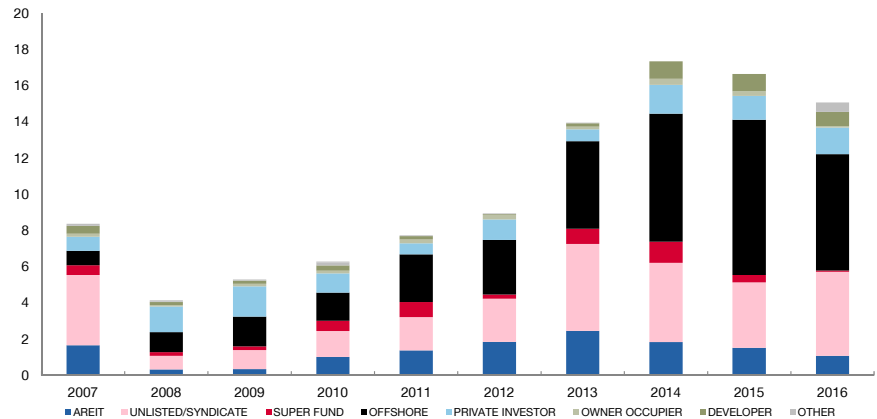


FIGURE 11

CBD versus Non-CBD Transactions 2016—by Purchaser Type & Location

\$ billion total transaction value (\$10mil+)

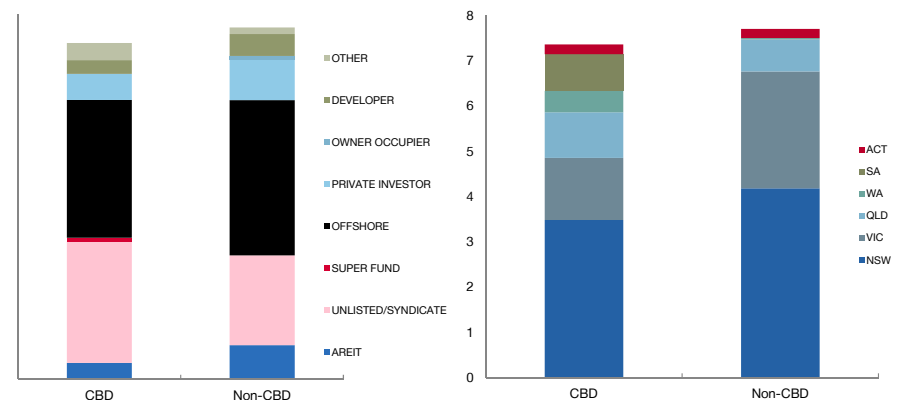
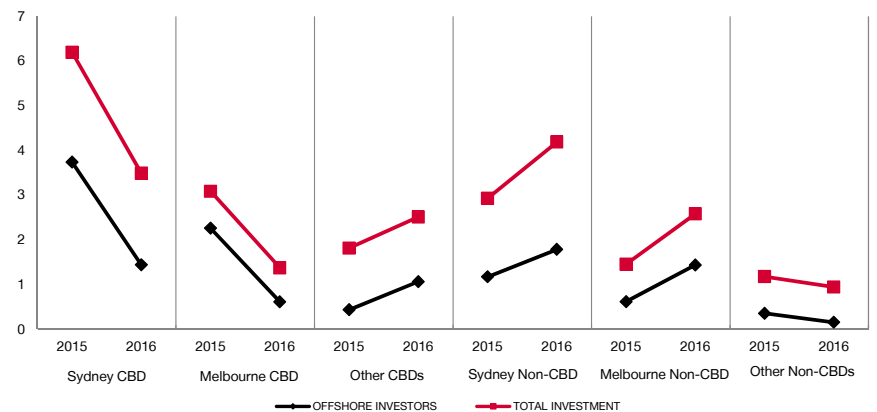


FIGURE 12

Transaction Volumes by sub-market 2015 vs 2016

\$ billion total transaction value (\$10mil+)



Source: Knight Frank Research



COMMERCIAL BRIEFING

For the latest news, views and analysis of the commercial property market, visit knightfrankblog.com/commercial-briefing/

RESEARCH

Matt Whitby

Group Director
Head of Research and Consultancy
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Jennelle Wilson

Senior Director—Research Qld
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Richard Jenkins

Director—Research Vic
+61 3 9604 4713
Richard.jenkins@au.knightfrank.com

Paul Savitz

Director—Consulting
+61 2 9036 6811
Paul.Savitz@au.knightfrank.com

Alex Pham

Senior Research Manager—NSW
+61 2 9036 6631
Alex.Pham@au.knightfrank.com

CAPITAL MARKETS

Paul Henley

Head of Commercial Sales—Australia
+61 3 9604 4760
Paul.henley@au.knightfrank.com

OFFICE LEASING

David Howson

Head of Office Leasing, Australia
+61 2 9036 6697
david.howson@au.knightfrank.com

OCCUPIER SOLUTIONS

John Preece

Head of Occupier Solutions, Australia
+61 2 9036 6705
john.preece@au.knightfrank.com

AUSTRALIA

Stephen Ellis

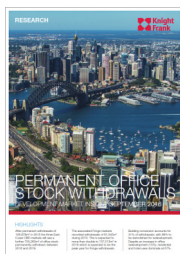
CEO, Australia
+61 2 9036 6611
Stephen.Ellis@au.knightfrank.com

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS



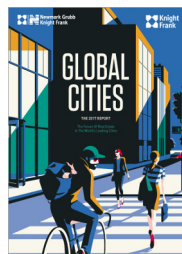
Sydney CBD Office & Hotel Ownership Insight
December 2016



Development Market Insight
September 2016



Residential Development Review
H2 2016



Global Cities
The 2017 Report

Knight Frank Research Reports are available at KnightFrank.com.au/Research

Important Notice

© Knight Frank Australia Pty Ltd 2017 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank Australia Pty Ltd for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank Australia Pty Ltd in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank Australia Pty Ltd to the form and content within which it appears.

