A REVIEW OF MAJOR OFFICE MARKET TRANSACTIONS AND TRENDS IN 2017
KEY FINDINGS

$17.09 billion of office assets transacted during 2017, CBD investment bounced back, accounting for 66% of sales.

Sydney retained its position as the dominant market for investment, accounting for 47% of all office transactions by value.

Melbourne accounted for 26% of Australian turnover in 2017 with record high CBD investment counterbalanced by lower non-CBD market activity.

The high competition for assets in the key cities of Sydney and Melbourne has continued to see investors moving up the yield curve with Brisbane accounting for 17% of total sales along with Perth (4%) and Canberra (4%) all attracting significant investment in 2017.

NATIONAL TRENDS

Office investment activity in 2017 was 4% higher than 2016 levels, reversing the trend of the prior two years when falls were recorded. At $17.09 billion this was just behind the record high result of $17.35 billion in 2014 as 2017 saw more assets available for sale and increased values.

Office sales ($10 mill+) transacted during 2017 totalled $17.09 billion, which is 4% higher than 2016 and reflective of both increased asset prices and greater availability of stock for sale. Across the office investment landscape offshore investors remained the dominant purchasers in 2017, accounting for 43% of all sales. This was followed by unlisted funds/syndicates with 26% and AREITS slightly more active this year with 9% of purchases by value.

CBD Markets

Investment activity resurged within the CBD markets, recording $11.26 billion in sales across Australia—up by 30% on the supply-constrained transaction activity of 2016. Both Sydney CBD (up by 26% to $4.98 billion) and Melbourne CBD (up by 70% to $3.34 billion) led this resurgence and between them these two major Australian CBDs accounted for 74% of all CBD transactions. The Brisbane CBD cemented itself as the premier alternative CBD market with 13% of CBD sales in 2017 while the ACT also saw increased CBD activity, accounting for 4.5% of CBD transactions, on a par with Perth (4.5%).

Non-CBD Markets

After a break-out year in 2016, when $7.80 billion in transactions were recorded across non-CBD markets, almost outweighing activity in the CBD markets, 2017 saw a more normalised level of transactions with $5.84 billion recorded. This fall of 25% was due to a re-focus by core investors on CBD markets and limited large-scale, core, non-CBD stock remaining available to the market. The dominant non-CBD markets were Sydney with 52% of transactions followed by Brisbane at 23%, due to the Brisbane Fringe market having a record-breaking year. Melbourne accounted for 18% of the non-CBD transactions with the ACT at 4%.

Yields & Outlook

Due to the strong purchaser competition, 2017 continued to see contraction in yields with a further 20-30 basis point tightening across the board. Prime core assets in Sydney and Melbourne CBDS are now regularly transacting on sub-5% core market yields, with the appetite for these assets un-diminished.

The deep pool of investors for trophy assets will maintain the pressure on core yields. However tighter debt markets and increased cost of funds remain likely to emerge during 2018, although to date increases in bond yields have been unsustained. The US begins 2018 with the Federal target rate 75bps higher than a year earlier and further unwinding of expansionary monetary policy is firmly on the radar for 2018. The recently announced change to the US corporate tax rate, reducing to 21%, has the potential to trigger repatriation of US funds/profits and also draw further investment allocation into the US market. This may accelerate both the official and market interest rate increases, which has the potential to flow through to global wholesale funding costs.

Demand for Australian office assets remains at particularly high levels at the start of 2018 with demonstrated rental growth in Sydney and Melbourne boosted by improving sentiment in the remaining cities. The stability of the economy and financial sector also encourages offshore investors to make Australian assets a key element of their portfolio. Three years ago the spread between prime yields in Sydney and Melbourne to the 10 year bond rate was 400bps, currently it is sitting in the region of 230bps, indicating the degree to which Australian property has been re-priced. Outside of financial market shocks Australian assets will maintain favour with investors in 2018, additionally the search for higher income returns will see continued diversification into non-core markets in 2018.

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

Source: Knight Frank Research
On a national basis offshore investors remained the dominant buyer type with 43% of total transactions in 2017. Unlisted funds & syndicates accounted for 26%, down slightly from 2016 while super funds recorded a three year high, with 6% of transactions.

Market focus has returned to the CBD markets, with Sydney, Melbourne, Brisbane and Canberra all recording higher CBD transactions in 2017 over 2016. After matching the CBD market in 2016, the non-CBD weighting reduced in 2017, accounting for 34% of market activity.

The resurgence of investor focus on the key core CBD markets of Sydney and Melbourne in 2017 is clear to see. Concurrently, however, investor interest has been broadening to encompass new markets with other CBDs (i.e. Brisbane, Adelaide) and non-CBD markets outside of Sydney and Melbourne also attracting greater activity.

Source: Knight Frank Research
SYDNEY CBD

In line with Knight Frank’s expectations, investment volumes in the Sydney CBD has picked up in 2017, following a dip in 2016. The total investment volume has surged by 28% YoY to reach $4.98 billion. The rise in transaction activity can be attributed to the increased number of core assets being put on the market in conjunction with solid investor demand, particularly from offshore buyers.

Foreign investors continue to expand their footprint aggressively in the Sydney CBD market with a total acquisition value of $1.98 billion in 2017, accounting for 40% of the total transaction volume. They were followed by unlisted trusts and syndicates, which purchased $1.20 billion (24% of total) over the year. Interestingly, offshore owners were even more active on the sell side with a total sale value of $2.47 billion, resulting in them being net sellers by $490 million. While Hong Kong and Singapore-based investors were the most prominent buyers, US and UK-based investors were more active in recycling capital out of CBD assets.

By number of transactions, there were 27 properties ($10m+) exchanged in 2017. Even though the number of assets sold has decreased from last year (33), the average deal size increased by 56% YoY to $184 million per transaction. This is reflective of both the increase in the number of prime assets being transacted as well as the rising value in the Sydney CBD. These trends are expected to continue over the next 12 months with volumes projected to continue to rise.

1. WYNYARD PLACE, 10 CARRINGTON STREET

Price: $898.20 million (49.9% interest)  
Date: September 2017

Vendor: Brookfield  
Purchaser: AMP Capital Wholesale Office Fund (25.0%)/UniSuper (24.9%)

Comments: A fund-through-transaction for completion in mid-2020, with NAB committing to 46% of office NLA for 12 years and 4-year rental guarantee over vacant areas.

2. MLC CENTRE, 19-29 MARTIN PLACE

Price: $722.50 million (50% interest)  
Date: June 2017

Vendor: QIC Global Real Estate  
Purchaser: Dexus Funds Management Ltd (25%)/Dexus Wholesale Property Fund (25%)

Comments: A 69 level A Grade office and retail building, constructed in 1978. The property was transacted with a WALE by income of 4.8 years.

3. TELSTRA HOUSE, 231 ELIZABETH STREET

Price: c.$340.00 million  
Date: December 2017

Vendor: Bright Ruby Resources  
Purchaser: Charter Hall REIT

Comments: The property comprises 15 levels of office space and ground-floor retail area. The building is fully occupied by Telstra with the lease expiring in mid-2020.

4. 20 BRIDGE STREET

Price: $335.00 million  
Date: May 2017

Vendor: Kumpulan Wang Persaraan (KWAP)  
Purchaser: Early Light International Group

Comments: A 15 level A Grade office building located in the Sydney CBD Core. The property is anchored by the ASX (44%) with a WALE by income of 6.8 years.

5. 320 PITT STREET

Price: $275.00 million  
Date: June 2017

Vendor: Propertylink Office Partnership II  
Purchaser: ARA Australia/Straits Real Estate

Comments: An A Grade 32 level office building tower located in the Midtown precinct of the Sydney CBD with Telstra as the major tenant. The property was acquired with a WALE of 3.2 years.

6. SWIRE HOUSE, 10 SPRING STREET

Price: $270.05 million  
Date: October 2017

Vendor: Centuria Property Funds  
Purchaser: Lendlease (APPF Commercial)

Comments: A refurbished A Grade office building constructed in circa 1977. The property was sold fully leased with a WALE of 2.9 years.

^ For completion mid-2020  # Fund through transaction  * Reflecting rental guarantee
7. 66 GOULBURN STREET
Price: $252.00 million (leasehold)
Date: August 2017
NLA: 22,889m²
Rate/m² of NLA: $11,009/m²
Yield: 6.10% core market (5.81% initial)
Vendor: GDI Property Group
Purchaser: Ascendas-Singbridge
Comments: A 24 level A Grade office building constructed above the Masonic Centre. Major tenants include GPNSW, Prudential Investment and William Buck.

8. 130 PITT STREET
Price: $229.00 million
Date: November 2017
NLA: 10,098m² (inc. 1,064m² of retail)
Rate/m² of NLA: $22,678/m²
Yield: 4.5% core market (3.7% initial)
Vendor: Investa Commercial Property Fund
Purchaser: PA Realty (Mitsubishi/CLSA)
Comments: A mixed use B Grade property with prime retail on the lower two floors and 13 floors of office space. The building was 96% occupied with a WALE of 2.1 years.

9. 1 CASTLEREAGH STREET
Price: $220.00 million (reported)
Date: December 2017
NLA: 11,432m²
Rate/m² of NLA: $19,244/m²
Yield: 4.60% core market (3.70% initial)
Vendor: Blackstone
Purchaser: Early Light International Group
Comments: The 22 level B Grade building, built in 1967, was purchased by a Hong Kong-based investor, who also acquired 20 Bridge Street earlier in the year.

10. 20 HUNTER STREET
Price: c$192.50 million
Date: October 2017
NLA: 9,852m²
Rate/m² of NLA: $19,540/m²
Yield: 4.80% core market (4.00% initial)
Vendor: TH Real Estate
Purchaser: K Wah International
Comments: A modern A Grade building, built in 1998, comprising 16 levels of office space. The property was sold with a WALE of 2-3 years.
Investment sales in the Melbourne CBD remained strong in 2017, with sales volumes achieving the highest annual level on record. Office sales activity ($10mil+) in 2017 within the Melbourne CBD totalled $3.36 billion across 21 properties. The total sales volume in 2017 was $157 million above the record levels achieved in 2014 and 95% higher than the 10-year CBD sales volume average.

Cross border investment interest in the Melbourne CBD has been unprecedented in 2017. Offshore groups accounted for 52% of total sales by value, totalling $1.74 billion across eight transactions. This was more than double the volume achieved in 2016.

Offshore investment in 2017 was dominated by Asian-based groups, led by Singaporean investors however Chinese and US investors were also active.

Transaction levels were boosted by a number of major sales, with six transactions above $200 million recorded over 2017, the highest number on record for an individual year. Three of these sales were fund through transactions with the acquisition of a 50% stake in 477 Collins Street the largest recorded.

### Melbourne CBD Sales Volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (million)</th>
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<tbody>
<tr>
<td>2007</td>
<td>1,000</td>
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<td>2008</td>
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<td>6,000</td>
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Source: Knight Frank Research

### 1. OLDERFLEET BUILDING, 477 COLLINS STREET

- **Price:** $414.00 million (50% interest)
- **Date:** July 2017
- **NLA:** 58,048m²
- **Rate/m² of NLA:** $14,264/m²
- **Yield:** 4.80% initial

* Vendor: Mirvac Group  
* Purchaser: Suntec REIT  
* Comments: The 40 level Premium Grade office building is currently under construction and due for completion in Q2 2020. Deloitte will be the anchor tenant, pre-committing to 22,000m² on a 12 year term.

### 2. 311 SPENCER STREET

- **Price:** $347.80 million (50% interest)
- **Date:** July 2017
- **NLA:** 65,648m²
- **Rate/m² of NLA:** $10,396/m²
- **Yield:** 4.92% core market

* Vendor: Australia Post  
* Purchaser: Keppel REIT  
* Comments: The 40 level office tower is currently under construction, due for completion in Q4 2019. Victoria Police will vacate their current premises at 637 Flinders Street to occupy the entire 65,000m² tower.

### 3. 447 COLLINS STREET

- **Price:** $300.00 million (50% interest)
- **Date:** July 2017
- **NLA:** 49,800m² (office only)
- **Rate/m² of NLA:** $12,048/m²
- **Yield:** Undisclosed

* Vendor: Cbus Property  
* Purchaser: ISPT  
* Comments: Due for completion in Q4 2019, the twin-tower mixed-use development includes a 39-level Premium-grade office building. It has pre-commitments from major legal firms including King & Wood and HWL.

### 4. 800 COLLINS STREET

- **Price:** $300 million (reported)
- **Date:** November 2017
- **NLA:** 28,619m²
- **Rate/m² of NLA:** $10,483/m²
- **Yield:** Undisclosed

* Vendor: Australian Prime Property Fund Commercial / Savills Investment Management  
* Purchaser: Manulife Real Estate  
* Comments: The A Grade office building comprises ground floor retail and 10 upper levels of office space. The asset is fully leased to Myer and Latitude Financial Services.

### 5. THE WORLD TRADE CENTRE, 18-38 SIDDELEY STREET

- **Price:** $267.50 million
- **Date:** June 2017
- **NLA:** 49,935m²
- **Rate/m² of NLA:** $5,357/m²
- **Yield:** 7.51% core market (6.78% initial)

* Vendor: Abacus Property Group  
* Purchaser: Ouson Group  
* Comments: The asset comprises three interconnected A Grade office buildings on a 13,532m² site, with a 154 metre frontage to the Yarra River. It was sold with a WALE of 3.9 years and a vacancy rate of 1.8%.

### 6. 120 SPENCER STREET

- **Price:** $250.00 million
- **Date:** August 2017
- **NLA:** 33,258m²
- **Rate/m² of NLA:** $7,517/m²
- **Yield:** 5.60% initial

* Vendor: Anton Capital  
* Purchaser: CBRE Global Investors  
* Comments: The 23 level B Grade office tower situated opposite Southern Cross Station was acquired through CBRE Global Investors. Anton Capital purchased the asset for $165 million in April 2016.
7. 555 LONSDALE STREET
Price: $200.00 million
Date: October 2017
NLA: 16,176m²
Rate/m² of NLA: $7,084/m²
Yield: Undisclosed
Vendor: QIC Global Real Estate
Purchaser: Deutsche Asset Management
Comments: Built in 1989, the asset is a 13 level A Grade office tower. The ground floor reception lobby was extensively refurbished in March 2014.

8. 628 BOURKE STREET
Price: $180.00 million
Date: June 2017
NLA: 24,515m²
Rate/m² of NLA: $7,342/m²
Yield: 6.00% initial
Vendor: M&G Real Estate
Purchaser: AFFIAA
Comments: The B Grade asset comprises an eight level podium to Bourke Street and a 16 level tower to Little Bourke Street.

9. 469 LA TROBE STREET
Price: $160.50 million
Date: October 2017
NLA: 19,864m²
Rate/m² of NLA: $8,080/m²
Yield: 5.25% initial
Vendor: Trust Capital Advisors
Purchaser: AMP
Comments: 17 level A Grade office tower located in the legal precinct of the CBD. Fully leased to a multiple legal firms and private tenants.

10. 850 COLLINS STREET
Price: $156.10 million
Date: October 2017
NLA: 17,337m²
Rate/m² of NLA: $9,004/m²
Yield: 5.62% initial
Vendor: Trust Capital Advisors
Purchaser: CLSA
Comments: A nine level office building with upper and lower ground retail tenancies. Constructed in 2012 by Lendlease with a 3.5 star NABERS rating.
After a number of years of increasing investor interest in the Brisbane CBD, the combination of green shoots in the leasing market and greater availability of stock for sale has resulted in total transactions within the CBD of $1.51 billion ($10mil+) for 2017. This is 47% higher than the 2016 transaction turnover level and behind only the standout years of 2007 and 2013.

This high level of transaction activity has largely been driven by the continued penetration of offshore owners into the Brisbane CBD market. Accounting for 70% of turnover in 2017, offshore purchasers acquired $1.06 billion of assets in the CBD. This was also balanced by divestments of $737.4 million, creating greater confidence for offshore investors that the Brisbane CBD has sufficient liquidity to allow for timely disposals as well as maintaining a margin of 130-135 basis points over Sydney and Melbourne for prime yields.

Unlisted funds and syndicates accounted for $295.6 million in acquisitions during 2017, however due to $542.2 million in divestments, were net sellers across the calendar year. The other investor categories were relatively quiet in 2017, generally outbid by acquisitive offshore purchasers seeking a foothold in the Brisbane CBD market.

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<td><strong>Yield:</strong> c.5.70% core market</td>
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<td><strong>Purchaser:</strong> Blackrock</td>
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<td><strong>Comments:</strong> 34 level office building constructed in 2009 with average floorplates of 1,614m²-1,621m². Podium food court and parking for 221 vehicles and 290 bicycles. Sold as part of a national portfolio.</td>
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7. 150 CHARLOTTE ST
Price: $105.75 million
Date: October 2017
NLA: 11,011m²
Rate/m² of NLA: $9,604/m²
Yield: 6.21% core market (6.83% initial)
Vendor: CIMB Capital Advisors (Aust Fund 1)
Purchaser: Australian Unity Investment
Comments: Major tenants Boeing and DFAT. WALE of 5.6 years.

8. 545 QUEEN STREET
Price: $70.50 million
Date: May 2017
NLA: 13,422m²
Rate/m² of NLA: $5,253/m²
Yield: n/a
Vendor: GPT Wholesale Office Fund
Purchaser: Private Investors
Comments: Island site. Sold substantially vacant following Flight Centre’s relocation to their new South Brisbane headquarters.

9. 147—163 CHARLOTTE ST & 146-160 MARY ST
Price: $65.00 million
Date: March 2017
NLA: 26,651m²
Rate/m² of NLA: $2,439/m²
Yield: VP
Vendor: Cromwell Group
Purchaser: Ashe Morgan Group
Comments: Settled in November upon full vacation by the State Govt. Owners have lodged plans to refurbish/expand.

10. 40 TANK STREET
Price: $56.10 million
Date: May 2017
NLA: 6,218m²
Rate/m² of NLA: $9,022/m²
Yield: 5.80% initial yield
Vendor: Blackstone/151 Property
Purchaser: Ariadne/Kevin Seymour
Comments: Building which has five levels of above ground parking (231 cars) and five levels of office space. WALE by income of 6.3 years influenced by carpark.

Map Source: Knight Frank Research
The Canberra office market experienced solid growth in investment activity in 2017, underpinned by strong demand by both local and offshore investors and more attractive yields compared to Sydney and Melbourne. Total sale volume ($10mil+) reached $763.06 million in 2017, representing a 69% increase over 2016. Although there were the same number of properties (11 sales of $10m+) exchanged during 2017, compared to 2016 the average value has increased by 68% from $41 million to $69 million.

Contributing to the increase in the average sale value was the sale of 50 Marcus Clarke St for $321 million, which was the largest office transaction in the ACT for 2017. The property was purchased by South Korea-based Mirae Asset Global Investments from CIMB-Trust Capital Office Fund, on a core market yield of 5.69%. While transaction activity in 2016 concentrated primarily in the Civic precinct, 2017 saw investor interest cascading to non-CBD locations. Notable transactions in the suburbs included 44 Sydney Ave in Forrest which sold for $64.70 million and 2-6 Bowes St in Phillip, sold for $58.38 million.

Investor demand for value-add and opportunistic assets remained upbeat, highlighted by the sale of Anzac Park West (47 Constitution Ave, Reid) to EG Funds for $51.00 million and 63 Constitutional Ave to Amalgamated Property Group for $34.30 million. Both assets are subject to future redevelopment.

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</thead>
<tbody>
<tr>
<td>Price: $321.00 million</td>
</tr>
<tr>
<td>Date: March 2017</td>
</tr>
<tr>
<td>NLA: 40,201m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $7,985/m²</td>
</tr>
<tr>
<td>Yield: 5.69% core market (6.10% initial)</td>
</tr>
<tr>
<td>Vendor: CIMB-Trust Capital Office Fund</td>
</tr>
<tr>
<td>Purchaser: Mirae Asset Global Investments</td>
</tr>
<tr>
<td>Comments: A modern 12 level A Grade office building constructed in 2010 with 3 levels of basement parking for 424 cars. The property was sold with a WALE of 8.2 years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. 44 SYDNEY AVENUE, FORREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price: $64.70 million</td>
</tr>
<tr>
<td>Date: November 2017</td>
</tr>
<tr>
<td>NLA: 9,948m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $6,504/m²</td>
</tr>
<tr>
<td>Yield: 6.25% core market (6.26% initial)</td>
</tr>
<tr>
<td>Vendor: Quintessential Equity</td>
</tr>
<tr>
<td>Purchaser: Charter Hall Direct PFA Fund</td>
</tr>
<tr>
<td>Comments: A semi-modern, four level A Grade office building completed in 2003. The building is fully leased to four tenants, with a blended WALE of 7.7 years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. 2-6 BOWES STREET, PHILLIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price: $58.38 million</td>
</tr>
<tr>
<td>Date: February 2017</td>
</tr>
<tr>
<td>NLA: 12,377m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $4,717/m²</td>
</tr>
<tr>
<td>Yield: 6.39% core market (6.56% initial)</td>
</tr>
<tr>
<td>Vendor: Quintessential Equity</td>
</tr>
<tr>
<td>Purchaser: Altis Property Partners</td>
</tr>
<tr>
<td>Comments: The property comprises three interconnected office buildings which were completed in 1986. The building is predominantly leased to the ACT Government with a WALE of 13.5 years.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. 82 NORTHBOURNE AVENUE, BRADDON</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price: $57.33 million</td>
</tr>
<tr>
<td>Date: January 2017</td>
</tr>
<tr>
<td>NLA: 6,978m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $8,215/m²</td>
</tr>
<tr>
<td>Yield: 6.06% core market (7.21% initial)</td>
</tr>
<tr>
<td>Vendor: Worthwest Pty Ltd</td>
</tr>
<tr>
<td>Purchaser: Challenger Life Company</td>
</tr>
<tr>
<td>Comments: A modern A Grade office building constructed in 2008. There are six levels of office and three basement levels of parking for 138 vehicles. The WALE was 7.5 years at the time of sale.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>5. ANZAC PARK WEST, 47 CONSTITUTION AVENUE, REID</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price: $51.00 million</td>
</tr>
<tr>
<td>Date: December 2017</td>
</tr>
<tr>
<td>NLA: 15,600m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $3,269/m²</td>
</tr>
<tr>
<td>Yield: Undisclosed</td>
</tr>
<tr>
<td>Vendor: Government of Australia</td>
</tr>
<tr>
<td>Purchaser: EG Funds Management</td>
</tr>
<tr>
<td>Comments: Built in the 1960s, the building was sold with a 10 year lease to the Department of Defence with options to extend for another six years. The building must be demolished and rebuilt when the lease expires.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>6. 11 MOORE STREET, CIVIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price: $44.00 million</td>
</tr>
<tr>
<td>Date: July 2017</td>
</tr>
<tr>
<td>NLA: 8,663m²</td>
</tr>
<tr>
<td>Rate/m² of NLA: $5,079/m²</td>
</tr>
<tr>
<td>Yield: 7.53% core market (7.92% initial)</td>
</tr>
<tr>
<td>Vendor: Willemsen Investment Corporation</td>
</tr>
<tr>
<td>Purchaser: Lederer Group</td>
</tr>
<tr>
<td>Comments: An eight level A Grade office building completed in 2005 with basement car parking for 62 vehicles over 2.5 levels. The property was sold with a WALE of 3.3 years.</td>
</tr>
</tbody>
</table>
Adele has experienced increased activity from overseas and institutional investors focused within the CBD Core. The 2017 sales were headlined by the Credit Suisse purchase of 25 Grenfell Street for $125.10 million, and Singaporean group AEP Investment Management’s purchase of 45 Pirie Street for $105.00 million. Sales activity remains concentrated within the CBD, securing all but two of the major sales. The Fringe market remains tightly held with only one significant transaction, an owner occupier, purchasing 142 Fullarton Road, Rose Park for $18.00 million.

In July 2017, the second one third reduction of Commercial Stamp Duty came into effect. Commercial Stamp Duty will be fully abolished in July 2018 further boosting Adelaide's appeal. Adelaide remains an attractive alternative investment destination for both domestic and offshore investors, with prime yields at 100-200 basis points above the Eastern Seaboard.
Transactional office activity within Perth ramped up in 2017 indicating counter-cyclical purchasing has commenced and the appetite for assets with the right leasing profile is strong.

A total of $654.54 million office sales transacted in 2017 ($10mil+). While this represented a further recovery in transaction turnover of 9.5% against 2016 levels, turnover remains well below the peak activity of 2013 when $1,363.55 million in office assets were transacted.

Three of the significant transactions were purchased by offshore buyers, representing 44.5% of the total sales volume. These purchasers were GIC, Far East Organisation and Straits Trading Company.

Westralia Square was the largest office market transaction of 2017 located at 141 St George’s Terrace, purchased by GDI Property Group for $216.25 million in August 2017. This was the third major Perth CBD office asset divested by the Insurance Commission of WA’s (ICWA) over the past two years. Previous divestments, in 2016, were 219-221 St Georges Terrace ($193.60 million) and 167 St George’s Terrace ($87 million).

The value proposition of the Perth office market, coupled with limited investment opportunities along the East Coast, will place Perth in a good position heading into 2018.
SYDNEY NON-CBD

Investment volumes into the Sydney non-CBD office markets have moderated in 2017, following a stellar year of activity in 2016. The total investment volume has declined by 31% YoY to $3.05 billion. Activity has slowed down across all non-CBD markets with the exception of Parramatta, which saw transaction value double to $441 million. Much of this increase is attributed to the fund-through sale of 105 Phillip Street for $229 million.

As expected, the non-CBD markets were dominated by local buyers, which acquired a total of $2.00 billion in 2017. This represents 65% of the total transaction value. Unlisted and syndicates were the largest buyers, among the local groups, with a total purchase value of $658 million. They are followed by AREITs, which are increasingly acquisitive in non-CBD markets. In total, they have purchased $531 million of suburban assets in 2017.

While offshore buyers’ interest remains strong, their volumes have moderated in 2017, with a total value of $1.06 billion, down 47% YoY. This decrease is partly due the lack of access to quality assets, many of which were traded off-market. China and Hong Kong were the largest sources of foreign capital, representing 56% of the total offshore investment.

1. 100-130 HARRIS STREET, PYRMONT

<table>
<thead>
<tr>
<th>Price: $327.50 million</th>
<th>Vendor: Citi 100 (Private Investor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date: July 2017</td>
<td>Purchaser: Dexus Property Group</td>
</tr>
<tr>
<td>NLA: 26,879m²</td>
<td>Comments: A heritage A Grade office building located in the city fringe suburb of Pyrmont. The property, built in 1919, was extensively renovated in 2016 and leased predominantly to WeWork and the Domain Group with a WALE of 7.6 years.</td>
</tr>
<tr>
<td>Rate/m² of NLA: $12,185/m²</td>
<td>Yield: 5.20% core market (5.30% initial)</td>
</tr>
<tr>
<td>Yield: 6.8% core market (5.7% initial)</td>
<td></td>
</tr>
</tbody>
</table>

2. 205 PHILLIP STREET, PARRAMATTA*

<table>
<thead>
<tr>
<th>Price: $229.00 million</th>
<th>Vendor: Dexus Property Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date: April 2017*</td>
<td>Purchaser: Charter Hall’s Direct Office Fund (50%)/Prime Office Fund (50%)</td>
</tr>
<tr>
<td>NLA: c.25,264m²</td>
<td>Comments: An fund-through deal for an A Grade office tower, due for completion in April 2018. The 13 level building is fully pre-committed to the NSW Government (Department of Education) on a 12 year lease.</td>
</tr>
<tr>
<td>Rate/m² of NLA: $9,064/m²</td>
<td>Yield: 5.30% core market (5.30% initial)</td>
</tr>
</tbody>
</table>

3. 15 BLUE STREET, NORTH SYDNEY

<table>
<thead>
<tr>
<th>Price: $169.00 million</th>
<th>Vendor: Denwol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date: February 2017</td>
<td>Purchaser: St Enoch Nominee (Aqualand)</td>
</tr>
<tr>
<td>NLA: 16,144m²</td>
<td>Comments: A 16 level B Grade office building completed in 1976 and progressively refurbished in 1991, 2015 and 2016. The property is located above the North Sydney Railway Station with Sydney Harbour and CBD views. It was acquired with a 4.5 year WALE.</td>
</tr>
<tr>
<td>Rate/m² of NLA: $10,263/m²</td>
<td>Yield: 6.8% core market (5.7% initial)</td>
</tr>
</tbody>
</table>

4. 116 MILLER ST & 173 PACIFIC HWY, NORTH SYDNEY

<table>
<thead>
<tr>
<th>Price: $133.88 million</th>
<th>Vendor: Property Bank Australia/RG Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date: July 2017</td>
<td>Purchaser: Maville Group</td>
</tr>
<tr>
<td>NLA: 11,366m²</td>
<td>Comments: Two B Grade office buildings located opposite the future Victoria Cross Metro Station and adjacent Northpoint retail centre. The property is 88% leased to nine tenants, including; Salmat, NAB and APP, with a WALE by income of 3.3 years.</td>
</tr>
<tr>
<td>Rate/m² of NLA: $11,779/m²</td>
<td>Yield: 5.60% core market (4.50% initial)</td>
</tr>
</tbody>
</table>

5. GATEWAY 241, 241 O’RIORDAN STREET, MASCOT

<table>
<thead>
<tr>
<th>Price: $128.40 million</th>
<th>Vendor: 151 Property (Blackstone)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date: May 2017</td>
<td>Purchaser: Australian Property Opportunities Fund III (Fort Street Capital)</td>
</tr>
<tr>
<td>NLA: 19,277m²</td>
<td>Comments: A 10 level A Grade office building constructed in 1992 with an extensive refurbishment in 2014. The property is located directly opposite Sydney Airport Domestic terminal and has a 5.5 year WALE.</td>
</tr>
<tr>
<td>Rate/m² of NLA: $6,660/m²</td>
<td>Yield: 6.55% core market (6.89% initial)</td>
</tr>
</tbody>
</table>

* Fund through transaction  ** Due for completion in April 2018

Source: Knight Frank Research
Office investment sales activity ($10mil+) in the Melbourne non-CBD market over 2017 totalled $1.02 billion across 25 properties. The volume of sales achieved in 2017 was below the $1.45 billion and $2.57 billion recorded in 2015 and 2016 respectively.

Non-CBD office investment was led by sales in the Suburban office market. Suburban office properties sold in 2017 accounted for 56% of all transactions by value, followed by St Kilda Road offices which accounted for 44%. Transaction volumes in the St Kilda Road precinct totalled $441 million, the highest annual total since 2014 ($789 million).

Within the suburban office market specifically, the City Fringe was the focal point of investment activity accounting for 42% of all suburban office transactions with $243 million spent.

Offshore investors led all purchaser types accounting for 37% of sales by value, spending $376 million. Volumes were supported by the acquisition of four assets in the St Kilda Road office market. The offshore investment across Melbourne’s non-CBD office markets in 2017 was dominated by Asian-based groups, led by Singaporean and Chinese investors.

1. 417 ST KILDA ROAD
   Price: $144.7 million
   Date: July 2017
   NLA: 20,135m²
   Rate/m² of NLA: $7,186/m²
   Yield: 6.10% initial
   Vendor: Newmark Property Group
   Purchaser: Mapletree Investments
   Comments: The A Grade office building comprises 10 levels to the front and five levels to the rear. It is located in the central end of the St Kilda Road precinct.

2. 390 ST KILDA ROAD
   Price: $97.85 million
   Date: August 2017
   NLA: 16,307m²
   Rate/m² of NLA: $6,000/m²
   Yield: 5.95% initial
   Vendor: Australian Properties Opportunities Fund
   Purchaser: Rockworth Capital Partners
   Comments: The 23 level B Grade office building sold with a WALE of 3.1 years. It is the tallest office tower in the St Kilda Road precinct.

3. 312 ST KILDA ROAD
   Price: $74.1 million
   Date: November 2017
   NLA: 9,854m²
   Rate/m² of NLA: $7,524/m²
   Yield: 5.07% initial
   Vendor: Myer Family Investments
   Purchaser: Tong Eng Group
   Comments: The property is an eight level B Grade office building. It is located on a corner site in the northern end of the St Kilda Road precinct.

4. 420 ST KILDA ROAD
   Price: $68.8 million
   Date: July 2017
   NLA: 10,458m²
   Rate/m² of NLA: $6,582/m²
   Yield: 5.72% core market
   Vendor: CES Property
   Purchaser: Vantage Property
   Comments: The B Grade office building comprises 12 levels of office space and two levels of basement parking. Built in 1982, it was last refurbished in 1988. Vantage will be refurbishing the foyer of the building shortly.

5. 2 KENDALL STREET, WILLIAMS LANDING*
   Price: $58.2 million
   Date: June 2017
   NLA: 12,919m²
   Rate/m² of NLA: $4,507/m²
   Yield: 6.50% initial
   Vendor: Cedar Woods
   Purchaser: Centuria Metropolitan REIT
   Comments: Due for completion in Q4 2018, the 8 level A Grade office building will be Target’s head office for an initial lease term of 10 years. It is being developed by Cedar Woods.

* Fund through transaction
Brisbane non-CBD markets also recorded high transaction activity during 2017 with a total of $1.33 billion transacted. This is a significant 70% above the transaction levels of 2016 and the highest on record for the Brisbane non-CBD market.

In a similar vein to the CBD market, offshore buyers were a significant influence on the level of market activity. Accounting for 39% of transactions by value, offshore buyers were the strongest net purchasers of non-CBD assets with only $143.4 million in disposals during 2017. The largest acquisitions for offshore buyers were the Korean Teachers Fund purchase of 505 St Paul’s Terrace, Fortitude Valley for $205 million and M&G’s purchase of 520 Wickham St, Fortitude Valley for $119.15 million.

Unlisted funds and syndicates were also significant market participants, accounting for 39% of total purchasing activity with $512.95 million. However these investors were also responsible for divestments of $758.61 million, making them net sellers for the non-CBD market across 2017.

The Brisbane non-CBD market recorded record high transactions by value during 2017 as demand from the CBD spilled over into the Fringe. The availability of modern assets with good tenant covenants has seen greater investor acceptance of the Fringe market as a genuine alternative to the CBD.

### 1. 505 ST PAULS TERRACE, FORTITUDE VALLEY

- **Price:** $205.50 million
- **Date:** January 2017
- **NLA:** 17,618m²
- **Rate/m² of NLA:** $11,664/m²
- **Yield:** 5.34% core market (6.46% initial)

**Vendor:** ISPT

**Purchaser:** AXA IM obo Korean Teachers Fund

**Comments:** Four level large floorplate building (c4,500m²) constructed in 2007. Located in the Fringe suburb of Fortitude Valley. The office space is fully leased to the Brisbane City Council with a WALE of 10.5 years.

### 2. 520 WICKHAM STREET, BOWEN HILLS

- **Price:** c$140.00 million
- **Date:** January 2017
- **NLA:** 15,000m²
- **Rate/m² of NLA:** $9,333/m² est
- **Yield:** 6.5% initial

**Vendor:** Lend Lease

**Purchaser:** Impact Investment Group

**Comments:** Completion of the fund through for the purchase was completed in early 2017. The vendor provided a guarantee on remaining vacant space. Impact has since agreed to a similar structured purchase of K5, which is under construction.

### 3. 520 WICKHAM STREET, FORTITUDE VALLEY

- **Price:** $119.15 million
- **Date:** August 2017
- **NLA:** 14,672m²
- **Rate/m² of NLA:** $8,121/m²
- **Yield:** 6.32% core market

**Vendor:** AAFIA

**Purchaser:** M&G Real Estate (Core Asian Strategy Fund)

**Comments:** Modern seven level office building, located in the Brisbane Fringe market suburb of Fortitude Valley, completed in 2010. Sold with a WALE of 5.9 years with major tenant CPB Contractors (Leightons). First purchase for M&G within the Brisbane market.

### 4. 1231-1241 SANDGATE ROAD, NUNDAH

- **Price:** $106.25 million
- **Date:** May 2017
- **NLA:** 12,890m²
- **Rate/m² of NLA:** $8,243/m²
- **Yield:** 6.1% core market

**Vendor:** Growthpoint Property

**Purchaser:** Centuria Sandgate Road Fund

**Comments:** Modern suburban office building located c9km to the north east of the Brisbane CBD. Dominant tenant is Energex which took a 15 year lease from completion in 2012. Sold fully leased with a WALE of 9.7 years to a single asset fund.

### 5. 108 WICKHAM STREET, FORTITUDE VALLEY

- **Price:** $106.20 million
- **Date:** December 2017
- **NLA:** 11,913m²
- **Rate/m² of NLA:** $8,915/m²
- **Yield:** 6.1% core market (6.55% initial)

**Vendor:** Centennial Property Group

**Purchaser:** Ascendas REIT

**Comments:** Six level office building constructed in 2008. Sold fully leased with major tenants ARUP and QLD Health. WALE of 6.5 years at the time of sale. The purchaser has also recently settled on the adjacent 100 Wickham St for $83.83 million and now controls the island site.
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