Contents

Australia

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AU$49 billion of commercial property has been traded in Australia over the last two years. These are numbers not seen since 2005 and 2006 and are equivalent to the sum of all activity in the four years 2009 to 2012. There are several forces at work:

- global liquidity levels have increased substantially following Quantitative Easing in the United States, United Kingdom, Europe and Japan;
- this has combined with record low interest rates in most countries around the world, making investment in commercial property attractive; and
- substantial levels of economic stimulus were delivered by governments globally (including Australia) to stave off some of the effects of the global financial crisis in 2009/10.

Property investment markets in Australia have been the recipients of cheaper global equity and debt as well as enjoying greater investor confidence and activity domestically. Whilst the Australian economy has been growing strongly over this period, the growth has been uneven. Office market vacancy rates have been steady to rising; incentives have grown substantially in all office markets and supply has outstripped demand. In the face of fairly benign market fundamentals, investment yields have fallen substantially. Market yields for Grade A office buildings in Australian CBDs have firmed by up to 175 basis points over recent years. This is not an Australian phenomenon but has been widely reported in many office markets around the world.

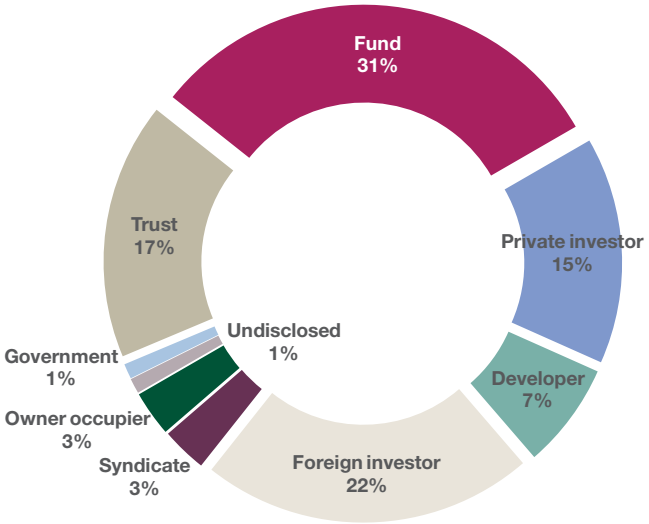
In 2014, Savills Research monitored just over AU$24 billion of transactions in commercial property – AU$14 billion of office property (same as previous year), AU$5.6 billion of retail property (down on the previous year) and AU$4.6 billion of industrial property (up on the previous year). Australian professional investors purchased most of the stock traded – funds, trusts and syndicates reportedly purchased 51% or just over AU$12.3 billion. Foreign investors led by the United States were the next largest buyer group, purchasing AU$5.3 billion. It would be remiss not to mention money from Asia that continued to dominate foreign purchases with Singapore, China, Hong Kong and Malaysia leading the countries involved.

Australian office markets continue to be the most popular of the sub-classes of commercial property. Approximately AU$14 billion changed hands in both 2013 and 2014. Foreign investors remained largely focussed on CBD locations whilst domestic buyers turned their attention towards non-CBD locations in search of value. Retail property saw AU$7.4 billion traded in 2013 and AU$5.6 billion traded in 2014. Large shopping malls in key locations continue to be keenly contested. Finally, industrial property transacted AU$3.4 billion in 2013 and AU$4.6 billion in 2014. Higher investment yields continue to make this sector attractive to a wide range of investors. Also, owner occupiers and developers are more active in this sector than office and retail.

With global liquidity levels remaining elevated and commercial property yields remaining relatively attractive, Savills believe transaction levels will remain high in 2015.

GRAPH 1

Commercial property sales buyer profile, 12 months–Dec 2014



Source: Savills Research

TABLE 1

Major investment transactions, Jan–Mar 2015

Property	Location	Price	Buyer	Usage
Liberty Place, 161 Castlereagh Street (25%)	Sydney	AU$240.0 mil/US$184.8 mil	Blackstone Real Estate Asia	Office
168 Walker Street	North Sydney	AU$157.5 mil/US$121.3 mil	Aqualand Australia	Office
Next Hotel	Brisbane	AU$133.0 mil/US$102.4 mil	Challenger Ltd	Hotel/retail
130 Elizabeth Street	Sydney	AU$121.3 mil/US$93.4 mil	Aoyuan Property JV Ecove	Office
The Marketplace, 92 Parramatta Road	Auburn	AU$120.0 mil/US$92.4 mil	Novian Property Group	Retail
73 Miller Street	North Sydney	AU$116.5 mil/US$89.7 mil	Fosun Group	Office

Source: Savills Research & Consultancy

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As the real estate market undergoes a period of readjustment, the first quarter of 2015 saw the residential and retail sectors experiencing challenges, while the office market remained strong. This was reflected in net take-up in the Grade A office market continuing its positive growth for the sixth consecutive quarter, reaching 142,000 sq m in Q1/2015, up 163.0% year-on-year. Indicating stability and growing confidence, Grade A office rents continued to grow by 0.6% to RMB320.7 per sq m per month by the end of Q1/2015. Beijing Financial Street and the CBD continued to command the highest rents at RMB521.0 and RMB364.7 per sq m per month, respectively.

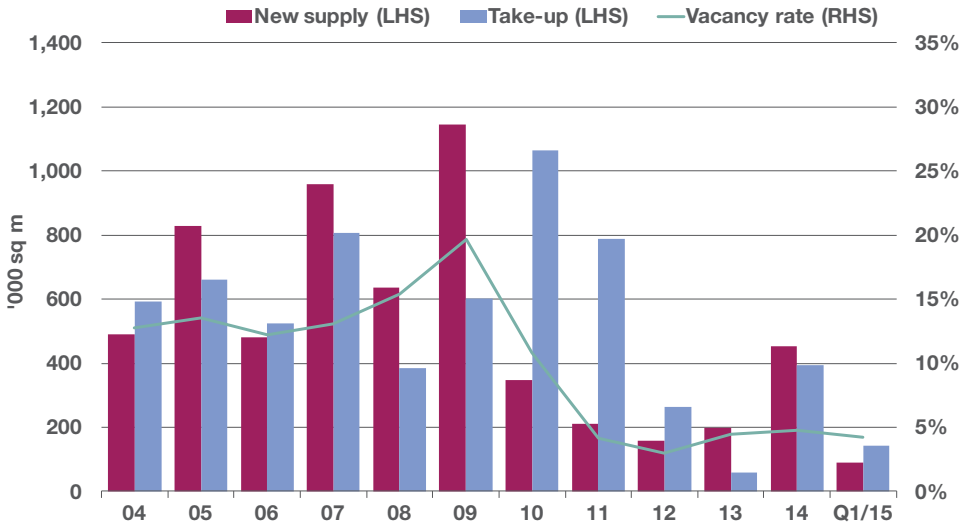
Q1/2015 saw financial, IT & high-tech, e-commerce and professional services companies continue to be the strongest demand drivers for Grade A office space, accounting for 73% of all recorded transactions. In contrast, demand from manufacturing companies continued to decrease, accounting for just 4% of all recorded transactions. Domestic companies began dominating demand in 2010 and have continued to do so, making up 75% of recorded transactions in the first quarter; overseas companies, suffering from national and global economic slowdowns, accounted for just 25% of the total.

Two new projects entered the market in Q1/2015, contributing an additional total office GFA of 89,000 sq m. However, strong demand (reflected in positive pre-commitment rates in new projects), coupled with further digestion of vacant space in recently-launched projects, saw city-wide vacancy rates decrease 0.6 of a percentage point (ppt) to 4.2% quarter-on-quarter. (QoQ). While Beijing Financial Street (BFS) received 58,000 sq m of new supply, it was not adequate to satisfy demand, with the area continuing to register the lowest vacancy rates in the city at 2.0%. Other traditional business areas also recorded low vacancy rates ranging from 2.1% to 5.9%.

The remainder of 2015 will see the Grade A office market receive an influx of supply with seven new projects scheduled for handover, adding 487,000 sq m of office GFA. Fuelling the decentralisation trend, approximately half of this new supply is to be located in non-prime markets such as Wangjing and the Asian & Olympics areas, which is expected to place a downward pressure on both rents and occupancy rates in the short term. Meanwhile, traditional business areas such as the CBD and BFS are expected to remain stable in terms of vacancy rates and rents. Given that limited investment grade stock available for purchase is expected to support capital values, Grade A office gross yields are expected to compress further to 5.0%-5.5% over the next three years.

GRAPH 2

Supply, net take-up and vacancy rates, 2004–Q1/2015



Source: Savills Research & Consultancy

TABLE 2

Major investment transactions, Jan–Mar 2015

Property	Location	Price	Buyer	Usage
Ascott Raffles City Beijing	CBD	RMB2.9 bil/US$467.9 mil	Fantian Capital	Residential
Xinyicheng Shopping Center	Wangjing	RMB780 mil/US$125.9 mil	SCPG	Retail
ECMall	Zhongguancun	RMB2.5 bil/US$403.3 mil	Linghui Capital	Retail

Source: Savills Research & Consultancy