Contents

Australia

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Australia's CBD office markets have weathered the twin effects of the global financial crisis and the mining investment boom over the past six years to register almost 1 million sq m of net absorption (demand). This has occurred in an environment where business confidence has been (apparently) low and consumers have been in their shells.

The fact that we have added nearly 2 million sq m of space to our CBD markets in the same six-year period says a number of things:

- Rents are at a level where construction can occur, and they cannot, by definition, grow much beyond that;

- Businesses which are confident, forward-looking and managing their affairs well are in a position to commit to new buildings. This is an important point. Financial services companies, the government and corporations have used the global financial crisis as an opportunity to work their accommodation harder by upgrading, consolidating and reconfiguring their office space. There are countless examples around the country and there is more to come over the next six years; and

- Banks, developers and funds are ready and available to ensure buildings are constructed. Debt and equity markets and an appetite for risk are all working in harmony.

These are not the signs of a market collapse or a market in dire straits, quite the contrary, as the office markets are behaving as they are supposed to.

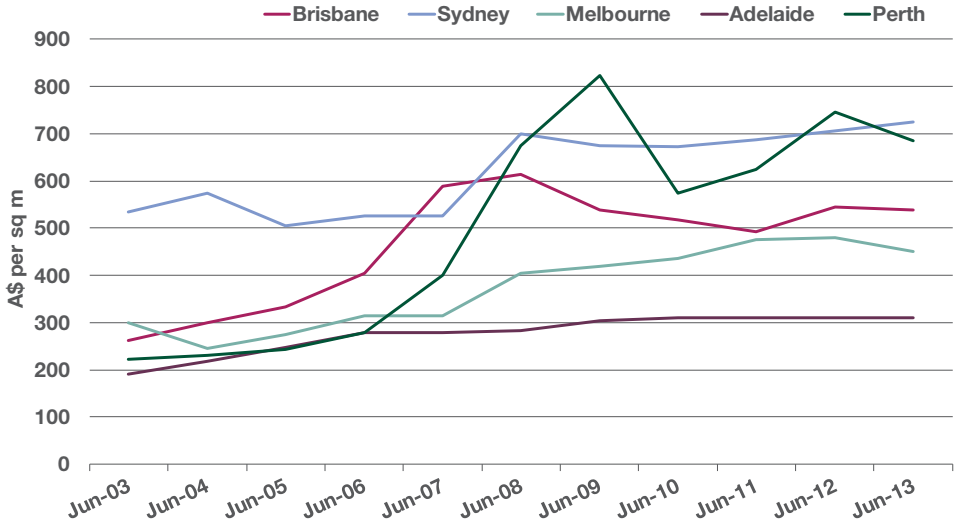
Prime vacancy rates across the major CBDs in Australia average just 5% and considering that almost 2 million sq m has been added to stock demonstrates how strong the markets have really been.

So where do we go from here? Savills Research forecasts another 1.1 million sq m of construction over the next five years – reinforcing the three points above. Savills Research also forecasts a commensurate increase in the amount of occupied space. So, does this leave us in the same place? No. Withdrawals are expected to be in the order of 700,000 sq m. This is on top of the 500,000 sq m we have withdrawn over the past six years. This would lead to a tightening in the vacancy rate in some CBDs, especially for prime buildings, as upgrade activity accelerates.

What is interesting about the forecasts is the balance of growth and change in market fortunes. Sydney and Melbourne in particular are expected to outperform Perth and Brisbane, partly because the economic cycle is shifting the balance of growth in the economy and partly because the location of new supply is changing, with Perth and Brisbane upgrading the quality of their stock.

GRAPH 1

Average Grade A net face rent by capital city, Jun 2003–Jun 2013



Source: Savills Research & Consultancy

TABLE 1

Major investment transactions, Jul–Sep 2013

Property	Location	Price	Buyer	Usage
200 George Street (50% share)	Sydney CBD	A$317.0 mil/US$298.0 mil	AMP Capital Investors	Office
747 Collins Street	Melbourne	A$279.0 mil/US$262.3 mil	CIMB-Trust Capital Advisors	Office
Karrinyup Shopping Centre (33.3%)	Karrinyup	A$246.7 mil/US$231.9 mil	UniSuper	Retail
485 La Trobe Street	Melbourne	A$180.0 mil/US$169.2 mil	Eureka Funds Management	Office
179 Turbot Street	Brisbane	A$170.0 mil/US$159.8 mil	Kumpulan Wang Persaraan	Office
10 Binara Street	Canberra	A$151.7 mil/US$142.6 mil	Brompton Asset Management	Office
380 La Trobe Street	Melbourne	A$115.0 mil/US$108.1 mil	Invesco	Office

Source: Savills Research & Consultancy

Singapore

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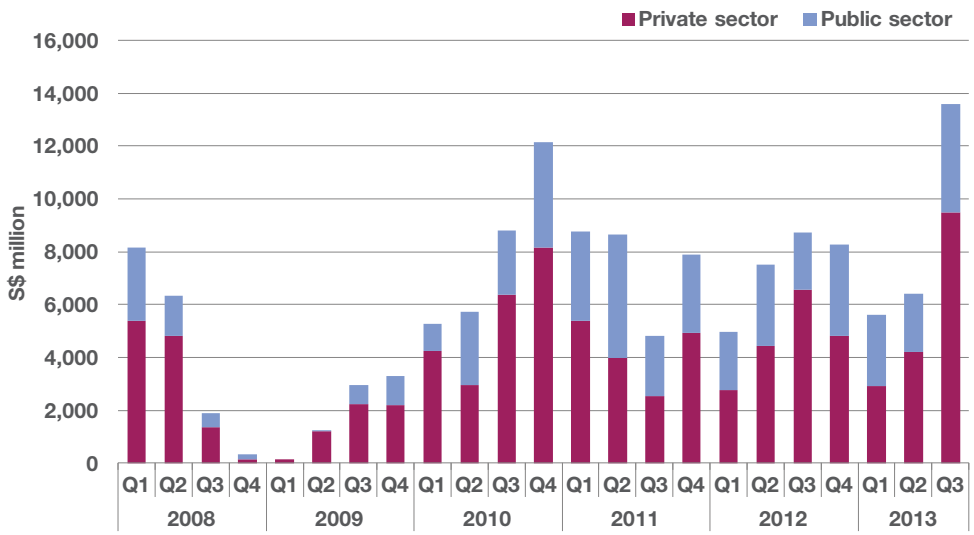
The real estate investment market recorded S$13.6 billion worth of deals in Q3/2013, more than double the S$6.4 billion achieved in the previous quarter, and historically the highest value recorded. Many of these deals were achieved due to an active IPO market for REITs. Acquisitions by these REITs amounted to almost S$5.7 billion, with the trusts listed including Soilbuild Business Space Reit (S$905.3 million), SPH Reit (S$3.07 billion) and OUE Hospitality Trust (S$1.71 billion), contributing to 41.8% of total investment sales. Buying activity in the private sector, however, was subdued with 65 deals recorded in Q3, down 27.8% from the 90 transactions seen in Q2. Hungry Ghost Month, the introduction of a total debt servicing ratio and expectations of quantitative easing tapering by the US Federal Reserve, leading to higher interest rates, were possible reasons behind the slowdown in the number of transactions, although this did not affect the total value recorded. (Savills defines investment sales as deals of at least S$10 million. We include transactions below this threshold for Government Land Sale Programme sites, residential en-bloc sites and acquisitions by REITs. Investment sales are recorded as of the date of caveat registration.)

By property type, the hospitality segment was the bright spark in the reviewed quarter. Seven hotels were sold for a total of about S$2.9 billion (including the retail podium of Grand Park Orchard Hotel) or 21.0% of Q3's total investment sales. Many of the recent transactions exceeded S$1 million per room. Meanwhile, hotels in shophouses gained in popularity for investors, probably due to the smaller price quantum. According to Singapore Tourism Board data, the average revenue per available room in the first seven months of this year was down by 3% year-on-year, due to the mix of a weaker events calendar, slower corporate demand and price competition from newly opened hotels. Nevertheless, in the long term, hotel investments in Singapore should remain positive due to expectations of continued economic growth and a stable political environment.

Despite recent signs of a recovery in developed countries, the global economic environment remains volatile. Coupled with the increasing difficulty in obtaining credit and expectations of rising interest rates, the investment sales market is expected to face more challenges ahead.

GRAPH 11

Investment sales transaction volumes, Q1/2008–Q3/2013



Source: Savills Research & Consultancy

TABLE 11

Major investment transactions, Jul–Sep 2013

Property	Location	Price	Buyer	Usage
The Paragon	Orchard Road	S$2.5 bil/US$2.01 bil	SPH REIT	Commercial
Government land	Yishun Avenue 2/ Yishun Central 1	S$1.43 bil/US$1.15 bil	North Gem Development Pte and FC North Gem Trustee Pte Ltd (as Trustee Manager of North Gem Trust)	Commercial and Residential
Mandarin Orchard Singapore	Orchard Road	S$1.18 bil/US$948.55 mil	OUE Hospitality Trust	Hotel
Grand Park Orchard Hotel (including retail podium)	Orchard Road	S$1.16 bil/US$932.47 mil	Bright Ruby Resources	Hotel
Government land	Cecil Street/ Telok Ayer Street	S$924 mil/US$742.76 mil	FC Commercial Trustee Pte Ltd (as Trustee Manager of Aquamarine Star Trust)	Commercial

Source: Savills Research & Consultancy

Australia

485 La Trobe Street ►
Melbourne
A$180.0M/US$169.2M
in September

◄ 200 George Street (50% share)
Sydney
A$317.0M/US$298.0M
in July

10 Binara Street ►
Canberra
A$151.7M/US$142.6M
in August

◄ 380 La Trobe Street
Melbourne
A$115.0M/US$108.1M
in July

▼ 206 Bourke Street
Melbourne
A$105.0M/US$98.7M
in September

747 Collins Street ►
Melbourne
A$279.0M/US$262.3M
in September

Beijing

▲ Grand Canyon Mall
South Third Ring Road
RMB1.74B/US$285.5M
in July

▲ Financial Street Guang'An Centre Plot B Office Tower 4 West Portion
Caishikou, Xicheng district
RMB3.585B/US$578.2M
in August

HP Tower (8/F–18/F) ▲
CBD
RMB851M/US$137.2M
in July

◄ The Exchange Tower
CBD
RMB1.598B/US$257.7M
in July