

Italian Chamber of Commerce Singapore The Australian Property Market

22 October 2020

Grow
with
fidinam

We develop growth strategies for every single one of our commercial property clients

Discussion



- ✓ Australian real estate market investment
- ✓ Effect of global pandemic
- ✓ Why invest in Australia
- ✓ Key statistics on the Australian property market
- ✓ Who are the investors that will take advantage of a dislocated market
- ✓ Looking forward 2021 and beyond
- ✓ About Fidinam Australasia Real Estate

Asia Pacific Real Estate Investment



Source: CBRE 2020 Mid Year Review (July, 2020)



Global Real Estate Investment 2019 V 2020

	Total	Office	Industrial	Retail	Hotel	Residential
Global	-33%	-40%	-4%	-41%	-59%	-26%
EMEA	-19%	-26%	-12%	-16%	-53%	7%
Americas	-36%	-44%	-6%	-44%	-65%	-41%
Asia- Pacific	-35%	-51%	-26%	-57%	-54%	105%

- Closed Borders reduced flow of offshore capital
- Uncertainty as to impact of COVID has placed many investors on the sidelines
- Residential and Industrial remain favored
- Commercial impacted by WFH
- Hotels and Retail most affected

- Forecasted growth by **50% in 2021 due to pent up demand and deployment of capital into safe havens**
- Increasing **focus on Asia pacific** developed markets, due to stronger economies and border controls to manage COVID
- Investors under allocated to Asia pacific Markets- some **re-weighting of portfolios** may be required, geographically and sector specific

Why invest in Australia?



One of a few countries to record
28 consecutive years of annual economic growth post WW2

3.2% average GDP growth since 1992

14th Largest global economy in 2019 despite just 0.3% of global population

Resilient Economy: prior to 2020, economy experienced only two years of negative growth throughout six decades

Robust policy frameworks supports competitive and profitable financial institutions

5th Largest Country in the Asian region 2019

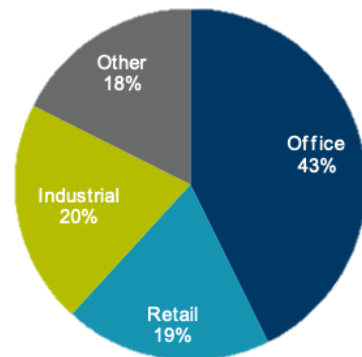
14 Free trade agreements in Asia Pacific Region playing a vital role in Australia continued economic growth

Commercial Property Market



PROPERTY INVESTMENT BY SECTOR

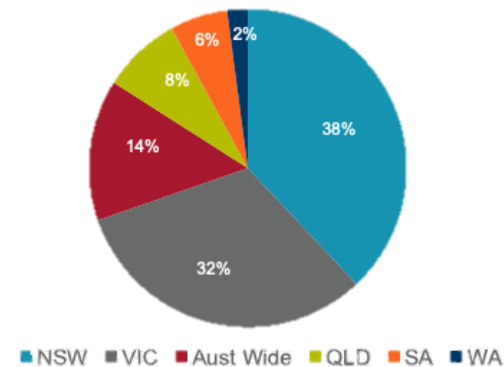
Source Cushman & Wakefield



- Majority of transactional market: **Office**
- Total Rolling Annual Volume **\$30.1bn**
- **Commercial at \$12.7bn (since 2017)**
- 26% Foreign investment last 12 months

TRANSACTION ACTIVITY BY LOCATION

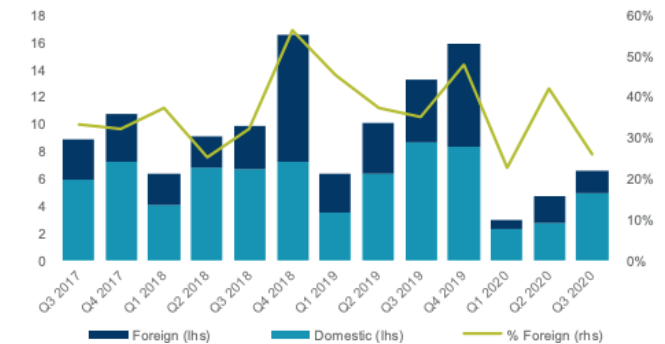
Source Cushman & Wakefield



- **NSW** leads the state for investment volume **\$2.5bn** or 38% of total assets transacted
- **VIC** was next with \$2.1bn or 32% of volume invested
- **Portfolio acquisitions** 'Aust Wide' totaled \$932 Million or 14% of volume invested

FOREIGN INVESTMENT & INVESTMENT (AUDbn)

Source Cushman & Wakefield



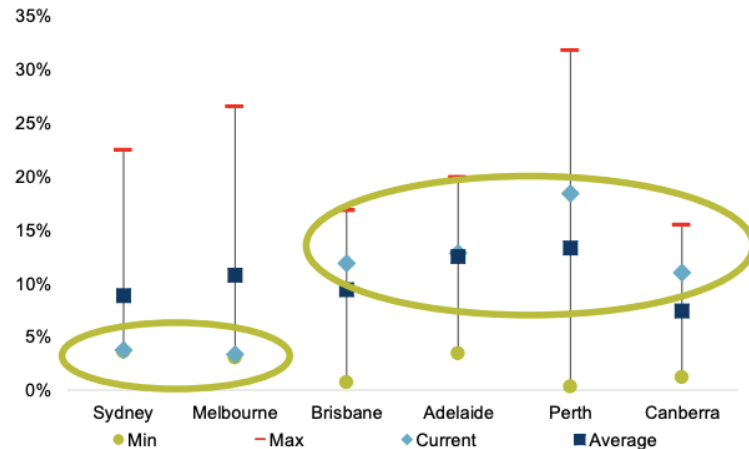
- **Foreign investment** averaging **40% per annum** over the **past few years**
- **Singapore** dominates offshore purchases in Q3 in 2020 at **\$875m**
- **Germany** other major source of capital in Q3 in 2020 **\$603m**

Commercial Property Market



Historic Vacancy Rate Range

Source PCA; Cushman & Wakefield



1. Key Takeaways

- Vacancy rates date from 1990 to July 2019, **averaging across capital cities from 7-13%**
- **Sydney and Melbourne** in recent years have out-performed other capital cities reaching **multidecade lows below 5%**
- Capital cities in **recent years** experienced **rental growth** off the back of lowering vacancy rates
- Strong tenant demand combined with limited supply over recent years has lowered vacancy rates

Yield Spread VS AUS GOVT 10 Year Bond Yield

Source Cushman & Wakefield



2. Key Takeaways

- Australian **Commercial Real Estate** has historically **tracked in line** with **Govt Bond yields (Yield Spread)**
- Yields have fallen to record lows after a peak cycle in late 2009
- Commercial Real Estate experiencing 10 Years of capital growth; driven by two main factors
 1. **Global hunt** for yield or yield compression as interest rates and bond yields fell
 2. **Above average** rental growth, strong tenant demand and falling vacancy

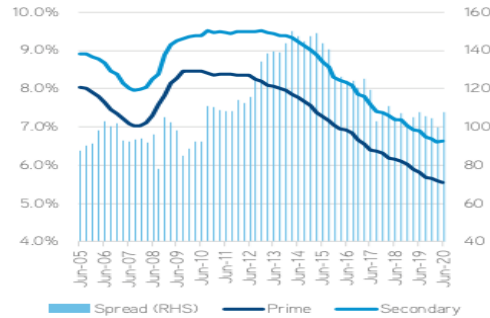
Asset Sectors



INDUSTRIAL

National Industrial Yields by Grade

Source Colliers

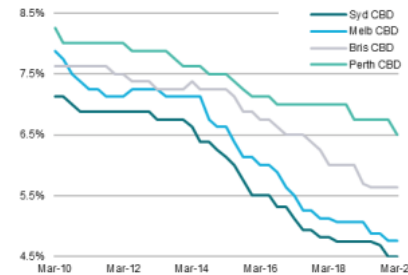


- Most sought-after property asset class,
- Highest risk involved and **average Cap Rate 5.4%**

COMMERCIAL

National Commercial Prime Yield Range

Source Dexus

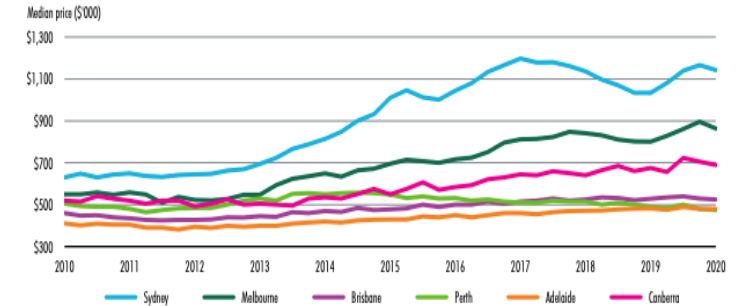


- Office yields remain stable with mild compression in Perth
- **Sydney prime range from 4.25-4.75%**
- **Melbourne prime average 4.8%**

RESIDENTIAL

Australian Metropolitan Median House Prices

Source CBRE

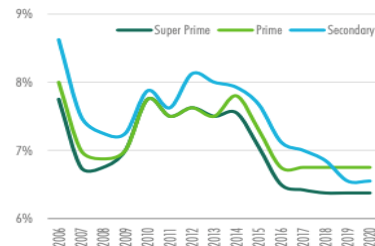


- Housing values on across all capital cities have held up more than anticipated
- **Sydney and Melbourne strongest** residential property markets over past 10 years

RETAIL

Australian Average CBD Retail Yield

Source CBRE

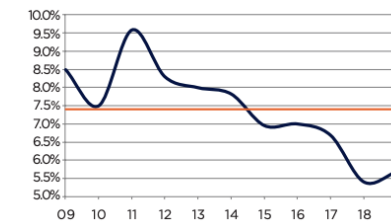


- COVID-19 has accelerated change on a dynamic landscape, facing challenges of online market

HOTELS

Australian Hotel Sales – Median Passing Yields

Source Savills Q4 2019



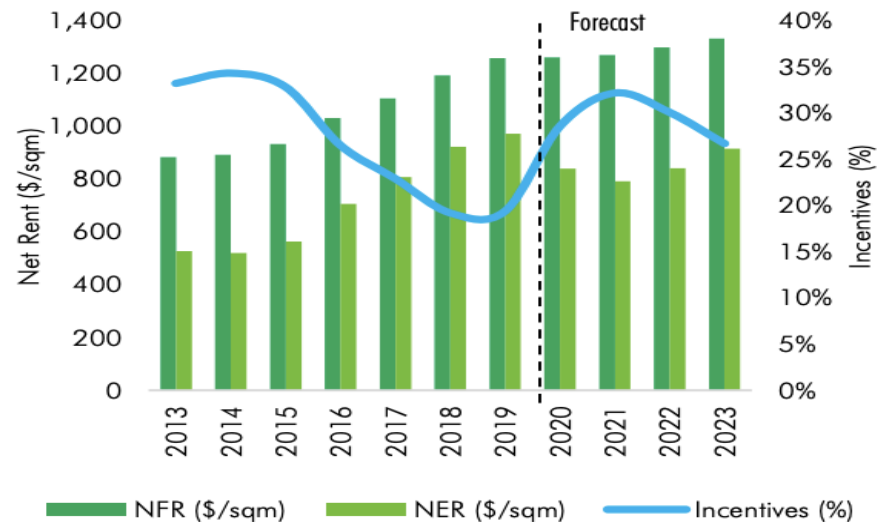
- COVID-19 saw the greatest decline and impact of all property sectors. Although Hotel sector has **proven resilient to previous anomalous events** e.g 9/11 Terrorist Attacks (2001), Gulf War II (2003) and Indian Ocean Boxing Day Tsunami (2004)

Australia's largest Real Estate Markets



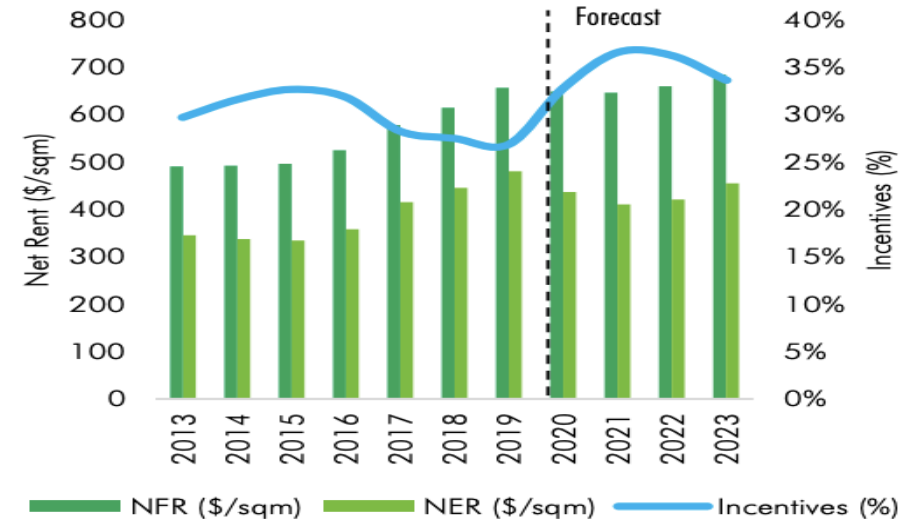
Sydney Office Rents

Source PCA; CBRE Q2 Research



Melbourne Office Rents

Source PCA; CBRE Q2 Research



- COVID-19 has placed pressure on **Net Face Rents** although held **steady in Q2 2020**
- Average **incentives** are rising as result of COVID-19, however **forecast to decline from late 2021** as markets return to equilibrium

Dislocated markets change investor types

- ✓ Widespread COVID 19 lockdowns and travel restrictions have stalled many investors short term deployment of capital.
- ✓ Market uncertainty historically sees private investors re enter the market at times when institutional investors cannot.
- ✓ High net worth investors and family offices are showing increasing appetite for real estate attracted by low financing rates and lessened competition from bigger players.
- ✓ Geopolitical volatility domestically is prompting family offices to seek safe heaven markets such as Australia and the UK.
- ✓ As well as wealth preservation and limited volatility, there is also the attraction of relocation driving investment decisions.
- ✓ Teaming up with a local investment manager is becoming increasing common place as investors seek local expertise- Fidinam are one of these investment managers.

Case Study #1

53 Berry Street, North Sydney NSW

- **Located in the heart of North Sydney**
- **7 Levels**
- **B Grade**
- **Net Lettable Area:** 3,442 sqm
- **Pre-Covid 19 Sale Expectation:** \$56,000,000
- **Current Sale Expectation:** \$52,000,000 with due diligence
- Due to closed borders, less competition in the market there is a unique opportunity for property professionals with feet on the ground and market knowledge to negotiate these sales



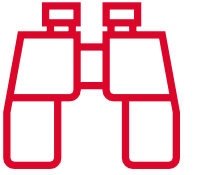
Case Study #1

505 Little Collins Street, Melbourne VIC

- **Located in the Melbourne's Western Core**
- **11 Levels**
- **B Grade**
- **Net Lettable Area:** 18,073sqm
- **Pre-Covid 19 Sale Expectation:** \$170-180m
- **Current Sale Expectation:** \$140-150m with due diligence
- Due to closed borders, less competition in the market there is a unique opportunity for property professionals with feet on the ground and market knowledge to negotiate these sales



Looking Forward 2021 and beyond



- ✓ **Sales volumes are expected to remain low**, due to a reluctance to sell and lower for longer interest rates.
- ✓ Some **funds may need to reweight** due to impacts of other markets.
- ✓ **Cap rates in most sectors (ex Retail and Hotels) are expected to hold firm**, due to cap rate spread to risk free rate and quantum of capital looking for investment.
- ✓ **Nonbank lending** is increasing its market share and filling the gaps left by major 4 banks.
- ✓ **Falling cost of debt** (for a prolonged period) will bring more investors to real estate- chasing yields.
- ✓ Change in working environment will lead to **short term increase in office vacancy** across all markets, which will have a negative impact on effective rents. This will right itself in the next 24 months.
- ✓ Markets to invest in remain **Sydney and Melbourne CBDs'** however there is a growing trend to regional and suburban investment and keep an eye out for **Perth and Brisbane** they are **expected to perform well**.
- ✓ **Strong residential demand**, while not originally forecast, is being buoyed on by low interest rates, rising job security and falling supply.

Fidynam (Australasia) Real Estate (FARE)



Property Focused

- **Full- service** real estate investment manager
- **Deep experience** across Australia markets
- Core Focus on **value adding strategies** to commercial, industrial and retail property
- Currently managing **\$450m AUD** of commercial assets on behalf of offshore capital
- Seeking **alpha style returns** from asset repositioning and market dislocation

Internationally Connected

- **Strong & broad national networks** for deal flow
- Team has transacted and managed over **\$1.5bn in real estate**
- Previous experience in managing JV's with institutional partners & offshore private equity
- Focused on capital protections, compliant and probity
- Part of **Fidynam worldwide**, with some **16 Offices & over 250 employees**

FARE Value Proposition



Transactions

Advising investors and joint venture partners on the acquisition and disposal of commercial property assets across all sectors and geography within Australia and New Zealand.



Project Management

Development and implementation of capital works strategies for building upgrades, including cosmetic and building services, focusing on ESD and over all tenant experience. Includes design development, appointment and management of consultants, contractors and close fiscal management.



Investment Management

Provision of onshore asset and investment management, with a core focus on development and implementation of value adding strategies, protection and growth of income streams, leasing programs, tenant relationships, service provider management, operating cost management, capital works programs, property and corporate accounting and debt sourcing and management.



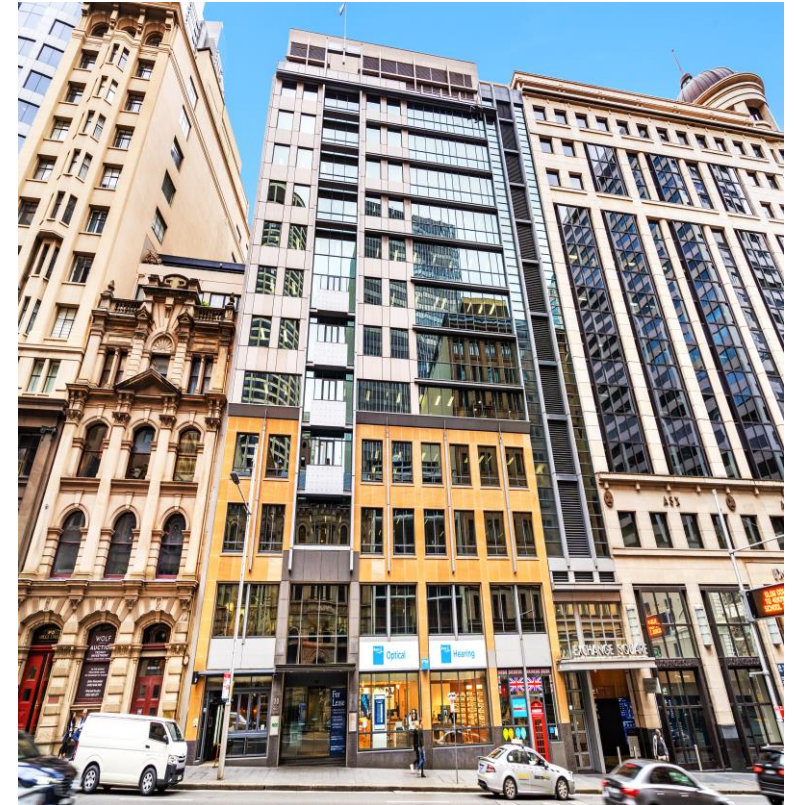
Advisory

Working with a broad range of clients to advise on performance of existing assets and service providers, development of highest and best use strategies, financial modeling and feasibility studies, market research and bench marking.

FARE Portfolio



\$450m AUD+ commercial real estate portfolio located in Sydney and Melbourne



fidinam1960
2020

**FIDINAM
(AUSTRALASIA)
REAL
ESTATE**

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Grow
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We develop growth strategies for every single one of our commercial property clients