URBIS

SHOPPING CENTRE INVESTMENT MARKET UPDATE

April 2017

OVERVIEW

The world's largest property investor Blackstone are now well progressed in the marketing of their portfolio of Regional and Sub Regional shopping centres.

Representing the biggest real estate portfolio opportunity in the country this year, the size and scale of the opportunity is expected to create a competitive pool of bidders for the assets, from both domestic and international purchasers.

Limited recent retail real estate offerings, coupled with the increased levels of international interest, could see yields reset to benchmark lows.

The spread between the expected investment yields and bond yields still represents an appropriate risk margin in the current stable economic environment.

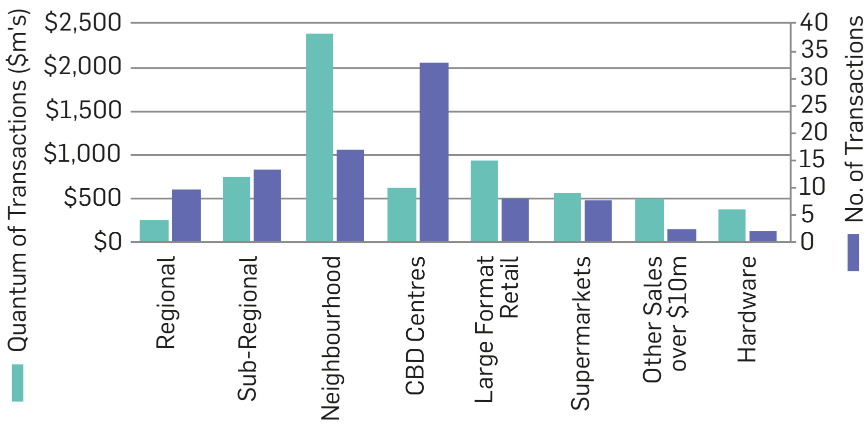
The past two years have seen sustained value gains across the retail sector. Significant market activity and the trend of yield compression has continued unabated despite some difficult trading conditions and a low inflationary environment.

Investors still have a keen eye for risk which is seeing secondary assets discounted in comparison to prime assets with positive growth attributes.

Faced with limited acquisition opportunities, owners and managers are now placing an even greater focus on delivering returns through net operating income efficiencies and asset redevelopment.

Capital is being reinvested into value accretive development and acquisition opportunities. Driven in part by the lack of supply, capital markets continue to have a greater impact on development activity as domestic institutional owners more frequently sell part shares in major assets to passive and often offshore investors. Reinvestment of capital to fund future development is in line with the changing nature of shopping centres and the increasing demand for mixed use activity centres.

OVERALL QUANTUM AND VOLUME OF TRANSACTIONS BY CLASS CY16



Source: Urbis

RETAIL PRICING METRICS BY ASSET CLASS

	Class	Equivalent yield (%)	IRR (%)
Regional	Super Prime	4.25 - 4.75%	7.00 - 7.25%
	Prime	4.75 - 5.50%	7.25 - 7.50%
	Secondary	5.75 - 6.50%	7.50 - 8.00%
Sub-regional	Super Prime	5.50 - 6.00%	7.25 - 7.75%
	Prime	6.00 - 6.50%	7.50 - 7.75%
	Secondary	6.75 - 7.25%	8.00 - 8.25%
Neighbourhood/ freestanding	Super Prime	5.00 - 5.75%	6.75 - 7.25%
	Prime	5.75 - 6.50%	7.25 - 7.50%
	Secondary	6.50 -7.25%	7.50 - 8.00%
CBD centres	Super Prime	4.25 - 4.75%	6.75 - 7.00%
	Prime	5.00 - 5.75%	7.00 - 7.50%
	Secondary	6.00 - 6.75%	7.50 - 8.00%
Large format retail	Super Prime	6.00 - 6.50%	7.25 - 7.50%
	Prime	6.50 - 7.50%	7.75 - 8.00%
	Secondary	7.00 - 8.00%	8.50 - 9.00%

NEIGHBOURHOOD & FREESTANDING CENTRES

Neighbourhood / freestanding centre transaction volumes have continued to be high, with momentum anticipated to continue. The convenience based retail focus and lower quantum of value associated with Neighbourhood centres appeals to a wide pool of investors, particularly onshore and offshore private investors and institutional investors.

SUB REGIONAL CENTRES

As we move through 2017, it becomes evident that the strong levels of sentiment experienced throughout 2016 are beginning to taper off. High levels of demand remain for prime assets with redevelopment or repositioning potential and the opportunity for positive rental reversion. This activity highlights the depth of the market for this sector, with sub-regional centres dominating transaction activity in terms of value and quantity.

Urbis FY16 Benchmark data indicates a return in MAT growth after a bad year in FY15. Negative growth has been exhibited in the jewellery, apparel and homewares categories, whilst general retail, retail services and mobile phones showing strong growth.

REGIONAL CENTRES

Transaction activity in the Regional Centre category has been subdued, reflecting the lack of available stock, high barriers to entry and tightly held nature of centres being the main restriction to transaction volumes. Demand is driving reconfiguration and redevelopment works within the regional sector and altering the composition of centres to include mixed use redevelopment.

Urbis FY16 Benchmark data indicates a 1.3% change in MAT (same centre) with supermarkets, mini majors, apparel and homewears growth. Strong growth has been exhibited in food, general merchandise and services.

CBD RETAIL

Strong levels of demand for prime CBD investments is expected to continue as institutional grade real estate plays as a hedge against volatile equity markets. Bolstered by high population and tourism growth, together with the continued emergence of international retailers, Urbis forecast that the market will continue to experience downward pressure on yields and IRR's.

LARGE FORMAT RETAIL

The large format retail environment has seen a significant capital investment with transaction values not seen since 2013 after a generally subdued 2014 transaction period despite falling yields and frantic acquisition pace in other areas of the market. The fallout of the Masters exit is yet to be fully realised on the investment market.

URBIS KEY INSIGHTS

INTERNATIONAL RETAILERS IN SHOPPING CENTRES

The introduction of international retailers, initially to capital cities and more recently into suburban shopping centres has come with significant costs to landlords. Fast fashion international retailers, however have the ability to attract from a broader customer base which has seen significant growth in pedestrian traffic and sales turnover in shopping centres.

With the continued expansion of international retailers in Australia we examine the costs and benefits of their introduction in shopping centres in our full report of the Shopping Centre Investment Review.

NEW VICTORIAN GENERAL VALUATION TO IMPACT COUNCIL RATES & LAND TAX

Victorian shopping centres will be impacted by a new statutory valuation to be adopted by Local Government Authorities (LGAs) and the State Revenue Office (SRO) for the purpose of levying general rates and land tax in calendar year 2017 and 2018.

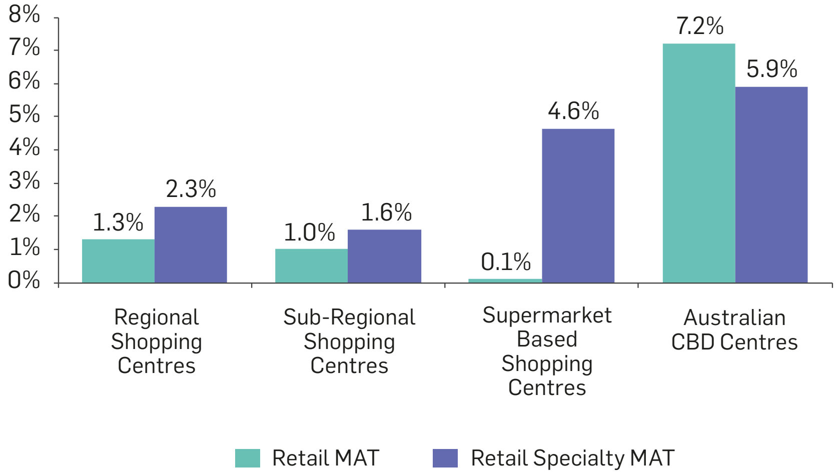
This is explored in more detail in our full report of the Shopping Centre Investment Review.

TURNOVER GROWTH BY ASSET CLASS - CBD CENTRES DOMINATE

CBD and Supermarket centres in Australia continued to perform strongly, outperforming Regional and Sub Regional centres in retail specialty MAT growth.

Supermarket based shopping centres lagged behind in total retail MAT, whilst Sub Regional and Supermarket based centre retail specialty MAT growth has performed better than the previous two years.

SAME CENTRE MAT GROWTH BY CENTRE CLASS



Source: Urbis Shopping Centre Benchmarks

ECONOMIC OVERVIEW AND RETAIL FUNDAMENTALS

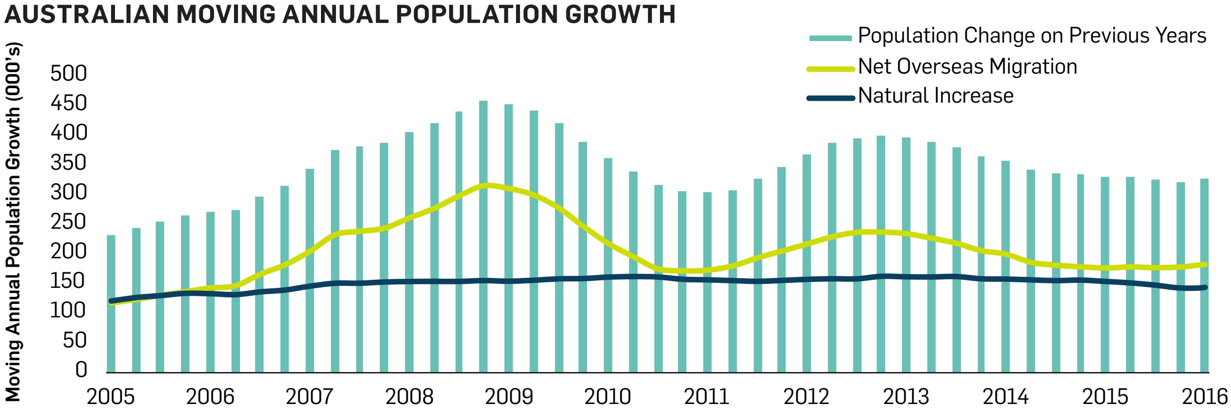
Global economic growth is more likely to moderate in the short term, thanks to the US readjusting its focus to revitalising its domestic manufacturing capacity from outsourcing globally. China's debt driven growth has helped the global economy in recent years. However, as the country's debt is now close to 300% of its annual output, it seems increasingly unlikely that monetary stimulus of comparable scale will continue in the short term as the policymakers now seek to rebalance the world's second largest economy.

With the UK pressing the button on Article 50 and setting on the course of withdrawal from the EU, its impact on market confidence is likely to be profound and is expected to weigh heavily on Eurozone's moderate recovery.

The Retail Prices Index (RPI), a measurement of retail prices changes, continued to rise at an average rate of around 1.4% last year, slightly below the 10-year average of 1.5% per annum. The growth continues to be driven by Food Retail and Food Catering, which saw annualised price growth of 2.4% and 1.7% respectively in Q4 2016. Short term outlook to retail prices is of continued rise around long term averages.

The Australian population growth slowed since its recent peak in 2013 but bounced back in 2016, having grown by close to 349,000 people during the year ending September 2016, driven largely by steady growth of net overseas migration. The number of people moving to Australia now sits at over 193,000 per annum, with NSW and Victoria altogether attracting more than 75% of this. Population growth is likely to maintain at current level in the short term and will continue to drive the Australian economic growth.

AUSTRALIAN MOVING ANNUAL POPULATION GROWTH



Components of Australian population growth ending Q3 2016
Source: ABS; Urbis

In today's dynamic and complex markets, putting a value on property involves much more than local knowledge and simple sums.

Our valuations take account of everything likely to impact the value of a property, now and in the future. Drawing on extensive experience across every property sector, we look at property from more angles to give institutional and private investors, corporate clients and government more insightful analysis, more nuanced advice plus a clearer sense of value – and how to maximise it.

To find out more information about this report or how one of our industry experts can assist you, please contact the team.

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