Update on this weeks Property Transactions, latest news on AREITs and Funds and a look at Building Approval data.

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Australian Property Markets News & Views

4/6/2017

Welcome to this weeks Property News.

This week we catch our breath on a few outstanding property transactions, provide some further insight into what REITs are doing to improve their guidance on earnings and take a look at the housing markets data.

Many people weren't all that surprised to hear this week that Altair Asset Management has made the extraordinary decision to liquidate its Australian share funds, after all, markets (equity and property) are highly priced and earnings outlooks don't appear to support the pricing. Some are however skeptical as to the the motivations behind the decision. Time will tell.

Property (unlike equities) is an illiquid asset class and re-establishing a portfolio of assets is harder said than done (and more costly than equities) which is why property funds tend to be long term holders of real estate and won't be following Altair's example unless forced to.

At this stage of the cycle, Fund Managers need to be articulating their strategy to investors and explaining the impacts they expect to see on earnings through the next 5 years through a variety of scenarios. The smart direct property players are likely to be disposing of non core assets, reducing debt, and minimising potential vacancies.

CMA aims to assist Real Estate Investment Managers and clients to add value to their investment decisions with relevant market based advice. We value your relationship and hope that we can be of assistance to you. If you require any strategic advice, market insights, transaction report or individual REIT assessments, please feel to contact us.

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Property Transactions

This week, we recorded over $1.0B of transactions across 14 assets. Most notable was the sale by LaSalle to Aventus of the Homemaker Hub Centres. The second largest retail or bulky good sale in over 2 years (See also Fund News Below).

Also this week, Charter Hall acquired the Salamanda Bay Shopping Centre in NSW from CPBIB and Future Fund at a yield of 6%. This sale represents the largest price and the highest rate per square metre for a retail asset in regional NSW in over 2 years.

We also look into the sale of a Fitness First asset in Cheltenham Vic. CMA priced this asset for a client earlier in the campaign. If you like to read more and see our analysis - follow the "read more" link.

There are a further 10 transactions which we've captured. Read more about these transactions by clicking the "read more" button to the right.

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Image	Address	Vendor	Purchaser	Price	Cap Rate	Date
	1 Martin Place Sydney N...	Australia Post	Far East Organis...	$150,000,000		1/06/17
	13 Manning Street Sout...	Metro Prope...	ARIA	$13,000,000		1/06/17
	139 Boundary Rd North ...		Grange Develop...	$14,000,000		31/05/17
	169 Parramatta Rd Habe...			$13,000,000		31/05/17
	241 Bay Rd Cheltenham ...	ICD Property...	David Feldman	$17,550,000	6.8%	31/05/17
	285 Springvale Rd Glen ...		Iprosperity	$45,000,000		31/05/17
	7 Dunmore Drive Trugan...	CorVal	Deutsch Asset M...	$66,000,000		31/05/17
	18 Victoria Avenue Castl...	La Salle Inves...	Aventus Retail Pr...	$336,000,000	5.5%	30/05/17
	9 Hollingsworth Rd Mars...	La Salle Inves...	Aventus Retail Pr...	$100,000,000	6.0%	30/05/17
	Flagstaff Rd Murray Brid...	TPG	Corval	$53,000,000	7.1%	29/05/17
	2 Town Centre Circuit Sa...	CPPIB & Fut...	Charter Hall Ret...	$174,500,000	6.0%	29/05/17
	45 Waterloo Rd Macqua...	NSW Govern...	(TBC) John Holla...	$90,000,000		29/05/17
	156 Clarence Street Sydn...			$40,163,000	4.6%	27/05/17
	754 Pacific Highway Cha...	Dolce Invest...	Delhit Pty Ltd	$22,520,000		27/05/17
Total				$1,134,733,000	6.0%	

Read More

Fund News

aventus

Aventus Retail Capital Raising for Homemaker Hub buy

Aventus Retail Property Fund (AVN) this week announced it had entered an unconditional agreement to acquire the Homemaker Hub assets from LaSalle Investment Management for $436M, based on a 5.6% cap rate. Aventus raised $165M of institutional capital from an entitlement offer at 2.32 per unit and a progressing to raise $53M of retail capital. The issue price represents 6.4% discount to last trade of 2.48. The deal is fully

underwritten by Macquarie, UBS and the 2 major unitholders of the fund, Brett Blundy and Ray Itaoui. The impact of the deal on the trust is shown to the right.

AVN Key Metrics

Item	Old	New
Assets	20	22
NTA	$2.10	$2.23
Cap Rate	7.24%	6.90%
Gearing	35.0%	38.9%
FY17 FFO/ Unit	$0.175	$0.177
FY18 FFO/ Unit		$0.181

Happy Vendor

For the clients in the LaSalle Investments Trust, this sale is an extraordinary result. The group acquired the two assets in 2012 and 2015 for $244M, making a capital gain of circa $190M and an IRR in excess of 30%. The beneficiaries are the members in the four funds who supported the trust; **AustSafe Super, ClubPlus, Energy Super and Intrust Super**.

IOF Management JV fails vote

Cromwell's pursuit of IOF remains firmly on the agenda following the IOF investors vote against the proposed Management JV. Cromwell appears to have some support from Starwood Capital for a takeover proposal but will face their own challenges to get support from the IOF investors.

Folkestone expands Altona North

Folkestone has enjoyed success recently with its development of their Altona North land holdings. After buying out AMP Capital share in the project following a rezoning and DA process in 2103, Folkstone have gone on to develop a successful bulky goods centre for its Unlisted Retail Fund and joined with Wilmac to complete an enterprise park.

Folkestone have maintained a vision to expand the site to incorporate the adjacent land from BWP (which it has held an option over) for a Woolworths based neighbourhood centre and have now received Council approval to the proposal along with an expanded enterprise park with Wilmac which they will kick off soon.

Plans for the proposal are available here

Other News

- **Charter Hall Retail REIT** has acquired the Salamandar Bay Shopping Centre from Vincinity for $174.5M. Read More
- **Growthpoint Properties** have advised that it will provide earning guidance by reference to FFO. Read More See below note on FFO.
- Directors of APN Funds Management urge **Generation Healthcare** unitholders to accept offer from NorthWest Australia as it now accounts for 59.47% of units and will move to change the RE of the trust. Read More
- **Australian Unity Office Fund** moves to change its constitution to allow it to take advantage of the new Attribution Managed Investment Trust regime which is a new tax regime that many funds will adopt. CMA will report on this tax regime next week. Read More

REITs Earnings Guidance

For basic securities, most Fund Managers use Earnings per Share (EPS) as a key performance benchmark, however for REIT's this often misrepresents the performance due to a number of non distributable items in its P&L including depreciation and increases / decreases in valuations. To accommodate these items, REITs began reporting on the "Distributable Income per Security" which is was derived by deducting from the Profit (After tax) any non distributable items including changes in valuations, depreciation etc. This however still doesn't quite fix the problem as REITs also contain a range of other future liabilities which can impact the ability to distribute cash. So now, most trusts are moving to a new measure; FFO per security.

FFO which stands for Funds from Operations takes the Distributable Income figure and deducts other future impacts including any amortisation of tenant incentives and any deferred tax benefits. These measures will make it easier to compare the relative performance of REITS. Most trusts should aim to payout 90% of the FFO.

This week Growthpoint was the latest to announce that it will bring itself into line with

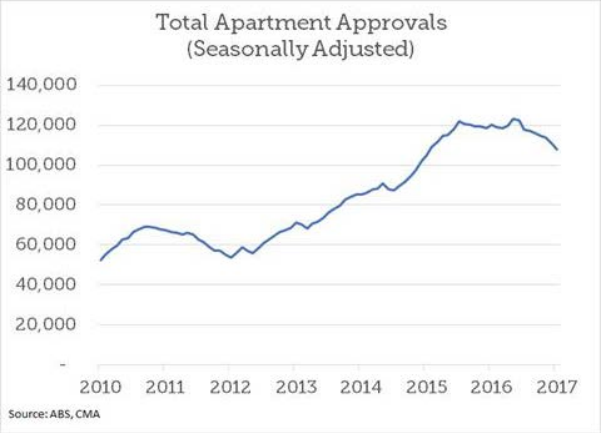
their peers to begin reporting earnings by reference to FFO per security.

Economic News

Building Approvals

The April 2017 figures for building approvals were released this week which confirm that the slow down in Total Construction (reported last week) will likely continue for some time.

Despite a monthly rise in approvals for new apartments, townhouses and semi-detached homes - which rose 8.9 per cent after dropping 17.7 per cent in March - over the 12 months to April, the number fell to a seasonally-adjusted 107,893 as shown in the graph to the right.



In order to compare building approval activity across the states, CMA adjusts the building approvals number by the state population to determine how many approvals per million people each state is generating. The figure to the right shows the dramatic fall on in Approvals in greater Brisbane, whilst Sydney and Melbourne continue to maintain a similar position. The chart shows the significant increase in activity over the past 5 years.

Recent activity shows however that Brisbane is less likely to head to oversupply and will in fact need to lift approvals and construction into 2018 to meet demand and avoid a downturn in overall economic activity.

With most states now deterring foreign investors with higher taxes, and the challenges being faced in project funding, an extended pre-sale period will likely delay new projects from commencing. With Building Approvals heading south, construction activity will likely head back to pre- 2013 levels over the next couple of years.

NAB's view on the Housing Markets

NAB recently issued a note on the housing markets noting that much commentary in the public domain is **overly alarmist.** Lower construction approvals, diminished spare construction capacity and tougher credit conditions are likely to slow the rate of completions as the industry self regulates supply. On the demand side, fundamentals remain quite strong, supported by solid population growth, although measures are in place to slow investor and foreign demand.

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A LOOK AT AUSTRALIA'S HOUSING CONSTRUCTION CYCLE

May 2017

nab

THE PEAK IN THE HOUSING CONSTRUCTION BOOM IS APPROACHING. 'OVERSUPPLY' OF APARTMENTS WARRANTS CLOSE MONITORING, ALTHOUGH VARIOUS INDUSTRY CONSTRAINTS WILL PROVIDE AN OFFSET[1]

- Dwelling investment in Australia has made a sizeable contribution to GDP growth in recent years. However, **indications suggest that the construction cycle may soon reach its peak and could detract from economic growth as soon as 2018.** Statistical modelling techniques that take advantage of available information on projects in the construction pipeline, suggest that new commencements could drop more than 13% in 2017, 7% in 2018 and a further 9% in 2019. If so, dwelling construction would fall 4% a year in 2017 and 2018 according to these models. Such an outcome conforms with our expectation for the construction industry to 'self-regulate' the amount of supply coming online. That said, our statistical models predict the (large) pipeline of existing projects to run down much slower than would seem likely in practice. Instead, NAB Economics is forecasting dwelling construction to rise another 2% in 2017, before falling around 1% in 2018 and 3½% in 2019.
- Much has been made of emerging risks in the apartment market. The apartment construction pipeline is at least two times higher than historical norms (relative to population growth) in most states, and prices in some CBD apartment markets (including Melbourne) are already falling. **That said, much commentary in the public domain is overly alarmist. Lower construction approvals, diminished spare construction capacity and tougher credit conditions are likely to slow the rate of completions, and the industy has previously shown capability to self regulate supply.** This is likely to elongate the construction cycle and reduce the risk of a destabilising market correction – although pockets of the market may still experience excess supply.
- On the demand side, the **fundamentals remain quite strong, supported by solid population growth, especially in Victoria, although measures are in place to slow investor and foreign demand**. Indicators of foreign demand are limited, but the NAB Residential Property survey suggests that policies aimed at deterring foreign buyers (including tighter constraints in foreign jurisdictions) are having an impact.In addition, the longevity of the current resilience in investor demand is difficult to gauge. Recent macroprudential policities (mainly targeting interest-only mortgages) are yet to fully take effect, while changes to capital requirements have already been flagged by APRA. The longer-term effictiveness of such policies, however, is still up for debate.
- On balance, **there is a high degree of pent up demand in some markets**, especially Sydney, which combined with expectations for solid popuation growth, should help to soak up much of the new housing stock. That said, **NAB projections see the national housing market becoming (modestly) oversupplied by late 2018** (although the timing varies by state). Additionally, with much of the construction centred in apartments, it remains to be seen whether that aligns with buyer preference, while there are also concerns over the quality of some of the new apartment stock.
- There were a raft of (mainly **supply-side) policies in the 2017-18 Federal Budget**. While these will add to construction activity in the out years, the net impact is expected to be somewhat marginal.

Australian Dwelling Investment

Contribution to GDP Growth (Y/Y ppts)
Year ended growth
Model projection

Sources: ABS, NAB Economics

NAB Monthly Business Survey – Residential Construction Firms

Business Conditions (Index, lhs)
Capacity Utilisation (%, rhs)

Source: NAB Monthly Business Survey

[1] Herein, the terms 'unit' and 'apartment' are used interchangeably to describe medium-density dwellings.

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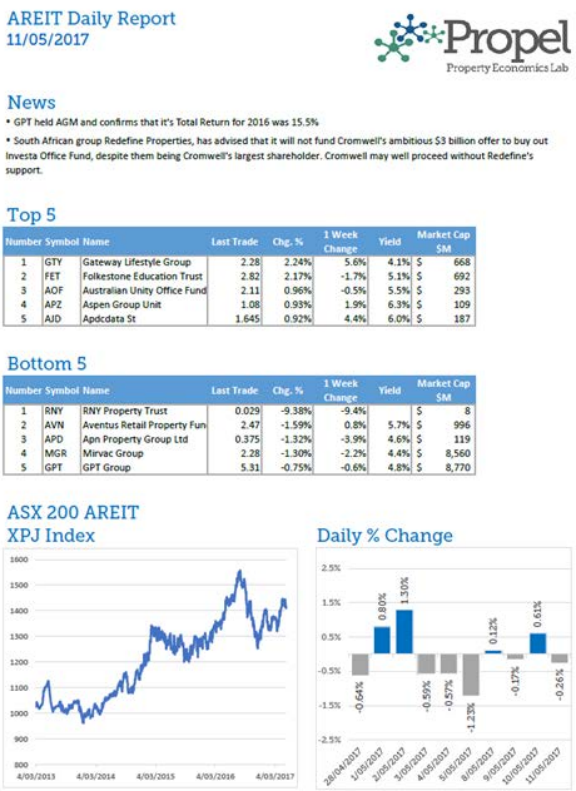
Daily REIT Report

Propel now publishes a daily REIT Report listing the key movements in the Australian listed property markets with information on key announcements, performance reports, presentations and analysis.

If you are interested in accessing these updates click on the link below and let us know.

REIT Updates



AREIT Daily Report
11/05/2017

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News

- GPT held AGM and confirms that it's Total Return for 2016 was 15.5%
- South African group Redefine Properties, has advised that it will not fund Cromwell's ambitious $3 billion offer to buy out Investa Office Fund, despite them being Cromwell's largest shareholder. Cromwell may well proceed without Redefine's support.

Top 5

Number	Symbol	Name	Last Trade	Chg. %	1 Week Change	Yield	Market Cap $M
1	GTY	Gateway Lifestyle Group	2.28	2.24%	5.6%	4.1%	$ 668
2	FET	Folkestone Education Trust	2.82	2.17%	-1.7%	5.1%	$ 692
3	AOF	Australian Unity Office Fund	2.11	0.96%	-0.5%	5.5%	$ 293
4	APZ	Aspen Group Unit	1.08	0.93%	1.9%	6.3%	$ 109
5	AJD	Apdcdata St	1.645	0.92%	4.4%	6.0%	$ 187

Bottom 5

Number	Symbol	Name	Last Trade	Chg. %	1 Week Change	Yield	Market Cap $M
1	RNY	RNY Property Trust	0.029	-9.38%	-9.4%		$ 8
2	AVN	Aventus Retail Property Fun	2.47	-1.59%	0.8%	5.7%	$ 996
3	APD	Apn Property Group Ltd	0.375	-1.32%	-3.9%	4.6%	$ 119
4	MGR	Mirvac Group	2.28	-1.30%	-2.2%	4.4%	$ 8,560
5	GPT	GPT Group	5.31	-0.75%	-0.6%	4.8%	$ 8,770

ASX 200 AREIT XPJ Index

Daily % Change

Feedback

If you have any feedback on our transaction data base or any other recent news & views, please send us an email at warwick@cmaust.com

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