Update on this weeks Property Transactions, latest news on AREITs and Funds.

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7/8/2017

Welcome to this weeks Property News.

We have a full week of news this week with some significant transactions being recorded as well as the release of various market data and of course news and announcements from the REITs.

Shopping Centre assets, particularly larger regional malls, continue to find favour with institutional capital with yields being bid lower and lower due to the scarcity of the assets, the reliable cash flow, the potential for further expansion and development profits and lower costs of capital. These factors are however being challenged as on line retailing takes a greater hold and retailers are forced to adapt, some with store closures.

Already in the US the rate of store closures is at a record high and commentators are suggesting this is not a cyclical change to combat poor merchandising choices, but a structural change to combat the on line world. Credit Swisse predict that 8,500 stores will close across US in 2017. For Shopping Centre owners, managing vacancy and "churn" is often a way to improve market rents as available space is limited, however once Major stores start closing as well, the challenge is much greater.

In the US, stores closures of Major retailers is increasing with announcements from Macy's (closing 100), Sears (closing 35), JC Penny (closing 138). This is one of the reasons why Westfield (WFD) has performed so poorly over the past 2 years, dropping some 24% in value. Credit Swisse expects 20% to 25% of malls — or roughly 220 to 275 shopping centres — to shut down in the US over the next five years as a result of all the store closures happening this year. WFD may be a beneficiary of this as mall closures may shift shopping patterns to WFD malls and assist rental growth, however WFD may face their own vacancy issues with a high exposure to Macy's.

The market dynamic in the US is quite different to Australia with planning laws and insolvency laws adding to the US's problems. Planning conditions have generated retail space per capita in the US of 23.5 square feet, compared with 11.1 square feet in Australia whereas insolvency laws allow directors to file for bankruptcy with little consequences.

So will we see the same issues in Australia, Yes and No. I certainly expect store closures will increase in Australia. We have recently seen a number of smaller retailers close eg Dick Smith, Payless Shoes, Marcs, and David Lawrence and a some of the larger retailers flagging store closures including Target conversions to KMart. The widespread store closure experience in the US is unlikely to be repeated in Australia, however a more gradual shift is likely over a 5 -10 year period as leases come up for renewal allowing landlords to make more strategic decision. The most at risk sectors are apparel and home appliance retailers as well as some administrative services, such as travel, banking health funds etc. The least at risk are convenience and personal services.

Assessing the impact of these issues and opportunities prior to an acquisition of a retail assets has never been more important.

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 an impressive 24 deals worth in excess of $1.9Billion due to several significant transactions.

The largest single deal was the acquisition by GPT's Wholesale Shopping Centre Fund of the 25% interest in Highpoint Shopping Centre for $680M.

The sale by SA Motor Accidents Commission of its property portfolio for circa $700M also took centre stage this week.

Continue reading....

Highpoint Shopping Centre

National Office Market Report - PCA

The Property Council released its National Office Market report this week highlighting that the Australian CBD office vacancy rate fell over the six months to July 2017 from 10.9 per cent to 10.5 per cent. The marginal decline was assisted by net absorption of just 60,075 sqm which is less than half the historic long-term average of 162,801 sqm.

Parramatta is the tightest market in Australia at present with a vacancy rate steady at 4.3% and with 0% vacancy in A Grade space. The 181,000sqm of new space due to come on line over the next 2-5 years may see the vacancy rate rise slightly from 2019 onwards.

The **Sydney** CBD vacancy rate fell to 5.9 per cent due to withdrawals of office space from the market and positive tenant demand. Over the next 2-5 years some 303,000sqm of new space is due to be completed.

Macquarie Park's vacancy rate increased to 8.5% as a number of key tenants in B Grade buildings relocated to other markets chasing more attractive rents.

The **Melbourne** CBD vacancy rate has remained steady at 6.5 per cent. Over the next 2-5 years some 489,000sqm of new space is due to be completed.

Office Vacancy Rates

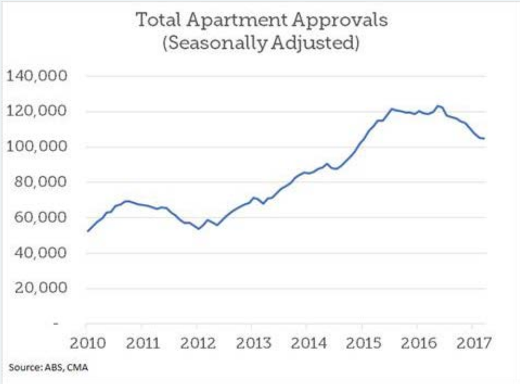
		Jul-17	Jan-17
Sydney	↓	5.9%	6.2%
Melbourne	-	6.5%	6.5%
Brisbane	↑	15.7%	15.3%
Perth	↓	21.1%	22.5%
Adelaide	↓	16.1%	16.2%
Canberra	↓	11.4%	12.6%
North Shore (Syd	↓	7.9%	8.1%
Macquarie Park	↑	8.5%	7.9%
Parramatta	-	4.3%	4.3%
Gold Coast	↓	11.3%	12.2%
Brisbane Fringe	↓	12.9%	14.4%
Overall	↓	**10.5%**	**10.9%**

The **Brisbane** CBD vacancy rate to 15.7 per cent due to the contraction of government leases following the larger increase in demand and consolidation into 1 William Street. Over the next 2-5 years some 76,000sqm of new space is due to be completed in the CBD and a further 71,000sqm in the fringe.

The **Perth** CBD vacancy rate declined to 21.1 per cent thanks to tenant demand being three times the historic average.

The **Adelaide** CBD vacancy rate fell to 16.1 per cent but remains over 30 per cent higher than the historic average.

Apartment Approvals Still in Decline



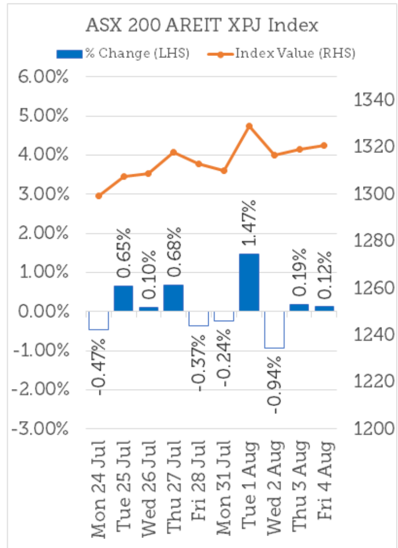
The number of apartment Building Approvals in June rose 20% from May, but was not enough to ease the decline in the annual number of approvals. Over the past 12 months the industry has obtained building approvals for 104,635 attached dwellings, down 0.5% on the 12 months to May and 17% below the peak in Aug 16.

The slow down in construction has been evident across all the main capital cities, however the figures for each city are quite different. Building Approvals granted over the past 12 months for dwellings (excluding houses) in the capital cities compared to the 12 months to June 2016 are;

- Sydney down -2.0%
- Melbourne down -8.5%
- Brisbane down -38.7%
- Adelaide down -11.0%
- Perth down-22.2%

Clearly developers are still pursuing apartment developments in Sydney where demand continues to exceed supply. Brisbane has experienced the sharpest decline in building approval activity which will assist the city to absorb the recent volume of developments.

Fund News



The ASX 200 AREIT index closed the week up 1.6% at 1320, due to improvements in SCentre (up 1.2%), Abacus, (up 9.2%), Goodman (up 1.3%) and Investa (up 2.9%).

NextDC

As expected, NEXTDC announced an updated unconditional proposal for all units in AJD at $1.87 per security (read more). We think it is unlikely that 360 Capital will increase their bid but will wait out the next 2 weeks to see whether any other parties comes forward with a better proposal than NEXTDC.

Bunnings Annual Report

BWP Trust announced it's annual results this week, revealing a 10yr total return of 9.8%, assisted by a 5.1% valuation uplift (with a 18Bps sharper cap rate) and a 2.1% like for like rental growth. This has increased the distributable profit to $112.5m (up 4.2%) and the dsitribution to 17.51cents. FY2018 guidance is for distributions to be equivalent to FY17. (read more)

Other News

- Arena REIT confirmed the successful placement of the institutional capital raising of $55M at $2.03 announced last Friday (read more).
- Ingenia acquired Sheldon Caravan Park in Brisbane for $25M. The Park has 241 rental homes and 35 tourist sites which it will convert in addition to adding a further 48 homes with the intention of generating a 10% yield and an IRR of 12%. (read more)
- Centuria Industrial REIT have provided a market

update noting that the ley tenant in Spearwood Ave, Bibra Lake had renewed its lease. The tenant, AWH is CIP's largest tenant, occupying 11% of the GLA of the fund. (read more)

- Astro Japan Property Trust which is listed on the ASX announced that it had entered into arrangements to sell the whole portfolio to entities associated with Blackstone for JPY$37.908bill, being a 2.38% premium to recent valuations and a 13% premium to 31/7 closing price. The Board supports the sale and unit holders will consider it for approval at a meeting on the 13 Sept (read more)
- Mirvac was granted approval to convert the 25ha IBM Office Park in West Pennant Hills into an apartment and townhouse site for 640 apartments and 160 homes. The original proposal for 1200 apartments was scaled back due to traffic and density concerns. The site currently comprises 7 low rise commercial buildings of 34,000sqm with 1,770 parking spaces which are currently vacant. The asset, which sits in the Mirvac Property Trust had a book value of $76.5M in Dec 16, is now likely to be worth in excess of $160M.

Property Research Portal

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Daily REIT Report

Propel 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.

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REIT Updates

Feedback

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