

Who's buying Australian Commercial Real Estate?

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The Australian real estate investment market was stagnant in 2008. With limited purchasers and a plethora of property across all asset classes on the market, few sales occurred. So far in 2009, the investment landscape has changed, bringing with it stronger sales activity. Most notable is a material increase in overseas buyer interest of Australian investment property. This is in response to the downward repricing of capital values and the absence of local institutional buyers that drove the market for much of the decade on the back of abundant cheap debt and growing funds under management.

European investment funds and other offshore sovereign wealth funds are increasingly sounding out opportunities, particularly for AREIT and unlisted property trust assets that offer substantial discounts to book values. One recent example is German based Deka-Immobilien which has been active in acquiring assets within Perth and Melbourne during the first half of 2009. Fellow German Real I.S. now has over \$1B in local property investment after purchasing the Edmund Barton Building in Canberra for \$186M. Similarly, Asian private investors acquired two office buildings in Melbourne totalling \$89M (303 Collins Street - \$56M @ 9.2% initial yield and Bendigo Bank Building - \$33M @ 8.6% initial yield).

The attraction of Australia offshore relates to the transparency of the real estate market, a stable political system and a competitive Australian dollar (although this has rallied in recent weeks on the back of better than expected economic data). More importantly, the perception remains that Australia's real estate market has weathered the global financial crisis better than most comparable economies, particularly North America and the United Kingdom.

| Top 10 Australian CBD Office Investment Sales - 1H 09 | | | | |
|---|-----------|----------------|---------------|---------------------|
| Property | City | Price (\$m) | Initial Yield | Buyer Type |
| 1 Bligh Street ¹ | Sydney | \$210 | N/A | Super Funds |
| Edmund Barton Building | Canberra | \$186 | 7.3% | Offshore Purchasers |
| Energex Building | Brisbane | \$172 | 7.7% | Syndicates |
| 15 William Street | Melbourne | \$167 | 8.8% | Offshore Purchasers |
| Industry House | Canberra | \$123 | 7.8% | Private Investors |
| State Law Building | Brisbane | \$103 | 7.0% | Private Investors |
| ATO Building | Perth | \$95 | 9.5% | Offshore Purchasers |
| 44 Martin Place | Sydney | \$81 | 7.8% | Private Investors |
| Grenfell Centre | Adelaide | \$76 | 9.7% | Syndicates |
| 1 Spring Street ² | Melbourne | \$66 | 7.8% | Private Investors |
| Total | | \$1,279 | | |

¹33% interest. ²50% interest.

Source: m3property Research

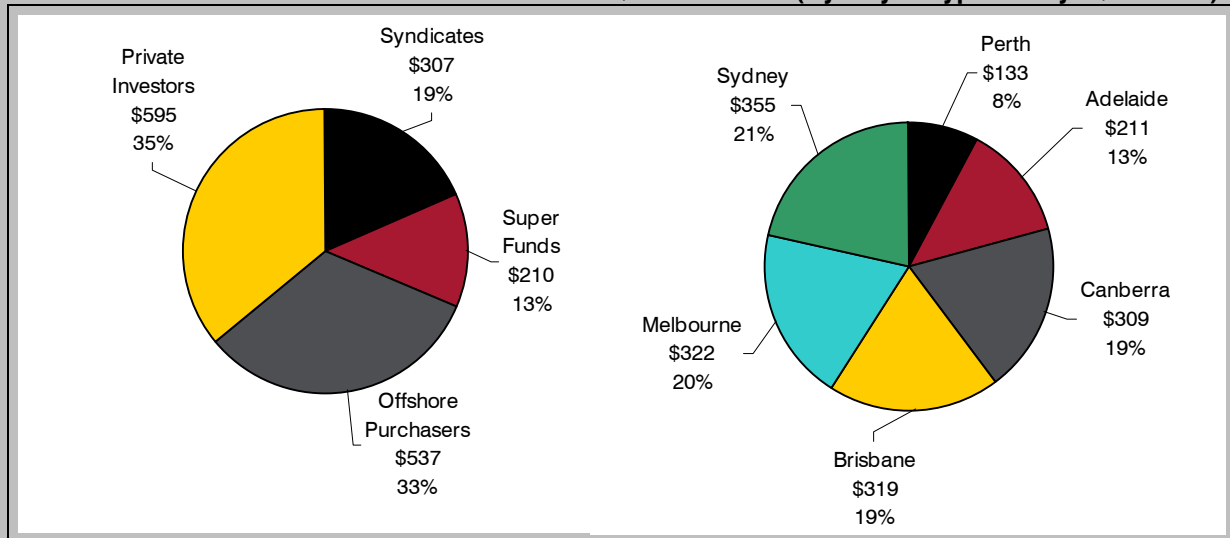
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Australian CBD Office Investment Sales above \$15M – 1H 09 (By Buyer Type & City - \$Millions)



Over the first half of 2009, CBD office property has been the most active investment market in Australia. Approximately \$1.65B of CBD office buildings (sales above \$15M only) transacted with the dominating private investor market of 2008 having to make way for offshore buyers and the emergence of local syndicates.

Sydney accounted for 21% of total transactions by value (4 sales - \$355M) while offshore purchasers recorded \$537M or 33% of sales nationally. Property syndicates are making a return to the investment landscape in 2009 with over \$300M across 4 office buildings transacting. Syndicates generally seek distressed assets well below their replacement cost and with long lease terms which in the current property market presents many opportunities.

| Australian CBD Office Investment Sales above \$15M - 1H 09 | | |
|--|-------------------|--------------|
| Buyer Type | Total Value (\$m) | No. of Sales |
| Syndicates | \$307 | 4 |
| Super Funds | \$210 | 1 |
| Offshore Purchasers | \$537 | 5 |
| Private Investors | \$595 | 10 |
| Total | \$1,649 | 20 |

Source: m3property Research

| Australian CBD Office Investment Sales above \$15M - 1H 09 | | |
|--|-------------------|--------------|
| City | Total Value (\$m) | No. of Sales |
| Perth | \$133 | 2 |
| Adelaide | \$211 | 4 |
| Canberra | \$309 | 2 |
| Brisbane | \$319 | 4 |
| Melbourne | \$322 | 4 |
| Sydney | \$355 | 4 |
| Total | \$1,649 | 20 |

Source: m3property Research

Over the second half of 2009, it is expected that transactional activity will improve not only in CBD office markets, but across other property sectors particularly as the re-adjustment of capital values is looking more attractive and importantly, the gap between buyer and seller expectations is narrowing with more active purchasers searching the market.

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