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MAKING AN IMPACT

ASCENDAS REIT
INDEPENDENT MARKET STUDY
FY2019

MAKING AN IMPACT

Ascendas Real Estate Investment Trust (Ascendas Reit) continues to stay at the forefront of the real estate investment trust sector as Singapore's first and largest business space and industrial REIT, building on a solid portfolio of 200 quality investments in business and industrial properties in four markets globally.

The radial patterns found in this report are symbolic of our well-diversified portfolio and aim to expand our footprint across selected developed markets.

CORPORATE PROFILE

Ascendas Real Estate Investment Trust (Ascendas Reit) is Singapore's first and largest listed business space and industrial real estate investment trust (REIT).

As one of Singapore's REIT pioneers, Ascendas Reit has played a crucial role in the development of the Singapore REIT sector. It provides an attractive platform for investment in business and industrial properties across developed markets.

Ascendas Reit owns and manages a well-diversified portfolio, valued at S$12.8 billion, comprising 200 properties in Singapore, Australia, the United Kingdom (UK) and the United States (US).

Ascendas Funds Management (S) Limited (AFM), the manager of Ascendas Reit (the Manager), is a wholly owned subsidiary of Singapore-listed CapitaLand Limited (CapitaLand), one of Asia's largest diversified real estate groups.

OUR VISION

To be a leading global real estate investment trust

OUR MISSION

To deliver predictable distributions and achieve long-term capital stability for Unitholders

For more information, visit our website
www.ascendas-reit.com

Accessibility of Reports
As part of its environmental conservation efforts, Ascendas Reit continues to print limited copies of its Annual Report. PDF versions of its Annual Report, Independent Market Study Report and Integrated Sustainability Report are available for download from the corporate website: ir.ascendas-reit.com/ar.html.

Feedback
The Manager strives to continuously improve its business and sustainability practices. Stakeholders are encouraged to share their views, suggestions or feedback, which may be directed to a-reit@capitaland.com.

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SINGAPORE

INDEPENDENT MARKET STUDY

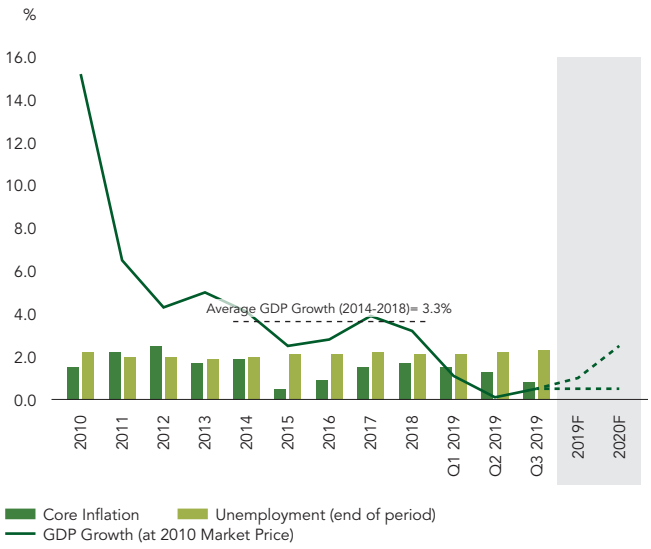
By Edmund Tie & Company (SEA) Pte Ltd

1.0 ECONOMIC OVERVIEW

Faced with global uncertainties, Singapore's economic growth is expected to stay sluggish in 2020

Singapore's gross domestic product (GDP) grew at a slower rate in Q3 2019 at 0.5% year-on-year (y-o-y), compared with the growth in Q3 2018 (2.6% y-o-y) and unemployment rate remained low at 2.3% (Figure 1). The Index of Industrial Production, an indicator for manufacturing output, declined by 1.2% y-o-y in Q3 2019 as industrialists continued to face impacts from the ongoing US-China trade tensions and downswing of the global electronics cycle. The manufacturing sector contracted by 1.7% y-o-y in Q3 2019, weighed down by the electronics cluster, while all other clusters in manufacturing expanded with the biomedical manufacturing cluster posting the strongest growth (10.6% y-o-y). The construction industry performance bottomed out, expanding by 2.9% y-o-y, while the wholesale & retail trade sector declined 3.3% y-o-y due to weak sales in machinery, equipment & supplies.

Figure 1: GDP Growth, Core Inflation[1] and Unemployment



F refers to forecast.
Source: Department of Statistics Singapore (DOS), EDMUND TIE

According to the Ministry of Trade and Industry (MTI), Singapore's GDP is expected to grow by 0.5% to 2.5% in 2020, taking into account the prevailing global and domestic economic environment.

2.0 KEY GOVERNMENT POLICIES AND PLANS

Connected Logistics Innovation Platform to enhance Singapore's position as a global logistics hub

Aligning with the Singapore Logistics Association's aim to improve the rate of digitalization in the logistics sector, the Connected Logistics Innovation Platform (CLIP) is created through a collaboration between the Economic Development Board and international service provider DHL Express. The CLIP initiative sets up an innovation network leveraging Singapore providers, academia and local talent to explore new logistics solutions and pilot projects before implementation. Besides enhancing DHL's services with a suite of pilot projects to accelerate digitalization, CLIP strengthens Singapore's position as a leading global centre of high-tech solutions and innovations, reinforcing Singapore's 'Smart Nation' initiative.

The Singapore government continues investments to boost digital economy

The Infocomm Media Development Authority (IMDA) has begun to facilitate the roll out of 5G mobile networks[2]. By end-2022, a full-fledged 5G standalone capability is expected to cover at least half of Singapore, giving a boost to the digital economy as well as reinforcing the country's position as a key trading and connectivity hub globally. With a 5G ecosystem, there will be more opportunities for businesses to innovate and create commercial solutions e.g. autonomous vehicle mobility and delivery systems, maximizing benefits for both businesses and consumers.

Digital Industry Singapore office to support technological growth

The newly set up government office, Digital Industry of Singapore (DISG), aims to support and capitalize on the growth of Singapore's technology sector. This includes securing talent, market access, building digital capabilities and internationalizing businesses. The office is formed under the Ministry of Communications and Information by the joint participation of three statutory boards[3] and will be the first stop for enterprises seeking assistance on matters related to the digital industry, through public-private partnership models. As one of the first projects, DISG worked with tech firm Grab to establish their new headquarters and research centre at one-north.

1 Core inflation defined by the Monetary of Singapore is a measure that excludes the components of "Accommodation" and "Private Road Transport".
2 The Call for Proposal for 5G Spectrum Allocation was launched in October 2019.
3 Economic Development Board, Enterprise Singapore and the Infocomm Media Development Authority.

Jurong Innovation District, a 600-hectare industrial estate, to house the full value chain of manufacturing activities

Aligning with the vision to continue with Jurong's industrial evolution, JTC Corporation (JTC) introduced a 600-hectare industrial estate, Jurong Innovation District (JID), in Jurong West. JID comprises five unique precincts, hosting the full value chain of manufacturing activities from prototyping and test-bedding, to production and distribution. The first phase of development will be ready in 2022. The industrial estate is designed to create a hotbed of new economic activities, powered by cutting-edge technologies. Companies that have announced their plans to locate in JID include German conglomerate Siemens, German engineering firm Bosch Rexroth, A*STAR's[4] Singapore Institute of Manufacturing Technology and National Metrology Centre.

Accelerated Initiative for Artificial Intelligence

As more companies explore new ways to deploy Artificial Intelligence (AI) solutions to increase competitiveness, the Intellectual Property Office of Singapore (IPOS) launched the Accelerated Initiative for Artificial Intelligence[5] to expedite patent applications in AI. For instance, the scheme has granted Alibaba Group an AI patent within three months, compared with an average of two to four years. As AI is identified as one of the key catalysts and drivers for Singapore's transformation to a digital economy, the faster application process allows innovative industrial companies to accelerate their go-to-market strategy and drive enterprise growth.

3.0 INDUSTRIAL PROPERTY MARKET OVERVIEW

As at Q3 2019, 49.6 million sq m[6] of industrial space is estimated island-wide, of which 87.3% (43.3 million sq m) is private stock. 51% (25.1 million sq m) of the total stock is single-user factory, followed by multiple-user factory (23%, 11.3 million sq m), warehouse (22%, 11.0 million sq m) and business parks (4%, 2.2 million sq m) (Figure 2).

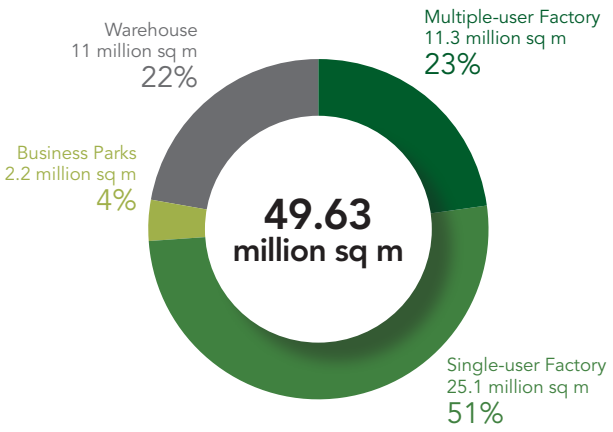
Government Land Sales Program

The Government announced four sites[7] on the Confirmed List and six sites on the Reserve List in the H2 2019 Industrial Government Land Sales (IGLS) Programme, totaling some 9.98 hectares (ha). As at Q3 2019, the updated Confirmed and Reserve Lists can potentially yield some 41,600 sq m and 124,148 sq m of NLA to the total pipeline supply respectively. All of the land plots in the IGLS Programme are zoned Business 2 (B2) and majority of the sites are with small plots of below 1.5 ha and with 20-year leasehold tenure, in an effort to keep industrial land affordable for small industrialists. Two plots (Plots 3 and 4 at Kaki Bukit Road) on the Reserve List comprise site area of around 2.00 ha at 2.5 gross plot ratio, potentially yielding around 41,000 sq m of NLA for each plot.

Major Investment Sales

The largest investment sales for industrial building in 2019 was the sale of Keppel DC SGP 4 by Thorium DCPL to Keppel DC REIT for $384.9 million ($3,865 per sq ft). The transaction was made alongside Keppel DC REIT's acquisition of 1-Net North Data Centre at the price $200.2 million ($936 per sq ft) (Table 1). The second largest transaction was a proposed sale and leaseback arrangement of 121 Banyan Drive, a logistics facility located on Jurong Island, for an estimated $210.4 million ($297 per sq ft). Other transactions include a government land sale site at one-north to Ascendas Reit for Grab's headquarters. The land premium (30-year leasehold) is S$84 million at S$682 per sq ft based on land area.

Figure 2: Island-wide Industrial Stock, in Net Lettable Area (NLA) (Q3 2019)



Source: JTC, EDMUND TIE

4 Agency for Science, Technology and Research.
5 The initiative will be launched for a period of two years and it will be limited to the first 50 applications filed.
6 All data on areas are NLA unless otherwise stated.
7 No tender will be awarded for two of the sites in the Confirmed List due to the highest bid price being lower than the reserve price.

Table 1: Selected Industrial Investment Transactions (Q1 2019 to Q3 2019)

Development	Land Lease Tenure	Site Area (sq m/sq ft)	Gross Floor Area (GFA) (sq m/sq ft)	Vendor	Buyer	Transacted Price (S$ million)	Unit Price per GFA (S$ per sq ft)
Factory							
Woodlands Avenue 12	30-year leasehold (LH) from 2019	20,937/ 225,364	52,343/ 563,409	JTC	Soon Hock Investment Group	82.0	146
Grab Headquarters at one-north avenue	30-year LH from 2019	11,435/ 123,085	42,310/ 455,421	JTC	Ascendas Reit	84.0	682 (Land Premium)
8 Loyang Way 1	Freehold	–	11,158/ 120,104	Ascendas Reit	Seow Kim Polythelene Co Pte Ltd	27.0	225
51 Lorong 21 Geylang	Freehold	1,427/ 15,364	3,568/ 38,410[8]	Tollyjoy Baby Products	JVA Venture Pte Ltd	21.0	547
Asia Media Centre (39 Mactaggart Road)	99-year LH from 1964	1,333/ 14,352	3,463/ 37,271	–	–	11.3	303
Data Centre							
Keppel DC SGP 4 (20 Tampines Street 92)	30-year LH from 1990	–	17,001/ 183,000	Thorium DCPL	Keppel DC REIT	384.9	2,103
1-Net North DC (18 Riverside Road)	70-year LH from 1974	–	19,864/ 213,815	CityDC Pte Ltd and WDC Development Pte Ltd	Keppel DC REIT	200.2	936
Warehouse							
121 Banyan Drive	60 years LH from 2011	43,142/ 464,376	65,764/ 707,877	SGRE Banyan	Vibrant Group	210.4	297
Poh Tiong Choon Logistics Hub (48 Pandan Road)	24 years remaining from 2019	40,639/ 437,436	101,582/ 1,093,415	Poh Tiong Choon Logistics	PTC Logistics Hub LLP[9]	225.0	206

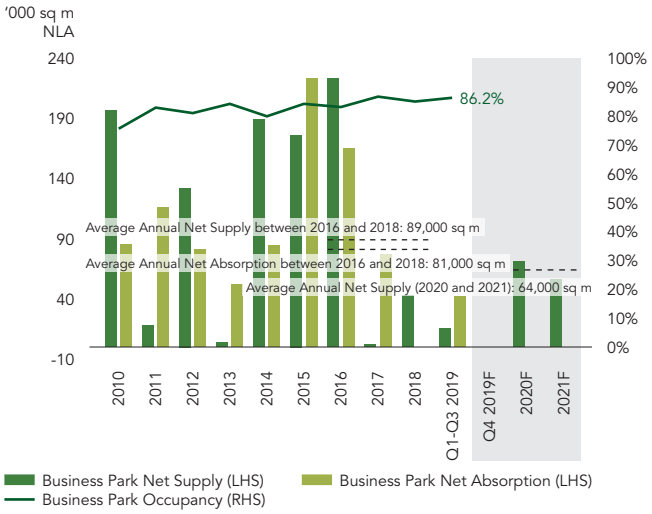
Source: JTC, various REITs, OneMap, EDMUND TIE (as at 28 November 2019)

8 51 Lorong 21 Geylang was sold as a redevelopment site, at maximum plot ratio basis.
9 A joint venture between ESR-REIT and Poh Tiong Choon Logistics (PTC), for a leaseback to PTC.

4.0 BUSINESS PARK

Business parks with high quality spaces continue to attract established tech companies. Taking into account the lack of pipeline supply for non-custom-built space, rents at newer spaces at e.g. one-north, are expected to increase by 1% to 3% annually, while rents for older spaces in the West and East regions are expected to stay flat in 2020.

Figure 3: Net Supply, Net Absorption and Occupancy (Business Parks)



F refers to forecast.
Source: JTC, EDMUND TIE

Stock and Supply

As at Q3 2019, around 84.8% of the total business park space was private stock (1.9 million sq m). Total business park space grew by circa 2.4% (51,000 sq m) y-o-y in Q3 2019 with the completion of 5 Science Park at the Singapore Science Park. The development, designed for future-economy businesses and talents, is fully leased to a local e-commerce company, Shopee. With no new supply expected in the fourth quarter, net supply (21,000 sq m) of business park space in 2019 is below the annual average from 2016 to 2018 of 91,000 sq m.

Demand and Occupancy

Occupancy for business parks further improved in the Central region

Built with a suite of amenities, the business-like environment in business parks draws occupancies from tech (e.g. IT and Media) companies. Supported closely by nearby industrial estates for manufacturing needs and lower rents compared with office spaces in the Central Business District, business parks serve as ideal locations for qualified companies to set up their headquarters and at the same time tap on collaboration opportunities with various business partners. Between Q4 2018 and Q3 2019, strategically located spaces in the Central Region (i.e. one-north and Mapletree Business City) had a strong net absorption of 646,000 sq m. Business park spaces in East and West regions, however, experienced overall negative absorptions mainly due to ageing facilities.

Island-wide occupancy increased y-o-y by 0.2 percentage points to 86.2% in Q3 2019. While business park space in the Central Region continued to improve in occupancy, at 91.3% in Q3 2019, business parks in the West and East Regions declined y-o-y by 0.5 percentage points and 1.8 percentage points to 71.8% and 84.4% respectively.

Potential Supply

Bulk of business park pipeline supply comprises customized buildings for headquarters

No new supply is expected in Q4 2019. Between 2020 and 2021, expected supply of business park space is 229,280 sq m (GFA), yielding an estimated 188,010 sq m in NLA (Table 2). Of this, 67% will be from the private sector. Potential supply expected to complete in 2020 include Grab headquarters and Razer's headquarters located in one-north, Surbana Jurong Campus and PBA Innovation Centre.

Table 2: Pipeline Supply (Q3 2019 to 2021, Business Park)

Developer/ Owner	Location	GFA	Estimated NLA (sq m)
2020			
Ascendas REIT	one-north avenue	36,000	29,500
Pension Real Estate Singapore Pte Ltd	Additions/alterations at 13 International Business Park	17,700	14,500
Wilmar International Limited	Biopolis Road	16,600	13,600
Razer Inc.	one-north crescent	16,400	13,500
JTC	Cleantech Loop (Additions/Alterations)	12,800	10,500
JTC	Cleantech Three	62,000	51,000
2021			
Surbana Jurong	Cleantech Loop	41,400	33,900
PBA Innovation Centre Pte Ltd	Cleantech Heights	26,500	21,700

Source: JTC, EDMUND TIE

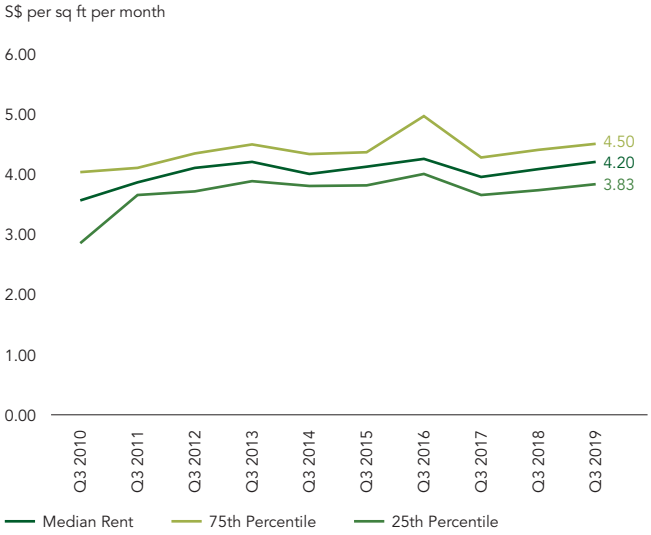
Rents

Strategically located business parks continued to attract tech and manufacturing industries. Occupancy rates improved alongside the lack of new supply, giving boost to overall rents. JTC's business park Rental Index increased by 1.1% y-o-y to 113.2 in Q3 2019. While the 75th percentile rent[10] rose by 2.3% y-o-y to S$4.50 per sq ft per month, median rents and the 25th percentile rents[11] rose by 2.9% and 2.7% to S$4.20 and S$3.83 per sq ft per month respectively in Q3 2019 (Figure 4).

Outlook

High quality business park spaces draw tenancies from manufacturing, tech and e-commerce companies globally to house their business units including research & development. Business parks near to tertiary and other academic institutions provide research collaboration opportunities. Taking into account the lack of pipeline supply for non-custom-built space, rents of newer business parks are expected to increase by 1% to 3% in 2020, while rents for older spaces in business parks located in the West and East Regions is envisaged to stay flat with limited new large-scale space take-up in these properties.

Figure 4: Rents (Business Park)[12]



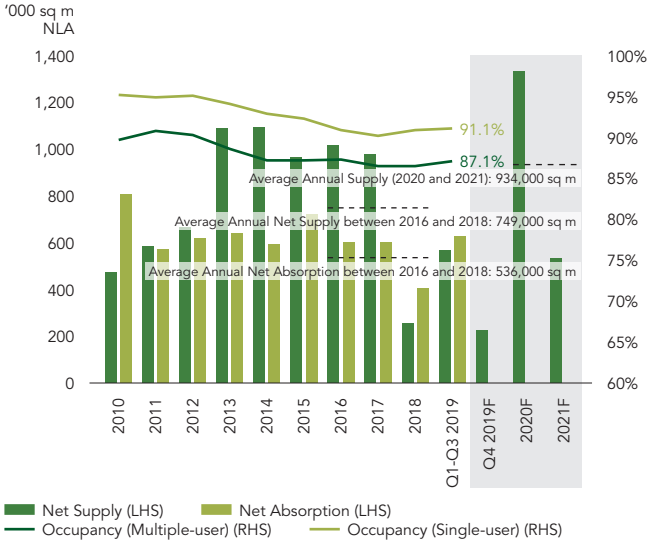
Source: JTC, EDMUND TIE

10 75h percentile rents is a proxy for better and newer business park spaces.
11 The 25th percentile rents generally represents transactions in older stock.
12 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).

5.0 HIGH-SPECS AND LIGHT INDUSTRIAL SPACE

The manufacturing sector is expected to return to positive growth supported by recovery in the global electronics cycle. Notwithstanding the uncertainties from the long-drawn US-China trade conflict, we expect rents for both factory and high-specs industrial space to grow by 0% to 2% in 2020.

Figure 5: Net Supply, Net Absorption and Occupancy (Multiple-and-single-user Factory Space)



F refers to forecast.
Source: JTC, EDMUND TIE

Stock and Supply

As at Q3 2019, total factory stock comprising high-specifications (or high-specs) industrial and light industrial space grew by 1.8% y-o-y (640,000 sq m) to 36.5 million sq m. About 11.4% of this stock is high-specs industrial spaces (excluding data centres)[13].

There are three major high-specs completions in Q1-Q3 2019 period, including the data centre (STT Defu 2: 11,800 sq m NLA) by ST Telemedia Global Data Centres. The other two completions were Solaris@Kallang 164 and 171, with NLA of 44,700 sq m and 29,800 sq m respectively. These were redevelopments of old industrial buildings. The new high-specs factories feature state-of-the-art industrial space with lush greenery and landscaping, communal spaces and childcare facilities. Another notable completion is Micron Technology's 3D NAND flash memory fabrication facility (213,100 sq m NLA) located at North Coast Drive. The extension of the advanced facility, double the size of its previous facility, comprises flexible clean room and research spaces.

Demand and Occupancy

Net absorption for factory space weakened on the back of a higher net supply

Despite the slow global economy, net absorption for factory space remained robust. There was high demand for factory space in the Northern Region, leading to an overall rise in net absorption. On a year-on-year basis, net absorption for factory space rose by 50.6% y-o-y from 528,000 sq m in Q3 2018 to 795,000 sq m in Q3 2019, while net supply increased by 26.7% y-o-y from 505,000 sq m to 640,000 sq m. Occupancy for multiple-user and single-user factory increased y-o-y by 1.6 percentage points and 0.1 percentage points to 87.1% and 91.1% in Q3 2019 respectively.

Potential Supply

Upcoming supply largely comes from single-user factories and Defu Industrial City

Some 297,000 sq m (GFA) (224,000 sq m NLA) is expected to complete in Q4 2019. A total of 2.3 million sq m of GFA of factory space is in the pipeline between 2020 and 2021, yielding an estimated 1.8 million sq m of NLA. Single-user factory constitutes 60% and 84% of total supply and total private factory supply respectively.

Out of the total potential supply, some 270,000 sq m (GFA) are expected to be high-specs industrial space, including 210,000 sq m (GFA) of data centres (Table 3). The bulk of new factory supply in 2020 comprises Defu Industrial City[14] (327,000 sq m GFA) by JTC, which features single-storey terrace workshops to four-storey industrial shops and land-based prototype factories.

13 Based on EDMUND TIE's estimates.
14 Defu Industrial City will be mainly occupied by relocated land-based factory tenants.

Table 3: Selected Pipeline Supply (Factory and Data Centre)

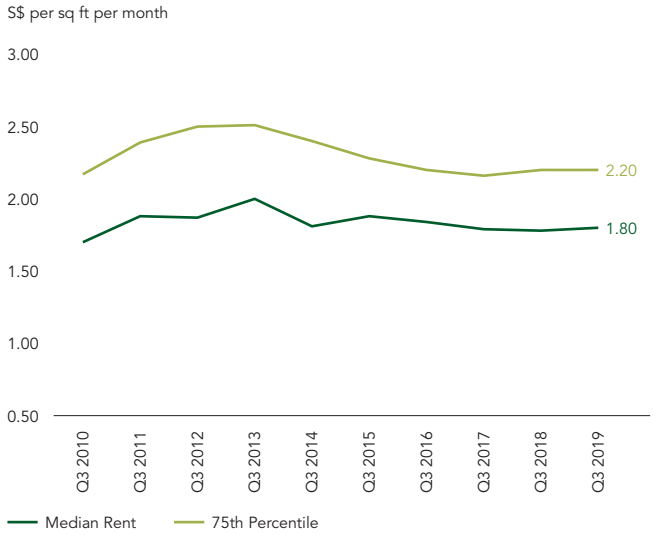
Development	Location	Developer	GFA (sq m)
Q4 2019			
Factory			
Single-user industrial development	Tuas South Avenue 3	Hydrochem (S Pte Ltd)	48,600
Single-user industrial development	Pandan Loop	X Properties Inc Pte Ltd	22,500
Multiple-user factory	Tuas Avenue 2	AIMS AMP Capital Industrial REIT	18,700
Data Centre			
Awan Data Centre	Tuas Avenue 4	Awan Data Centre Pte Ltd	32,600
2020			
Factory			
Single-user industrial development	Senoko Drive/Senoko Road	Tee Yih Jia Food Manufacturing Pte Ltd	69,600
Extension to existing factory (UE Bizhub Central)	Ang Mo Kio Street 64	United Engineers Limited	60,200
Tuas South Connection	Tuas South Link 1	Yee Lee Development Pte Ltd	47,200
Additions/alterations to existing factory	Tuas South Lane	Neste Singapore Pte Ltd	34,700
Single-user industrial development	Tuas Avenue 5	Hup Hin Property (S) Pte Ltd	34,000
Single-user industrial development	Bulim Drive	Shimano Singapore Pte Ltd	32,100
Single-user industrial development	Kranji Way	Samwoh Corporation Pte Ltd	32,000
Defu Industrial City	Bartley Road/Kim Chuan Road	JTC Corporation	327,000
Data Centre			
Google's Third Data Centre in Singapore	Lok Yang Way	Google Asia Pacific Pte Ltd	120,000
Digital Loyang II	Loyang Drive	Digital Singapore 2 Pte Ltd	32,000
2021			
Factory			
Single-user industrial development	Sunview Way	Malkoha Pte Ltd	171,300
Single-user industrial development	Seletar North Link	HL-Sunway JV Pte Ltd	62,400
Multiple-user industrial development (hi-specs)	Ubi Road 4	Ascendas Reit	17,100
Single-user industrial development	Seletar Aerospace Heights	Boustead Projects	21,000
Data Centre			
Data Centre	Sunview Drive	Equinix Singapore Pte Ltd	21,000
Data Centre	Defu Lane 10	ST Telemedia Global Data Centres	9,800

Source: JTC, EDMUND TIE

Rents

While occupancy for multiple-and single-user factories improved y-o-y in Q3 2019 alongside the tapered supply, factory rents showed some resilience in 2019 despite the weak industrial market sentiments. The 75th percentile rents for multiple-user factory, a proxy for high-specs industrial, stayed flat on year-on-year basis at S$2.20 per sq ft per month (since 2017), while median rents increased by 1.1% from S$1.78 per sq ft per month to S$1.80 per sq ft per month (Figure 6).

Figure 6: Factory Rents[15]



Source: JTC, EDMUND TIE

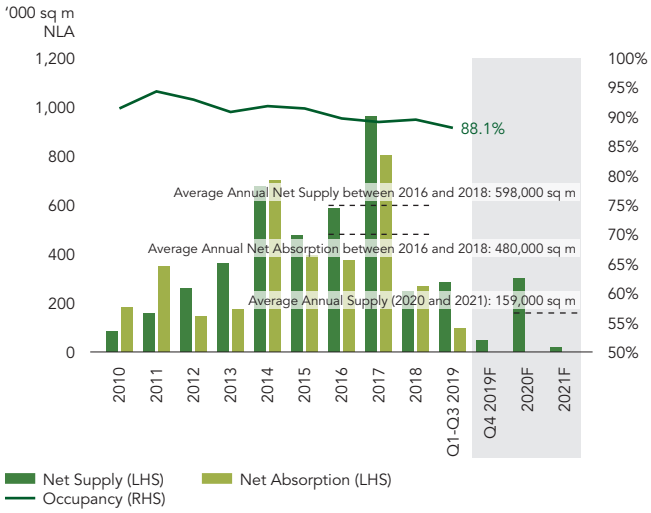
Outlook

Although global uncertainties persist, the manufacturing sector showed tentative signs of improvement, contracting at a slower rate (1.7% y-o-y) in Q3 2019 compared with Q3 2018 (3.5% y-o-y). The manufacturing sector is expected to return to positive growth supported by recovery in the global electronics cycle, led by a gradual recovery in the electronics and precision engineering clusters. However, with the uncertainties deriving from the long-drawn US-China trade conflict, we expect rents for both factory and high-specs industrial space to grow by 0% to 2% in 2020.

6.0 LOGISTICS AND DISTRIBUTION CENTRES[16] (WAREHOUSE)

Cognisant of the macroeconomic uncertainty and slow demand for warehouses, we expect modest rental growth for warehouses of between 1% to 2% in 2020. Meanwhile, logistics and distribution centres with modern infrastructures are highly sought-after and are likely to command higher rents.

Figure 7: Net Supply, Net Absorption and Occupancy (Warehouse)



F refers to forecast.
Source: JTC, EDMUND TIE

Stock and Supply

Total warehouse stock increased by 2.5% y-o-y (269,000 sqm) from 10.7 million sqm in Q3 2018 to 11.0 million sqm in Q3 2019. The growth lies below the average annual supply of 598,000 sqm.

Major warehouse completions in Q1-Q3 2019 period include Blue Hub (41,100 sq m) by Bollore Logistics and a single-user development (42,200 sq m) by Schenker Singapore. The development of Blue Hub comes from an investment partnership between Bollore Logistics and LVMH who will be a long-term tenant. The development is equipped with fully integrated automation solutions that improve storage flexibility, productivity and efficiency.

15 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).
16 As there are no official statistics on logistics and distribution centres in Singapore, warehouse data from JTC is used as a proxy.

Demand and Occupancy

Established global companies are taking up more warehouse space to expand their operations

As technological advancement brings about higher consumer expectations, companies continue to seek out suitable warehouse space that allows them to integrate Internet-of-Things solutions to improve productivity and enhance the connections between industrialists and consumers. For instance, Amazon Singapore increased its warehouse space in Mapletree Logistics Hub to support its growing retail operations in Singapore. However, the prolonged global trade tensions continued to affect movement of goods and the resultant demand for warehouse space.

While net supply of warehouses declined by 42.4% y-o-y from 467,000 sq m in Q3 2018 to 269,000 sq m in Q3 2019, net absorption fell by 84.9% y-o-y from 614,000 sq m in Q3 2018 to 93,000 sq m in Q3 2019. With net absorption being outstripped by net supply for 176,000 sq m, occupancy declined y-o-y by 1.3 percentage points to 88.1% in Q3 2019.

Potential Supply

JTC Logistics Hub @ Gul Circle, an integrated development, to provide around 110,200 sq m NLA of new warehouse supply in 2020

Around 88,140 sqm of potential warehouse space is expected to complete in Q4 2019. Total pipeline supply in 2020 and 2021 is some 569,900 sq m (GFA), with potential to yield about 332,400 sq m of NLA. Average annual supply for 2020 and 2021 is 284,900 sq m, below the average annual supply between 2016 and 2018 of 598,000 sq m.

Major potential supply includes JTC Logistics Hub @ Gul Circle[17] (134,300 sq m GFA), a next-generation innovative logistics warehouse facility and a 86,000 sq m (GFA) warehouse development located on Jurong Island, to be built by SH Cogent Logistics Pte Ltd, a wholly owned subsidiary of COSCO (Table 4).

Table 4: Selected Pipeline Supply (Logistics and Distribution Warehouse)

Development	Location	Developer	Estimated GFA (sq m)
2020			
Warehouse development	Tembusu Crescent, Jurong Island	S H Cogent Logistics Pte Ltd	86,000
The JTC Logistics Hub @ Gul Circle	Gul Circle	JTC	134,300
2021			
Warehouse development	Sungei Kadut Street 2	Star Furniture Pte Ltd	19,000

Source: JTC, EDMUND TIE

17 The innovative logistics facility will allow co-location of empty container depots, warehouses and a heavy vehicle park to improve the operational efficiency and productivity for logistics companies.
18 Source: Maritime and Port Authority of Singapore.

INDEPENDENT MARKET STUDY

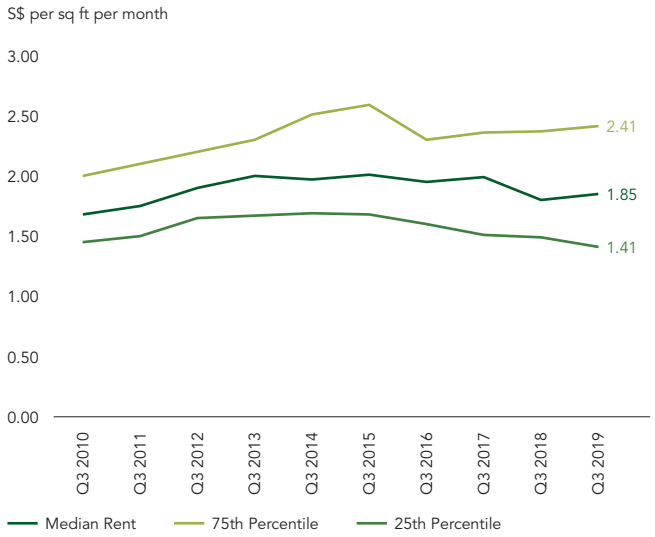
By Edmund Tie & Company (SEA) Pte Ltd

Rents

Despite new completions exceeding demand, overall warehouse rents improved in Q3 2019. This is mainly attributable to the completion of new logistics and distribution centres which commands higher rental rates compared to traditional warehouses.

Median rents for warehouses rose by 2.8% y-o-y from S$1.80 per sq ft per month in Q3 2018 to S$1.85 per sq ft per month in Q3 2019. The increase was supported by the increase in container throughput (3.5%[18] y-o-y in Q3 2019). Modern logistics and distribution centres continued to command higher rents compared to conventional warehouses. The 75th percentile rents, an indicative reflection of rental levels for modern logistics and distribution centres, rose 1.7% y-o-y from S$2.37 per sq ft per month to S$2.41 per sq ft per month, the 25th percentile rents, a proxy for traditional warehouses, declined by 5.4% y-o-y from S$1.49 per sq ft per month to S$1.41 per sq m per month (Figure 8).

Figure 8: Warehouse Rents[19]



Source: JTC, EDMUND TIE

Outlook

As more traditional warehouses were revamped to support more advanced supply chain management systems, the growth of e-commerce players e.g. Amazon Prime, Shopee, Taobao in the region supported demand for the logistics distribution centres. With the Government's support for the sector to digitalise, more logistics companies are expected to innovate and adopt new technologies e.g. artificial intelligence and predictive analytics, to transform their business and become more competitive. New initiatives such as the Connected Logistics Innovation Platform will drive more companies to harness the benefits of Internet of Things, machine learning, artificial intelligence, blockchain and automation.

Cognisant of the macroeconomic uncertainty and slow demand for warehouses, we expect modest rental growth for warehouses of between 1% to 2% in 2020. Meanwhile, logistics and distribution centres with modern infrastructures are highly sought-after and are likely to command higher rents.

19 Refers to gross rent per month including service charge but excluding Goods and Services Tax (GST).

ECONOMIC OVERVIEW

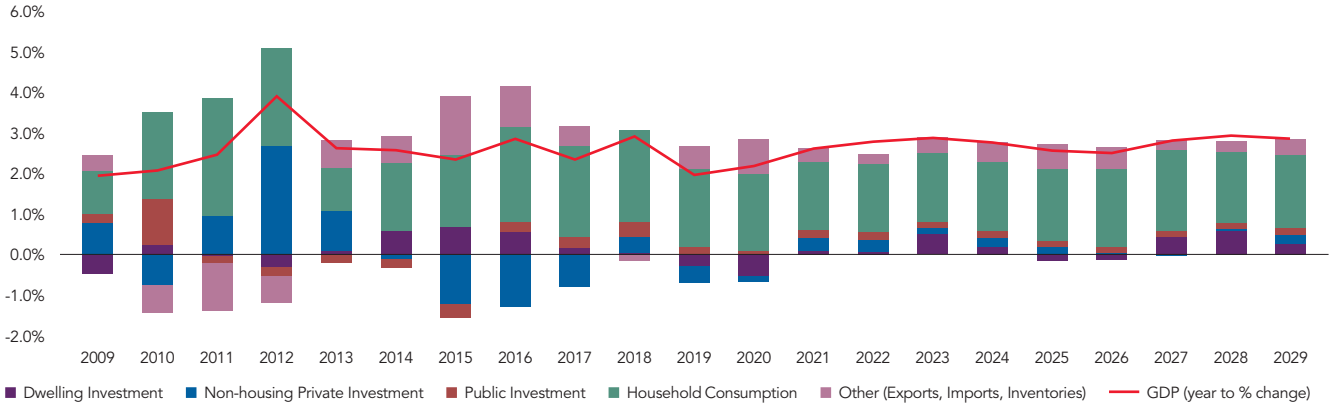
Over the past year, economic growth within the Australian economy has slowed as a result of a decline in housing activity and business investment while consumption growth remains weak off the back of subdued wages growth. Nevertheless, the economy continues to grow with annual GDP growth of 1.7% recorded in the year to September 2019 – its 28th year of uninterrupted economic growth.

Key trends that are impacting the Australian economy are noted as follows:

Interest Rates	The RBA has left the cash rate unchanged at a record low of 0.75% in February 2020 and follows three interest rate cuts in 2019 (June, July and October). These recent rate cuts followed an almost three-year period of no change in the interest rate.
Inflation (CPI)	Australian Consumer Price Index (CPI) rose 0.7% in the December quarter of 2019. Over the year to December 2019, CPI has increased by 1.8%, moderately below the RBA target of 2-3% albeit slightly higher than a rise of 1.3% over the 12 months to the March quarter 2019.
Jobs growth	Over the past year, employment has increased by 2.1%, which continued to be above the 20-year average of 2.0%. The unemployment rate fell slightly in December 2019 and currently stands at 5.1%.
Population Growth	Population in Australia increased 1.5% over the 12 months to June 2019 with an additional 381,600 persons over the period, underpinned by net overseas migration.
Wages Growth	Wages growth has slowed to 2.2% per annum over the past year, down from the 10-year average of 2.7% per annum.
Consumer Confidence	Consumer sentiment remains in negative territory at 95.1 in January 2020 and is the result of concerns over the economy and financial markets.

There are signs that economic growth will improve over the next 12 months with the first half of 2019 outperforming the second half of 2018 and recent data points to a modest improvement. Over the next five years, economic growth is forecast to average 2.5% per annum and buoyed by a strong pipeline of infrastructure projects, continued population growth and a gradual improvement in residential price growth which will have flow on effects to other sectors including retail turnover. There are, however, several factors which are likely to remain a drag on economic growth and includes weak wages growth and a low inflation environment which is likely to constrain consumer spending over the short to medium term.

Figure 1 – Real GDP Growth



Source: Deloitte Access Economics, Colliers International

Table 1. Australian Economic Forecasts

	Current	2020	2021	2022	2023	2024
GDP	1.7%	2.5%	2.7%	2.8%	2.9%	2.7%
CPI	1.8%	1.6%	1.8%	2.2%	2.3%	2.1%
Population Growth	1.5%	1.5%	1.5%	1.4%	1.3%	1.3%
Interest Rates*	0.75%	0.50%	0.50%	–	–	–
Wages Growth	2.2%	2.4%	2.6%	2.9%	3.1%	2.8%
Unemployment Rate	5.1%	5.1%	5.1%	5.0%	4.8%	4.7%

Source: Deloitte Access Economics, Colliers International
* Westpac

Two big positives for the Australian economy have been population and jobs growth. Population growth in Australia currently averages 1.5% per annum, 64% of which has stemmed from net overseas migration. Within Australia, Victoria recorded the most rapid population growth at 2.1% in the year to June 2019, while the nation's most populous state, New South Wales, saw its population expand by 1.4% over the same period.

Similarly, the labour market has been strong with over 262,500 jobs created in the past year with the unemployment rate currently standing at 5.1%. Jobs growth is anticipated to remain strong, however, its impact on wages growth is expected to be relatively small unless the unemployment rates trends towards 4.5%. The gradual improvement in wage growth is expected to be supported by a confluence of measures, including: a historically low interest rate environment, income tax cuts and increased spending on infrastructure projects and private investment.

AUSTRALIAN INDUSTRIAL MARKET

Fundamentals within the Australian industrial market remains strong, buoyed by a significant pipeline of infrastructure projects, continued demand from e-commerce and 3PL providers and large volumes of unmet capital looking to enter the sector.

Over the past 12 months, the industrial sector nationally has outperformed all other commercial sectors, providing a total return of 13.0% compared to the 11.3% for office property and 3.7% for retail. Unlike other sectors, growth within the industrial sector has been broadly spread between capital return (6.6% per annum) and income return (6.0%).

Reflective of economic conditions, industrial property performance has been strongest within Sydney and Melbourne at 14.2% and 12.6% respectively (total returns), both well above their 10-year averages (10.4% for Sydney and 9.4% for Melbourne).

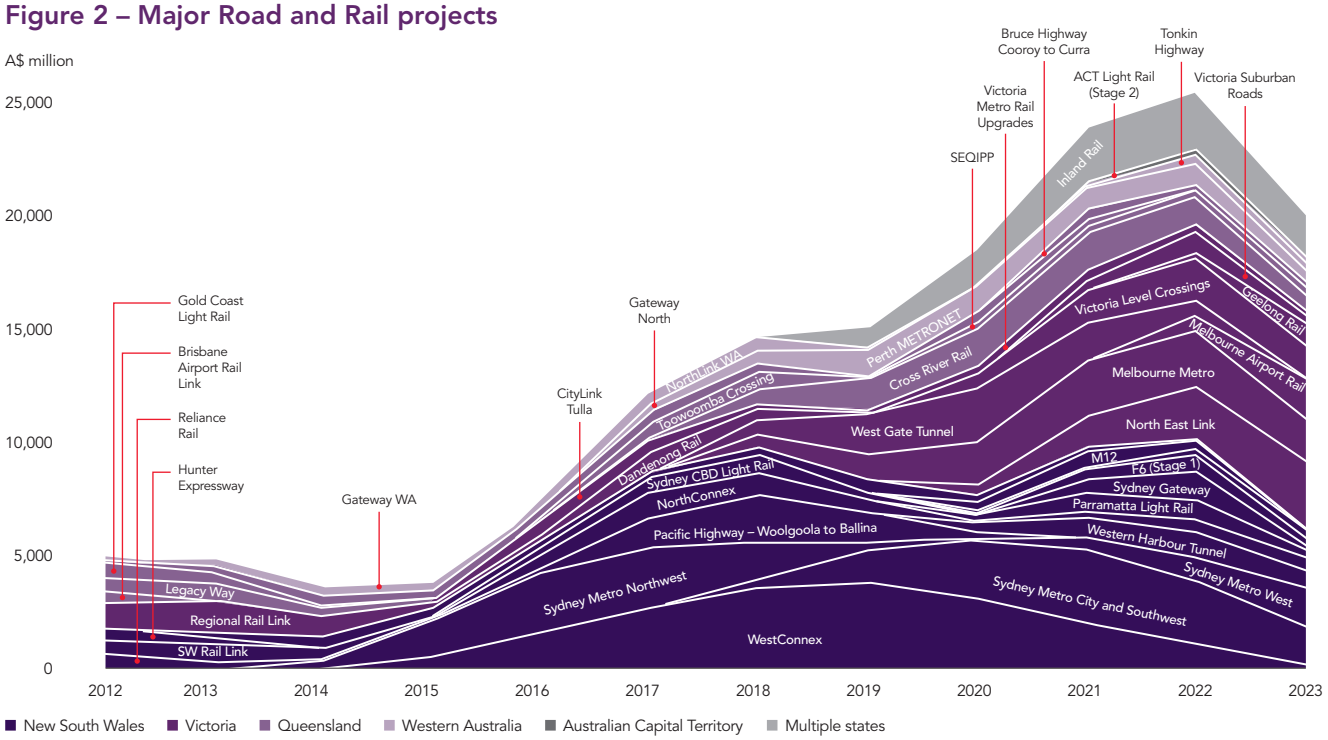
Australia is currently witnessing an era of transformation and renewal, with an unprecedented amount of funds being directed to transport infrastructure projects including new roads, rail, intermodal terminals and an airport. For the industrial sector, ultimately these projects will shape the location of industrial demand while areas that were once considered secondary may perhaps become prime demand areas. It is estimated that there is A$133 billion worth of transport infrastructure projects under construction and committed, 65% of which is scheduled for completion in the next three to five years.

The current spate of transport infrastructure investment is set to transform the outlook of the industrial market not only for operators, but also for developers and investors currently revisiting their investment strategy to recognise the changing market dynamics created by the infrastructure investment.

With solid fundamentals and attractive pricing relative to other asset classes, the industrial property sector has experienced an unprecedented surge in investor demand, albeit with volumes restricted by stock being tightly held. More importantly, the institutionalisation of ownership within the industrial market is expected to increase over the coming years with many large institutional investors and superannuation funds increasingly shifting their asset allocation towards industrial property. Competition for quality assets is further intensified by acquisitive offshore funds, which are attracted to the sector due to the sustainably high spreads over bond rates and global yields. The strong demand amid a severe lack of quality stock and large portfolios on the market will ensure tightened yields and solid capital appreciation to sustain well into 2020.

In 2019, investment volumes within the industrial sector have totalled approximately A$5.2 billion, moderately above the A$5.0 billion recorded in the 2018 calendar year. The East Coast capital cities of Sydney, Melbourne and Brisbane captured the bulk of this activity as institutions

Figure 2 – Major Road and Rail projects



Source: Deloitte Access Economics

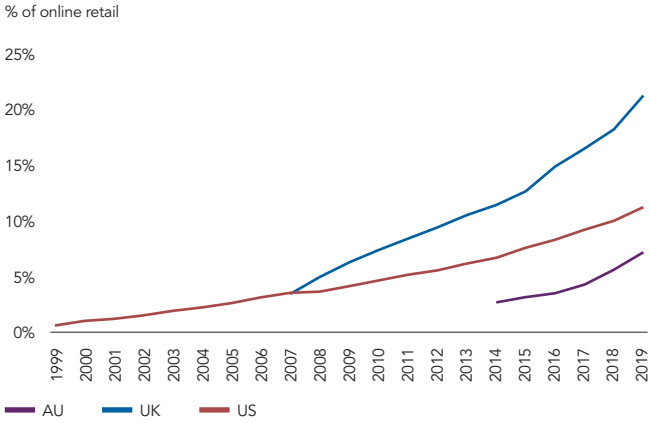
look to capitalise on strong leasing fundamentals and a favourable outlook for further yield compression in these cities.

On the leasing front, demand for logistics space has been strong, buoyed by the strong population growth and changing consumer preferences which has increased the need for industrial space to cater to the demands for online retail. The sector continues to benefit from ongoing technology and e-commerce demand shifts as distributors, logistics operators and retailers look to improve their supply-chain efficiencies to meet the demands of online retail.

Not surprisingly, take-up trends suggest that demand is being driven by transport / logistics and wholesale trade, as well as some light manufacturing, notably from companies making products that support logistics and retail.

Despite the recent growth of online retail, which has expanded by ~30% per annum in recent years to 7.1% of total retail sales, it remains well below the US and UK markets which have a market penetration rate of up to 20%. Given this, there remains significant scope for further demand from occupiers operating in the sector and it is anticipated that they will generate a requirement for 350,000 sqm of additional new industrial space each year over the next three years.

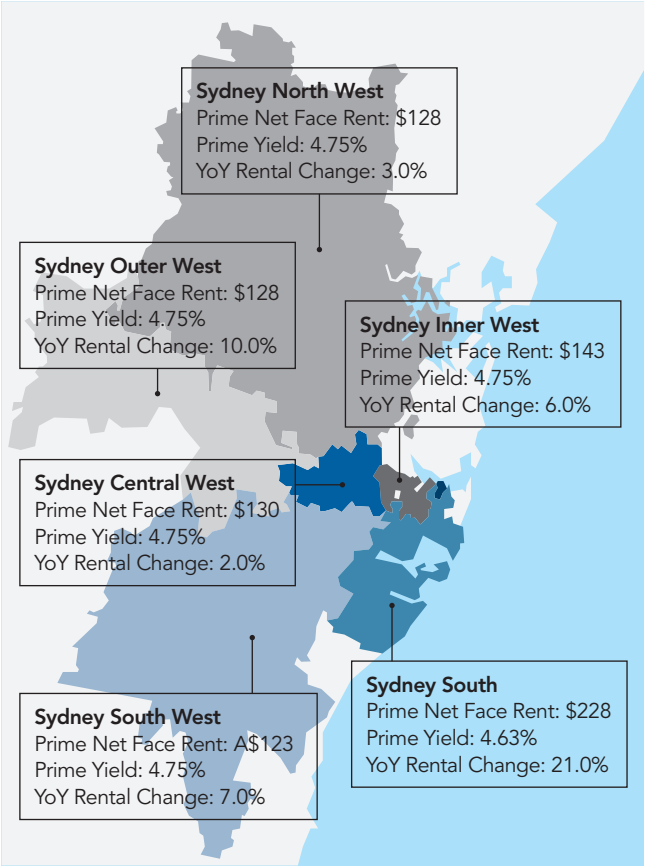
Figure 3 – Online Retail as a % of Total Retail Sales



Source: ABS, DAE, Colliers International

INDEPENDENT MARKET STUDY

BY COLLIERS INTERNATIONAL, FEBRUARY 2020



Precinct
- Sydney CBD
- Sydney Central West
- Sydney Inner West
- Sydney North West
- Sydney Outer West
- Sydney South
- Sydney South West

1.1 MARKET OVERVIEW

The Sydney industrial and logistics market is broken into several major precincts; Inner West, Central West, Outer West, North West, South West, South and North. The South market has traditionally been Sydney's most important industrial hub due to its proximity to Port Botany, the Sydney Airport and the CBD. The South precinct is predominantly occupied by logistics, retail and port-related tenants. In recent years, however, the South Sydney industrial market has experienced strong levels of stock withdrawal for alternative uses due to zoning changes. This has put significant upward pressure on rents and declining availability. A similar situation was experienced in the North industrial precinct where residential activity has continued to encroach on the industrial space market. The North industrial precinct today is dominated by smaller and high-value users such as IT, Pharmaceutical and Hi-tech industries. The Inner West market covers the areas between the CBD and Parramatta, which is traditionally dominated by light industrial tenants and automotive showrooms.

In recent years, the lack of larger space availability in the inner-city markets has resulted in larger industrial users moving towards the South West, Outer West and North West precincts where much of the new supply is concentrated. The Western markets are benefiting from a significant level of road upgrades and infrastructure investment. Tenancy profiles include a diverse range of industries including Third Party Logistics (3PL), retail, supermarkets, construction and Fast-Moving Consumer Goods (FMCG), amongst others.

1.2 Leasing Activity, Demand and Supply Drivers

Sydney's industrial market continues to experience solid levels of leasing demand with take-up being recorded from a broad mix of industries. Large occupiers are increasingly opting for newer facilities to achieve operational efficiencies while e-commerce groups are continuing to seek smaller fulfilment centres strategically located within infill markets to meet their last mile logistics functions.

Despite its significant growth rate in recent years, the online retailing industry in Australia still has a long way to go as it currently only accounts for 7.1% of total retail sales in the country. Consequently, third-party logistics providers (3PL) and omnichannel retailers remain one of the most active industrial tenants over the past 12 months. Food retailers are also having a growth spurt off the back of increasing competition in the supermarkets space and resilience of non-discretionary spending, which has outperformed discretionary spending in recent years.

In 2019, approximately 900,000 sqm of industrial space has been leased, underpinned by the Transport and Logistics (36%) and Wholesale Trade (34%) sectors. Given the demand for big box warehousing and several large pre-commitments, leasing activity by size was dominated by the Western markets, representing 65% of leasing volumes in 2019. This demand has been concentrated in the South West and Outer West markets with notable lease deals including Intertrading Australia pre-committing to 27,000 sqm within the Prestons Logistics Estate and ACR Supply Partners pre-committing to just over 30,000 sqm at Oakdale Industrial Estate, Horsley Park.

As at January 2019, industrial vacancies (5,000 sqm +) across Sydney totalled 627,043 sqm, the bulk of which exists in the South West (216,311 sqm) where the vacancy rate stands at 9.7%. The Outer West had the next largest share of industrial vacancies, totalling 135,199 sqm (vacancy rate of 3.6%), while there are very few options within the South submarket (47,745 sqm).

Our analysis of recent leases reveals that whilst there is still strong tenant demand for existing buildings, occupiers with larger space requirements are more prevalent in the pre-lease market. It is estimated that pre-committed activity represented approximately 30% of total tenant demand.

1.3 Development Supply

Industrial supply levels in 2019 totalled 765,117 sqm, the highest annual total in over a decade and above the 10-year average of 519,212 sqm. Given the strong leasing market, developers have increasingly undertaken speculative developments, most of which has been leased prior to practical completion.

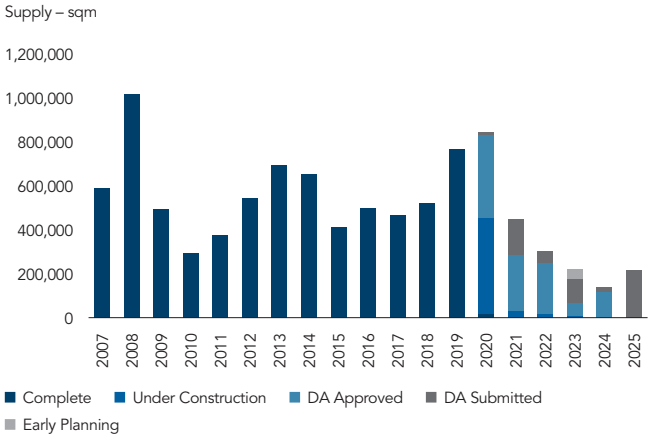
By submarket, new supply in 2019 has been concentrated in the Outer West (44% - 336,039 sqm), South West (25% - 190,851 sqm) and Central West (16% - 119,995 sqm) while little supply was added in the South market (15,500 sqm) and reflects the limited land opportunities in that market.

Looking ahead, supply levels are forecast to increase further in 2020 with 843,483 sqm expected to enter the market. Supply in 2020 will be strongest in the Outer West market (264,691 sqm) and includes Jaycar's pre-lease at Frasers Eastern Creek Business Park (20,430 sqm), Snack Brands pre-lease at the Altis First Estate development at Erskine Park (29,665 sqm) and the speculative development of 32,000 sqm at Charter Hall's Compass Logistics Estate.

1.4 Rents & Incentives Trends

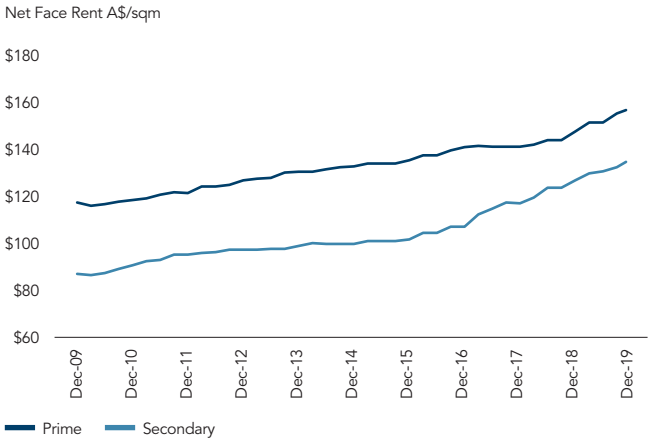
Rental growth has been solid across Sydney, with the average prime net face rent increasing 6.4% over the 12 months to December 2019. More modest rental growth was recorded in the secondary market with net face rents up 6.7% YoY to December 2019.

Figure 4 – Sydney Industrial Supply



Source: Colliers International

Figure 5 – Sydney Industrial Net Face Rents



Source: Colliers International

By submarket, prime rental growth has been most pronounced in the South market (+16.3%) off the back of a lack of leasing options and solid underlying demand as groups increasingly seek to improve their last mile logistics function. The western markets also recorded solid rental growth, with net face rents increasing 4.2% on average over the past year, led by the South West market (+5.3%) despite high levels of new supply in 2019.

Table 2. Prime Rents by Submarket, Q4 2019

Net Face Rents	South	Inner West	Central West	Outer West	North West	South West
A$/sqm p.a.	232.5	145	131.25	128.75	127.5	123.75
6 months change	6.90%	5.50%	2.90%	3.00%	0.00%	1.00%
12 months change	16.25%	6.30%	2.90%	7.30%	0.00%	5.32%
Incentive	6.50%	10.00%	10.00%	10.00%	10.00%	11.50%

Source: Colliers International

Incentive levels remained largely unchanged over the past 12 months and currently average 9.4% across the broader Sydney market. Given the above-mentioned increase in supply in the South West market, incentives increased from 10.0% to 11.5% as developers and institutions aggressively try to secure and retain tenants. As at December 2019, incentive metrics range between 6.5% and 11.5% for prime and secondary grades with pre-commitment deals being at the higher end of this range in the forms of contribution to fitting out or rent abatements.

1.5 Sales

The rate of capital flows into the industrial market in Sydney has remained strong, albeit restricted by a lack of stock being brought to the market, particularly prime core assets. Total investment volumes for the year measured A$1.9 billion across 56 assets, with nine assets over A$50 million transacting 2019 in comparison to 11 in 2018.

Offshore investors remain active in the market, particularly from Japan, Hong Kong and Europe, and as a result there remains a significant volume of unmet foreign capital seeking to acquire industrial assets in the Sydney market. Highlighting the strong appetite from offshore groups was ESR's acquisition of the Propertylink industrial portfolio for A$723 million which included a large Sydney presence.

The investment market is being fuelled by a robust appetite for logistic assets from both global and domestic investors. Institutional owners with development capability are increasingly turning their focus to new developments to grow their funds under management. We expect alternative strategies such as sale and leaseback, assets swaps, brownfield site acquisition of existing property mandates in infill markets will become more prevalent going forward.

By submarket, investment activity was broadly spread with the Outer West (24%), South (20%) and Central West (18%) capturing most investment activity in 2019.

The largest sale to occur in recent months was the December 2019 acquisition of the Arnotts facility at Huntingwood for A$397.8 million. The asset was acquired by Charter Hall from KKR and initially formed part of a portfolio of three assets including others is Brisbane and Adelaide. The sale reflected a passing yield of 4.52% with a WALE of 32 years.

1.6 Yields

A lack of assets being brought to the market coupled with intensified competition has resulted in further yield compression across the Sydney industrial market. Average prime yields have firmed 48 basis points over the past year to average 4.70% (range of 4.25% to 5.0%) as at December 2019.

With few prime core assets being brought to the market, investors have increasingly turned to the secondary market and as a result the rate of compression has kept pace with the prime market over the past year. In the 12 months to December 2019, secondary yields in Sydney firmed 47 basis points to average 5.38% (range of 4.75% to 5.75%).

Yields have fallen across all Sydney submarkets with the Western markets recording the largest compression over the past year. Prime yields in the West currently average 4.75%, moderately above the South (4.40%) and North (4.50%) industrial markets.

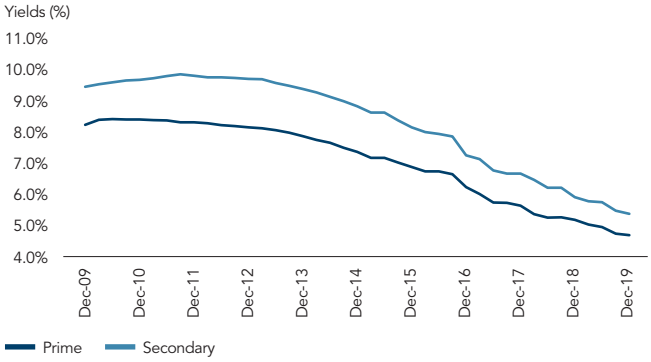
1.7 Outlook

The number of large-scale infrastructure projects currently under construction, coupled with the lack of stock on market available for sale and depletion of industrially zoned land across the Sydney Metropolitan area has, and will continue, to be a contributing factor to both the leasing and investment markets.

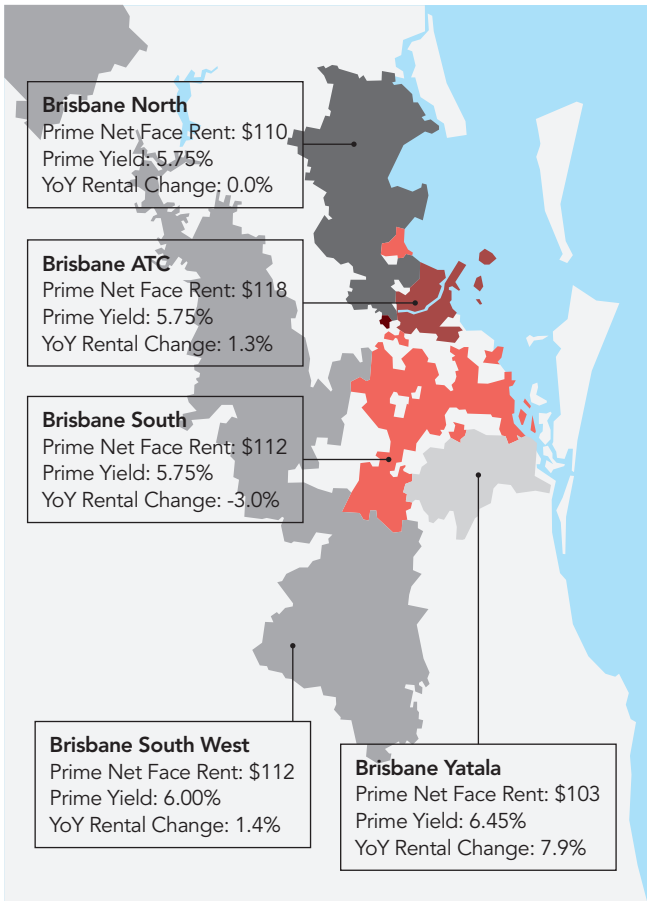
Given the rate of firming recorded in the secondary market, it is expected that more prime core assets will be offered for sale in 2020, albeit under the levels required to satisfy capital. Given this, developers and institutions will increasingly look to develop to grow their portfolios, a growing share of which will be for speculative developments as a result of the strong leasing market.

Yields are expected to compress further, albeit under the rate recorded over the past 12 months and will be driven by recent interest rate cuts and increased capital looking to enter the sector with several groups being oversubscribed with their recent capital raisings. Similarly, land values are expected to experience solid growth in 2020 as developers look to capitalise on improved connectivity as a result of transport infrastructure projects. This will have flow on effects on the rental market and coupled with heightened levels of leasing demand will place upward pressure on rents – for both existing buildings and the pre-lease market.

Figure 6 – Sydney Industrial Yields, Historical



Source: Colliers International



Precinct
- Brisbane
- Brisbane ATC
- Brisbane North
- Brisbane South
- Brisbane South West
- Brisbane Yatala

2.1 MARKET OVERVIEW

The Brisbane industrial market has five key precincts; Australian Trade Coast (ATC), Brisbane North, Brisbane South, Brisbane South West and Yatala. The ATC extends across circa 8,000ha located only 6km from the Brisbane CBD and at the mouth of the Brisbane River. The precinct has direct links to air, sea, road and rail networks, including the Port of Brisbane and Brisbane Airport, which supports its desirability for investors and tenants. Investment stock is generally tightly held.

The Brisbane North precinct is in a rapidly growing area extending from the Brisbane North suburbs to the Moreton Bay region. This precinct benefits from overflow demand on the Trade Coast due to its proximity to the Brisbane Airport and the Port of Brisbane. The Brisbane South precinct covers the industrial area in Logan and Brisbane South. The A$512 million Logan Enhancement project along with the A$2.5 billion M1 upgrade master plan will improve connectivity from the precinct to interstate destinations.

The Brisbane South West precinct is a primary area for current and future industrial development, extending from Brisbane West to Ipswich and in proximity to urban areas experiencing solid population growth. Key industries in this precinct range from food and beverage manufacturing, steel fabrication, transport, warehousing, and logistics-based industry.

The Yatala Enterprise Area (YEA) is the largest zoned industrial land area in the Gold Coast and the city's leading industrial precinct. The YEA is strategically located less than 40km north of the Gold Coast CBD and 40km south of the Brisbane CBD and is only a 30-minute drive to the Port of Brisbane and the Brisbane International Airport. The YEA is a value-add manufacturing region with businesses in food and beverage, construction materials, machinery and equipment, plastic and chemicals as well as warehousing, transport and distribution.

2.2 Leasing Activity, Demand and Supply Drivers

Leasing conditions remain steady within Brisbane's industrial market, supported by an increase in business investment and activity across the precincts. The recent completion of the A$512 million Logan Enhancement Project and the ongoing upgrade of the M1 Pacific Motorway support the consolidation of the Southern industrial precincts as a strategic location for industrial expansion in southeast Queensland. Leasing demand of existing industrial space in the South and South West precincts has been solid over the year, with circa 214,000 sqm of gross lettable area (GLA) tenanted. Keppel Logistics (10,480 sqm) and Concept Logistics (6,950 sqm) are a few of the tenants expanding or relocating within the Southern precincts in 2019.

Whilst the 'Wholesale' and 'Manufacturing & Engineering' sectors are traditionally more dominant in Brisbane, a boost in corporate profits for logistics companies have seen them becoming considerably more active. This has translated to an increase in demand for modern warehousing and distribution facilities. The Transport & Logistics sector drove tenant demand for industrial space in Brisbane with limited supply and the competition for land continuing to place upward pressure on values.

The South and South West precincts captured the bulk of leasing activity in 2019, underpinned by several large pre-commitments over the past nine months. Upon completion of the Logan Enhancement Project, Berrinba has now consolidated as a favoured location for industrial tenants with leasing deals of circa 82,000 sqm over the year to date. This includes pre-commitment deals with CEVA Logistics (21,200 sqm), DHL (20,600 sqm), Huhtamaki (12,635 sqm) and Phoenix Transport (10,000 sqm) and leases of existing assets with WING Aviation (17,800 sqm).

2.3 Development Supply

Industrial supply across Brisbane in 2019 was at its highest level since 2014 with 369,171 sqm completed over the period. New supply has come off the back of the pre-commitment market with developers yet to show the same level of confidence as Sydney and Melbourne in undertaking speculative developments.

Much of Brisbane's new supply in 2019 has stemmed from the South submarket (41%) with the major road networks of the Ipswich, Logan and Gateway motorways providing ease of access to the south and west. Major developments in this precinct include Metcash (27,554 sqm) and QLS (12,300 sqm) within the Motorway Industrial Park at Berrinba.

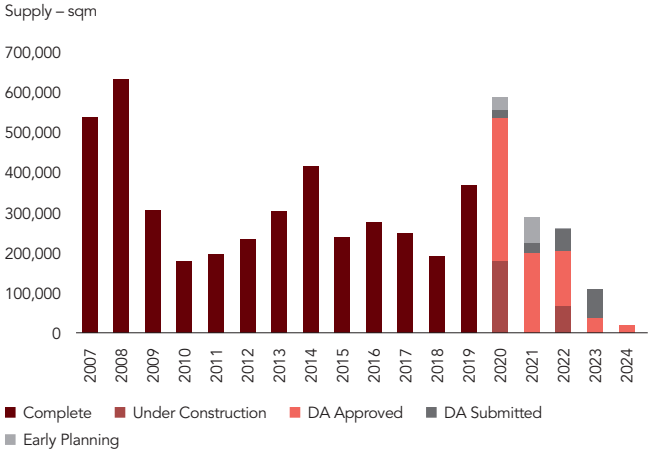
Looking ahead, a large pick-up in supply is anticipated in 2020 with 586,990 sqm likely to enter the market, 31% of which is currently under construction. The South and South West submarkets are expected to capture 76% of new industrial supply in 2020 and will primarily stem from pre-leases including Rheinmetall (32,057 sqm - Redbank Motorway Estate) and DHL (19,000 sqm at Wembley Business Park).

2.4 Rents & Incentives Trend

As a result of steady leasing conditions, net face rents have experienced modest growth over the past 12 months, albeit concentrated in the prime market and reflects a clear preference for newer facilities. Average net face rents grew 1.3% for the prime market in the year to December 2019, compared to -4.7% for the secondary market over the same period.

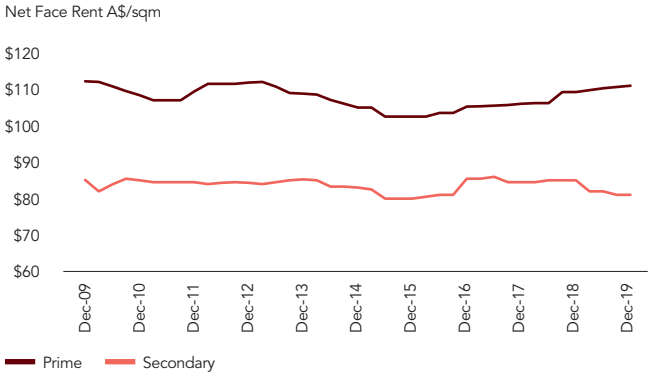
The Australia TradeCoast (ATC) (1.3%), South West (1.4%) and Yatala (7.9%) precincts recorded the largest increase in prime rents over the year while all secondary markets recorded no or negative growth over the same period. Incentive levels have broadly remained steady and currently range from 12.5% to 19.0% for the prime market and between 16.5% and 17.5% for the secondary market. The higher range within the prime market is attributed to the pre-lease market where developers have been aggressive in their incentives to attract tenants.

Figure 7 – Brisbane Industrial Supply



Source: Colliers International

Figure 8 – Brisbane Industrial Net Face Rents



Source: Colliers International

Table 3. Prime Rents by Submarket, Q4 2019

Net Face Rents	ATC	North	South	South West	Yatala
A$/sqm p.a.	118	110	112	112	103
6 months change	0.00%	0.00%	0.20%	1.40%	0.00%
12 months change	1.30%	0.00%	-3.00%	1.40%	7.90%
Incentive	12.5%	14.5%	17.5%	17.5%	19.0%

Source: Colliers International

2.5 Sales

In 2019, just over A$1.4 billion in industrial assets traded, driven by large-scale transactions above A$100 million. The surge of REITs as an attractive investment vehicle worldwide is driving demand for large industrial assets in Brisbane with over half of the sales this year acquired by Australian and offshore REITs. This compares with an estimated participation of REITs in the Brisbane investment market for industrial assets of circa 20% in 2018 and circa 5% in 2017. Offshore groups remain active in the Brisbane industrial market, accounting for A$298 million of investment volumes in 2019, underpinned by Deutsche Bank's A$134.2 million acquisition of 99 Sandstone Place, Parkinson.

The South precinct remains the dominant location for investment activity, with A$629 million in assets trading in 2019, representing 45% of the total sales volumes. The most notable transaction was the sale of the Crestmead Distribution Centre at 105-137 Magnesium Drive in Crestmead for A$183.6 million acquired by Charter Hall REIT at a passing yield of 5.15% from Blackstone.

Elsewhere, investment activity was strong in the ATC and South West regions with over A$200 million in assets trading in both submarkets. The largest sale to occur in these regions was the Charter Hall's acquisition of 40 Schneider Road, Eagle Farm for A$102.5 million on an initial yield of 5.08%.

2.6 Yields

Brisbane prime industrial yields currently average 5.94% (range of 5.75% to 6.25%), representing firming of 36 basis points over the past year. Yields in the secondary market are higher at 7.53% (range of 7.15% to 7.9%) with the rate of firming being on par with the prime market.

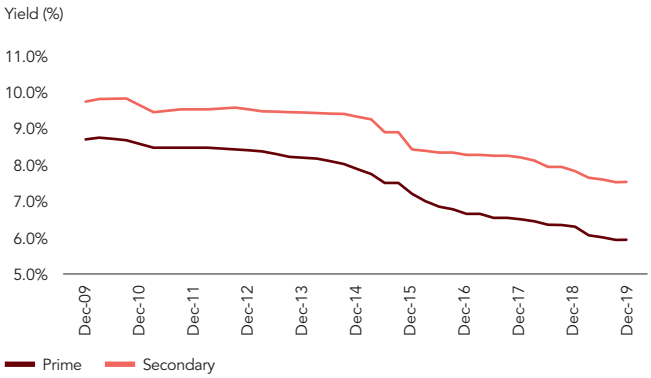
Yields have firmed across all precincts with the rate of compression being most pronounced within the North region where yields firmed 50 basis points on average. Brisbane's Trade Coast continues to have the tightest investment yields at an average of 5.75%.

2.7 Outlook

The Brisbane industrial market is expected to perform well in 2020 as several major infrastructure projects come online and leading demand drivers transition to realisation and stimulate growth and leasing take-up. Colliers International anticipates rental growth for prime grade assets will continue following an annual gradual upward trend in the range of 2% to 3% over the next three to five years. A more solid increase is anticipated to commence in 2025 when the Inland Rail and the dedicated freight rail connection to the Port of Brisbane may be closer to become a reality.

The investment market is expected to remain buoyant, enticed by the elevated yield metrics when compared to the Sydney and Melbourne markets.

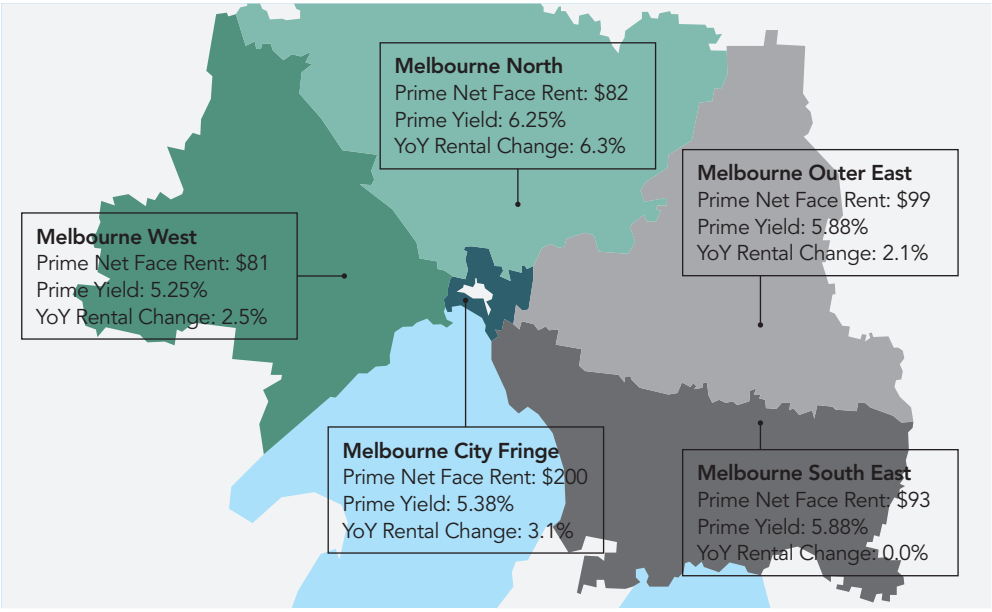
Figure 9 – Brisbane Industrial Yields, Historical



Source: Colliers International

INDEPENDENT MARKET STUDY

BY COLLIERS INTERNATIONAL, FEBRUARY 2020



Precinct
- Melbourne City Fringe
- Melbourne North
- Melbourne Outer East
- Melbourne South East
- Melbourne West

3.1 MARKET OVERVIEW

The Melbourne industrial market comprises five major precincts; the North, South East, West, Outer East and City Fringe. The City Fringe precinct primarily consists of smaller sites with higher rents specifically appealing to tenants that need to be located close to the city. Many of these industrial sites are being slowly converted to residential sites due to high underlying land values and diminishing availability of land suitable for residential development. The South East and Outer East precincts comprise larger land holdings with Industrial hubs including Moorabbin, Cheltenham, Clayton and Dandenong. The largest industrial precinct in Australia is the West precinct which has the largest industrial and logistics sites. This precinct continues to have new pockets of land unlocked in areas including Truganina, Tarneit and Ravenhall.

3.2 Leasing Activity, Demand and Supply Drivers

Leasing activity remains buoyant within the Melbourne industrial market, however, under the levels recorded over the past two years as a result of the lack of leasing options, with vacancy rates for most precincts sitting below 6%. Inner ring markets are seeing demand from a broad mix of businesses while Melbourne's West and North is experiencing solid demand from e-commerce businesses and high profile 3PLs seeking larger warehouse footprints. There has been a combined total of 540,000 sqm take-up across pre-leases and existing building transactions above 3,000 sqm in 2019 with the average size deal approximately 15,500 sqm.

For the North precinct, the vacancy rate currently measures 6.9%, while reflective of demand, the prime vacancy rate is much lower at 2.1%. Prime vacancy rates in the West market measure 2.5% with e-commerce providers underpinning leasing demand in 2019 as evidenced by eStore Logistics recently committing to two leases in Truganina; a 26,000 sqm facility at 8 Feldsted Drive and another circa 8,400 sqm development at West Industry Park. Leasing demand in the West has been concentrated in Truganina with a number of significant lease deals being recorded in 2019 and include HB Commerce (30,000 sqm), Secon (23,000 sqm), Super Amart (50,000 sqm) and CEVA (38,000 sqm).

3.3 Development Supply

Supply levels for industrial space across Melbourne are weak with just 161,506 sqm entering the market in 2019. Notably, this is the lowest level of supply in over 10 years and well below the 330,161 sqm delivered to the market in 2018. With few additions in 2019, developers continue to undertake speculative developments with several large facilities being added to the market over recent months.

Melbourne's West precinct captured the bulk of new supply in 2019 with 126,564 sqm of stock added to the market. Major supply additions in the precinct for 2019 included Stockland's speculative development of the KeyWest Distribution Centre (1 Carmen Street, Truganina – 28,952 sqm) and Frasers speculative development of 30,885 sqm at Maker Place, Truganina which was subsequently leased to HB Commerce prior to completion.

Supply levels will pick up in 2020 with 275,687 sqm expected to enter the market, 73% of which is under construction. The North and West precincts will capture the bulk of supply, collectively accounting for 90% of supply additions over the period. New supply in 2020 is underpinned by Kaufland's Distribution Centre at Mickleham (Kaufland have since announced their exit from the Australian market) and will add 110,000 sqm to the Melbourne North market on completion.

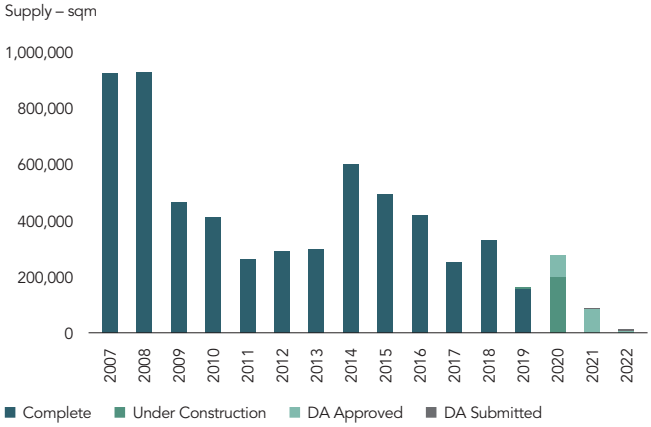
3.4 Rents & Incentives

Across all Melbourne industrial precincts, face rents are increasing as underlying land values continue to grow and yields are continuing to firm in response to lower interest rates and a shortage of investment stock available relative to demand. As at December 2019, net face rents within the prime market average A$112/sqm p.a., up 3.6% YoY with the North (+6.3%) and City Fringe (+3.1%) being the best performing prime markets.

A lack of leasing options and limited supply additions has resulted in occupiers turning to the secondary market with rental growth of 6.5% recorded over the past year to average A$81/sqm p.a.. Strong rental growth has been recorded across all secondary precincts with the North (+7.7%) and South East (+7.1%) precincts being the standout performers over the year.

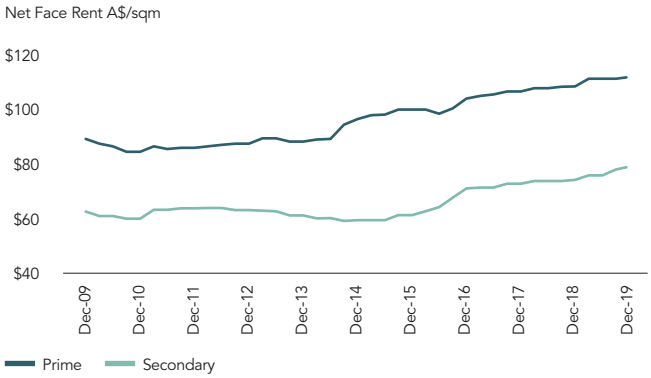
Reflective of the strong leasing market conditions, incentives have fallen for both prime and secondary markets and currently range between 7.5% to 20% for prime and 11.5% to 20% for secondary. The City Fringe market is at the lower end of this range while the West precinct continues to record the highest incentive levels across both prime and secondary assets at 20% as a result of its ability to bring supply online quickly.

Figure 10 – Melbourne Industrial Supply



Source: Colliers International

Figure 11 – Melbourne Industrial Net Face Rents



Source: Colliers International

Table 4. Prime Rents by Submarket, Q4 2019

Net Face Rents	City Fringe	North	South East	West	Outer East
A$/sqm p.a.	200	85	94	81	103
6 months change	0.00%	0.00%	1.40%	0.00%	4.10%
12 months change	3.10%	6.30%	1.40%	4.50%	4.10%
Incentive	7.50%	15.00%	17.50%	20.00%	11.50%

Source: Colliers International

3.5 Sales

Investment demand continues to be very strong for industrial assets across Melbourne, however, with stock remaining tightly held, the majority of transaction activity in 2019 stemmed from the secondary market or turn-key developments.

Investment volumes in 2019 have totalled approximately A$1.2 billion across Melbourne, on par with the levels recorded in 2018.

The West and South East precincts captured the bulk of activity in 2019, representing 30% of volumes respectively. Sales activity in these precincts was led by LOGOS's purchase of 30 Logistics Drive, Truganina from Goodman for A$69.25 million and Charter Hall's acquisition of 282-300 Hammond Road, Dandenong South for A$30.9 million from Greenacre Developments. In the land market, Frasers paid A$80 million for a 41.3 ha site in Dandenong South, representing a rate per sqm of A$194.

Elsewhere, a number of large sales were recorded in the North and Outer East precincts while investment activity in the City Fringe and reflects the tightly held nature of this precinct.

3.6 Yields

Strong demand relative to the supply of investment grade stock has driven a tightening of prime and secondary yields across all precincts. As at December 2019, prime yields in Melbourne average 5.73%, down from 6.11% for the prior corresponding period a year ago. Prime yields now sit 164 basis points below the 10-year average and 118 basis points below the last market peak recorded in 2007.

For the secondary market, average yields currently average 6.7% and have firmed by 38 basis points over the 12 months to December 2019, largely on par with the prime market. Secondary yields are now trading 208 basis points below their 10-year average.

The City Fringe and West submarkets recorded the largest rate of yield compression over the past year at 67 basis points and 50 basis points respectively. The tightest yields are currently being experienced in the West market with prime yields broadly ranging from 5.0% to 5.5% and has come off the back of large institutions seeking scale.

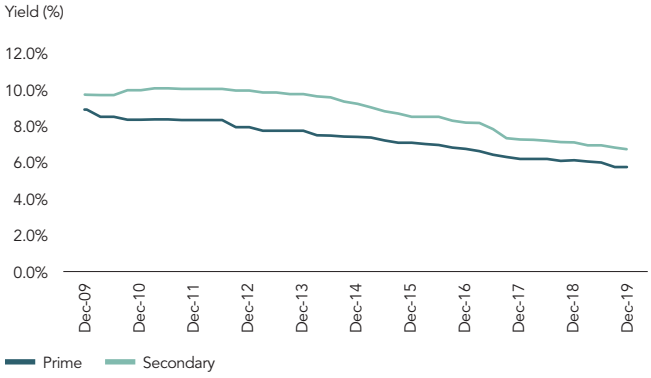
3.7 Outlook

The outlook for the Melbourne industrial market is positive for both the leasing and investment market. The leasing market is expected to remain strong as a result of positive business conditions which will see businesses occupy more space, albeit with demand remaining focused on the prime market. Given the availability of larger sites, the West market is expected to remain the area of focus for occupiers while a lack of leasing options in the South East precinct is likely to remain a feature going into 2020.

Rental growth is expected to average between 2.5% and 3.0% across both prime and secondary markets in 2020 with the forthcoming supply pipeline likely to place a cap on rents in certain precincts. The City Fringe, North and Outer East precincts are expected to see rental growth at the higher end of this range.

Investment volumes are likely to trend lower as assets become more tightly held, particularly prime core assets. Coupled with groups becoming more aggressive in their pricing to secure assets in order to grow funds under management, further yield compression is forecast, aided in part by recent interest rate cuts and expectations that further cuts are likely in early 2020.

Figure 12 – Melbourne Industrial Yields, Historical



Source: Colliers International

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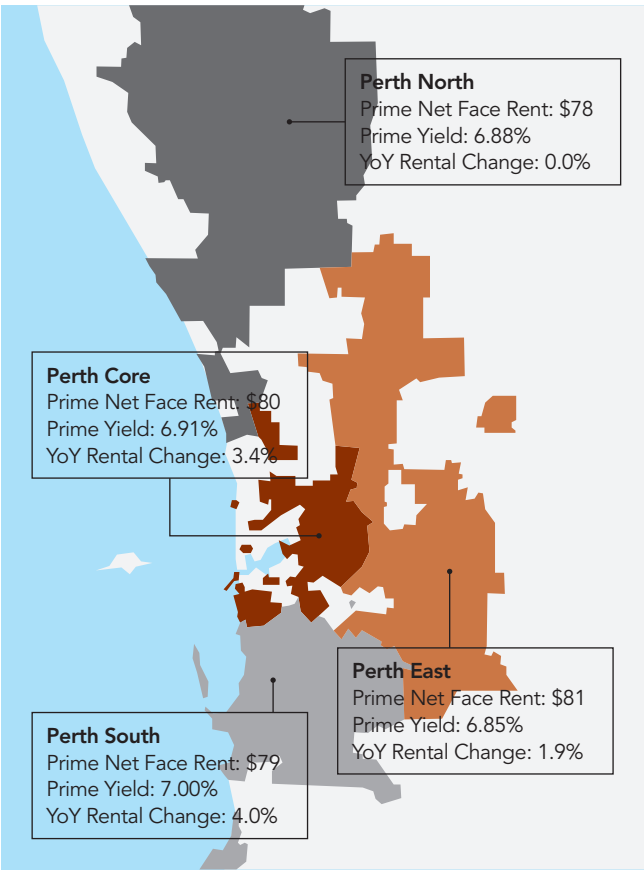


Precinct
- Perth Core
- Perth East
- Perth North
- Perth South

4.1 MARKET OVERVIEW

The Perth industrial market is divided into three regions North, East and South. The main transport and logistics precincts are in Perth's East and South industrial regions.

The largest precinct in terms of major (>2,000 sqm) industrial space stock is Kewdale/Welshpool. Located approximately 6km east of the Perth CBD and sitting immediately south of the Perth International Airport, this precinct has traditionally been Perth's premier transport and logistics precinct. It is home to the Kewdale Freight Terminal which is linked by rail to Perth's seaports and all other intra and interstate rail freight lines; hence it has historically been the focus of Institutional and major industrial investors.

The second largest precinct is Forrestfield/Hazelmere/Perth Airport, which hosts the largest international, national and state transport and logistics providers including TOLL, Rand, Northline, CEVA, FedEx, DHL, Mainfreight & Centurion. Additionally, the precinct is home to the state distribution facilities for Coles and Woolworths. The precinct is situated along the freight line that links to the east coast and has emerged as the main in-land automotive transport & logistics precinct.

4.2 Leasing Activity, Demand and Supply Drivers

Industrial leasing activity in Perth remains patchy as occupiers remain hesitant given the subdued local economic conditions. With signs that the economy is improving, a pick-up in leasing enquiries has been recorded in recent months, however, this is yet to flow through to leasing activity.

As at October 2019, Perth's industrial vacancy measured 8.7%, up slightly from the 7.8% recorded in April 2019, however, down from the peak vacancy levels recorded in early 2017 which reached a high of 9.4%. Current vacancies across Perth total 866,810sqm, the bulk of which exists in the South and East precincts. Much of the current vacant stock exists in the secondary market as tenant demand has been focussed on the prime market.

Transport, Postal and Warehousing and Wholesale Trade are the most active tenants seeking space, with a preference for the pre-commitment market given the favourable incentive metrics on offer.

4.3 Development Supply

A total of 197,488 sqm of industrial floorspace was delivered to the Perth market in 2019, well above the 85,696 sqm added to the market in 2018 but below the 10-year average of 244,045 sqm. Recent supply has been concentrated in the Perth Core precinct, accounting for 76% of new additions over the past 12 months. The average shed size delivered in 2019 was 6,583 sqm, moderately below the 7,343 sqm long term average.

Supply levels are forecast to drop significantly from 2020 with just under 40,000 sqm in the pipeline for completion next year, all of which will stem from the Perth Core precinct. The easing of industrial construction will place downward pressure on vacancies across Perth and is likely to result in tenants being directed to the secondary market to secure space over the medium term.

4.4 Rents & Incentives Trend

Despite a modest rise in the vacancy rate, industrial rents have recorded a moderate increase across Perth with a modest outperformance in the prime market reflective of tenant demand. Average prime rents increased 1.2% in the year to December 2019 to measure A$79/sqm p.a. while rents in the secondary market increased 1.0% to A$63/sqm p.a. over the same period. Rental growth was strongest within the South precinct which experienced growth of 3.0% in the prime market over the past year.

Incentive levels have remained stable over the past year and currently average 17.4% for prime and 16.8% for the secondary market.

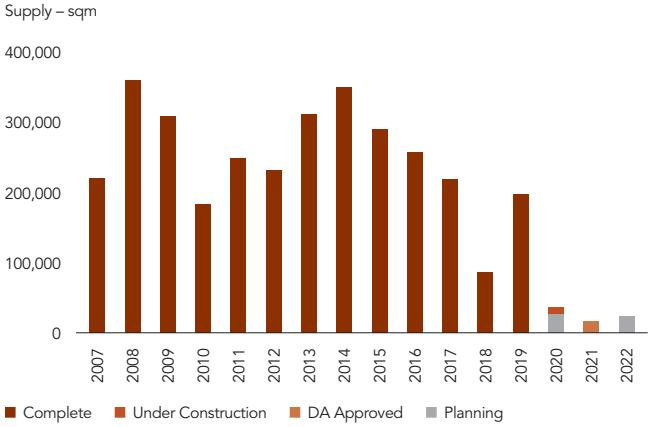
4.5 Sales

Investment activity for Perth's industrial assets has been weak with just A$147 million trading in 2019 across 12 assets. For assets priced above A$5 million, the average deal size measured A$12.6 million – well below the levels recorded in 2015 and 2016 where the average deal size totalled A$22.5 million.

Demand for assets remains strong, however, most well-located prime assets continue to be tightly held by institutions and private investors. Institutional investors dominated 2018 buying activity in the over A$20 million price segment, and most of the transactions were transport and logistics associated assets close to major transport hubs.

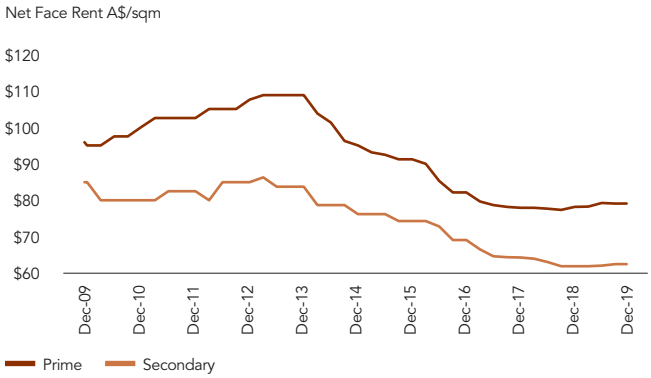
Transaction activity in 2019 has been concentrated in the Perth Core precinct, underpinned by the sale of 103 Welshpool Road, Welshpool. Purchased by Investec Australia Property Fund for A$26.5 million as part of a portfolio of three assets from Charter Hall, the asset traded on a yield of 6.6%. Except for ESR's acquisition of the Propertylink industrial portfolio which included three Perth assets, investment activity was dominated by local groups.

Figure 13 – Perth Industrial Supply



Source: Colliers International

Figure 14 – Perth Industrial Net Face Rents



Source: Colliers International

Table 5. Prime Rents by Submarket, Q4 2019

Net Face Rents	Core	North	South	East
A$/sqm p.a.	80.2	77.5	78.5	80.5
6 months change	-0.74%	0.00%	0.00%	0.00%
12 months change	1.78%	0.00%	2.95%	0.00%
Incentive	17.30%	17.50%	17.50%	17.50%

Source: Colliers International

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4.6 Yields

While rents and value deterioration has largely impacted the smaller end of the market, capital values of larger investment stock, particularly institutional-grade assets, continued to be assisted by yield compression during 2019.

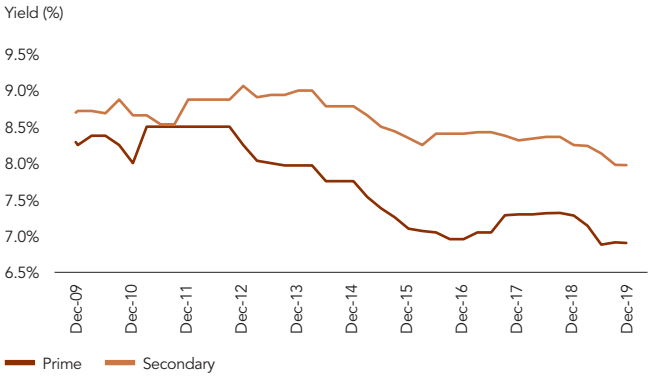
Yields as low as 5.9% have been recorded for assets with strong lease covenants. However, more broadly, prime yields currently range from 6.25% and 7.75% (average of 6.87%), representing 20 basis points of firming over the 12 months to December 2019. Yields in the secondary market are more elevated at 7.25% to 8.5% (average of 7.98%) and have firmed by 31 basis points over the past year.

4.7 Outlook

Fundamentals within the industrial market are expected to improve further in 2020, aided in part by limited supply additions over the short to medium term. Essentially, lower supply levels will place downward pressure on the vacancy rate in most precincts with the secondary market being the major benefactor as tenants seeking space will have limited options in the prime market. Similarly, the repositioning of secondary assets is expected to be a major feature going forward. Modest rental growth is expected, led by the prime market.

Demand for institutional grade assets is expected to strengthen over 2020 and as a result further yield compression is anticipated. Given the yield spread between other Australian capital cities, the investment proposition will become increasingly appealing to East Coast investors, accentuated by further improvements in local economic conditions.

Figure 15 – Perth Industrial Yields, Historical



Source: Colliers International

5.1 MARKET OVERVIEW

Sydney suburban office markets are quite diverse and fragmented with the City Fringe and South Sydney being the largest markets amongst them. The City Fringe has about a million square metres of office space and is considered a commercial hub for IT, Technology, Digital, Media and Creative industries. Major tenants in the precinct include Google, IBM, Channel 7, Fairfax Media, Domain and Thompson Reuters, to name just a few. Recent years have witnessed the rapid rise of flex-space operators with the likes of WeWork and HUB Australia having a strong presence in the area. Tenants have been attracted to the City Fringe due to a wide range of amenities, public transport (Central Stations, Redfern and the new Light Rail Link to the CBD) and proximity to major universities such as the University of Sydney, University of Technology Sydney and University of Notre Dame.

The South Sydney office market (including Mascot) comprises about half a million square metres of office space with a major portion of it being corporate parks and Strata offices. Due to its location, South Sydney is dominated by airport-related industries, transportation, logistics and government agencies. The area is currently undergoing a significant urban regeneration program which also sees many office and industrial buildings be converted to residential uses. Tenant demand, however, has remained strong on the back of improving connectivity with the CBD and business amenities.

5.2 Leasing Activity, Demand and Supply Drivers

With secondary grade rents in the Sydney CBD approaching A$1,000 sqm p.a. (gross), a growing number of occupiers have turned to the Sydney CBD fringe market, encouraged by improved connectivity and amenity. Tenant demand has been led by knowledge-intensive industries, including IT, education, professional services and start-ups associated with the fintech industry.

With low levels of new supply over the past three years relative to demand, the vacancy rate within the fringe market measures sub 3.0%, moderately under the 3.7% recorded in the Sydney CBD office market. As a result, there are very few leasing options available to tenants looking to enter the market and as a result deal activity remains muted. New supply has remained relatively constrained due to the lack of large-scale development sites and competition from alternative uses such as residential and hotels.

Demand for office space in the fringe market has been underpinned by high levels of population growth as a large number of apartment projects reached completion over the past five years, particularly around Green Square. Coupled with new infrastructure projects and the renewal of the Central to Eveleigh precinct is resulting in heighted demand for office space in the area. More recently, this has included Quantium Group leasing space at Mirvac's Locomotive workshops while discussions continue to progress on Atlassian's new headquarters within the new Sydney Innovation and Technology Precinct located at Central.

By location, Surry Hills continues to attract strong interest from the Information Management Technology (IMT) sector with a preference for flexible and creative space. Given its proximity to the CBD, demand is also stemming from tenants looking to relocate from the CBD as a result of the much more affordable rents in comparison. Elsewhere, tenant enquiries in the Pyrmont remain strong and it continues to cement itself as the preferred location for digital and creative occupiers.

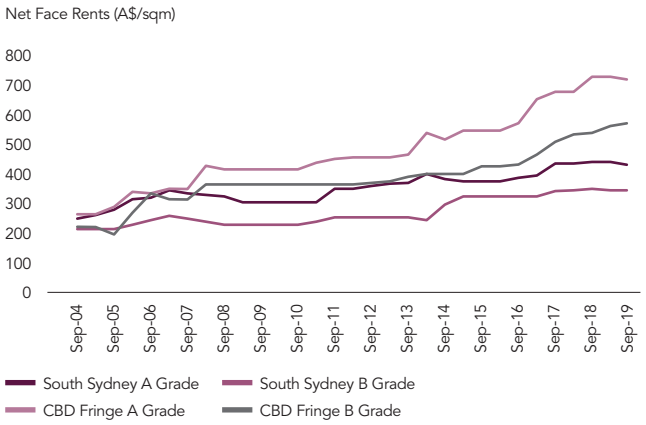
Further south, the South Sydney office market has seen further tenants displaced as part of rezoning to alternative uses and infrastructure works. With a large share of these occupiers serving the local market, they are increasingly finding it difficult to find alternative premises. Quality office space in the South precinct remains highly sought after.

5.3 Rents and Incentives Trend

As at September 2019, A-Grade rents in the City Fringe currently sit at circa A$665 - A$765/sqm p.a. with incentives ranging between 14-17%. Over the past 12 months, A-grade rental growth across the City Fringe remained largely unchanged. For the secondary market, net face rents currently range between A$510 - A$630/sqm p.a. while incentives currently range between 14-18%.

For the South Sydney market, rents within the A-grade and secondary market saw a modest decrease over the 12 months to September 2019 and currently average A$430/sqm p.a. for A-grade and A$345/sqm p.a. for secondary stock. Incentives currently average between 10% - 20% for both A-grade and secondary grade assets.

Figure 16 – Sydney Fringe and South A & B Grade Net Face Rents, 2004 to 2019



Source: Colliers International

Figure 17 – Sydney Fringe and South A & B Grade Incentives, 2004 to 2019

Source: Colliers International

Table 6. Net Face Rents by Market, Q3 2019

Net Face Rents	City Fringe		South Sydney	
Q3 2019	**A Grade**	**B Grade**	**A Grade**	**B Grade**
A$/sqm p.a.	715	570	430	345
6 months change	-1.4%	1.8%	-2.3%	0.0%
12 months change	-1.4%	6.0%	-2.3%	-1.4%

Source: Colliers International

5.4 Sales and Construction

In YTD 2019, A$712.9 million in office assets have traded in the Sydney Fringe and South market, moderately under the A$838.4 million recorded in 2018. The largest sale to occur so far in YTD 2019 was Singapore-based Suntec REIT's acquisition of 21 Harris Street, Pyrmont for A$297 million. Currently under construction, the 18,900 sqm building was purchased on a yield of 5.5%. Other notable sales to be recorded in 2019 include 8 Central Avenue, Eveleigh (A$191 million) and 163-175 O'Riordan Street, Mascot (A$113.6 million).

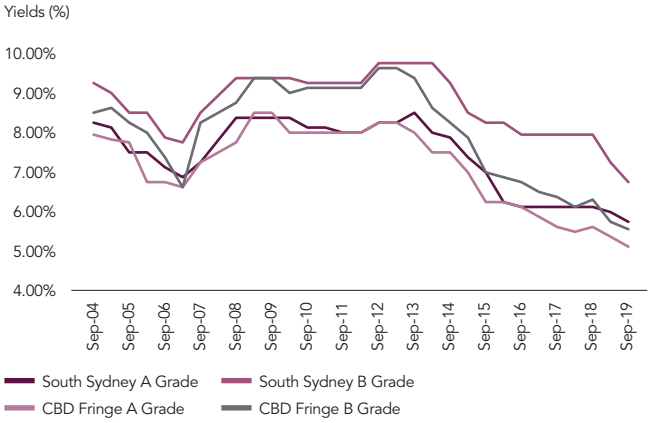
Over the past five years, residential development activity has played a significant role on the Fringe and South market stock levels with a number of office buildings being withdrawn for residential conversion. As a result, office supply in the Sydney Fringe and South markets has been weak as developers have had to compete with the residential market for sites. However, over the next two years, a pick-up in supply levels is anticipated as several developments reach completion. The supply pipeline includes 21 Harris Street, Pyrmont (18,900 sqm) and 40 Ricketty Street, Mascot (6,900 sqm).

5.5 Yields

A-grade yields in the Sydney Fringe market have compressed 50 basis points over the past 12 months and currently range between 5.00% and 5.25%. For the secondary market, yield compression has outperformed the A-grade market, firming 75 basis points on average over the 12 months to September 2019. Secondary yields currently range between 5.38% and 5.75% for the Sydney Fringe market.

Yields are moderately higher within the South region with the A-grade market ranging from 5.50% to 6.00%, firming 38 basis points over the past year. Secondary yields currently average 6.75% (range of 6.50% to 7.00%), representing 120 basis points of compression over the past year.

Figure 18 – Sydney Fringe and South A & B Grade Yields, 2004 to 2019



Source: Colliers International

5.6 Outlook

With labour market conditions in NSW remaining favourable, tenant demand is expected to remain positive in 2020, underpinned by sub 1,000 sqm tenancy demand. A number of large tenant briefs for the Sydney Fringe market have been circulated in recent months, however a lack of large leasing options available will limit absorption from these occupiers in suburban markets. This demand is expected to underwrite a pick-up in office supply over the next five years as a number of sites previously slated for residential uses are instead used for office space.

The significant withdrawal of stock in the CBD coupled with declining affordability is expected to encourage some CBD tenants to relocate to suburban locations. On this basis, we expect Fringe rental growth to continue, given the strength of demand.

INDEPENDENT MARKET STUDY

BY COLLIERS INTERNATIONAL, FEBRUARY 2020

6.1 MARKET OVERVIEW

The Brisbane Fringe Office market extends across five precincts. Urban Renewal is the largest growing area in the Brisbane Metro market, contributing about 520,745 sqm of stock, or the equivalent to 43% of the office stock in the Fringe region. It extends from New Farm to Bowen Hills and includes Fortitude Valley.

Inner South is the second largest office precinct in Brisbane Fringe, contributing about 261,671 sqm of stock to the market. It extends from South Brisbane to Greenslopes, including also Woolloongabba and West End.

Milton is the oldest Brisbane Fringe precinct offering circa 232,132 sqm of net lettable area. Milton is undergoing a continual transformation with some of the well-known buildings going through refurbishments (e.g. 339 Coronation Drive). Milton is home to a diversity of knowledge-based businesses in the fields of engineering, design, civil contracting, and the digital industries. Spring Hill is well-located adjacent to the CBD area and generally offering strata offices and a net lettable area of circa 134,904 sqm. Toowong is the smallest fringe precinct in Brisbane offering circa 75,000 sqm of net lettable area.

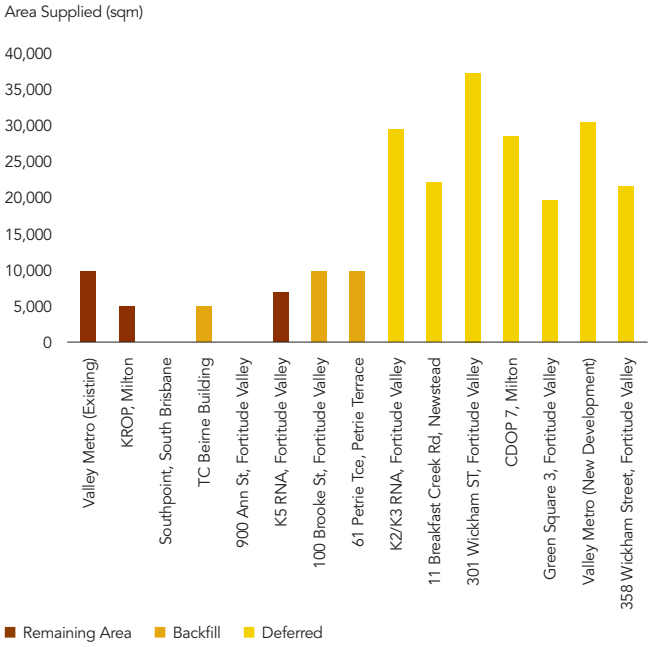
6.2 Leasing Activity, Demand and Supply Drivers

According to the Property Council of Australia ("PCA") office market report, the Brisbane Fringe office market has experienced a marked improvement over the past 12 months, with the vacancy tightening 2.0%, from 15.7% as at January 2019 to 13.7% as at January 2020. The decline in vacancy levels have been driven by net absorption over the corresponding period totalling 29,241 sqm. Solid tenant demand across the A grade asset class in the precincts of Milton, Urban Renewal and Spring Hill support the decline in vacancy over the past twelve months.

The Milton precinct has been in high demand over the year, reporting net absorption of 15,840 sqm and driving the vacancy rate down to 17.7%, from 25.9% in January 2019. The influx and relocation of tenants in the Milton precinct reflects the value proposition on offer and the lack of A grade contiguous space with large floor plates. We have seen a wide range of tenants either relocating or expanding in the precinct including Sandvik Mining, Australian Radio Network, Rock Technologies, AIA Insurance and Corporate House leasing in excess of 6,000 sqm. The deal to CPB Contractors in 339 Coronation Drive for approximately 8,000 sqm is an example of a tenant chasing large contiguous space within 5km of the CBD.

We anticipate that office demand in the Brisbane Fringe market will be solid over the next 5 years. According to Deloitte Access Economics, white-collar employment in Brisbane City will increase by about 2.2% a year from 2019 to 2025. This represents an increase in the white-collar Brisbane metro workforce of circa 28,940 or circa 4,150 a year, potentially absorbing 41,500 sqm of office accommodation a year.

Figure 19 – Brisbane Metro Office Supply Pipeline – 5,000+ sqm



Source: Colliers International

6.3 Rents and Incentives Trend

A grade average Brisbane Fringe gross face rents have increased by 5.6% over the past 12 months, to A$553/sqm p.a in September this year. This increase, in conjunction with the slight fall in average incentives, underpin the annual growth in average gross effective rents of 6.2%, to A$356/sqm p.a. in September this year.

The highest gross face rents were recorded in the Urban Renewal precinct which have increased 8.5% in 12 months averaging A$608/sqm p.a. as at September 2019. Incentives have remained high, above 30% (currently averaging 36%) due to the amount of new development stock coming to market. Across all the fringe submarkets incentives are relatively high when compared nationally with incentives averaging 35% explained by the amount of competition between landlords to attract and retain tenants.

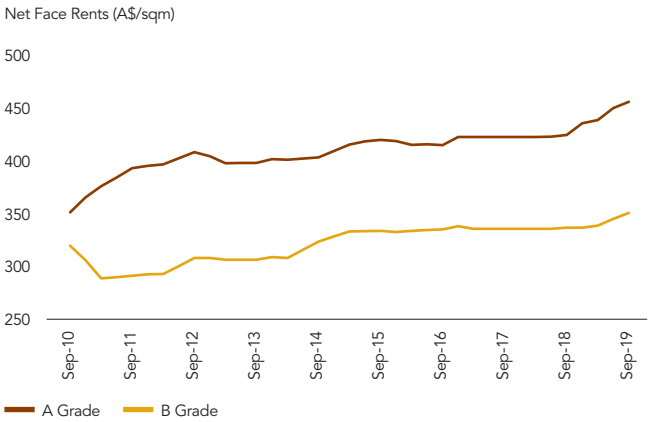
Average net face rents are summarised below:

Table 7. Net Face Rents by Market, Q3 2019

Net Face Rents	Inner South		Urban Renewal		Milton		Toowong	
Q3 2019	A Grade	B Grade	A Grade	B Grade	A Grade	B Grade	A Grade	B Grade
A$/sqm p.a.	493	358	509	386	452	336	395	328
6 month rental change	5.9%	2.9%	6.3%	6.2%	4.5%	3.2%	0.6%	2.3%
12 month rental change	8.1%	3.6%	10.5%	6.9%	7.2%	4.0%	2.6%	3.1%

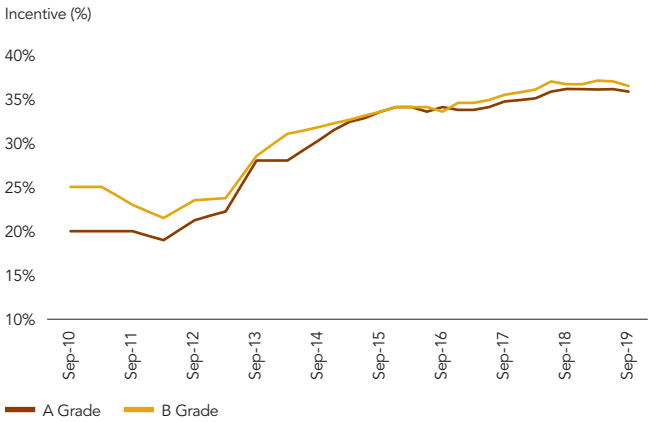
Source: Colliers International

Figure 20 – Brisbane Metro Office Net Face Rents, 2010 to 2019



Source: Colliers International

Figure 21 – Brisbane Metro Office Incentives, 2010 to 2019



Source: Colliers International

6.4 Sales and Construction

The investment market remains very tightly held on the back of limited alternative investment options. The estimated volume of sales (above A$5 million) has declined to circa A$435 million for the year to date, sitting below the long-term average (circa A$820 million).

For a second consecutive year, investment opportunities in the Metro market remain very tightly held, underpinning the downward trend on sales volumes and average transaction price. Colliers International estimates that the average sale price has declined from circa A$60 million in 2018 to an estimated average of circa A$29 million over the year to date. So far in 2019, we have seen an increase in activity in suburban office transactions with a broad spectrum of active players chasing yields including high-net-worth private investors, syndicators and listed and unlisted vehicles managed by larger asset managers. For the year to date, we have estimated circa A$176 million of asset sales in markets including Hamilton, Cannon Hill, Murarrie, Eight Mile Plains, Beenleigh, amongst others. Syndicates and private investor acquisitions have more than doubled over the year to date, reaching circa A$129 million compared to A$66 million of sales recorded in 2018.

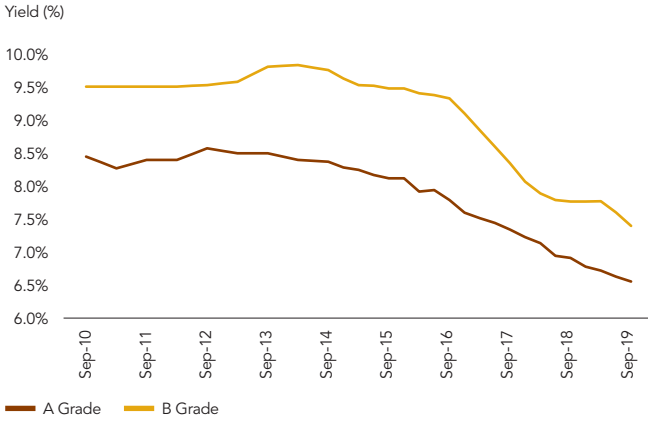
In the last 6 months, there was one small reported withdrawal and 28,600 sqm of new supply to stock.
Net Supply changes include:

- The completion of LaSalle's 230 Brunswick Street (Transport House), Fortitude Valley which added 8,924 sqm of full refurbished space back to market over the first half of 2019.

New supply under construction or refurbishment for completion in 2020 and 2021 is anticipated to reach a total of 41,000 sqm. However, there are several mooted projects, many having development approvals but waiting for pre-commitments to commence.

6.5 Yields

Figure 22 – Brisbane Metro Office Yields, 2010 to 2019



Source: Colliers International

6.6 Outlook

The outlook of the Brisbane Fringe Office market is positive, considering the increase in demand for office accommodation and the limited committed new or refurbished supply.

Due to the low interest rate environment and the inverted shape of the Australian bond yield curve for short-term maturities (at the time of writing), Colliers International anticipates that investment opportunities will remain tightly held over the remaining of 2019 and potentially well into 2020 with on market offerings being competitively bid for.

New development supply under construction or to commence construction this year is forecast at 68,500sqm (representing 5.5% of the current stock). It will expand beyond the Urban Renewal precinct, with the largest projects under construction located in Spring Hill (152 Wharf Street) and Inner South (the Mobo building). Colliers anticipates that the balance of supply and demand will improve over the next few years as long as the risk appetite from developers remains low and the start of new supply remains heavily reliant on pre-commitments.

INDEPENDENT MARKET STUDY

BY COLLIERS INTERNATIONAL, FEBRUARY 2020

7.1 MARKET OVERVIEW

The Melbourne metro office market comprises five precincts, the largest market being the City Fringe which covers approximately 983,000 sqm, or the equivalent to 30% of total office stock in the metro region. The City Fringe includes major inner-city office markets including Richmond, South Yarra, Collingwood and South Melbourne. Tenants in this market are attracted to the connectivity to the city as well as the retail amenity and attracting staff who wish to work closer to where they live. This market is experiencing a rise in office development due to rising tenant demand to be located in this market- particularly those migrating from further out locations.

The second largest market is the Outer East, also comprising 30% of the total office stock and attracts tenants to larger office business parks. Compared to inner office market, rents in outer east are lower and appeal to tenants that require larger spaces. The Inner East is a well-connected submarket and includes major office hubs such as Camberwell and Hawthorn. These areas are well serviced with public transport as well as retail amenity. The South East is a tightly held market and attracts a hybrid of tenants who also wish to be located close to industrial areas. Office markets in this precinct include Oakleigh and Moorabbin where public transport options are quite limited. The fifth sub-market is the North & West which geographically covers a large area however a small office footprint. These areas are dominated more with industrial tenants, office markets are Essendon Fields extending out far west to Werribee.

7.2 Leasing Activity, Demand and Supply Drivers

Following strong interest over the past few years in Richmond, Cremorne and South Yarra located in the City Fringe, developers are searching for the next emerging market. South Melbourne and Collingwood are being targeted by these groups due to their close proximity to the CBD, connectivity and retail amenity. Overall, demand remains firm. A number of CBD occupiers are currently looking at opportunities in the City Fringe. These occupiers now see the City Fringe as a viable option, due to the critical mass and new projects being built. There is also still continued enquiry from occupiers in the outer suburban markets, who want to be closer to the CBD and to also increase access to employees.

The industrial pocket of South Melbourne is attracting interest from a wide range of tenants with the drivers being local retail amenity along Clarendon Street, proximity to the CBD, and surrounding parklands. The new metro tunnel brings Anzac station to the end of Albert Road, which will service St Kilda Road, South Yarra (west end) and South Melbourne, providing better connectivity for the area. The vacancy in the City Fringe market increased over the last six months from 4.47% to 6.28%. While this is a significant increase, the upwards jump can be explained by a small number of large vacancies new to the market, notably at 658 Church Street, where Country Road vacated 8,000sqm in Building 3 and the completion of Building 9 at Botanicca, which added 7,000 sqm to supply as unoccupied space.

In the Inner East precinct, vacancy increased to 5.95% as at end September 2019, from 3.58% in March 2019. The lack of new development opportunities in this market is resulting in tenants needing to renew existing leases. Holcim Australia at 290 Burwood Road renewed on a new 5-year lease at their existing premises and Swinburne University also re-signed at their existing tenancy at 2 Luton Lane, Hawthorn.

As the residential market is slowly saturating in the Inner East, it is starting to become more feasible to develop sites into office in some instances. 2-4 Roche Street, Hawthorn -previously with a permit to develop a 7-level apartment building - will instead be developed as office. We expect that new upcoming office developments in the Inner East market will perform strongly given the current limited supply of quality accommodation.

In the Outer East, there has been a flurry of leasing activity at Tally-Ho Business Park in Burwood East, as a new wave of tenants are sweeping into the popular centrally located precinct. New entrants include the Outdoor Education Group, who will occupy a whole 1,000 sqm building at 9 Lakeside Drive and Freight Concepts, who have leased 650 sqm at 16 Lakeside Drive.

The overall vacancy in the Outer East precinct has remained unchanged over the last 6 months to July 2019, from 8.46% to 8.93%. A shift towards quality fitted space is an important factor for tenants in this market, hence face rents increased for new developments to average A$343/sqm p.a. and A Grade space increased to A$340/sqm, B grade has remained steady at A$250/sqm p.a. for the last year.

7.3 Rents and Incentives Trend

Average face rentals in the City Fringe increased for all grades over the last six months. Rents for new developments averaging A$573/sqm p.a, A Grade averaging A$503/sqm p.a. and B grade A$408/sqm p.a. We forecast face rents to increase by 5.00% for A grade in the next 12 months, as good tenant enquiry converts to transactions. Incentives increased for all grades, predominantly for new developments, increasing to an average of 26 % from 215 six months earlier in March. This average has increased due to more recent deals being negotiated with higher

market incentives which are designed to make the city fringe competitive with the CBD and compete with other surrounding sites.

In the Inner East, face rentals have increased for new developments and existing A Grade office over the last 6 months, averaging A$480/sqm p.a. and A$425/sqm p.a. respectively while B Grade remains steady at A$360/sqm p.a. This is driven by a lack of new development opportunities as tenants are required to pay a premium to secure better quality accommodation.

The average face rents in the Outer East precinct increased for all grades to A$335/sqm p.a. for new developments, A$305/sqm p.a. for A Grade space and A$270/sqm p.a. for B grade.

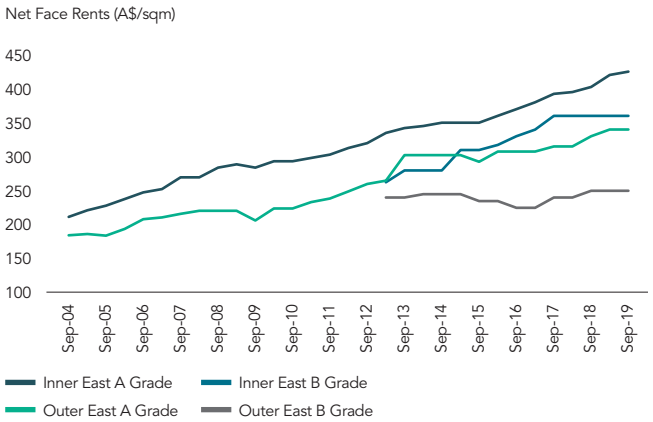
Average net face rents are summarised below:

Table 8. Net Face Rents by Market, Q3 2019

Net Face Rents	Inner East		Outer East	
Q3 2019	A Grade	B Grade	A Grade	B Grade
A$/sqm p.a.	425	360	340	250
6 month rental change	1.2%	0.0%	0.0%	0.0%
12 month rental change	5.6%	0.0%	3.0%	0.0%

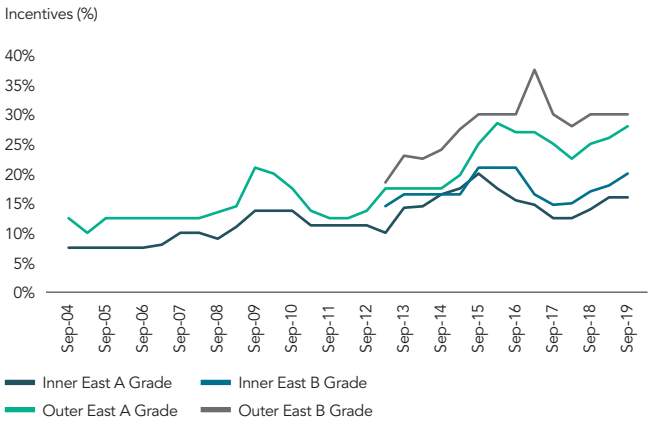
Source: Colliers International

Figure 23 – Melbourne Inner East and Outer East A & B Grade Net Face Rents, 2004 to 2019



Source: Colliers International

Figure 24 – Melbourne Inner East and Outer East A & B Grade Incentives, 2004 to 2019



Source: Colliers International

7.4 Sales And Construction

When compared to 2018, the number of investment sales in the City Fringe is significantly below last year. There was a total of 19 sales over A$5 million when compared with only 6 sales year to date. The recent sale of 49-51 Stead Street, South Melbourne for A$10.2 million shows buyer confidence is prevalent in the South Melbourne office market. The building was recently refurbished and is fully leased to Ewert Leaf with six remaining years, sold on a tight 5.45% yield.

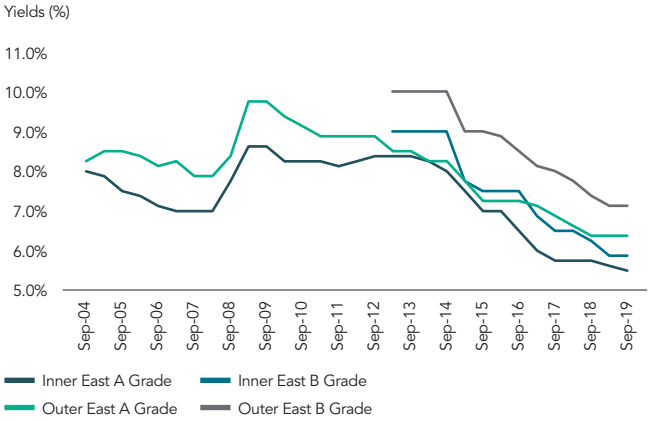
The Inner East, a traditionally tightly held market with few sales, has had only three sales for the second half of this year. There has been a trend in private investors looking to capitalise on potential rental reversion in the market. The largest sale was at 830-832 High Street, Kew purchased for circa A$22 million by private investor on a tight 3.75% yield with 92% of the building leased. As financiers are tightening the amount, they are lending, we are observing that investors are preferring fully leased assets with less risk.

The Outer East attracts syndicates and institutional investors and as a result office buildings trade more frequently than other markets that have a higher proportion of private ownership. 4 Wesley Court, Burwood East transacted for A$50 million to an offshore investor with a yield of 6.5% with the building fully leased to DXC Technology. The former 7 Eleven Head Office located at 357 Ferntree Gully Road, Mount Waverley was recently purchased by a local private investor with vacant possession for A$8.1 million.

7.5 Yields

Yield compression has bene recorded across the City Fringe and Inner East precincts over the last 12 months, in line with the majority of office markets nationally. City Fringe average A grade equivalent yields have compressed by 25 basis points from 5.50% to 5.25% over the last 12 months to now range 4.75% to 5.75%. Inner East average A grade yields have also compressed by 25 basis points over the same period to now range 5.00% to 6.00%. Yields across the Outer East precinct have remained steady over the past 12 months remaining between 6.00% to 6.75%.

Figure 25 – Melbourne Inner East and Outer East A & B Grade Yields, 2004 to 2019



Source: Colliers International

7.6 Outlook

Over the next few years, there is the scope for an influx of new developments in the City Fringe, predominantly in the Richmond and South Yarra precinct, after a period of reducing supply due to withdrawals. Developers have been encouraged by the increasing level of enquiry for tenants over the last couple of years, as well as upcoming supply constraints in the CBD, and the emergence of a viable option to the CBD precinct. The tech sector, and its associated industries, is one sector that is experiencing significant growth in employment levels. As Richmond and South Yarra are now viewed as established office markets, developers are searching for the next emerging market in which to access sites.

As financiers seem to be tightening lending available to developers, we are observing that investors are preferring fully leased assets with limited risk. These properties are being well received by the market and transacting for tighter yields. Colliers Research are forecasting further yield compression, albeit minimal, across the Melbourne Fringe markets following the 'lower for longer' trend as investors continue to search for limited assets available to market.

UNITED KINGDOM

INDEPENDENT MARKET STUDY

BY KNIGHT FRANK LLP, JANUARY 2020

1. UK ECONOMIC OVERVIEW

Section 1.1: Recent economic performance in the UK

The UK is Europe's third largest economy (measured by nominal gross GDP), after Germany and France. The service sector accounts for around three quarters of Britain's GDP. Services including banking, insurance, and business services have been key to driving GDP growth in recent years.

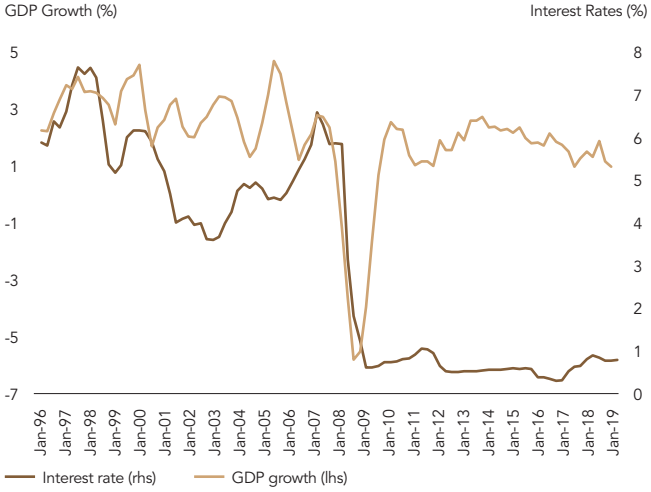
UK GDP grew 1.4% in 2018 and growth of 1.3% is projected for 2019. These figures are below their long term average of around 2%. However, despite ongoing Brexit-related uncertainty, UK GDP growth is expected to outpace that of the Eurozone, with GDP growth of 1.2% projected for the Eurozone in 2019. Though growth is expected to slow in 2020, for both the UK and Eurozone, with 1.0% GDP growth forecast (Source: Oxford Economics), both will see the rate of growth will pick up from 2021, albeit the UK more so that the Eurozone, with 1.9% growth forecast for the UK compared to just 1.2% for the Eurozone.

Changing expectations regarding the terms and timing of the UK's departure from the EU combined with weakening international trade and business environment have dampened investment. However, with UK now having formally left the EU and with a transition deal in place, there is some clarity over the arrangements over the next year as trade negotiations take place. This clarity may boost investment activity in 2020, though weak global prospects are expected to slow any recovery in exports.

Inflation has moderated in recent months, at 1.3% in December 2019, the rate of inflation is well below the Bank of England's target of 2.0%. Inflation is expected to remain below target in 2020. UK interest rates are currently at 0.75%, having been raised from 0.5% in August 2018. Though there was speculation that the rate may be cut in early 2020, the Monetary Policy Committee voted to hold the rate steady in January 2020. Despite the long term aim to raise interest rates, with inflation remaining below the 2% target, it seems likely they will be held at 0.75% for the time being.

The labour market in the UK is close to full-capacity. Unemployment is at 3.8% (October 2019), it remains well below the 5.0% mark which many economists refer to as "full employment". The lack of spare capacity is driving some wage growth. Average weekly earnings rose 3.4% in the year to November 2019. After adjusting for inflation, real wages rose 1.6%, having slowed slightly from 2.0% in July 2019. Consumer spending has helped drive economic growth, boosted by growth in real earnings.

UK GDP growth and interest rates (%)

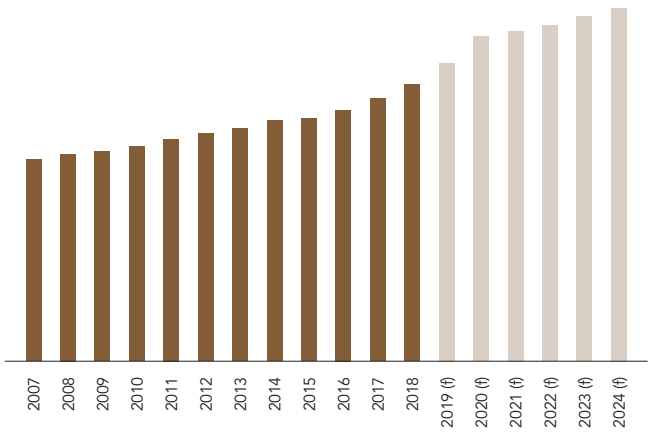


Source: Office of National Statistics

UK unemployment rate

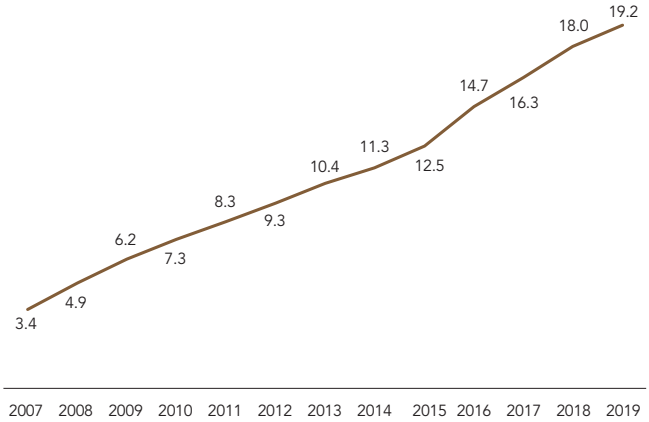
Source: Office of National Statistics

Retail sales volumes (£m)



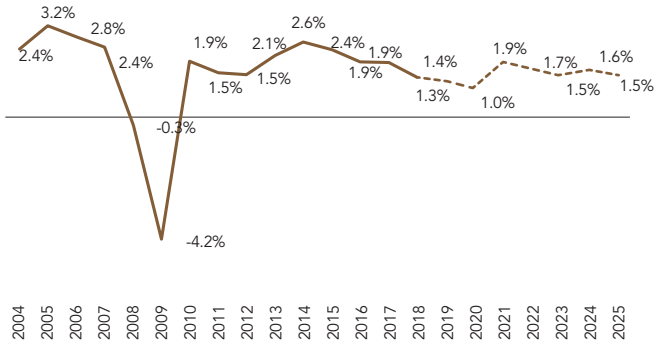
Source: Office of National Statistics, Oxford Economics

Internet sales as percentage of total retail sales (%)



Source: Office of National Statistics

UK Historic and forecast GDP growth (%)



Source: Office of National Statistics, Oxford Economics

The volume of retail sales rose in September 2019, up 3.5% on last year. Despite economic and political uncertainty over Brexit, consumers were still willing to spend. Oxford Economics forecast that retail sales volumes will continue to grow, with 2019 retail sales expected to be around 3.5% up on the 2018 total. The UK has the largest online retail market in Europe and the market has recorded strong online penetration rates. In 2008 online sales accounted for less than 5% of UK retail sales, this has risen to 19% in 2019 and is expected to rise to 19% for 2019. Online retail sales volumes are expected to grow and to increase as a percentage of total retail, forecast to exceed 26% of total retail sales (excluding fuel) by 2024.

The growth in e-commerce underpins demand for a large proportion of warehouse and distribution facilities and the robust forecast for retail spending coupled with rising online penetration rates, should support continued demand for retail goods and distribution services.

Section 1.2: Outlook for the economy

The December 2019 General Election secured Prime Minister Johnson an 80-seat majority, this smoothed the path to UK Paliament passing the EU Withdrawal agreement negotiated by Prime Minister Johnson. The agreement was subsequently ratified by the EU in January 2020 and the UK formally left the EU on January 31st. The Conservative party majority and UK's departure from the EU has reduced some of the uncertainty in the market. It has provided a boost to the value of Sterling and should create prospects for a pick-up in growth, with 1.9% GDP growth forecast for 2021 (Oxford Economics).

Slowing economic growth has prompted calls for a fiscal loosening and the government announced an ambitious spending plan in September 2019, aimed at stimulating economic growth, with a planned rise in public investment of £100 billion over the next five years. A fiscal stimulus of c.£20bn per year (1% of GDP) could be announced in the February 2020 Budget.

This fiscal stimulus is expected to drive much of the economic growth expected in 2021 and beyond. However, downside risks remain, over the size of the planned stimulus and over whether or not Prime Minister Johnson can secure a trade deal with the EU before the end of the transition period (end of 2020). The Prime Minister has pledged not to extend the transition period, though trade deals typically take longer than 12-months to negotiate.

National Statistics – Economic Outlook

	2018	2019 (f)	2020 (f)	2021 (f)	2022 (f)	2023 (f)	2024 (f)
Total Population (millions)	66,436	66,866	67,172	67,431	67,754	67,852	68,029
Population Growth rate (%)	0.60	0.57	0.46	0.39	0.33	0.29	0.26
GDP Growth (%)	1.39	1.26	1.00	1.90	1.71	1.46	1.62
Total Investment (annual change %)	-0.07	0.22	0.65	2.01	1.94	2.10	2.00
Unemployment rate (%)	2.48	3.18	3.50	3.47	3.44	3.45	3.44
Ten year Government Bond (%)	1.46	0.92	0.92	1.40	1.83	2.20	2.51
Inflation (CPI) (%)	2.48	1.81	1.46	1.52	1.90	1.96	1.99

Source: ONS, Oxford Economics (November 2019)

Section 1.3: Population growth and dynamics

Population growth in the UK has been concentrated within urban centres and has been driven mainly by migration. Population growth forecast has been revised down on previous forecasts. Net migration from the European Union has decelerated significantly since 2017. Though this fall has been countered somewhat by a rise in migrants from non-EU countries.

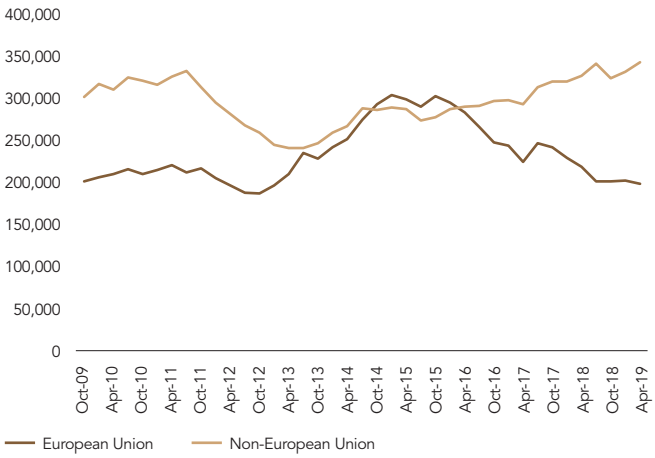
The UK's cities are growing; people and businesses are moving to these cities populations and business growth across UK cities is giving rise to higher densities of people and businesses and creating opportunities for efficiencies and fuelling growth momentum. Cities with a strong GDP forecast include London, Manchester, Liverpool, Edinburgh, Nottingham, Bristol, Sheffield and Glasgow. Edinburgh, Bristol and Glasgow in particular have strong business and financial services and technology, media and telecoms (TMT) industries and with good forecast growth in these sectors, these markets should perform well. Rising demands on residential and office space is driving development activity.

Section 1.4: Brexit - Impact on the UK economy and logistics market

Take-up of industrial units over 50,000 sq. ft. in 2019 was 34.1 million sq. ft., down 10% on 2018. Despite uncertainties around the UK departure from the EU, logistics occupiers remain confident. Structural trends tied to e-commerce including the growth of online grocery are the key drivers of demand for industrial space making it difficult to pin down any direct Brexit impact.

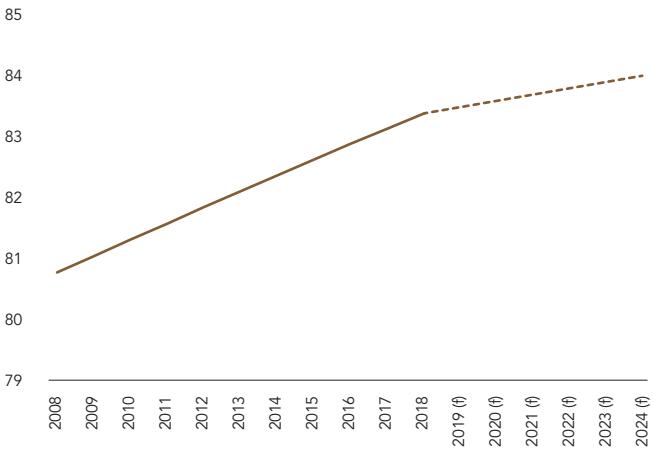
Changing expectations regarding the terms and timing of the UK's departure from the EU combined with weakening international trade and business environment have dampened investment as well as the occupier market. Britain had been due to leave the European Union on 29th March 2019, this was subsequently postponed to 31st

Migration to the UK



Source: Office of National Statistics

Urban population (% of total)



Source: Office of National Statistics

October 2019 and then to 31st January 2020. Uncertainties regarding whether or not the UK would leave with a deal in place did result in some examples of retail stockpiling, though this did not lead to a rise in leasing enquiries. Instead, retailers would look to 3PL's to increase capacity. Brexit and election uncertainties may also have had a negative impact on enquiries over the past year, though it is difficult to quantify this impact. The lack of political consensus, numerous delays, and stop-start nature of the Brexit process led to many businesses being unable to plan effectively. With the UK's departure from the EU now complete with a transition deal in place, there is an added degree of certainty. There may be an uptick in demand from both investors and occupiers in the first half of 2020, as pent up demand is released into the market.

However, trade negotiations are yet to begin and have the potential to shape and define the future relationship with the EU as well as other global markets. Under the terms of the withdrawal agreement, the UK will have until the end of 2020 to negotiate a new trade deal. The Prime Minister has insisted he can broker a deal in time, despite warnings from Brussels that this may not be possible and that a longer transition period would be needed. Both sides ultimately hope to ensure tariff-free, duty-free goods trade, though there are several components of the negotiations that are politically sensitive for both the UK and EU, such as access to fishing waters, freedom of movement for labour and the UK embarking upon parallel negotiations with other markets such as the US. These points will likely shape negotiations in 2020.

Fiscal policy is expected to ease in 2020 and thus strengthen short term growth prospects. The departure deal has provided some clarity on trade with the EU through the transition period (throughout 2020 and perhaps beyond if extended), this may give firms more confidence to plan for the future and invest. The low interest rate environment and low inflation, coupled with rising wages is encouraging consumer spending. However, higher levels of certainty in the market may prompt the Bank of England to bring forward a rise in interest rates.

There was a slight dip in transaction volumes around the time of the referendum (in Q2-Q3 2016) but transaction volumes quickly recovered and some record-sized deals have traded over the past couple of years. In 2019, total investment in industrial and logistics property was down 13.6% on 2018, though a lack of opportunities being brought to market may be part of the reason.

2. UK LOGISTICS MARKET

Section 2.1: Market overview

The retail sector is the key driver of demand for industrial and logistics space. In 2018/2019, retailers accounted for half of all industrial take-up (48%). Transactions that used to take place in retail stores are now happening online and in the warehouse. The retail market, particularly the online retail market is driving demand for logistics properties, and thus the health of the retail market is intrinsically linked to the logistics property market. Retail spending is forecast to rise and online retailing will continue to increase as a proportion of total retail spend. The growth in e-commerce is helping drive demand for space, with three-times the amount of space required for distribution compared to regular retail. This has driven demand for very large buildings (300,000 sq. ft. +) and boosted take-up, investment volumes and occupancy rates in the logistics sector.

Growth and competition in the e-commerce and grocery delivery markets are stimulating a rise in automation and an increasing need for specialist distribution centres that can quickly process large numbers of small orders. Customised automation solutions can be expensive to install. These significant capital investments make relocating prohibitively expensive, resulting in longer leases and higher income security for landlords.

Many traditional retailers are adapting their retail models and their warehousing needs are changing as more space is allocated to e-commerce activities. Retailers are adapting their distribution centres, to accommodate B2C customer deliveries, alongside store deliveries. As part of these changes, they are adopting automation technologies to improve the efficiency of their operations.

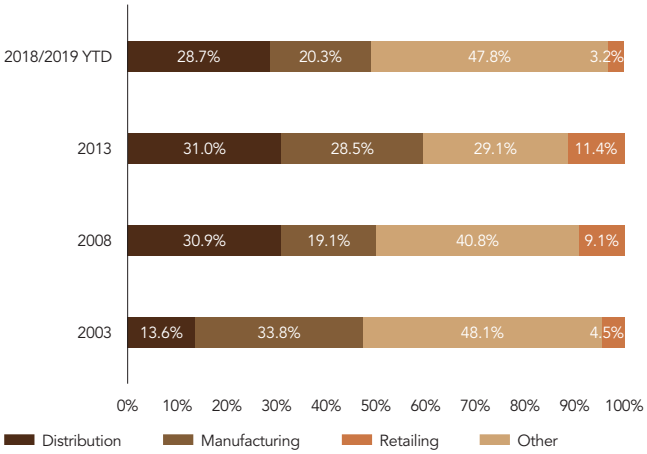
E-commerce distribution centres tend to require more labour compared to traditional warehouses, this means that access to labour pools is important. As the economy has expanded, competition for labour has intensified. There is little room for employment growth and employers are faced with having to improve their offering in terms of wages, benefits and workplace environment. The UK's departure from the EU will likely make attracting talent from abroad more difficult and result in further shrinking the talent pool.

The e-commerce market is not just growing; it is also evolving. Customer expectations are rising, online shoppers have high expectations in terms of fast turn-around times and flexible delivery options, retailers and delivery companies need to reduce delivery times and windows in order to compete for customers.

As well as very large distribution centres and warehouses, rising demands from e-commerce are also driving demand for warehouses located within close proximity to consumer populations and urban centres. These urban logistics centres enable retailers and parcel carriers to offer their customers rapid delivery options. Smaller logistics sites within, or just outside of the metropolitan centres are becoming increasingly important as businesses compete to drive down the cost and time of accessing these urban markets. Small-scale logistics sites within close proximity to consumers are highly desirable, as part of the "last-mile" element of the delivery chain.

With the exception of Amazon, most retailers outsource distribution and delivery via a distribution company. Distribution companies account for almost a third of take-up (29% in 2018/2019), and this increase in demand for space is driven by rising numbers of retail partnerships and rising volumes of retail sales being transported through their networks.

UK take up by sector over time

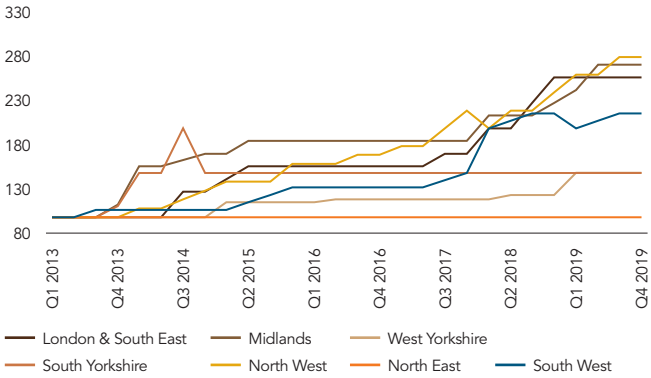


Source: Knight Frank, PMA

There has been a reduction in the land zoned for industrial land use across the UK, particularly around major urban centres, with developers preferring to convert aging industrial properties to higher land value uses such as residential. The Greater London Authority reported that London lost 16% of its industrial stock between 2001 to 2015. There has been an accompanying loss of industrial activities and employment. The impact of this has been recognised and the London Plan includes policies for preventing a loss of employment and industrial land within London, making mixed-use developments and intensification of industrial areas a priority. The plan sets out a framework to encourage more mixed use developments.

In London and the South East, the lack of available sites coupled with high land values has meant logistics providers must reduce building footprints whilst maximising the capacity of the site, this is driving an impetus for upward expansion. Multi-storey logistics are only currently emerging in Inner London, where land values are particularly high and developers must compete with residential and other uses. Strong population growth forecasts for UK cities will drive further intensification of site use and the numbers of multi-storey warehouses are expected to increase.

Growth in Land values – Index (Q1 2013 = 100)

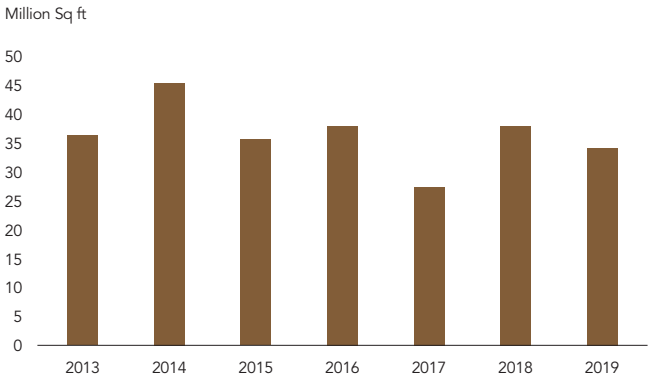


Source: Knight Frank Research

Section 2.2: Occupier market

Occupier demand has remained robust in 2019, with 34.1 million sq. ft. of take-up (units over 50,000 sq. ft.); 10% down on 2018, though they remain fairly consistent with the five-year average figures. There has been an increase in construction activity in 2018 and 2019, with 44.8 million sq. ft. of space under construction at the end of 2019. High quality new space being added to the market has enabled take-up to rise. Robust take-up figures are ensuring that well-located speculative developments are quickly absorbed into the market and vacancy rates remain low, particularly where opportunities for development are limited.

Take-up (50,000 sq ft +)



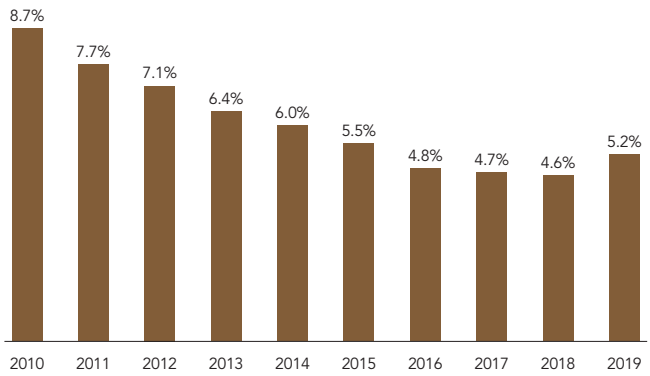
Source: Knight Frank Research

INDEPENDENT MARKET STUDY

BY KNIGHT FRANK LLP, JANUARY 2020

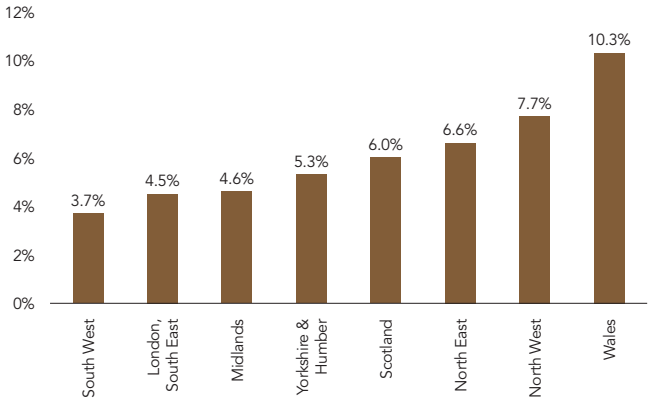
The UK industrial and logistics vacancy rate is currently 5.2%, this is up from a low of 4.6% recorded at the end of 2018. Over the past ten years, vacancy rates have been falling as older redundant stock is removed from the market. The reduction in floor space has been felt most acutely in London where pressure to redevelop out-dated industrial stock for residential uses is strongest. As a result, vacancy rates are low in the London, South East and East region, currently at just 4.5%, though they are considerably lower within some sub-markets, particularly within Greater London.

UK Industrial vacancy rate (%)



Source: Knight Frank Research

Vacancy rate by market (%)



Source: Knight Frank Research

Since the global financial crisis, there has been a lack of speculative development activity in the key markets. However, this has been changing, with a rise in speculative development in 2018 and 2019. On the demand side, rental growth and low vacancy rates are encouraging speculative development activity. The increase in supply of new units is being driven through a rise in partnerships between investors and developers, which is making it easier to fund new developments. Very large warehouses (400,000 sq ft plus) are being built speculatively. Demand for units in this size band previously had to be satisfied through build-to-suit developments but growth in the e-commerce market is driving demand for these very large spaces.

There has been a rise in the amount of speculative development. At the end of 2019 there was a total of 9.2 million sq. ft., of speculative space (units over 50,000 sq. ft.) under construction. This is high compared with recent years, however, the dearth of development over the past ten years combined with ultra-low vacancy rates in the region, should mean these spaces are absorbed reasonably quickly, provided they are the right location and size.

The Midlands and particularly the East Midlands have the largest pipeline of speculative development. At the end of 2019, there was around 6.5 million sq. ft. (units over 100,000 sq. ft.) under construction in the East Midlands, 2.6 million sq. ft. of this space is being built speculatively. This majority of this space was in very large (400,000 sq. ft. plus schemes) including some very large developments, such as Hinckley 532, due to complete in Q1 2020. This development is currently available. Parcel carrier company, DPD have already committed to the adjacent site at Hinckley Park where they will open the largest automated parcel depot in Europe in 2020. Despite the rise in speculative development, levels remain low compared to the previous cyclical peak and the lack of development since the global financial crisis have led to a pent-up demand for space.

Many of the speculative developments in London and the South East are smaller units, there is very little development of units over 100,000 sq. ft. The rising demand for urban logistics has led to a supply shortage, particularly within the London and South East region. Speculative developments may help satisfy some of this provided schemes are well-located and have the correct specification.

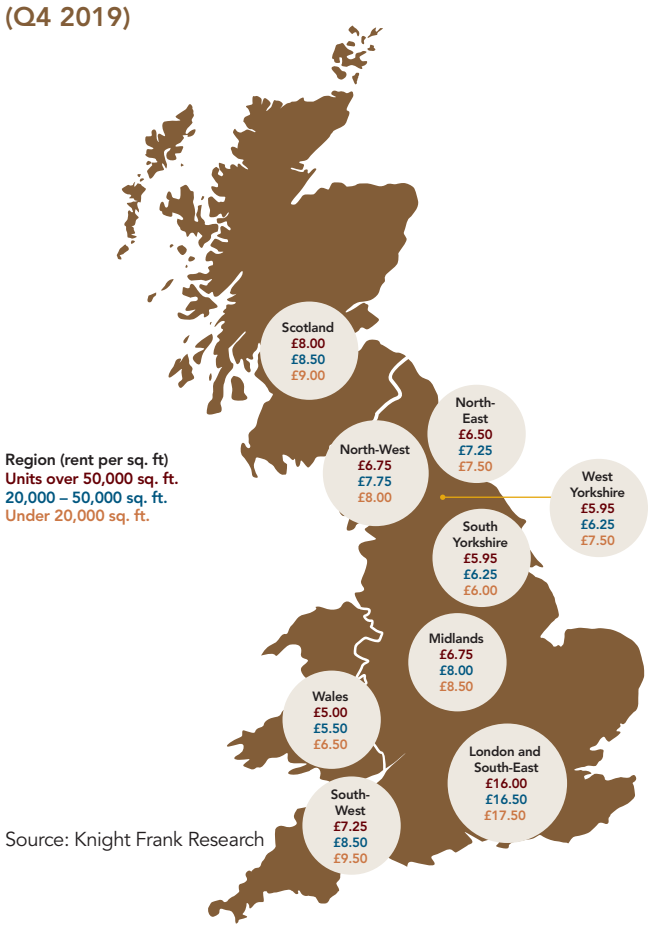
Paradigm shifts in the e-commerce markets are driving demand and low vacancy rates mean that most speculatively built space is let prior to, or on completion. However, at the end of 2019, new development accounted for 47% of the 56.6 million sq. ft. available, compared with 25% at the end of 2018.

Availability of second hand space has also risen. At the end of 2019 there was 30.1 million sq. ft. of second hand space available compared to 19.1 million sq. ft at the 2018 (units over 50,000 sq. ft.). Insolvencies in the retail sector and supply chain restructures are bringing some second hand units to the market. These include the former Toys 'R' Us 685,992 sq. ft. space in Coventry, West Midlands and Poundworld's 525,000 sq. ft. facility in Yorkshire.

While quality second hand units may compete with new speculative schemes, second hand grade B stock will be less able to compete, this will drive up void rates and occupier incentives may increase in order to attract tenants.

Despite the recent increase in development activity, demand continues to outstrip supply, and this has driven strong rental growth across the UK markets over the past five years. Across the UK, average rents have risen across all unit size bands. Rents in London and the South East are the highest, with prime rents for large, 50,000 sq. ft. plus units at £16.00 per sq. ft., up from £15.00 per sq. ft. at the end of 2018. Prime rents for small (under 20,000 sq. ft.) units have remained stable in London, at £17.50 per sq. ft., and they have been at this level since Q3 2018. In the Midlands, prime rents for large (50,000 sq. ft. plus) spaces are at £8.50 per sq. ft., up from £7.50 per sq. ft. in Q4 2018. Prime rents in the South West remain flat on last year, at £7.25 per sq. ft. (for 50,000 sq. ft. plus spaces). In the North East, prime rents (for 50,000 sq. ft. plus units) are £6.50 per sq. ft., these have held steady since 2016. The rise in speculative development may dampen future rental growth in some markets.

Industrial Rents Across UK markets and size bands (Q4 2019)



Source: Knight Frank Research

Section 2.3: Investment market

A total of £7.7 billion was invested in UK industrial and logistics in 2019, this is down -13% from £8.9 billion invested in 2018. Recent political and economic uncertainty has dampened investment activity in 2019 and investment into industrial and logistics has fallen alongside other sectors. Constrained supply has also been a key factor in the slowdown in investment volumes in 2019, as many investors are reluctant to sell and want to retain their exposure to a market which has consistently outperformed other sectors.

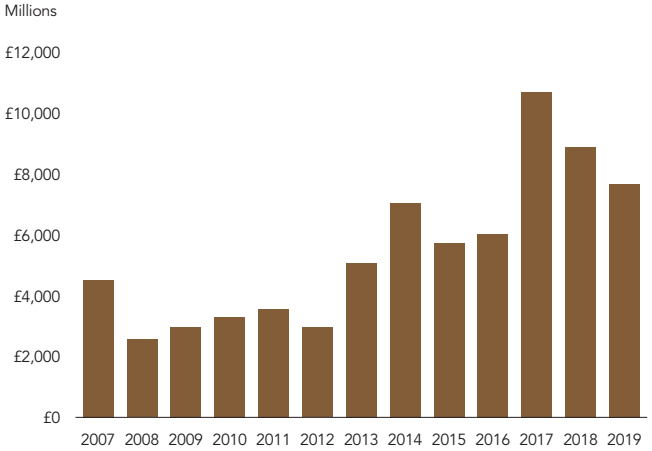
The logistics market rests on solid fundamentals and remains highly sought after by investors, it remains the largest logistics investment market in Europe. The election result will help bring some stability to the market and lessen the uncertainty of a no-deal Brexit. Investors who have been awaiting clarity may now be ready to trade assets and this pent-up demand is expected to boost investment in 2020. The largest single asset sale in 2019 was M&G's purchase of RD Park, Hoddesdon for £145 million, reflecting a net initial yield of 4.02%. The multi-let distribution park consists of six units and is well-located with the M25 providing good access to London and the South East region. Another significant acquisition in 2019 was Tritax Big Box REIT acquiring 87% share in logistics developer dbSymmetry who own one of the UK's largest land portfolios for logistics development, totalling 2,500 acres. The REIT raised £250 million for the purchase through share issuance, with the offer significantly over-subscribed.

Prime assets are targeted by domestic and international investors and strong competition has compressed yields to historic lows. Prime distribution properties offering 20-year income have yields of just 4%. These yields have been stable since the end of 2017. Prime properties offering secure income display bond like characteristics and while yields have held steady, government bond yields have fallen since mid-2018, thus boosting the relative returns for logistics properties. UK 10-year gilts (government bonds) are currently yielding just 0.74% (December 2019), while prime distribution warehouses with twenty-year income are offering 4.0%.

INDEPENDENT MARKET STUDY

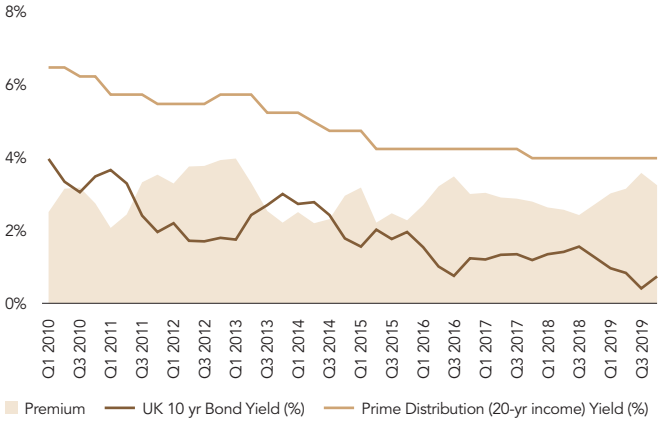
BY KNIGHT FRANK LLP, JANUARY 2020

Industrial and logisitcs investment (£m)



Source: Property Data

Prime logistics yield premium over the 10 yr bond rate (%)



Source: Knight Frank Research, Macrobond

Demand for high quality assets with long-income is holding down yields at this end of the market, while yields on secondary estates have ticked up slightly in 2019, widening the gap between prime and secondary assets, from 1.75% in 2018 to around 2.0% at the end of 2019.

Industrial and logistics assets have recorded strong price growth over the past ten years. Newly completed assets or assets with sitting tenants command a premium. Investors who are looking to acquire assets at lower prices are achieving this by taking on some of the development risk and accessing development profit through partnering with a developer. These partnerships mean that assets that would have been traded, from developer to investor are no longer changing hands. This is dampening transaction volumes.

Encouraged by strong returns, investor allocations for industrial and logistics properties have been rising at the expense of other sectors. UK industrial property has outperformed other property sectors as well as equities and commodities, over the past one, three and five-year horizons. The variety of long-term macro trends supporting future growth of the sector, combined with assets that generate stable income from long leases, continue to make a persuasive case for investment.

Section 2.4: Market outlook

The ongoing growth of the e-commerce is driving occupier demand for logistics properties. Growth in the e-commerce market and increasing levels of investment in automation and facilities are driving demand for high quality warehouse and logistics facilities. Increasing levels of centrally held inventory is driving demand for "big box" facilities. Aside from "big box" demand, competition in the "last mile" arena is driving down delivery times and narrowing delivery windows, increasing demand for urban logistics facilities where retailers and parcel carriers can locate close to consumers. This competition is driving demand for smaller, well-located facilities. Forecast growth for retail spend and e-commerce should support continued occupier demand for these spaces.

The weight of capital targeting the sector will help further development of new facilities and speculative construction and as a result the quality of industrial and logistics stock will continue to improve. Strong demand for high quality, well-located facilities combined with decommissioning of older stock will continue to drive rental growth, though the rate of growth is expected to slow over the next few years.

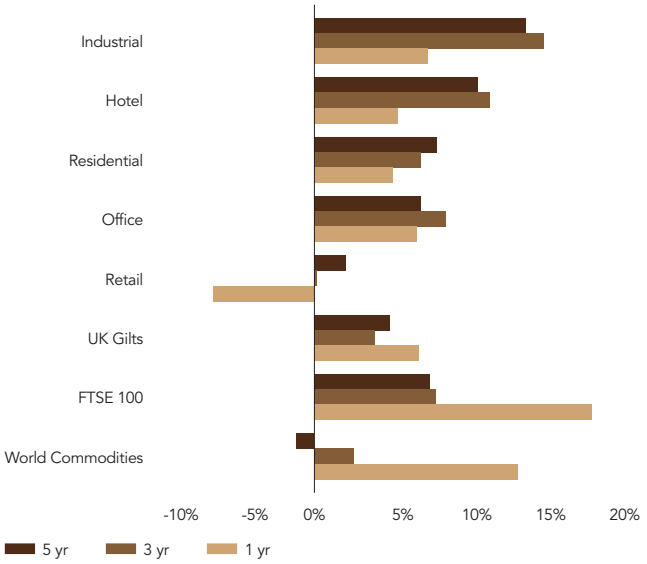
The reduction in land zoned for industrial use is limiting the supply response, particularly within urban areas. Rents for some urban logistics sites are starting to become competitive with office rents in those areas. These sites have strong rental growth potential, with rising urban land values and competition from multiple asset classes. We expect this to perpetuate the trends we are currently seeing in the market.

The robust returns seen in the industrial and logistics sector have been attracting real estate investment. Returns for logistics property are expected to continue outpacing other sectors, although the strong capital value growth recorded in the past few years is expected to slow. Total returns for industrial and logistics are forecast to remain strong over the next four years, with the London and Wales regions expected to lead.

Part of the sectors strong historic performance has been due to structural shifts and yields for the sector have adjusted accordingly. However, there is still scope to drive rental growth through active asset management and thus logistics remains an attractive investment compared to other sectors. The prospects for capital growth arising from yield compression are more unlikely, yields for prime warehouse and logistics properties are expected to remain flat over the next few years. UK gilt yields (10-year government bonds), on the other hand, are forecast to remain at their current level in 2020 before slowing rising from 2021 (Source: Oxford Economics). The currently wide spread (359 bps at the end of Q3 2019) between prime logistics yields and bond yields is likely to narrow over the next few years. Despite this narrowing risk-premium, the appeal of logistics property will continue to be driven by strong sector fundamentals.

Despite ongoing political turbulence impacting near term horizons, strong demand, limited supply and the growth of e-commerce will continue to drive the logistics sector through 2020 and beyond. The outlook for rental growth is positive and rents for industrial are expected to outpace those in the retail and office sectors over the next five years. London is expected to lead the way, with the South East and Eastern regions also expected to record robust rental growth. Wales, West Midlands, North West and North East regions are all expected to record good rental growth over the next four years.

Annualised total returns (£) to end of December 2019



Source: Knight Frank Research, MSCI, Macrobond

INDEPENDENT MARKET STUDY

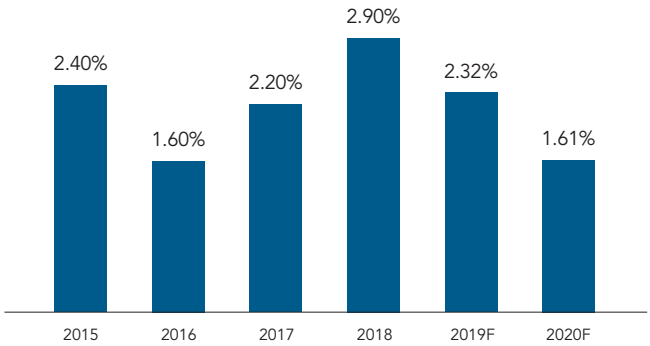
By Cushman & Wakefield Western, Inc. Valuation & Advisory

UNITED STATES ECONOMY & OFFICE MARKET

UNITED STATES ECONOMY

The U.S. economy officially began its 11th consecutive year of growth in the second half of 2019, a new record for the longest economic expansion in the nation's history. Economic growth beat market expectations during Third Quarter 2019 (2.1 percent increase in GDP in comparison to a 1.9 percent estimate per U.S. Bureau of Economic Analysis) and the unemployment rate hit a 50-year low at 3.5 percent. Given the correlation between the economy and property markets, values are expected to climb in most markets/product types as the expansion continues. The industry has been powered by strong business investment and sustained improvements in the labor markets. Despite the uncertainties and potential headwinds in the U.S. market, there is an abundance of dry powder and investors are growing their allocations to real estate. Going forward, the economy is expected to grow, but at a somewhat slower pace in 2020 amid continued uncertainty in international trade. There has been recent progress in trade negotiations between U.S. and China which is discussed below.

United States GDP (AR%)



Source: Cushman & Wakefield Research

Recent U.S. International Trade Policies (U.S. – China Trade War)

In December 2019, the U.S. and China reached a new trade agreement, referred to as the Phase One deal. The most notable points include the following: 1) U.S. has agreed to suspend the December 2019 tariffs that would have impacted ~US$160 billion of Chinese-made goods; 2) U.S. has agreed to cut the rate on existing tariffs from 15 percent to 7.5 percent from September 2019; and 3) China has agreed to purchase US$200 billion of additional U.S. goods over the next two years. The IMF estimates that the existing tariffs and trade-related uncertainty will reduce GPD growth by 0.8 percent by 2020. Some possible indications the trade dispute is impacting commercial real estate include the following: demand for industrial space in certain U.S. West Coast markets was notably slower in 2019, demand for office and industrial space was also slower in certain Chinese cities this year, and export-oriented economies in general lagged other markets in 2019. The trade dispute is expected to continue to create volatility in coming periods and may increase capital allocations to bonds and property due to their long-term nature and lower measured volatility.

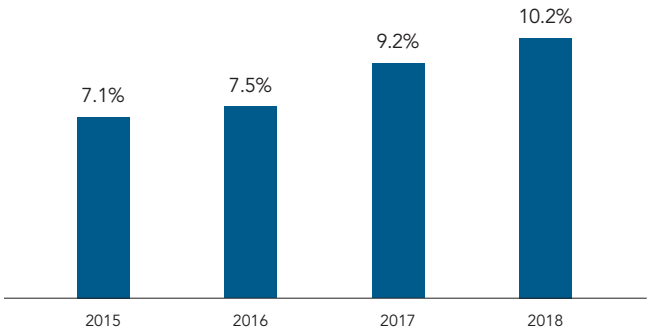
TECHNOLOGY AND HEALTHCARE SECTORS AS KEY DRIVERS

Technology Sector

The technology sector has become a major driver of economic growth in North America and consequently a key driver of the commercial real estate sector. As of Third Quarter 2019, four of the top five companies by market capitalization in the U.S. and the world are technology companies.

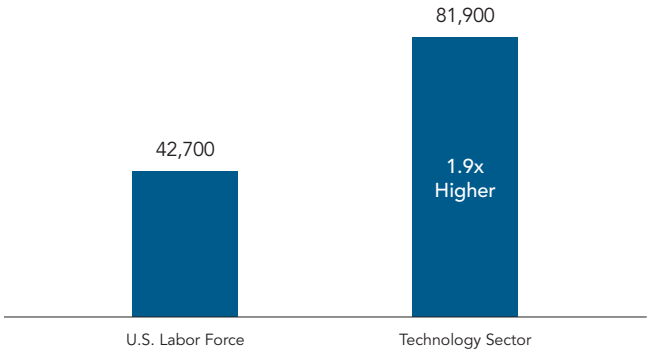
Direct contribution of the technology sector to U.S. GDP has steadily increased in recent years from 7.1% in 2015 to 10.2% in 2018, while the average annual wage (50th percentile) for the technology industry was 1.9 times the average annual wage across all sectors in 2018 (latest data available).

Direct Contribution of Technology Sector to US GDP



Source: U.S. Bureau of Economic Analysis

2018 U.S. Median Wage (50th Percentile)



Source: EMSI, Bureau of Labor Statistics, CompTIA

Healthcare Sector

The healthcare sector is a key driver of growth in the U.S. economy, contributing 7.5 percent to the U.S. GDP as of Second Quarter 2019 (most recent data available). The sector added 2.8 million jobs between 2006 and 2016, which was a rate almost seven times faster than the overall economy. Healthcare positions have grown at a much faster rate than the total U.S. job market. Healthcare / social assistance employment has more than doubled since 1990 in 22 major U.S. markets and more than tripled in five (5) other major U.S. markets. Going forward, the U.S. Bureau of Labor Statistics forecasts the healthcare/social assistance sector to grow at an annual average rate of 1.6 percent through 2028 which is significantly higher than the national average of 0.5 percent.

METROPOLITAN INNOVATION CLUSTERS (DEMOGRAPHICS, ECONOMIES, AND COMMERCIAL REAL ESTATE SECTORS)

Metropolitan innovation clusters refer to an office and commercial property center of scale, located in a major U.S. metropolitan area either within or outside a central business district, typically characterized by an interconnected cluster of innovative industries and companies, and academic, research, governmental and municipal institutions sharing knowledge, infrastructure and amenities. Cushman & Wakefield has identified the following cities as technology "critical" (where jobs in technology companies account for more than 8 percent of all jobs). Economic, demographic, and commercial real estate statistics for each of these markets, in comparison to the United States as a whole, are presented in the following table:

Top U.S. Tech City Metrics

City	Overall Asking Rent Growth (2010–3Q19)	Cost of Living Index (3Q19)	Percentage Bachelors Degrees or Higher*	Overall Office Sales US$/SF Growth*	Millenial Population (ages 19–38)*	Tech Company Employment (3Q19)	Overall Asking Rent (US$/sq ft/ annum) (3Q19)	Median Apartment Asking Rent (US$/Unit/ Mo)*
Austin	56.2%	114.3	46.6%	104%	33.0%	10.2%	$38.86	$1,180
Boston	27.2%	121.4	47.9%	151%	29.1%	5.6%	$38.17	$2,850
Dallas	33.8%	111.9	38.1%	85%	29.2%	7.6%	$26.71	$1,260
Los Angeles	31.3%	129.3	32.5%	117%	30.1%	4.3%	$39.72	$2,250
New York-Midtown	82.6%	119.9	40.5%	122%	31.0%	4.8%	$81.67	$2,980
Portland	41.9%	115.2	40.0%	49%	28.9%	7.5%	$29.37	$1,350
Raleigh	31.6%	101.3	48.0%	23%	28.8%	10.1%	$27.00	$990
San Diego	42.7%	130.6	38.4%	49%	31.2%	8.7%	$38.88	$1,710
San Francisco	145.8%	190.2	56.6%	155%	29.3%	18.0%	$79.95	$3,700
San Jose/ Silicon Valley	76.7%	180.4	52.9%	163%	29.6%	28.5%	$41.59	$2,430
Seattle	57.3%	146.2	47.9%	49%	30.9%	11.1%	$38.81	$1,880
Washington DC	7.3%	117.1	50.5%	27%	28.7%	10.0%	$54.69	$2,210
Tech City Average	52.9%	131.5	45.0%	91%	30.0%	10.5%	$44.62	$2,066
United States	31.5%	100.0	32.6%	61%	27.4%	4.9%	$32.63	$1,233

* Most Recent Data Available (2018 – 1H2019)
Source: Cushman & Wakefield Research

UNITED STATES

INDEPENDENT MARKET STUDY

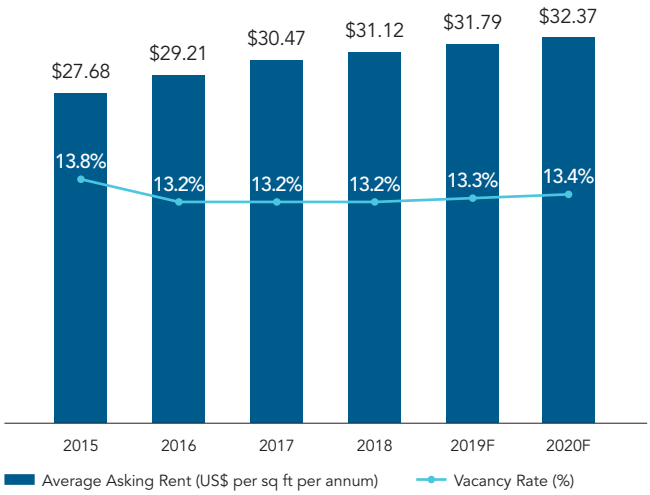
By Cushman & Wakefield Western, Inc. Valuation & Advisory

UNITED STATES OFFICE REAL ESTATE MARKET

Leasing Activity

As of Third Quarter 2019, the overall vacancy rate for the national office market was 12.9 percent, representing a 1.5 percent decline year-over-year. A significant amount of new office development has delivered to the market in recent quarters which has limited net absorption progress made through job gains and leasing activity. Payroll employment, a key driver for the office market, expanded on a year-over-year and quarterly basis in Third Quarter 2019. The U.S. economy is expected to continue to add jobs, influencing the demand for office space through the end of 2019. The following table summarizes historical and projected average asking rent and vacancy rate activity in the national office sector:

U.S. Office Average Asking Rent and Vacancy Rate

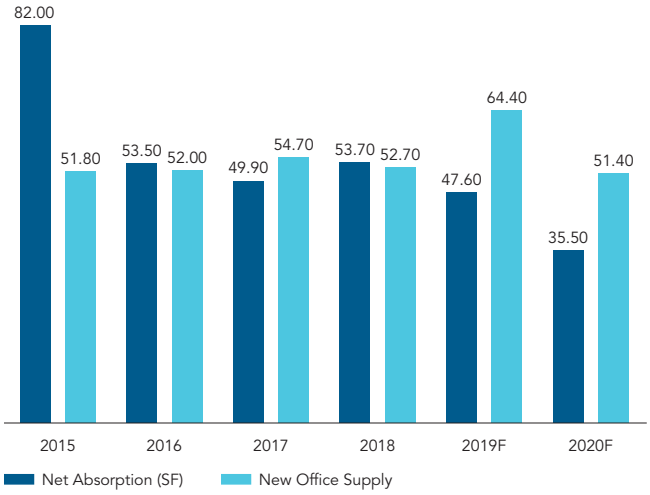


Source: Cushman & Wakefield Research

Supply and Demand Drivers

Construction activity has been particularly robust in tech cities over the last 12 months as there is a strong tenant preference for new office space. By the end of Third Quarter 2019, 126.6 million square feet was under construction, the second-highest amount in the current expansion and down from 120 million square feet in Second Quarter 2019. It is estimated that an additional 41.5 million square feet of office space will be delivered to the market for a total of 64.4 million square feet, the largest volume of new space delivered to the market since 2008.

U.S. Office Net Absorption and New Office Supply (in million sq ft)

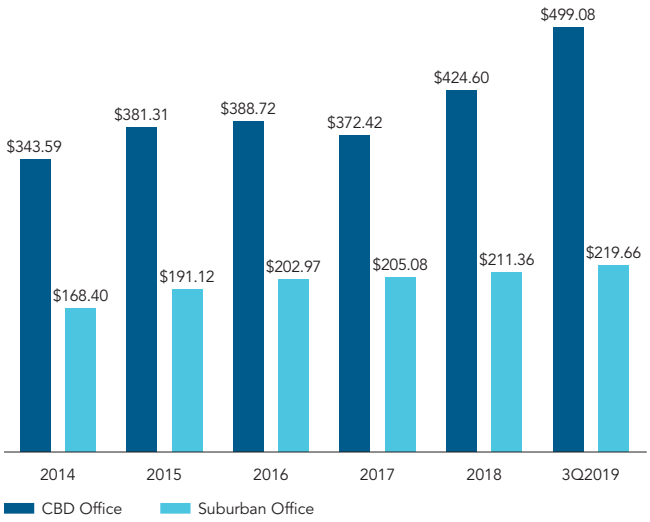


Source: Cushman & Wakefield Research

Investment Rate Trends and Recent Transactions

Following a challenging start to 2019, office investment activity has picked up in recent quarters with average price per square foot indicators exceeding 2018 totals for both CBD and suburban product through Third Quarter 2019.

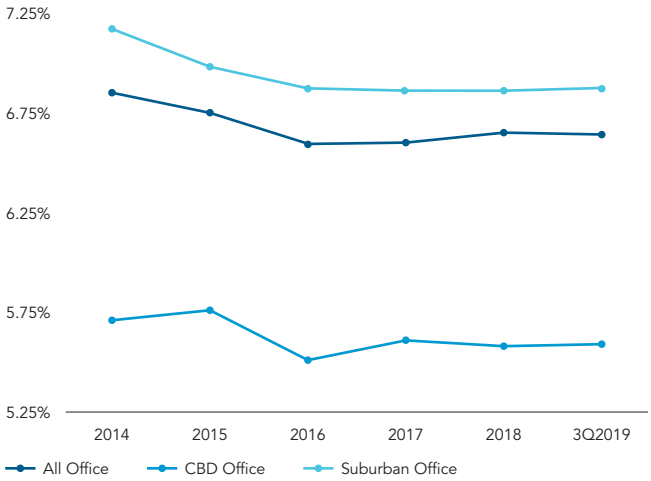
U.S. Office Average Price Per Square Foot of Building Area



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

While sale prices have trended upward in 2019, capitalization rates (market wide) have been relatively flat since 2017 for both CBD and suburban office.

United States Office Capitalization Rates



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

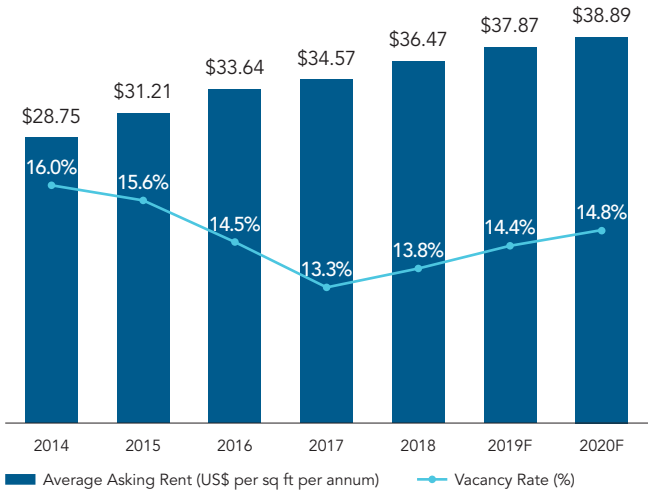
SAN DIEGO OFFICE MARKET

GREATER SAN DIEGO OFFICE MARKET ANALYSIS

Leasing Activity

The office market in San Diego continues to exhibit strong demand. This has resulted in low vacancy rates in recent periods as employment continues to grow, particularly in research and development and high-technology sectors.

San Diego Average Asking Rent and Vacancy Rate

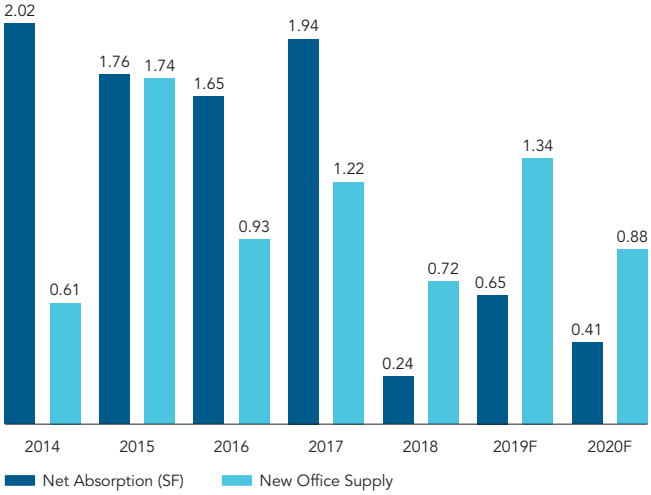


Source: Cushman & Wakefield Research

Supply and Demand Drivers

San Diego is the second largest city in California and a key technology hub in Southern California. After the defense/military industry, the technology sector is the second largest contributor to San Diego's economy contributing 15.4 percent to GDP in 2018. The success of San Diego as a vibrant innovation ecosystem can be attributed to the presence of multiple research universities and institutions, affordable housing (relative to the San Francisco/Bay Area and Los Angeles), and a high quality of life.

San Diego Net Absorption and New Office Supply (in million sq ft)



Source: Cushman & Wakefield Research

Major new additions to office inventory in 2019 include:

- 10159 Scripps Gateway Court, San Diego, CA – 158,995-square foot Class A office building (100% preleased to MedImpact)
- 2446 Town Garden Road, Carlsbad, CA – 100,000-square foot Class A office building (100% pre-leased to Viasat)
- 6023 Innovation Way, Carlsbad, CA (Lift) – 33,770-square foot Class B creative office project (100% leased to Honma and Ezoic)

Major new additions anticipated in 2020 include:

- One Paseo – two-building, 288,000-square foot Class A office project in a larger mixed-use development. The project is approximately 88 percent pre-leased as of Third Quarter 2019 ahead of a mid-2020 delivery.
- 2100 Kettner – 223,357-square foot mixed-use development (office over retail) in the Little Italy neighborhood. Approximately 27 percent of the project is pre-leased ahead of planned delivery in late 2020.
- New Cubic Headquarters – 125,000-square foot Class A office building that will serve as the new headquarters of Cubic in July 2020.

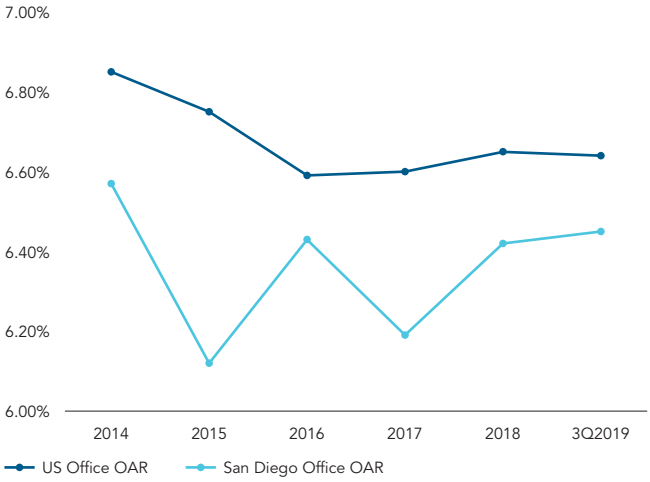
INDEPENDENT MARKET STUDY

By Cushman & Wakefield Western, Inc. Valuation & Advisory

Investment Sales

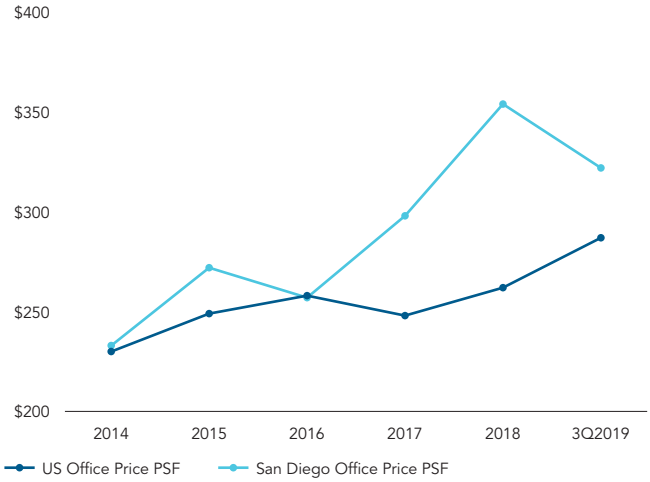
According to Real Capital Analytics, the San Diego Metro area had 110 office sale transactions closed in the 12-month period ending in November 2019, with a total volume of US$2.3 billion, averaging a price of approximately US$307 psf. The following tables show historical capitalization rate (market wide) and sale price psf of rentable area data since 2014:

United States and San Diego Office Capitalization Rates (OARs)



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

United States and San Diego Office Sale Prices per sq ft of Building Area



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

The largest office investment sales within the San Diego Market through Third Quarter 2019 include the following:

- La Jolla Commons - June 2019 - US$513.5 million for two Class A office towers totaling 724,000 square feet (one is entirely leased to LPL Financial on a long-term basis) and a fully-entitled development site for a 224,000-square foot office building
- Liberty Station (office component) – January 2019 - US$76.8 million for a four-building office project within the Liberty Station mixed-use development. The in-place capitalization rate was 5.1 percent and the year 3 stabilized rate was 6.7 percent. Occupancy at the time of sale was 81.1 percent.
- Mesa View Plaza – February 2019 - US$39.1 million transaction involving a 111,268-square foot Class A office building in the Kearny Mesa submarket. The capitalization rate was 6.40 percent and the project was 100 percent leased at the time of sale.

San Diego Office Market Outlook

Vacancy rates are expected to increase somewhat in coming periods as new inventory is delivered in 2020. However, there has been significant pre-leasing activity at the most notable speculative office developments. Additionally, San Diego's employment base, heavily rooted in high-technology, government and military employment, is expected to remain stable. The long-term outlook for the office market remains positive, especially since Apple has announced a significant expansion into the San Diego market area in coming years.

SORRENTO VALLEY SUBMARKET

Data for the following analysis of the Sorrento Valley submarket is provided by Reis, Inc.

Vacancy and Asking Rental Rates

The following table presents historical and projected vacancy and asking rental rates for the Sorrento Valley submarket through Third Quarter 2019:

Historical and Projected Average Asking Rental Rates (US$/sq ft)

Year	Sorrento Valley		
	Total	% Change	Effective Rent
2014	$33.34	6.7	$27.28
2015	$33.83	1.5	$27.73
2016	$35.16	3.9	$28.95
2017	$34.93	-0.7	$28.75
2018	$35.33	1.1	$29.05
3Q19	$35.88	0.2	$29.41
2019	$36.16	2.3	$29.55
2020	$36.90	2.0	$29.99
CAGR	2014 – 2018 1.46%	2019 – 2020 2.05%	

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

Historical and Projected Vacancy Rates (%)

Year	Sorrento Valley
	Total
2014	12.6
2015	12.6
2016	16.8
2017	17.8
2018	18.6
3Q19	19.0
2019	19.2
2020	19.6

Source: Reis, Inc.
Notes: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

Inventory/Completions and Net Absorption

The following tables show historical and projected office inventory, completions, and net absorption within the submarket:

Historical and Projected Inventory & Completions (sq ft)

Year	Sorrento Valley			
	Inventory	Completions	Total Completions	% of Region
2014	6,727,000	0	0	0.0%
2015	6,727,000	0	0	0.0%
2016	6,727,000	0	0	0.0%
2017	6,819,000	0	92,000	24.7%
2018	6,819,000	0	0	0.0%
3Q19	6,819,000	0	0	0.0%
2019		–	0	0.0%
2020		–	10,000	2.6%
2014 – 2018				
Total Completions		0	92,000	
Annual Average		0	18,400	3.8%

Source: Reis, Inc.

Historical and Projected Net Absorption (sq ft)

Year	Sorrento Valley	
	Total Absorption	Total Completions
2014	-182,000	0
2015	0	0
2016	-282,000	0
2017	8,000	92,000
2018	-54,000	0
3Q19	0	0
2019	-43,000	0
2020	-23,000	0
2014 – 2018		
Total Absorption/ Completions	-510,000	92,000
Annual Average	-102,000	18,400

Source: Reis, Inc.

INDEPENDENT MARKET STUDY

By Cushman & Wakefield Western, Inc. Valuation & Advisory

Sorrento Valley Outlook

Looking forward, market conditions in Sorrento Valley are expected to continue to gradually improve as the large spaces vacated by Qualcomm continue to be reabsorbed. While the recovery has been slowed by new inventory (mainly conversions of flex/R&D buildings to creative office), property owners are renovating existing inventory and adding new amenities to attract tenants. Overall, Sorrento Valley's coastal proximity, freeway access, and reputation as a "tech hub" are expected to promote desirability over the long run.

I-15 CORRIDOR (RANCHO BERNARDO) SUBMARKET

Data for the following analysis of the I-15 Corridor (Rancho Bernardo) submarket is provided by Reis, Inc.

Vacancy and Asking Rental Rates

The following table presents historical and projected vacancy and asking rental rates for the I-15 Corridor (Rancho Bernardo) submarket through Third Quarter 2019:

Historical and Projected Average Asking Rental Rates (US$/sq ft)

Year	I-15 Corridor (Rancho Bernardo)		
	Total	% Change	Effective Rent
2014	$27.47	0.0	$20.81
2015	$27.85	1.4	$21.12
2016	$28.16	1.1	$21.44
2017	$28.37	0.7	$21.58
2018	$29.26	3.1	$22.32
3Q19	$29.98	1.2	$22.71
2019	$30.16	3.1	$22.94
2020	$31.03	2.9	$23.56
	2014 – 2018	2019 – 2020	
CAGR	1.59%	2.88%	

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

Historical and Projected Vacancy Rates (%)

Year	I-15 Corridor (Rancho Bernardo)
	Total
2014	16.2
2015	13.8
2016	15.4
2017	15.3
2018	17.3
3Q19	17.6
2019	17.8
2020	17.7

Source: Reis, Inc.
Notes: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

Inventory/Completions and Net Absorption

The following tables show historical and projected office inventory, completions, and net absorption within the submarket:

Historical and Projected Inventory & Completions (sq ft)

Year	I-15 Corridor (Rancho Bernardo)			
	Inventory	Completions	Total Completions	% of Region
2014	7,364,000	0	0	0.0%
2015	7,331,000	0	0	0.0%
2016	7,164,000	0	0	0.0%
2017	7,164,000	0	0	0.0%
2018	7,323,000	159,000	159,000	22.7%
3Q19	7,323,000	0	0	0.0%
2019		–	0	0.0%
2020		–	10,000	2.6%
2014 – 2018				
Total Completions		159,000	159,000	
Annual Average		31,800	31,800	6.6%

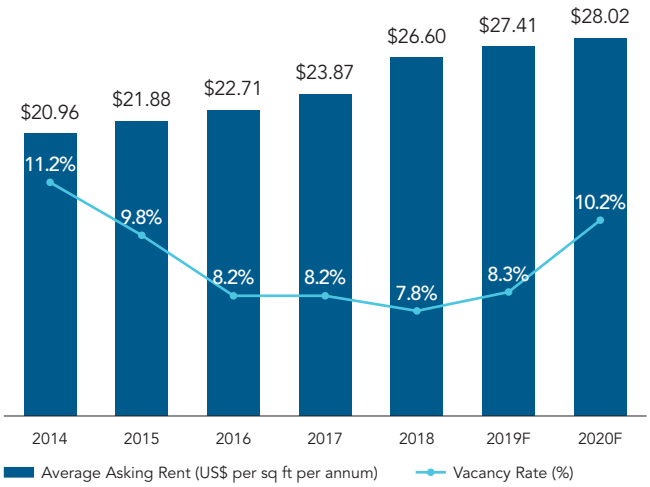
Source: Reis, Inc.

Historical and Projected Net Absorption (sq ft)

Year	I-15 Corridor (Rancho Bernardo)	
	Total Absorption	Total Completions
2014	36,000	0
2015	148,000	0
2016	-258,000	0
2017	7,000	0
2018	-12,000	159,000
3Q19	0	0
2019	-36,000	0
2020	11,000	0
2014 – 2018		
Total Absorption/ Completions	-79,000	159,000
Annual Average	-15,800	31,800

Source: Reis, Inc.

Raleigh Average Asking Rent and Vacancy Rate



Source: Cushman & Wakefield Research

I-15 Corridor (Rancho Bernardo) Outlook

Market participants are optimistic for continued growth in the I-15 Corridor (Rancho Bernardo) submarket as a destination for technology users and corporate campuses. Tenants will likely be attracted to locations near existing technology users (Northrop Grumman, General Atomics, Broadcom, Cymer, Hewlett Packard, Intuit, and Sony), as well as the area's proximity to desirable residential communities. Overall, the I-15 Corridor (Rancho Bernardo) office submarket is expected to outperform regional averages in coming periods.

RALEIGH OFFICE MARKET

GREATER RALEIGH OFFICE MARKET

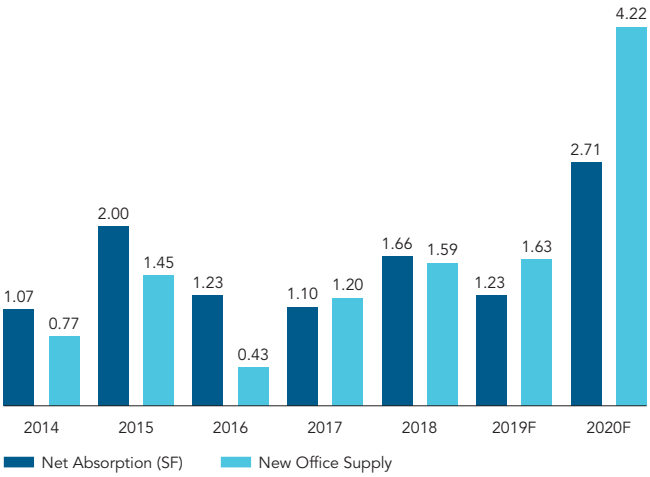
Leasing Activity

The Raleigh market continues to post healthy job growth, adding 20,700 new jobs year over year (as of October 2019) which is fueling demand for office space. Office market fundamentals remain strong as office rents continue to climb amidst declining vacancy rates and a healthy development pipeline.

Supply and Demand Drivers

Over the past two decades, Raleigh has evolved into a major business center, gaining recognition as one of the country's hubs for technology, research and development. The market's low business and living costs have fueled its economic growth over recent years at a pace exceeding that of most large metropolitan areas in the nation. Raleigh, Durham and Chapel Hill are the three hub cities of the Research Triangle, which houses three major research universities (namely, Duke University, the University of North Carolina at Chapel Hill and North Carolina State University). These factors are expected to drive demand over the long run.

Raleigh Net Absorption and New Office Supply (in million sq ft)



Source: Cushman & Wakefield Research

INDEPENDENT MARKET STUDY

By Cushman & Wakefield Western, Inc. Valuation & Advisory

Major new additions to Raleigh's office inventory in 2019 include:

- 1 Glenwood Ave, Raleigh, NC – 227,500-square foot Class A office (with ground floor retail) building that is nearing stabilization at 93.4 percent occupancy
- 301 Metlife Way, Cary, NC – 219,000-square foot Class A office building (100% preleased to MetLife, Inc)
- 1010 Sync St, Morrisville, NC – 200,000-square foot Class A office building (66% leased to Relias Learning)

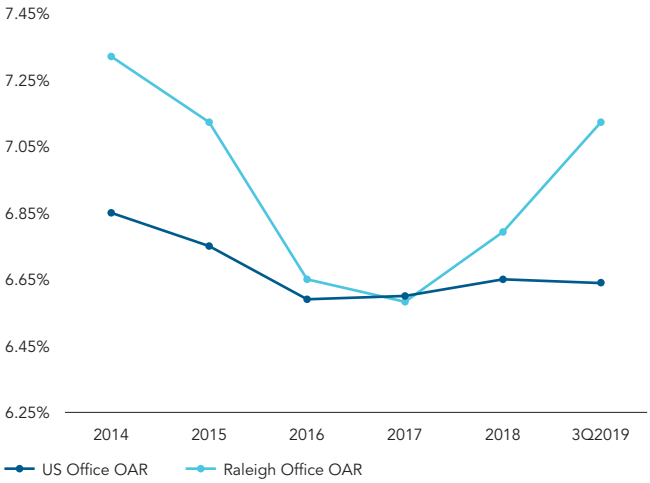
Major new additions anticipated in 2020 include:

- FNB Tower – 149,842-square foot, 22-story Class A office project in a larger mixed-use development. The project is approximately 61 percent pre-leased ahead of an early-2020 delivery.
- One Glenwood – 227,500-square foot mixed-use development (office over retail) in the West Raleigh submarket. Approximately 93 percent of the project is pre-leased ahead of planned delivery in late 2020.

Investment Sales

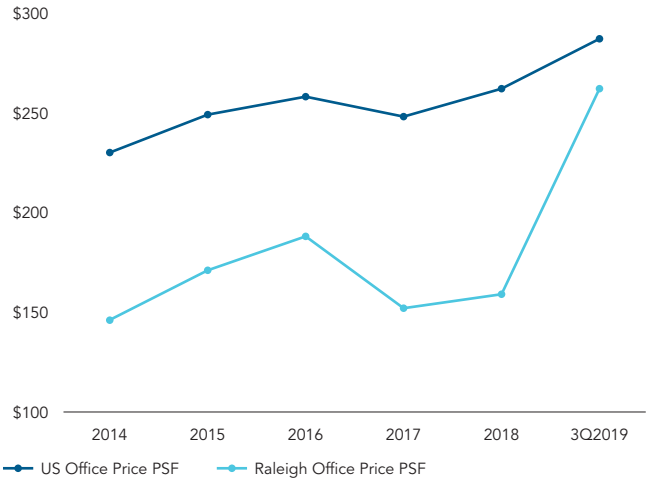
According to Real Capital Analytics, the Raleigh Metro area had 59 office sale transactions closed in the 12-month period ending in November 2019, with a total volume of US$958.5 billion, averaging a price of approximately US$256 psf. The following tables show historical capitalization rate (market wide) and sale price psf of rentable area data since 2014:

United States and Raleigh Office Capitalization Rates (OARs)



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

United States and Raleigh Office Sale Prices per sq ft of Building Area



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

The largest office investment sales within the Raleigh Market through Third Quarter 2019 include the following:

- Captrust Tower - July 2019 - US$137.5 million for a Class A Office tower totaling 300,389 square feet. The property was fully leased at the time of sale, with an in-place capitalization rate of 5.29 percent.
- 3900 Paramount Parkway – March 2019 - US$52.4 million (per public record) for two adjacent office buildings in Morrisville. The combined square footage of the buildings is 213,412 square feet. Both buildings were fully occupied by PPD Development at the time of sale.
- NorthChase Executive Center – July 2019 - US$39.8 million transaction involving two adjacent office properties. The combined 171,237-square foot Class B office buildings are located in the North Raleigh submarket. The capitalization rate was 7.45 percent and the project was stabilized at the time of sale.

Raleigh Office Market Outlook

Out-of-market prospects will likely continue scouting the Raleigh office market as an option in the coming years, attracted to large blocks of Class A space deliveries in some of the area's most desirable submarkets. The near-term outlook should be a bit more balanced, as even with this historical wave of new supply, conditions will still favor landlords until the recent trend of strong absorption levels slow. The office-using sectors are key components of the local economy and are projected to grow by 1.2 percent annually through 2023. Job growth will be key to maintaining strong demand for office space in the region and reducing excess vacant inventory.

RTP/I-40 SUBMARKET

Data for the following analysis of the RTP/I-40 submarket is provided by Reis, Inc.

Vacancy and Asking Rental Rates

The following table presents historical and projected vacancy and asking rental rates for the RTP/I-40 submarket through Third Quarter 2019:

Historical and Projected Average Asking Rental Rates (US$/sq ft)

Year	RTP/I-40		
	Total	% Change	Effective Rent
2014	$19.69	2.3	$15.90
2015	$20.40	3.6	$16.49
2016	$20.92	2.5	$16.94
2017	$21.98	5.1	$17.87
2018	$22.80	3.7	$18.49
3Q19	$23.70	0.4	$19.20
2019	$23.80	4.4	$19.25
2020	$24.48	2.9	$19.80
CAGR	2014 – 2018 3.73%	2019 – 2020 2.86%	

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

Historical and Projected Vacancy Rates (%)

Year	RTP/I-40
	Total
2014	16.4
2015	15.8
2016	13.8
2017	14.0
2018	15.7
3Q19	16.0
2019	16.1
2020	17.1

Source: Reis, Inc.
Notes: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

Inventory/Completions and Net Absorption

The following tables show historical and projected office inventory, completions, and net absorption within the submarket:

Historical and Projected Inventory & Completions (sq ft)

Year	RTP/I-40			
	Inventory	Completions	Total Completions	% of Region
2014	8,270,000	0	451,000	50.6%
2015	8,384,000	0	192,000	15.7%
2016	8,384,000	0	0	0.0%
2017	8,584,000	0	200,000	17.2%
2018	9,145,000	0	561,000	41.2%
3Q19	8,945,000	0	0	0.0%
2019		–	0	0.0%
2020		–	0	0.0%
2014 – 2018				
Total Completions		0	1,404,000	
Annual Average		0	280,800	27.5%

Source: Reis, Inc.

Historical and Projected Net Absorption (sq ft)

Year	RTP/I-40	
	Total Absorption	Total Completions
2014	385,000	451,000
2015	145,000	192,000
2016	168,000	0
2017	155,000	200,000
2018	327,000	561,000
3Q19	-18,000	0
2019	-200,000	0
2020	-97,000	0
2014 – 2018		
Total Absorption/ Completions	1,180,000	1,404,000
Annual Average	236,000	280,800

Source: Reis, Inc.

INDEPENDENT MARKET STUDY

By Cushman & Wakefield Western, Inc. Valuation & Advisory

RTP/I-40 Submarket Outlook

The RTP/I-40 submarket is the largest submarket in the Raleigh region with approximately 20 percent of the total inventory. The primary reason for the large inventory in the submarket is its equidistant location from Chapel Hill, Durham and Raleigh. Although the Central Durham and Raleigh downtown area submarkets have become more desirable in recent years, the RTP/I-40 submarket remains the primary employment center in the region.

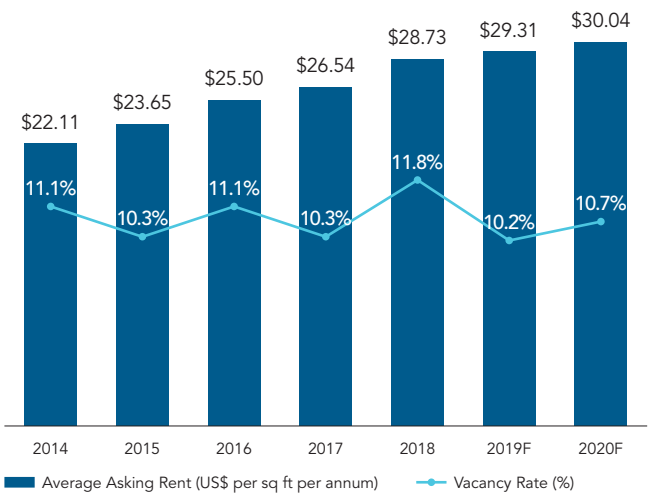
PORTLAND OFFICE MARKET

GREATER PORTLAND OFFICE MARKET ANALYSIS

Leasing Activity

The Portland office market remains steady, ending Third Quarter 2019 with strong performance. Portland remains one of the most affordable and diverse office markets on the west coast which has fueled healthy demand in recent years. However, vacancy rates are expected to increase as more product becomes available in coming periods.

Portland Average Asking Rent and Vacancy Rate

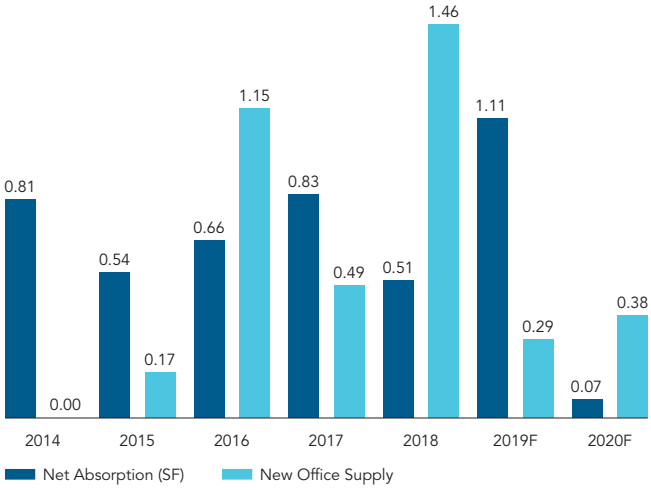


Source: Cushman & Wakefield Research

Supply and Demand Drivers

There has been a growing demand for high-end office product in Portland. New construction that addresses shifting tenant preferences has encouraged solid occupancy gains across the region. The market will continue to expand to help satisfy demand, with one million square feet of development in the pipeline. Looking forward, with the variety of well-established industries and a skilled labor force in the metro area, Portland will likely remain one of the Pacific Northwest's most active markets over the long term.

Portland Net Absorption and New Office Supply (in million sq ft)



Source: Cushman & Wakefield Research

Major new additions to office inventory in 2019 include:

- 2034 NW 27th Ave, Portland, OR – 63,000-square foot Class B office building that is presently vacant and being marketed for lease to up to four tenants
- 365 NE Couch Street, Portland, OR – 30,000-square foot Class B office building (Currently 45 percent leased, delivered in Oct. 2019)

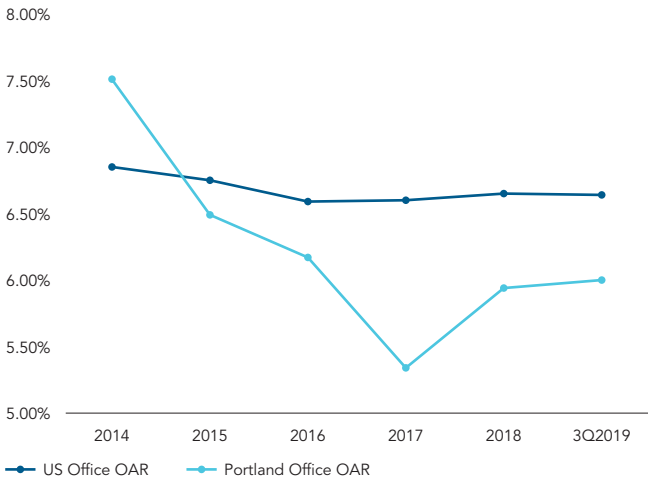
Major new additions anticipated in 2020 include:

- 7 Southeast Stark – 78,298-square foot mixed-use (office over parking and retail) project. The building elevates four levels of steel framed office over 5.5 levels of post-tensioned concrete framed parking and ground floor retail.
- District Office – 90,778-square foot, 6-story mixed-use development (office over retail) in East Portland. Approximately 65 percent of the project is pre-leased ahead of planned delivery in early 2020.
- 250 Taylor – 190,825-squrae foot Class A office building located in Portland's Central Business District. The project is set for delivery in March 2020 and currently in lease-up.

Investment Sales

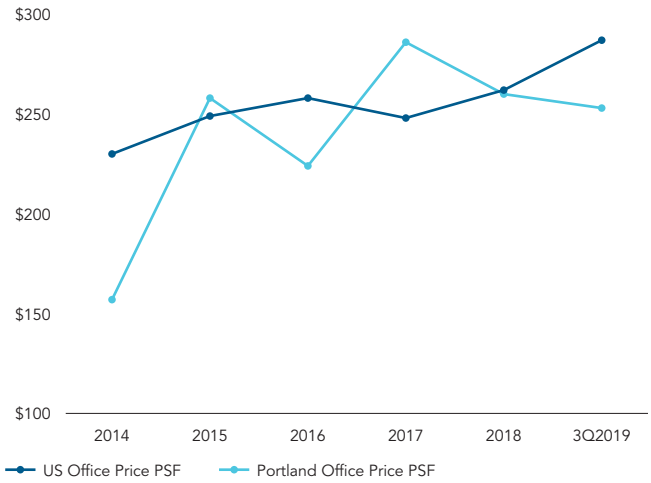
According to Real Capital Analytics, the Portland Metro area had 61 office sale transactions closed in the 12-month period ending in November 2019, with a total volume of US$1.5 billion, averaging a price of approximately US$295 psf. The following tables show historical capitalization rate (market wide) and sale price psf of rentable area data since 2014:

United States and Portland Office Capitalization Rates (OARs)



Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals) 2014-2018, CoStar 3Q2019

United States and Portland Office Sale Prices per sq ft of Building Area



Source: Real Capital Analytics (sales of $2.5 million or greater, volume displayed as 12 month totals)

The largest office investment sales within the Portland Market through Third Quarter 2019 include the following:

- Field Office – Two-building (East & West), 287,000-SF speculative office project delivered in Spring of 2019, remains 25% occupied, sold in May 2019 for US$118 million.
- Park Square – May 2019 - US$96.5 million for a two-building office project. Both buildings were fully leased at the time of sale.
- The Leland James – May 2019 - US$67.5 million transaction involving a 117,591-square foot Class B office building in the NW Close-In submarket. The property was built in 1973 with renovations completed in 2017 to transform the property into creative office space. The project was 83.0 percent leased at the time of sale.

Portland Office Market Outlook

Robust market fundamentals and an influx of investment activity indicates strong demand for office product in the Portland region. The Portland region is expected to maintain long term growth due to one of the lowest business costs in the Western region, a diverse employment base, and a high quality of life. This diverse employment base will likely continue to bring a wide range of companies and skilled workers to the region. Looking ahead, growth should remain steady and the Portland region is expected to exhibit strong market fundamentals through year-end 2020.

SUNSET CORRIDOR SUBMARKET

Data for the following analysis of the Sunset Corridor submarket is provided by Reis, Inc.

Vacancy and Asking Rental Rates

The following table presents historical and projected vacancy and asking rental rates for the Sunset Corridor submarket through Third Quarter 2019:

Historical and Projected Average Asking Rental Rates (US$/sq ft)

Year	Sunset Corridor		
	Total	% Change	Effective Rent
2014	$19.34	2.1	$15.06
2015	$19.63	1.5	$15.30
2016	$20.16	2.7	$15.69
2017	$20.52	1.8	$15.96
2018	$21.01	2.4	$16.34
3Q19	$21.10	0.3	$16.40
2019	$21.14	0.6	$16.45
2020	$21.51	1.8	$16.78
CAGR	2014 – 2018 2.09%	2019 – 2020 1.75%	

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

Historical and Projected Vacancy Rates (%)

Year	Sunset Corridor
	Total
2014	18.8
2015	17.3
2016	20.7
2017	20.1
2018	19.6
3Q19	18.6
2019	18.8
2020	17.9

Source: Reis, Inc.
Notes: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

Inventory/Completions and Net Absorption

The following tables show historical and projected office inventory, completions, and net absorption within the submarket:

Historical and Projected Inventory & Completions (sq ft)

Year	Sunset Corridor			
	Inventory	Completions	Total Completions	% of Region
2014	4,508,000	0	0	0.0%
2015	4,508,000	0	0	0.0%
2016	4,096,000	0	0	0.0%
2017	4,096,000	0	0	0.0%
2018	4,096,000	0	0	0.0%
3Q19	4,096,000	0	0	0.0%
2019		–	0	0.0%
2020		–	0	0.0%
2014 – 2018				
Total Completions		0	0	
Annual Average		0	0	0.0%

Source: Reis, Inc.

Historical and Projected Net Absorption (sq ft)

Year	Sunset Corridor	
	Total Absorption	Total Completions
2014	-46,000	0
2015	68,000	0
2016	-480,000	0
2017	25,000	0
2018	20,000	0
3Q19	0	0
2019	33,000	0
2020	35,000	0
2014 – 2018		
Total Absorption/ Completions	-413,000	0
Annual Average	-82,600	0

Source: Reis, Inc.

Sunset Corridor Submarket Outlook

The Sunset Corridor is one of the most established office submarkets in the region and is known as the "Silicon Forest" for its cluster of high-tech firms. These factors, combined with the area being a lower cost alternative to the primary tech hubs of the west coast, will likely continue to promote desirability.

BEAVERTON/SYLVAN (217 CORRIDOR) SUBMARKET

Data for the following analysis of the Beaverton/Sylvan (217 Corridor) submarket is provided by Reis, Inc.

Vacancy and Asking Rental Rates

The following table presents historical and projected vacancy and asking rental rates for the Beaverton/Sylvan (217 Corridor) submarket through Third Quarter 2019:

Historical and Projected Average Asking Rental Rates (US$/sq ft)

Year	Beaverton/Sylvan (217 Corridor)		
	Total	% Change	Effective Rent
2014	$20.40	1.1	$15.80
2015	$20.96	2.7	$16.19
2016	$21.49	2.5	$16.54
2017	$22.27	3.6	$17.19
2018	$22.87	2.7	$17.67
3Q19	$23.18	0.6	$17.94
2019	$23.33	2.0	$18.00
2020	$23.89	2.4	$18.39
CAGR	2014 – 2018 2.90%	2019 – 2020 2.40%	

Source: Reis, Inc.
Notes: CAGR stands for Compound Annual Growth Rate. Asking rents cited by Reis reflect the advertised rental rates for actively marketed space. Effective rents net of any rental concessions, expressed over the life of the lease term. Reis quotes Office rents on a Gross basis.

Historical and Projected Vacancy Rates (%)

Year	Beaverton/Sylvan (217 Corridor)
	Total
2014	17.9
2015	19.0
2016	17.0
2017	15.4
2018	14.5
3Q19	14.1
2019	14.3
2020	13.6

Source: Reis, Inc.
Notes: Reis does not differentiate between space that is available directly from the landlord or as a sublease. Any space that is available immediately for leasing (i.e. within 30 days) is considered vacant by Reis' standards.

Inventory/Completions and Net Absorption

The following tables show historical and projected office inventory, completions, and net absorption within the submarket:

Historical and Projected Inventory & Completions (sq ft)

Year	Beaverton/Sylvan (217 Corridor)			
	Inventory	Completions	Total Completions	% of Region
2014	3,964,000	0	0	0.0%
2015	3,940,000	0	0	0.0%
2016	3,918,000	0	0	0.0%
2017	3,918,000	0	0	0.0%
2018	3,918,000	0	0	0.0%
3Q19	3,918,000	0	0	0.0%
2019		–	0	0.0%
2020		–	0	0.0%
2014 – 2018				
Total Completions		0	0	
Annual Average		0	0	0.0%

Source: Reis, Inc.

Historical and Projected Net Absorption (sq ft)

Year	Beaverton/Sylvan (217 Corridor)	
	Total Absorption	Total Completions
2014	7,000	0
2015	-63,000	0
2016	61,000	0
2017	63,000	0
2018	35,000	0
3Q19	8,000	0
2019	6,000	0
2020	29,000	0
2014 – 2018		
Total Absorption/ Completions	103,000	0
Annual Average	20,600	0

Source: Reis, Inc.

Beaverton/Sylvan (217 Corridor) Submarket Outlook

The 217 Corridor submarket represents an established submarket in the southwestern Portland area. The cluster is located near the high-tech area of Hillsboro. A number of tech firms are located in business parks next to Highway 217. The area benefits from being situated within a well-established area and being centrally located within Washington County. The area also benefits from being located near major thoroughfares and public transportation, with good accessibility from surrounding markets. These factors should promote desirability into the foreseeable future.

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