



ASF Evening Series Real Estate *Market* Overview

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Economic Backdrop

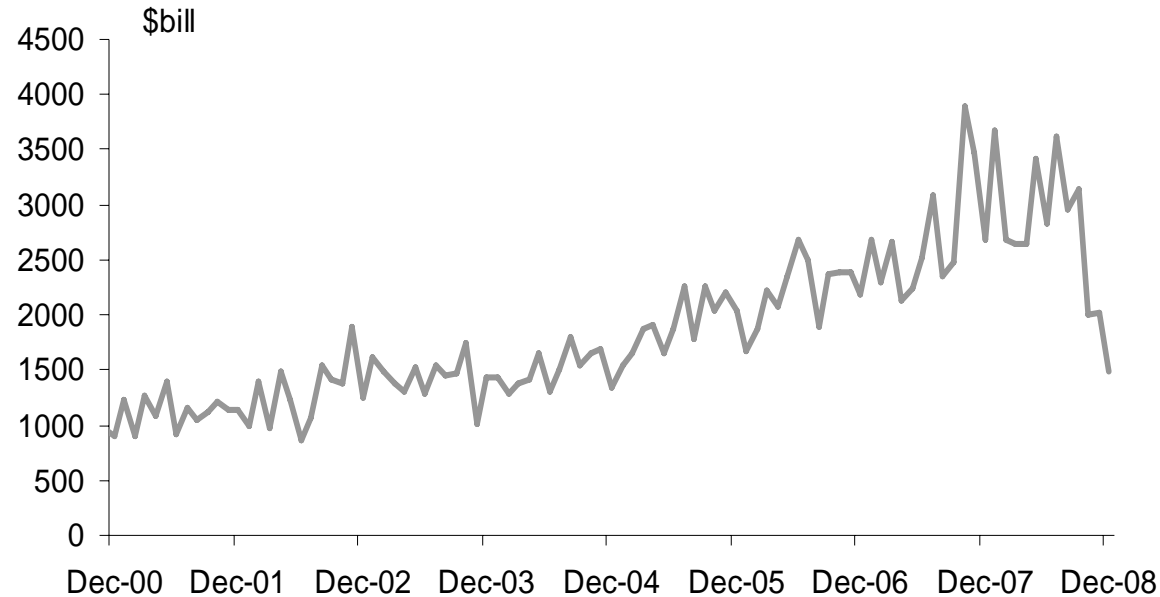
2009

Economic overview summary

- The magnitude of the global recession should not be under-stated
- But Australia has weathered the storm quite well
- Construction boom has come to an end – thanks to the GFC
- The recession is different to 1990s, different implications for property
- How will the liquidity problem be solved?

A Big Slowdown Coming

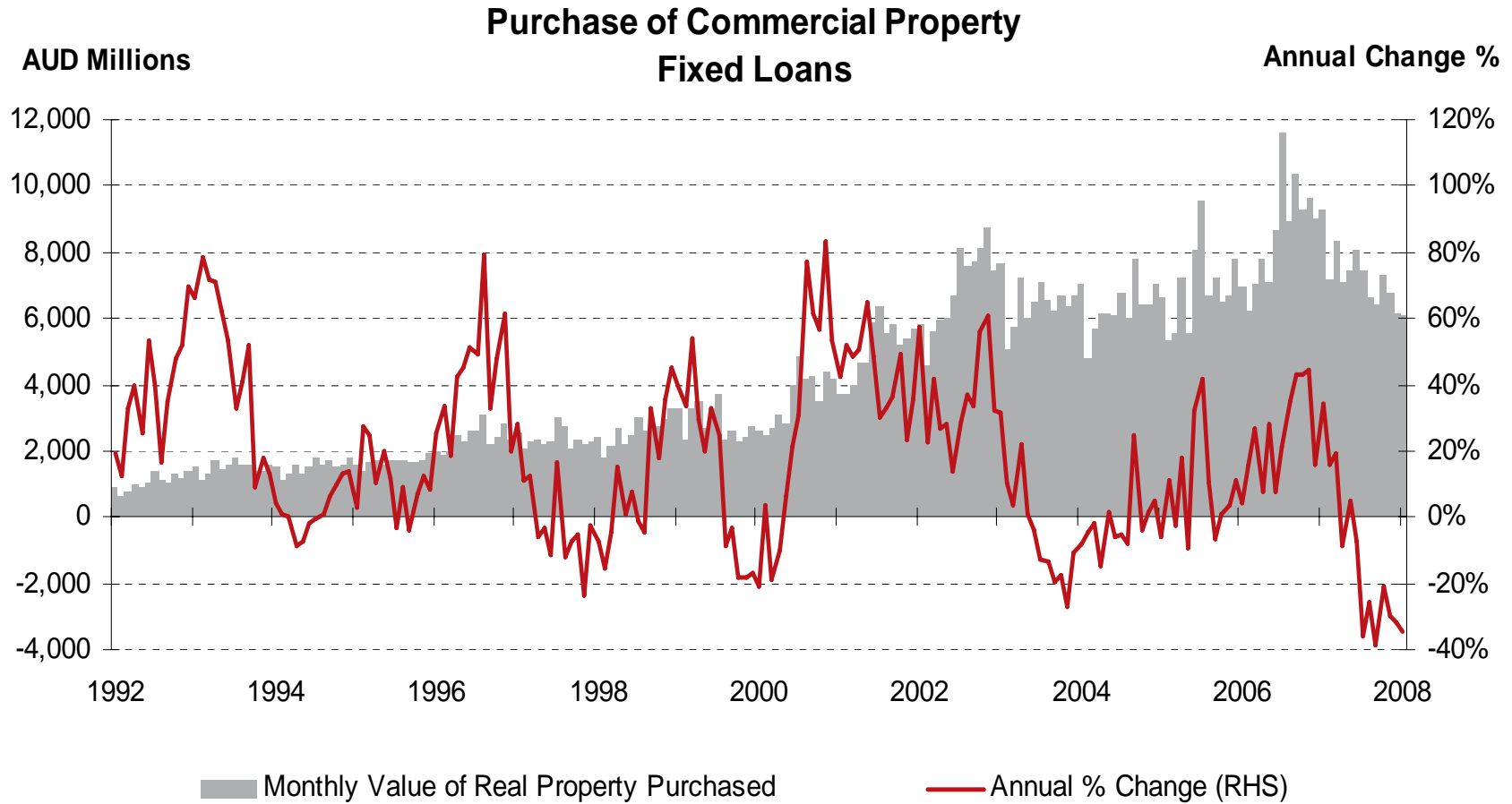
Building Approvals - Non-Residential



Source: ABS, Jones Lang LaSalle Research

- Sharp slowdown across all sectors and States
- Impact of credit squeeze on the mortgage trust industry dealt a major blow to residential and 2nd tier commercial developers
- Rudd Bank (ABIP) not certain

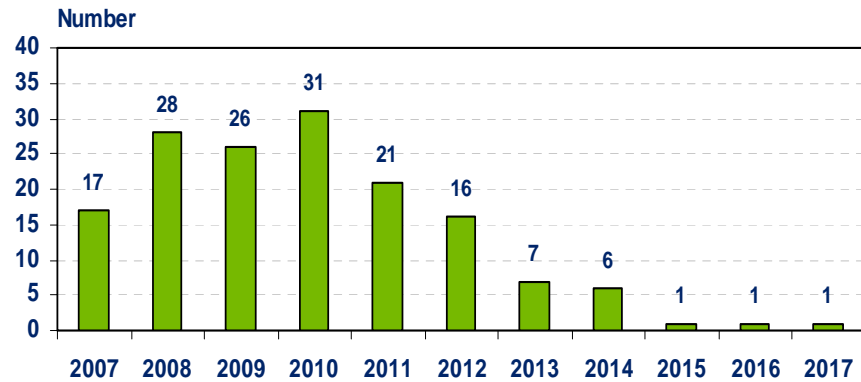
Banks Lending Slowing – But Still High



Liquidity at a Premium, Leverage at a Discount

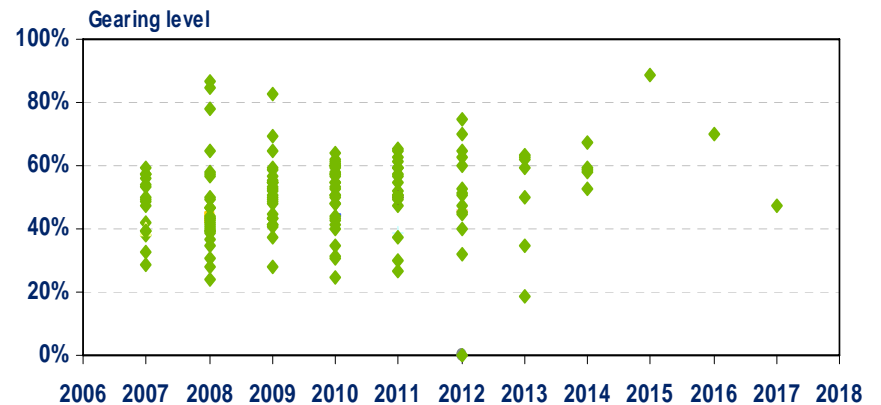
- Syndicate sector \$13 bill gross assets, 260 funds in 2007
- Many maturities 2009 and 2010
- High gearing, liquidity and refinancing issue
- Price pressure building in secondary market

Anticipated syndicate maturity dates - number of maturites



Source: PIR 2007

Anticipated syndicate maturity dates and gearing levels



Source: PIR 2007



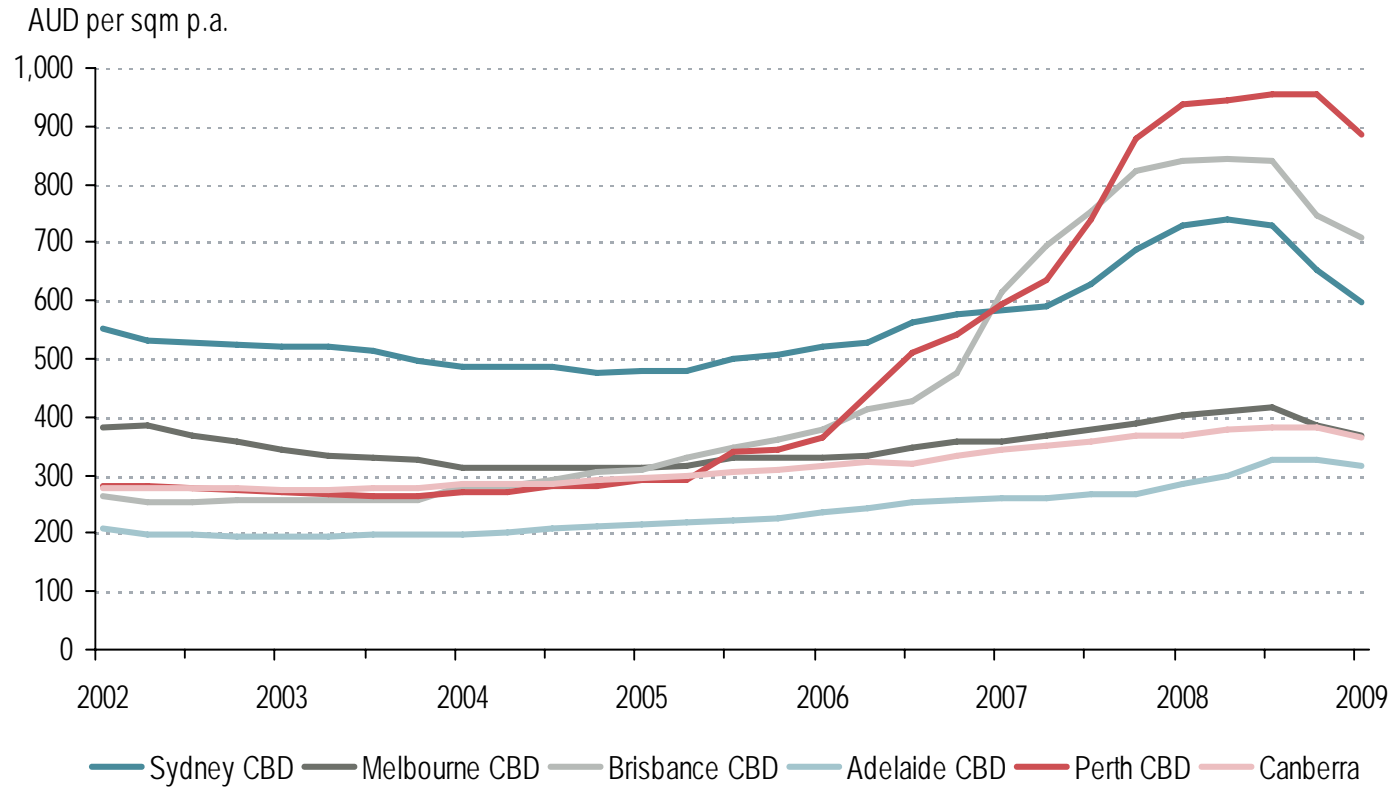
Office Market *Overview*

Office Market Overview Summary

- Loss of white collar jobs in investment banking and broking – Sydney and Melbourne CBDs particularly vulnerable
- When market stability returns likely to see a sharp decline in turnover in share markets – jobs in dealing, call centres and back offices will disappear – Sydney and Melbourne
- Banks and finance houses will contract or put expansion on hold: negative implications for all CBD markets, including Perth, Brisbane, Adelaide
- Net absorption is less volatile than employment – adjustment to weaker demand by
 - Sub lease and hidden vacancy
 - Reductions in effective rents (increased incentives)
 - Attracting tenants back into CBD markets
- The early 1990's office market slump was supply driven; this is a demand shock

CBD Office Markets Out of Kilter

Average Prime Gross Effective Rents as at Q1 2009

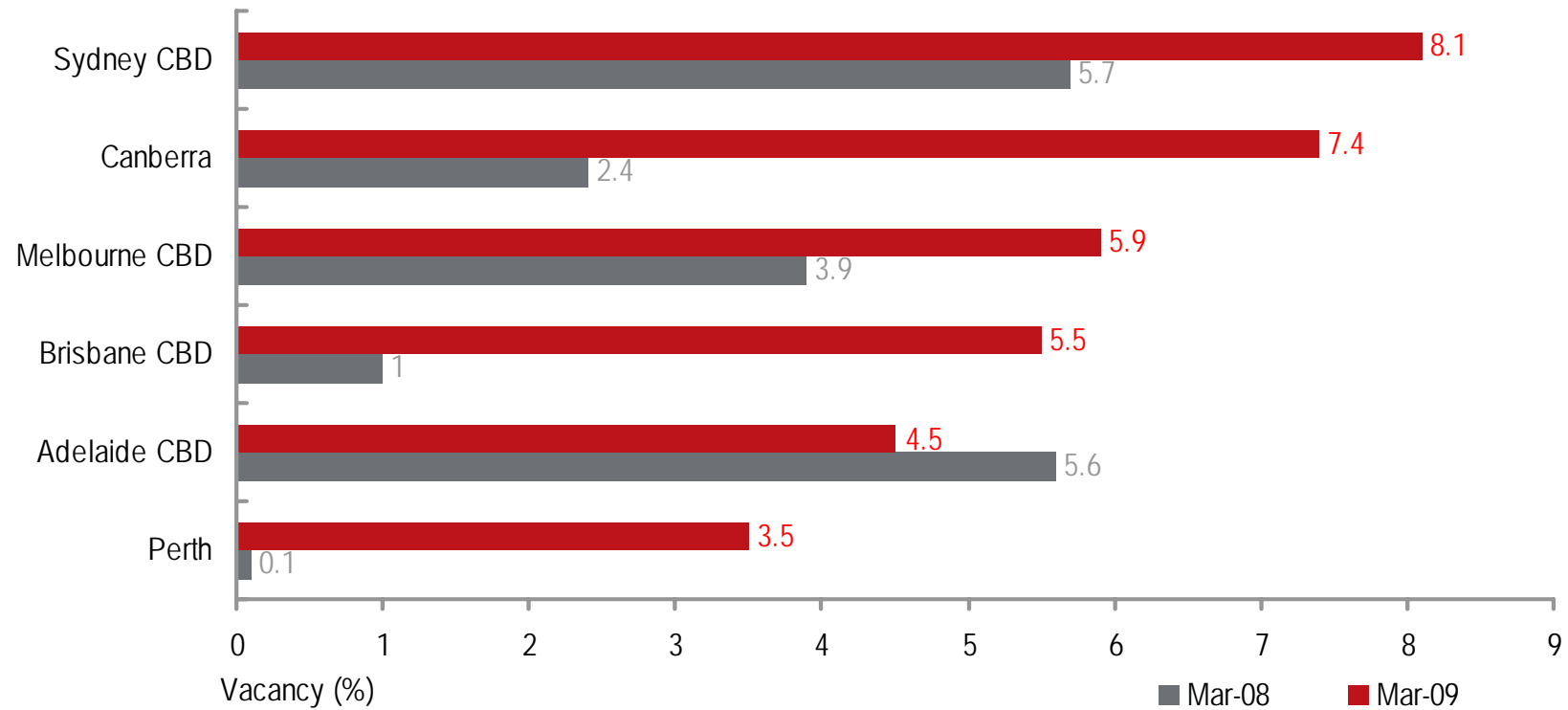


Source: Jones Lang LaSalle Research

National CBD Office Vacancy Rates

As at March 2009

Vacancy rates illustrate the rapid market turnaround

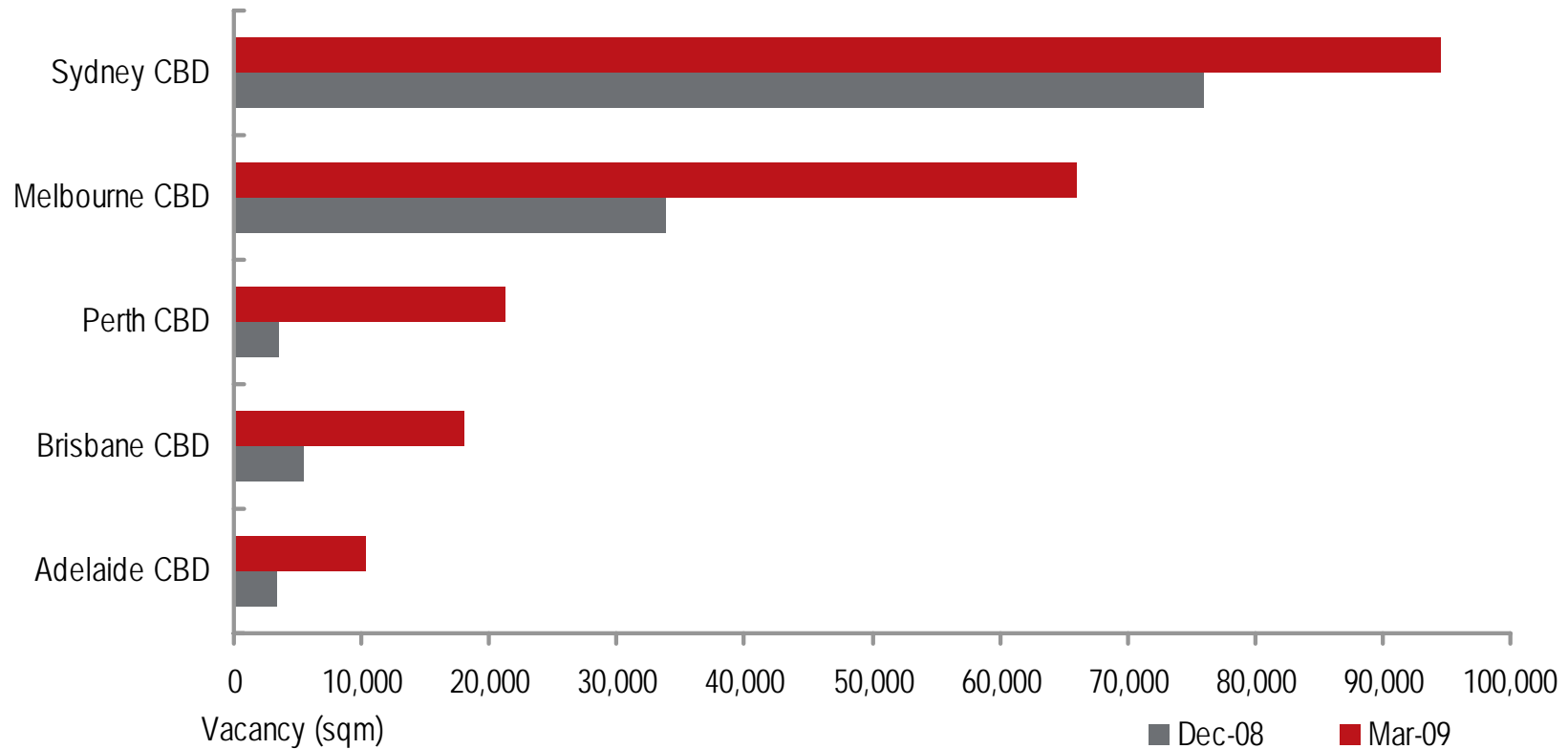


Source: Jones Lang LaSalle Research

National CBD Office Sub-lease Vacancy

As at March 2009

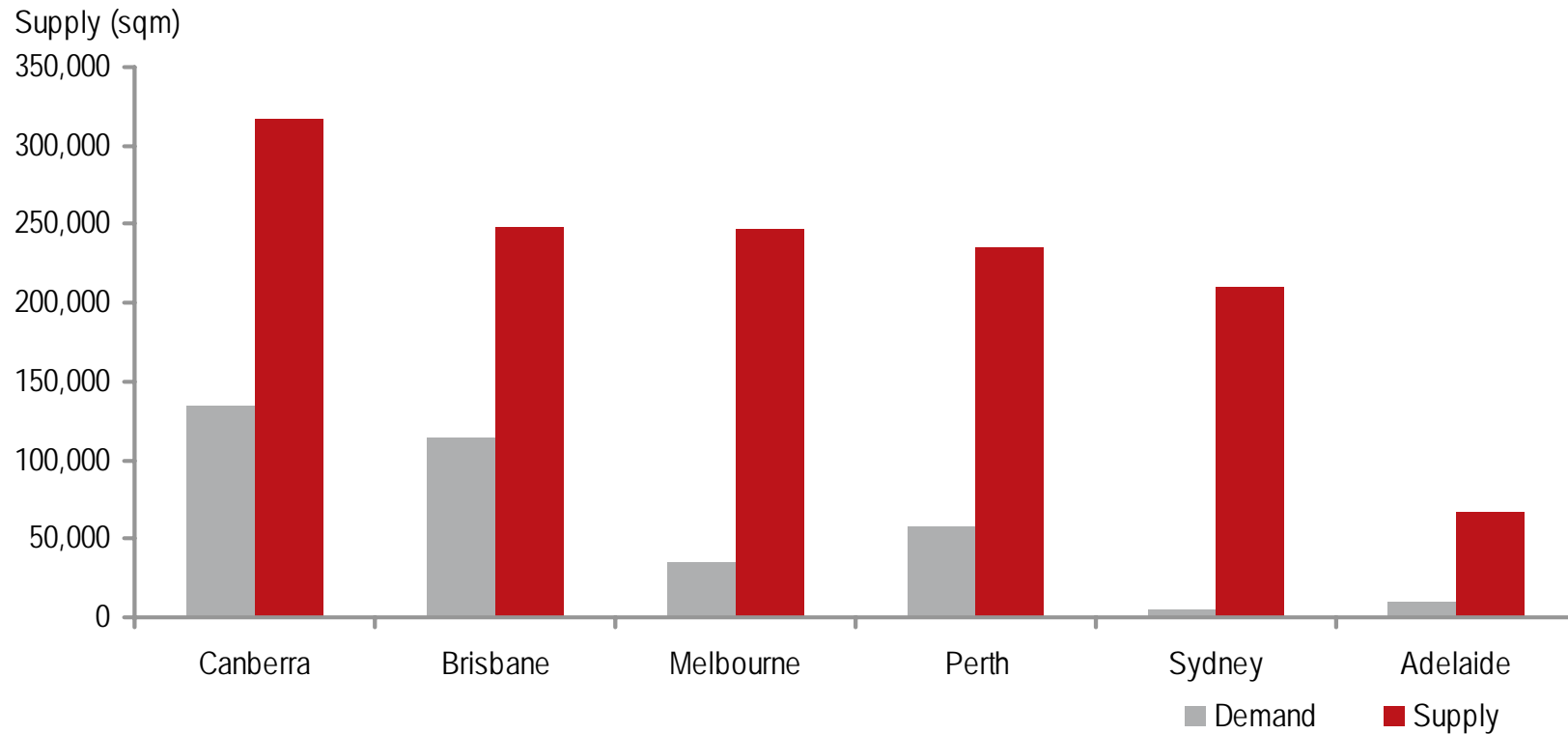
Sub-lease shows the full impact of the GFC



Supply and Demand Balance

Forecast net absorption and net increase in supply 2009-2012

Supply will far outstrip demand over next 3 years



Source: Jones Lang LaSalle Research

General Impacts of GFC.....



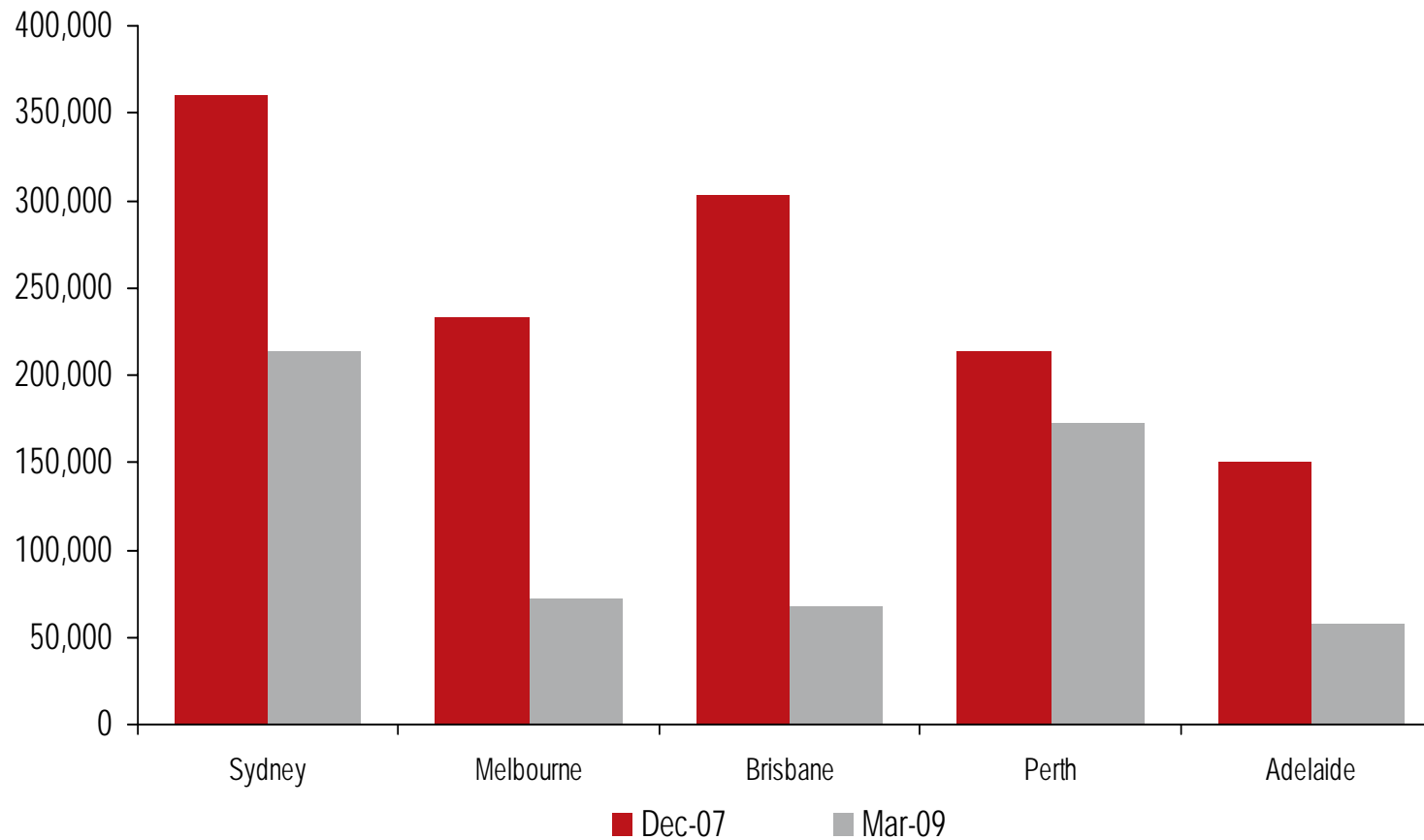
Demand



Supply

The credit crunch arrived at the right time

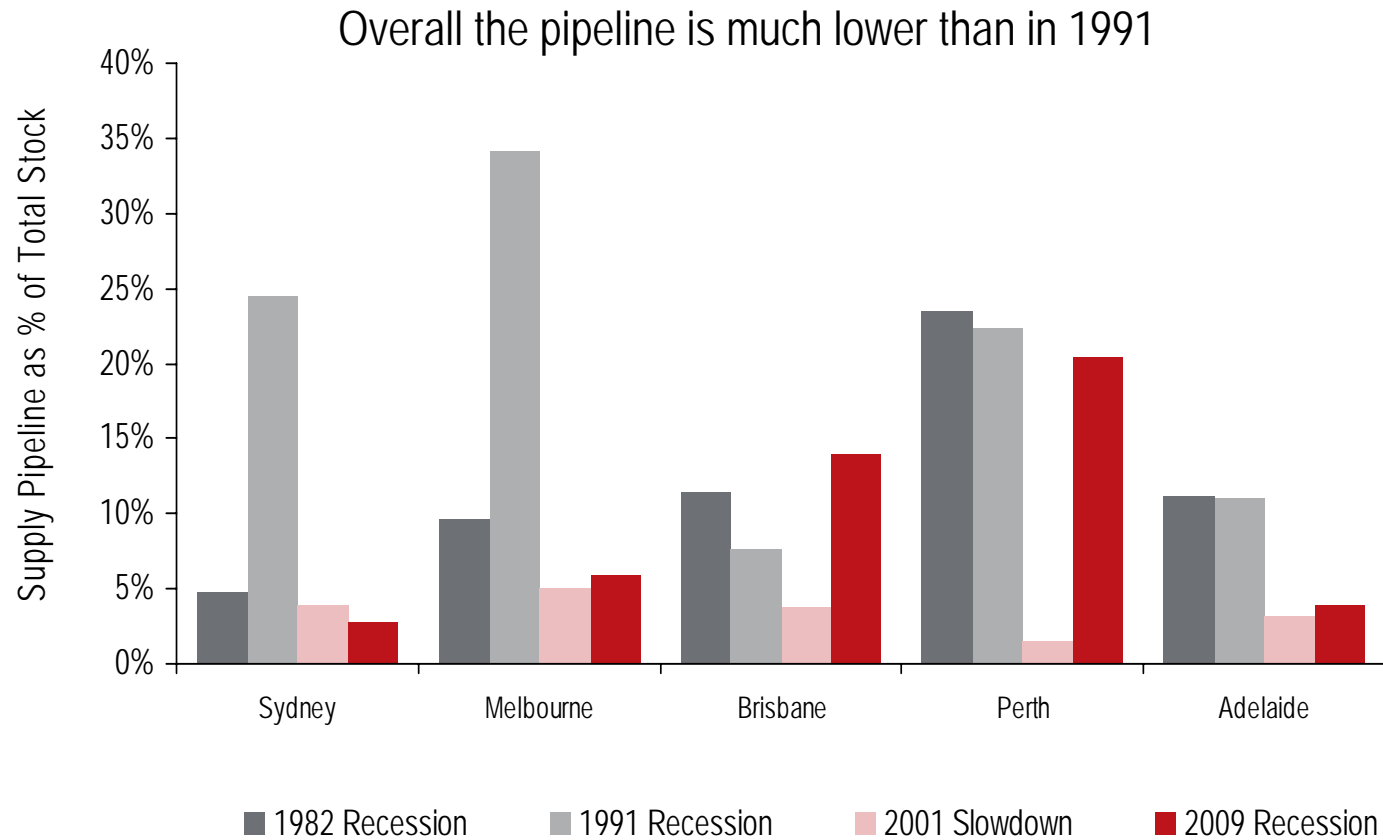
Supply Additions Projections, National CBD Office Markets, 2011 to 2013



Source: Jones Lang LaSalle Research

Australian CBD Office Supply Pipeline

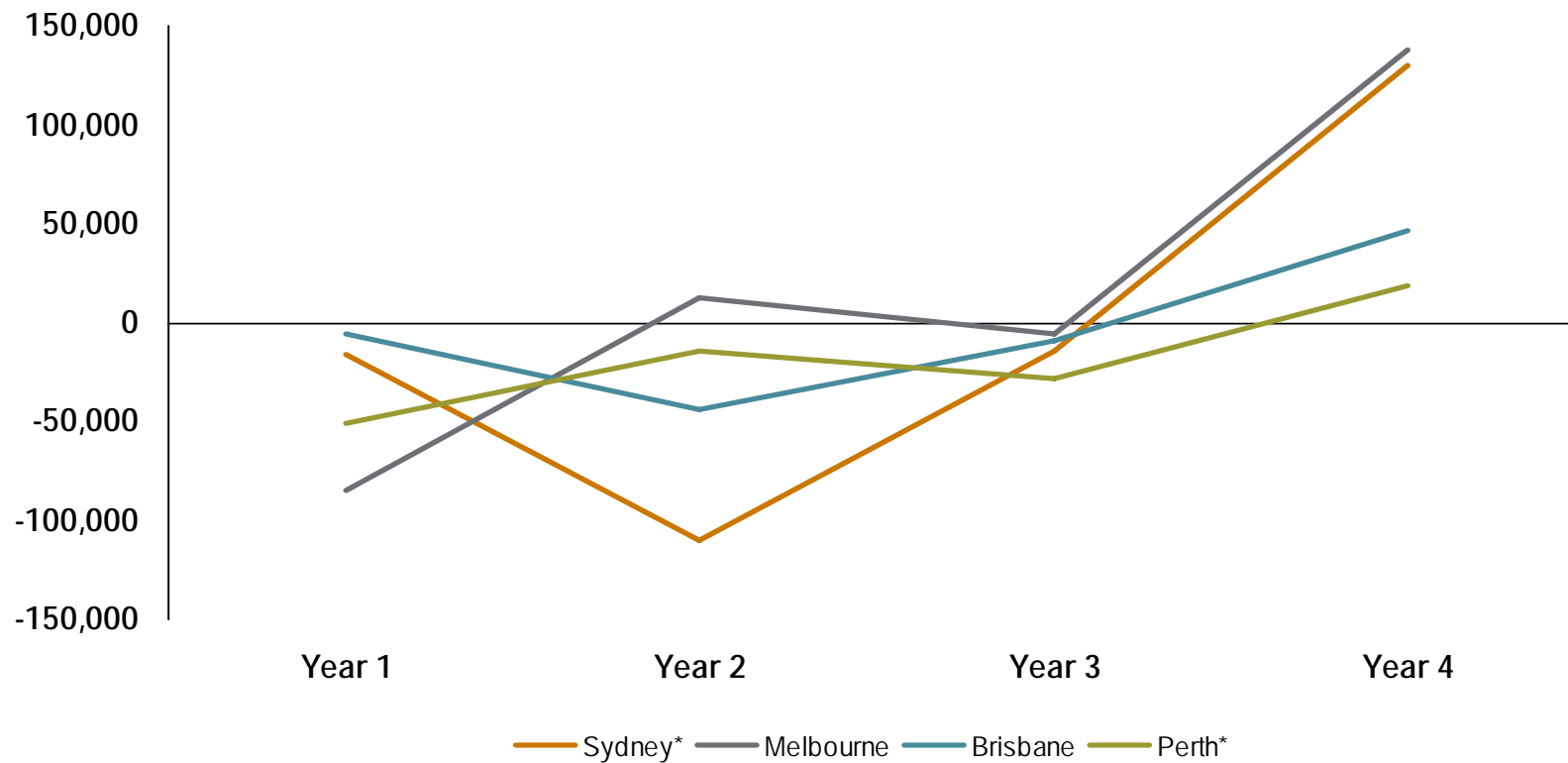
% of total stock



Source: Jones Lang LaSalle Research

Downturns follow similar patterns: 1991 recession

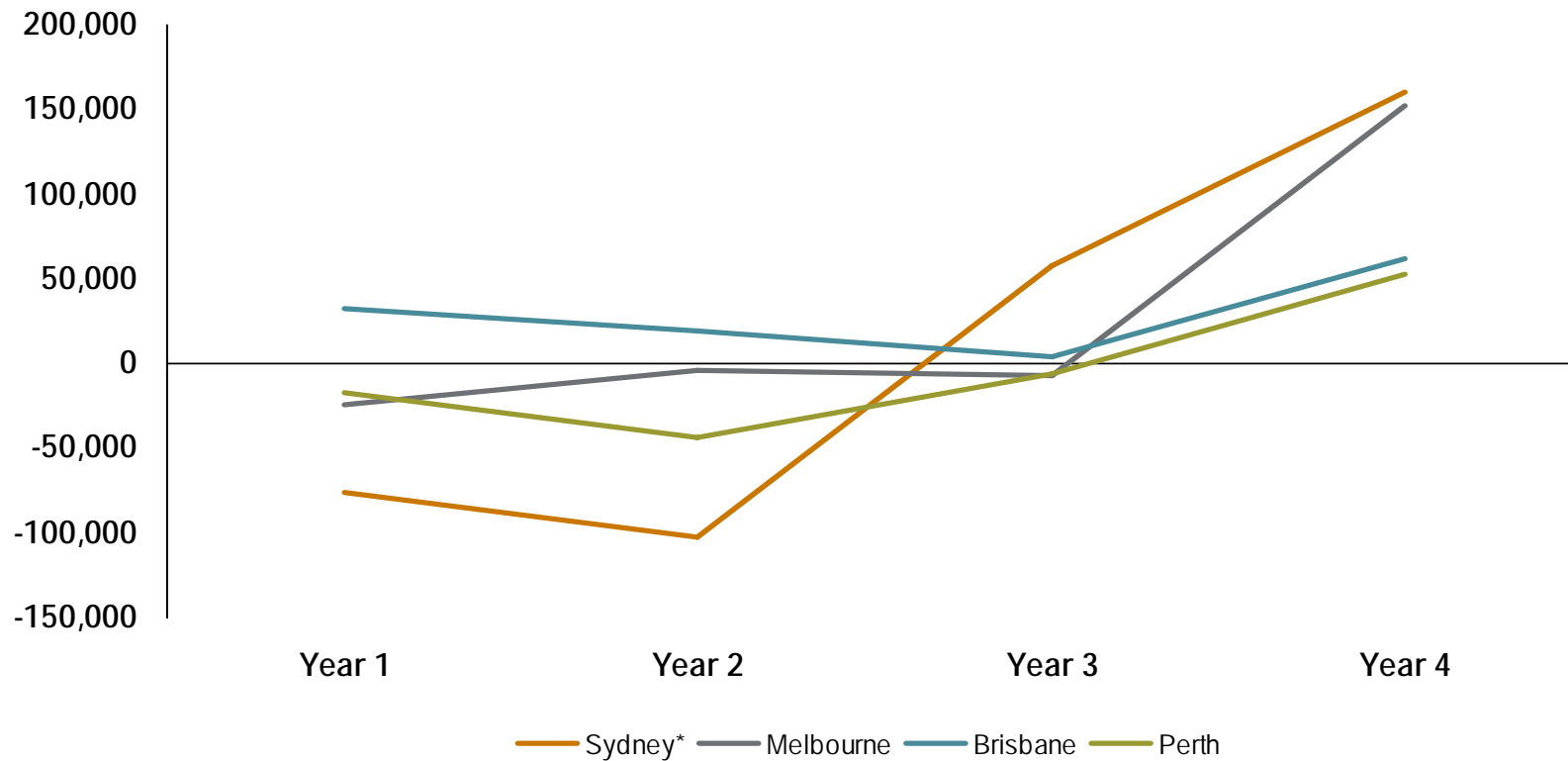
Sydney, Melbourne, Brisbane & Perth Net Absorption 1991 to 1994



* Figures are 1990 to 1993
Source: Jones Lang LaSalle Research

Downturns follow similar patterns: 2001 downturn

Sydney, Melbourne & Brisbane Net Absorption 2001 to 2004



* Figures are 2002 to 2005
Source: Jones Lang LaSalle Research

Office Market Summary

- Demand nationally has fallen dramatically
- Vacancy (particularly sub-lease) is rising quickly in all markets – 11-12% sounds right
- Supply pipelines have shrunk due to GFC which will limit over-supply
- Impact seen in falling rentals and rising incentives
- Capital values hit – salability of large assets?

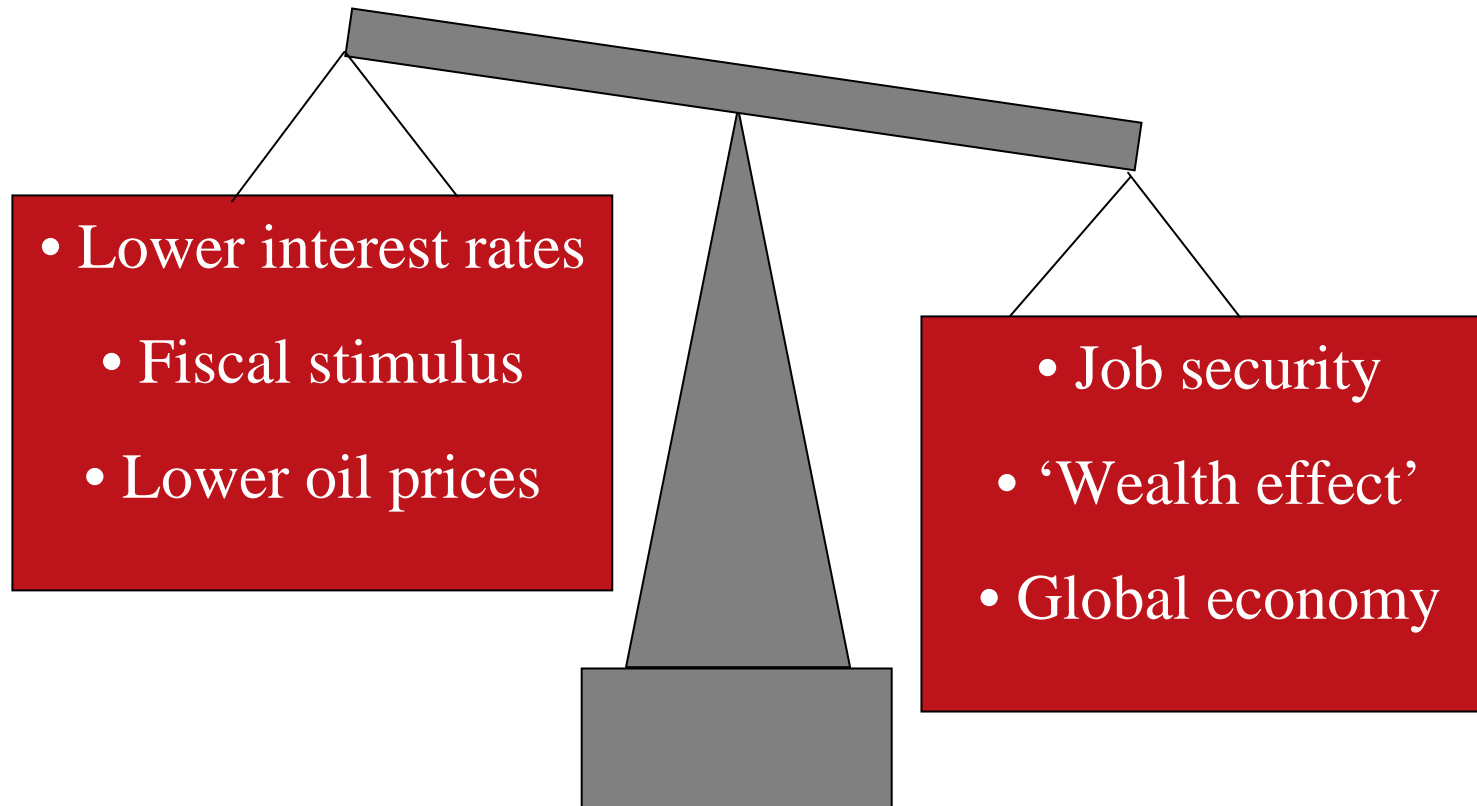


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Retail Market

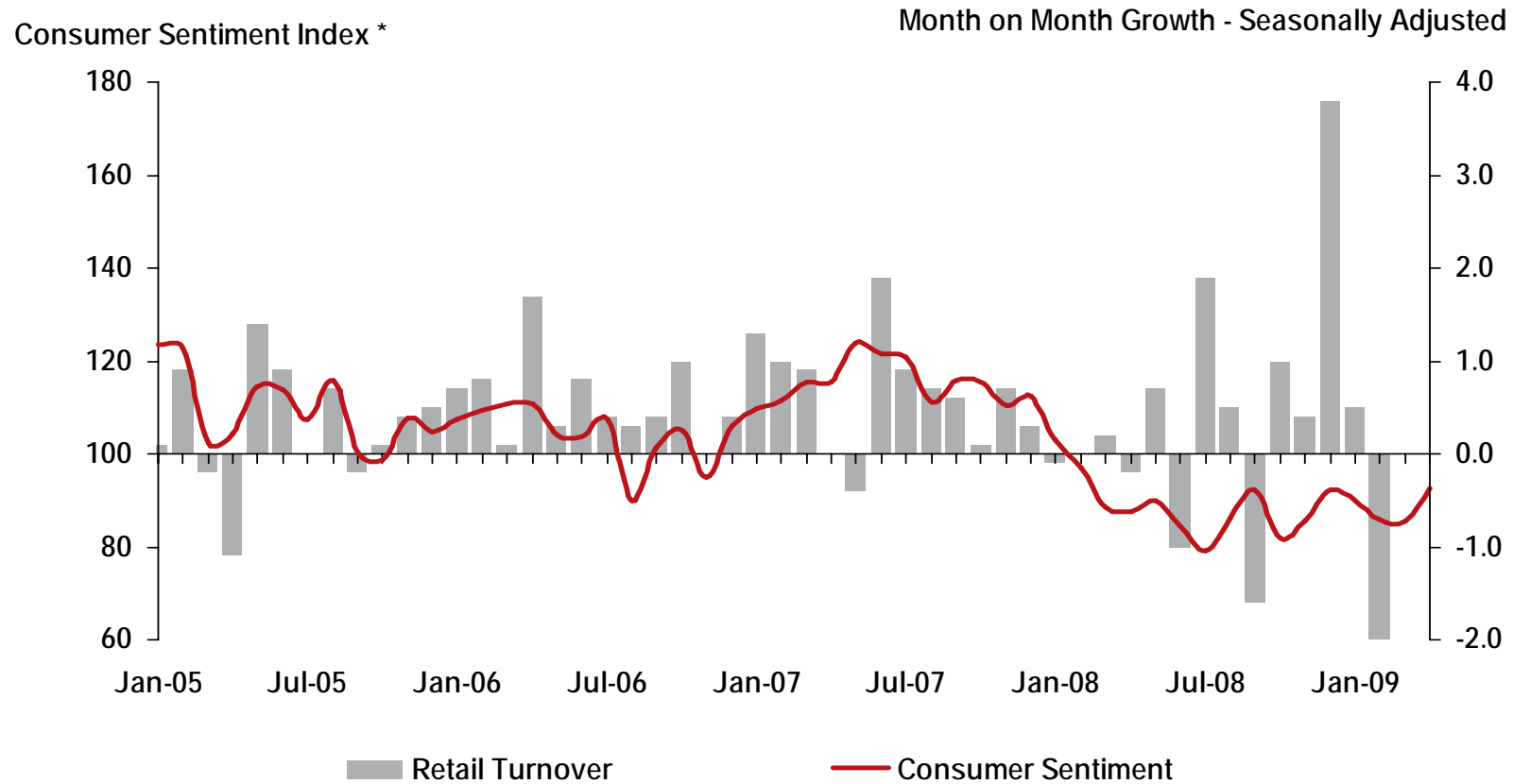
Overview

Current retail environment is a tenuous balance...



Consumer Sentiment & Retail Trade

Sentiment remains fragile and volatile!

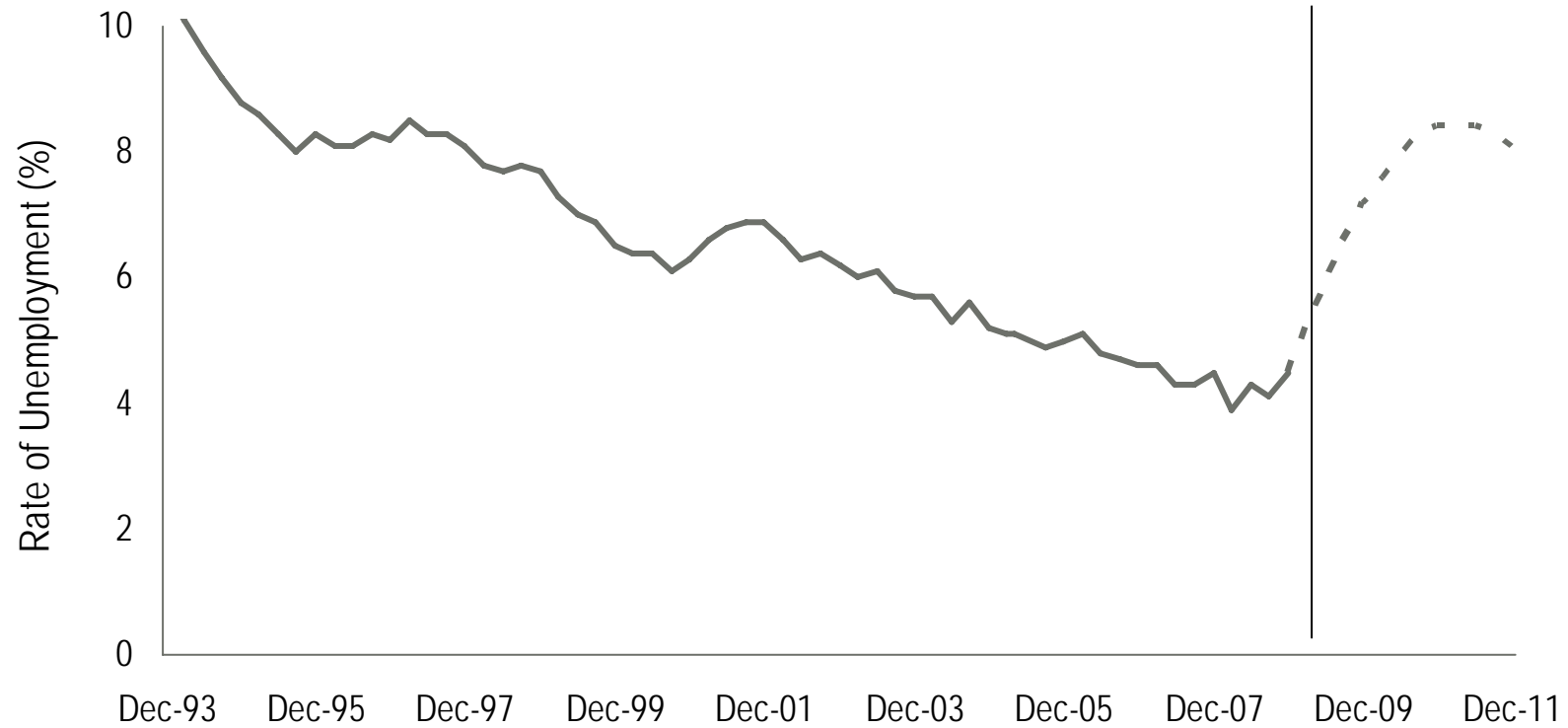


Source: ABS, Westpac/Melbourne Institute, RBA

Unemployment

1993 to 2011

Labour market will remain a brake on spending

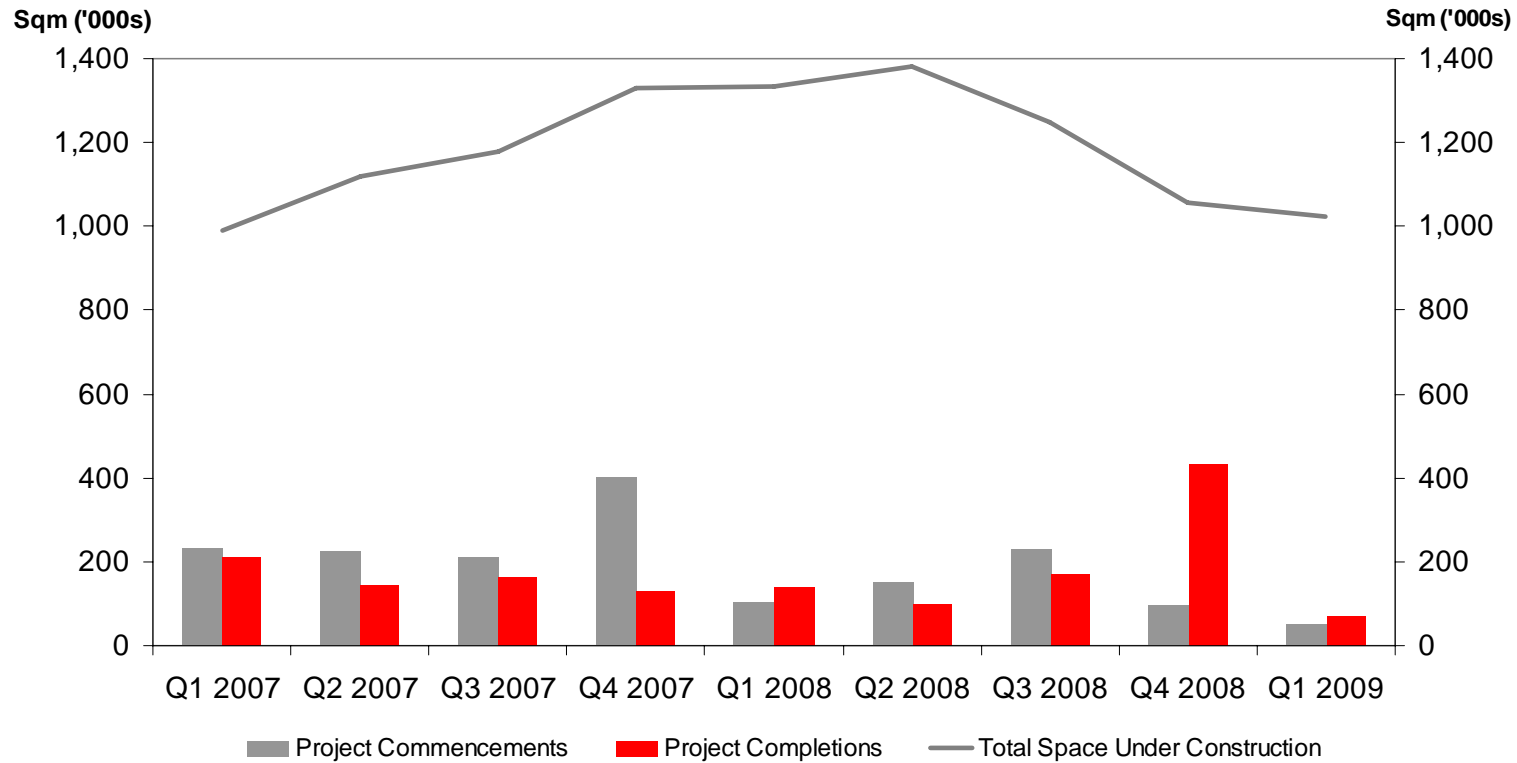


Source: ABS, Access Economics

National Retail Supply Pipeline

Commencements Vs Completions

Pipeline is receding, but is still large
National Retail Supply Pipeline



Source: Jones Lang LaSalle Research

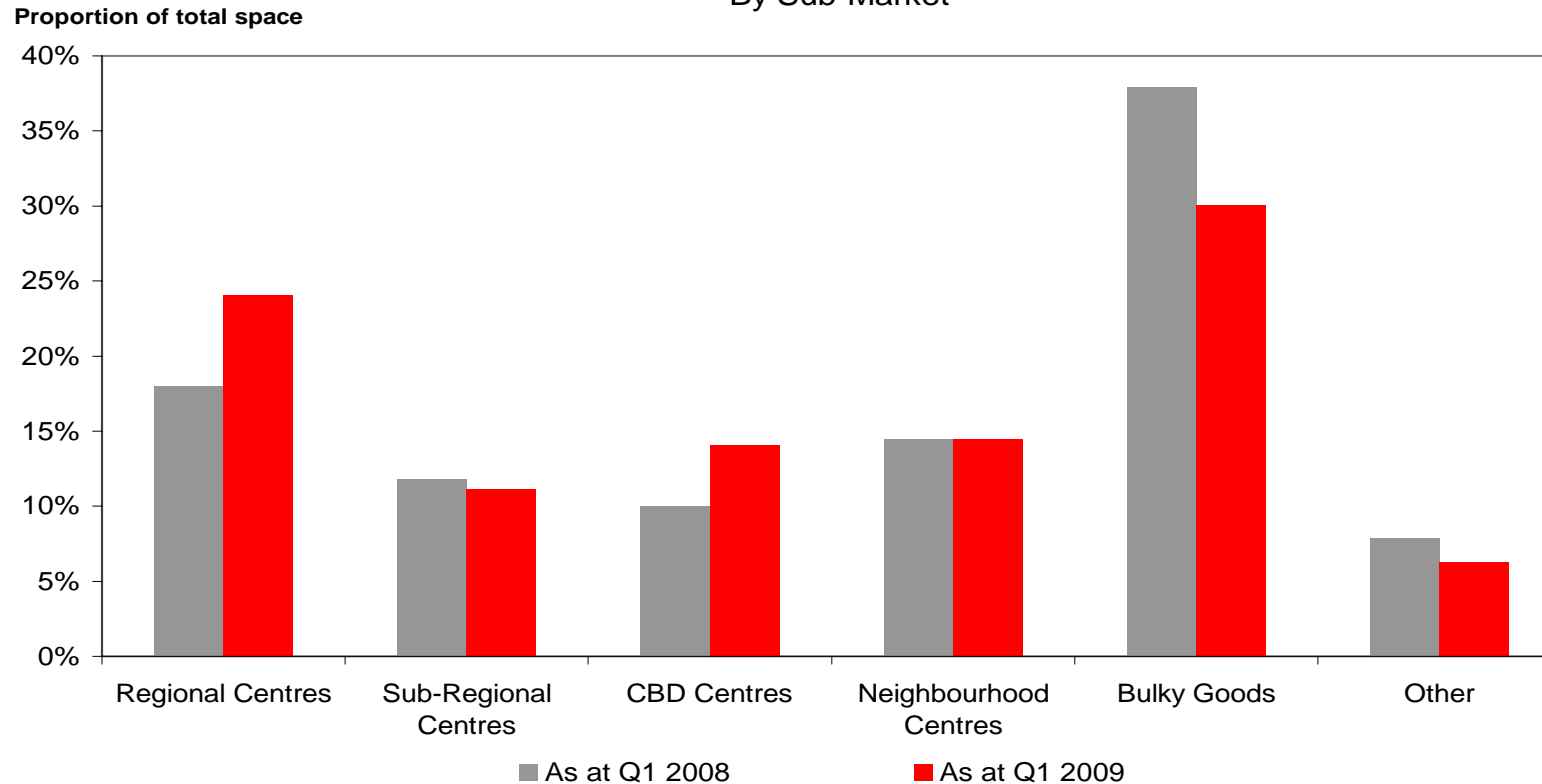
National Retail Supply Pipeline

Space Under Construction by Centre Type

Pipeline shifting to major centre extensions

National Retail Space Under Construction

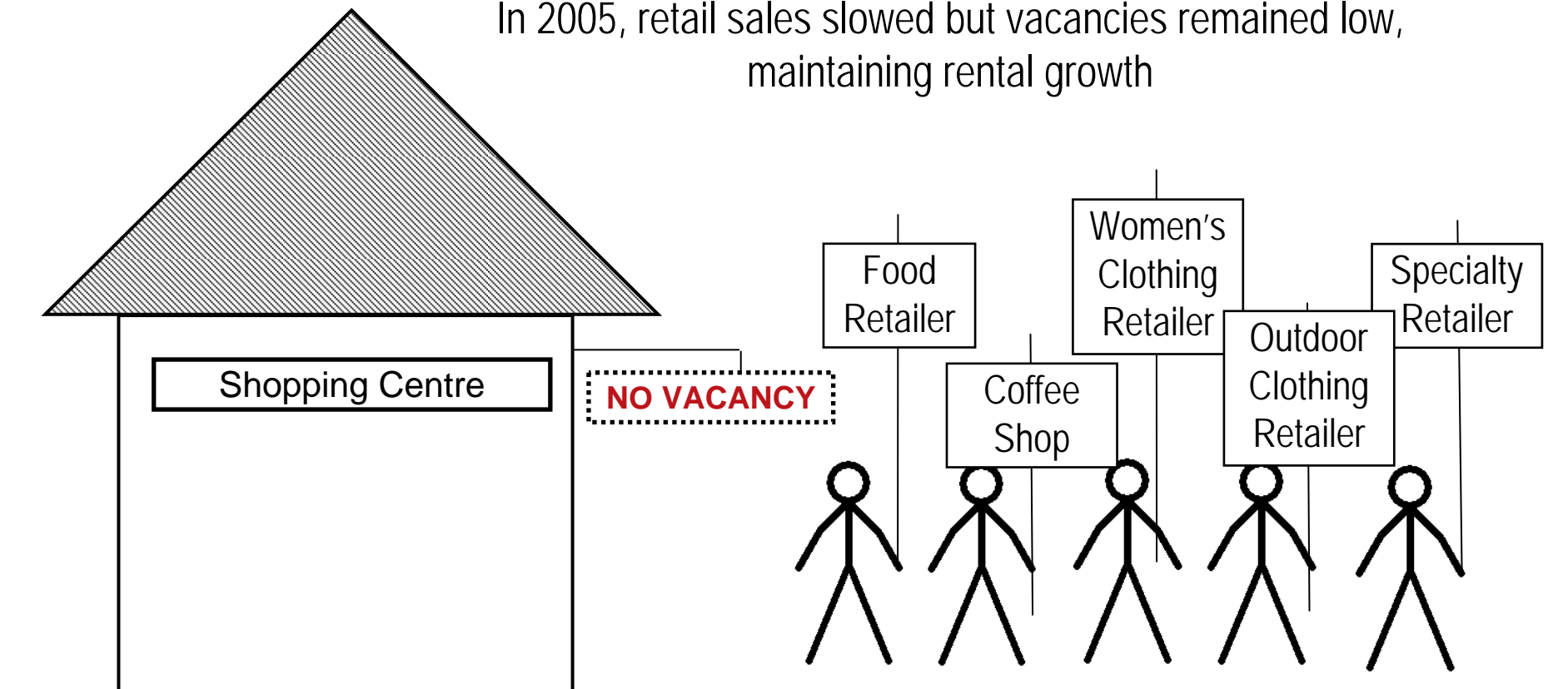
By Sub-Market



Source: Jones Lang LaSalle Research

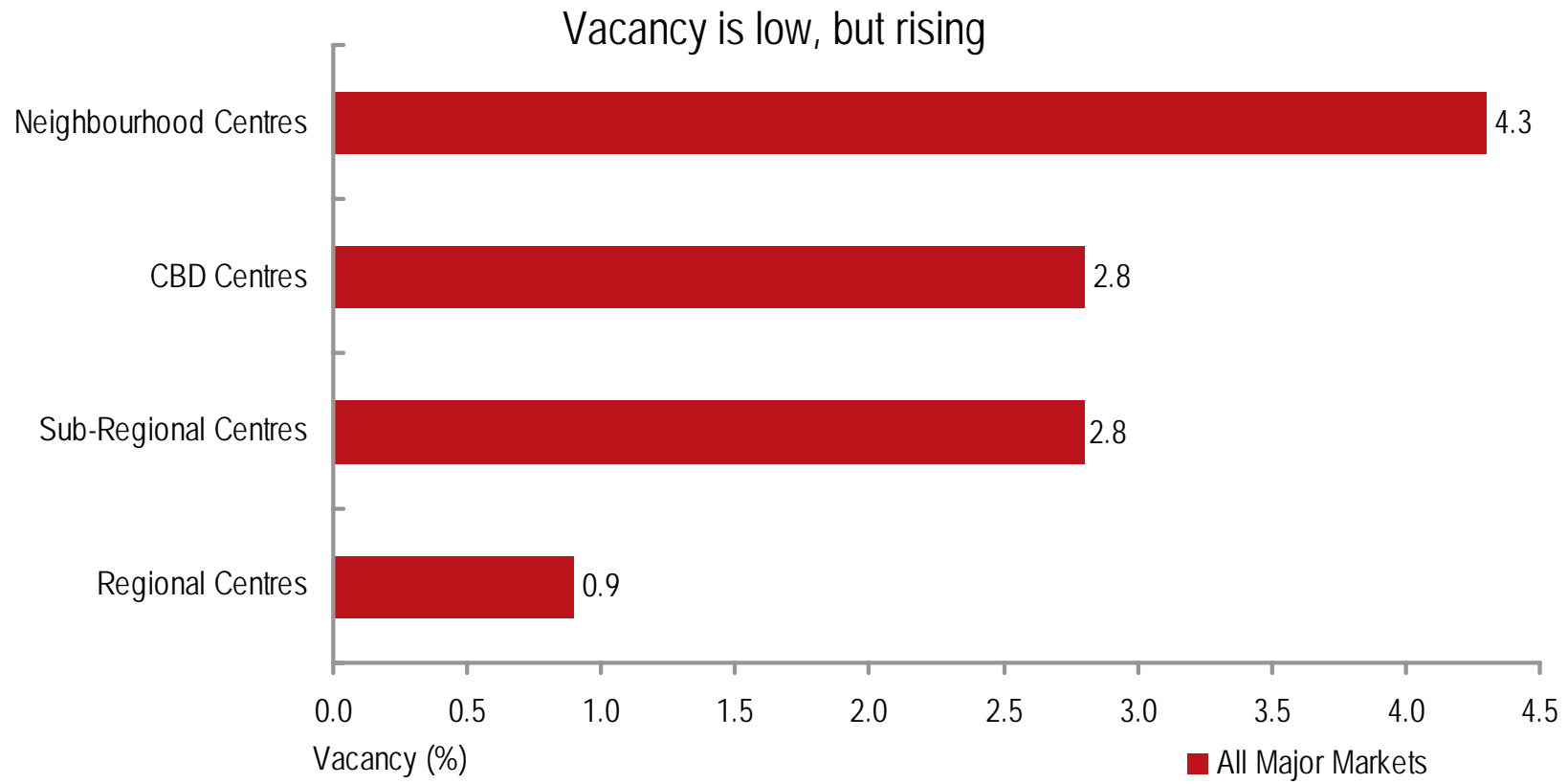
Will retail sales slow enough to remove the ‘wait list’ ?

In 2005, retail sales slowed but vacancies remained low, maintaining rental growth



Retail Vacancy Rates

As at December 2008

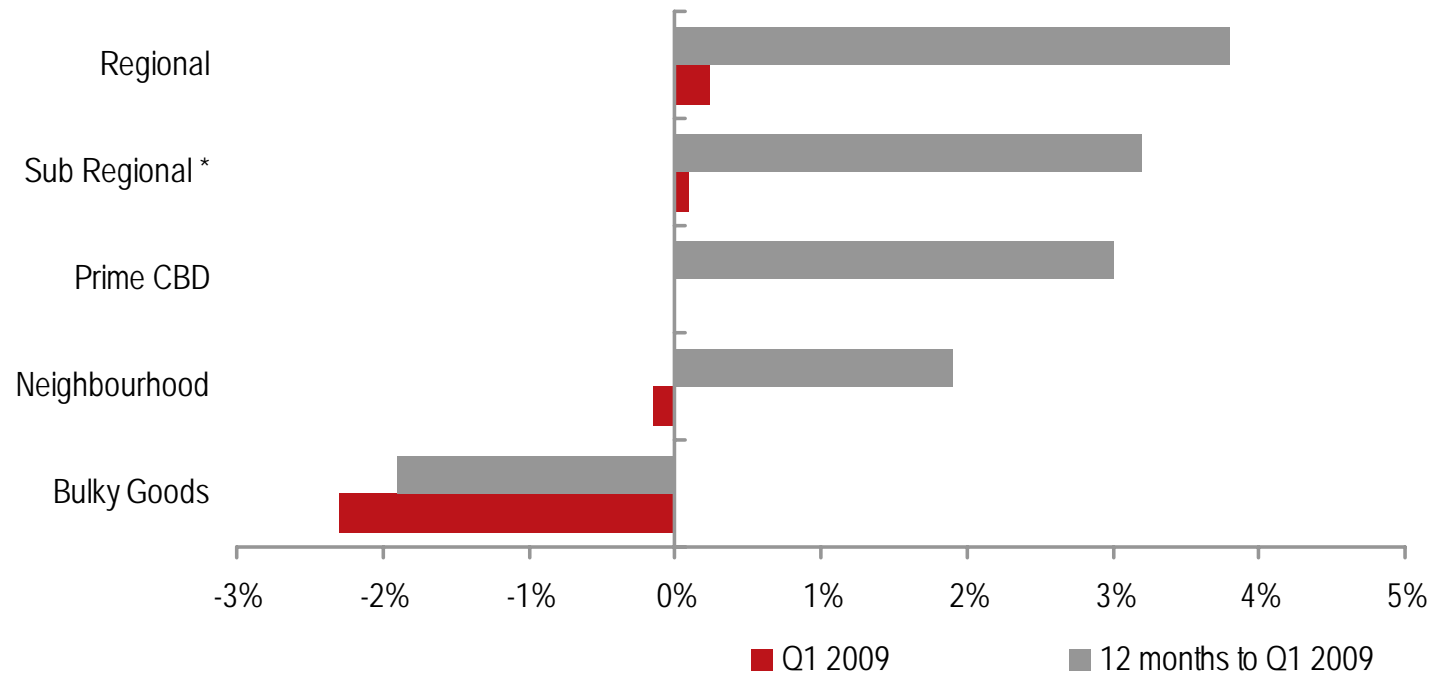


Source: Jones Lang LaSalle Research

Retail (Face) Rents

Average growth across all major monitored markets

Incentives are already rising



* Excludes Canberra

Source: Jones Lang LaSalle Research

Retail Market Summary

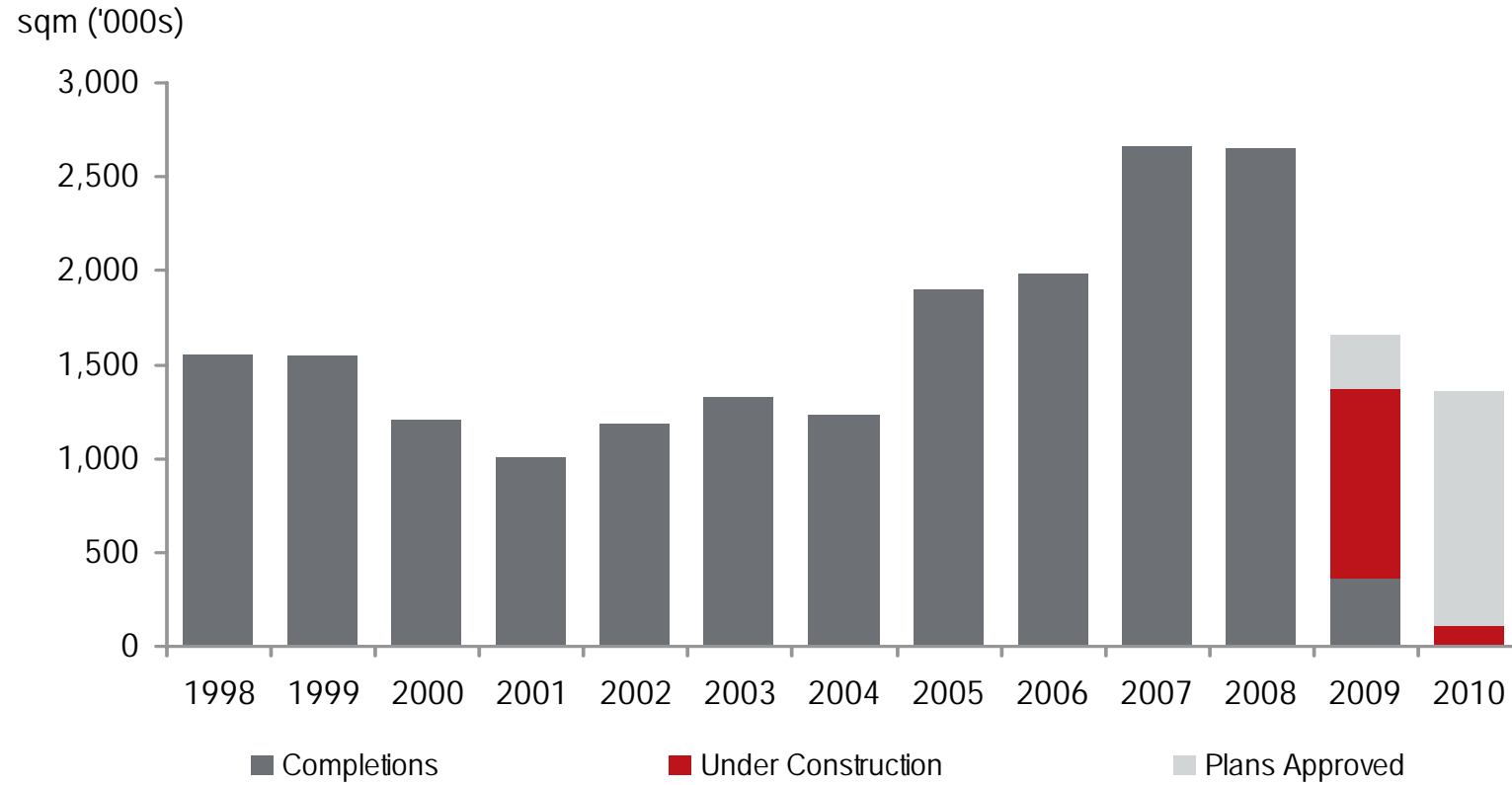
- The retail environment remains fragile and unemployment remains a threat
- This downturn likely to be more sustained because:
 - Household debt levels now higher and debt service ratios adverse
 - Wealth effect larger as share markets slump and house prices stagnate
 - White collar jobs most at risk – impacts discretionary spending
- New supply is slowing, but vacancy will rise further yet, however prime retail centres are well placed to maintain low vacancy rates
- Face rental growth has ceased, incentives will see effective rent fall further



Industrial Market *Overview*

Supply– diminished pipeline a positive

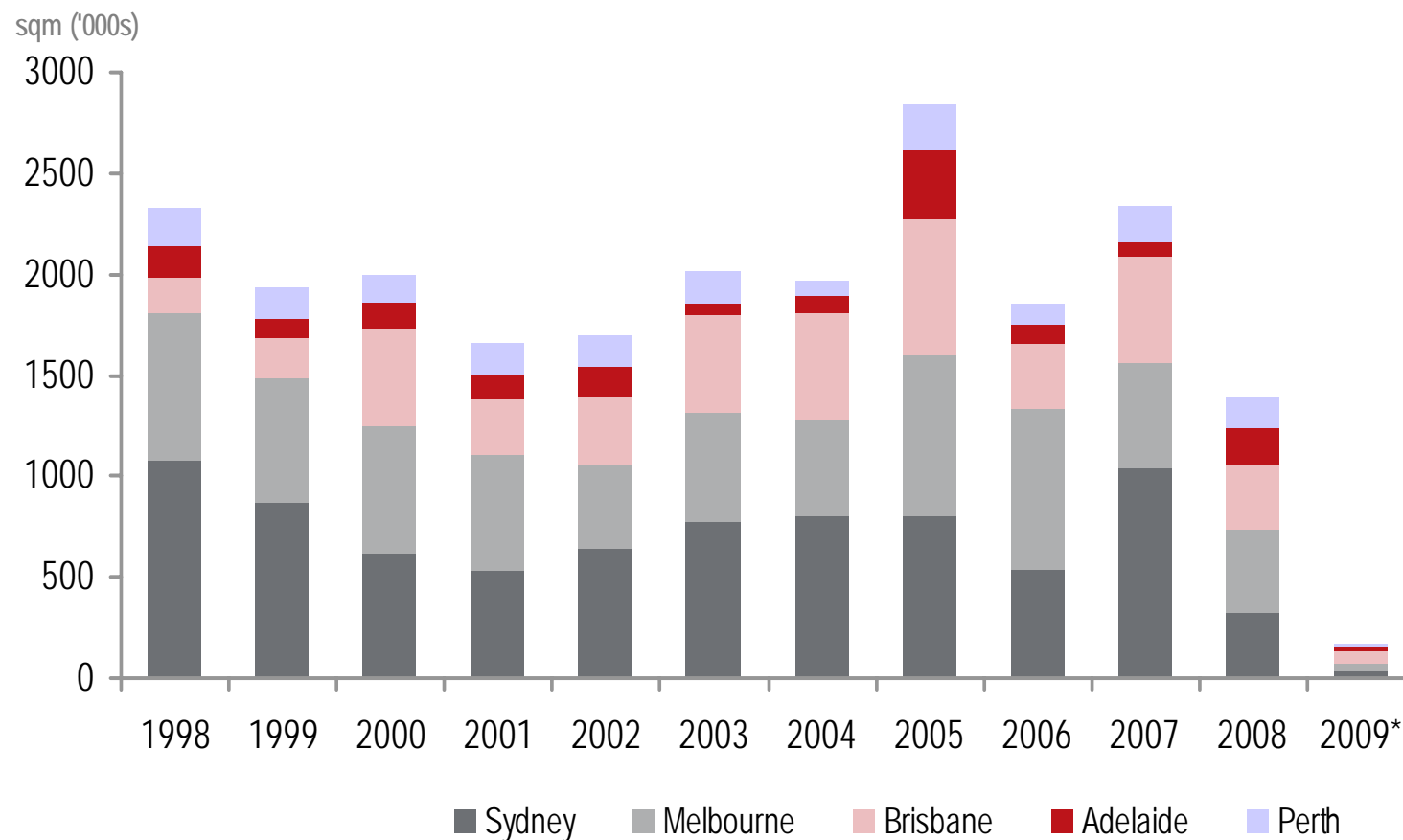
Industrial supply has dropped - limited new supply may result in a faster turnaround in rents



Supply pipeline includes projects under construction & plans approved
Source : Jones Lang LaSalle Research

Gross Industrial Take-up

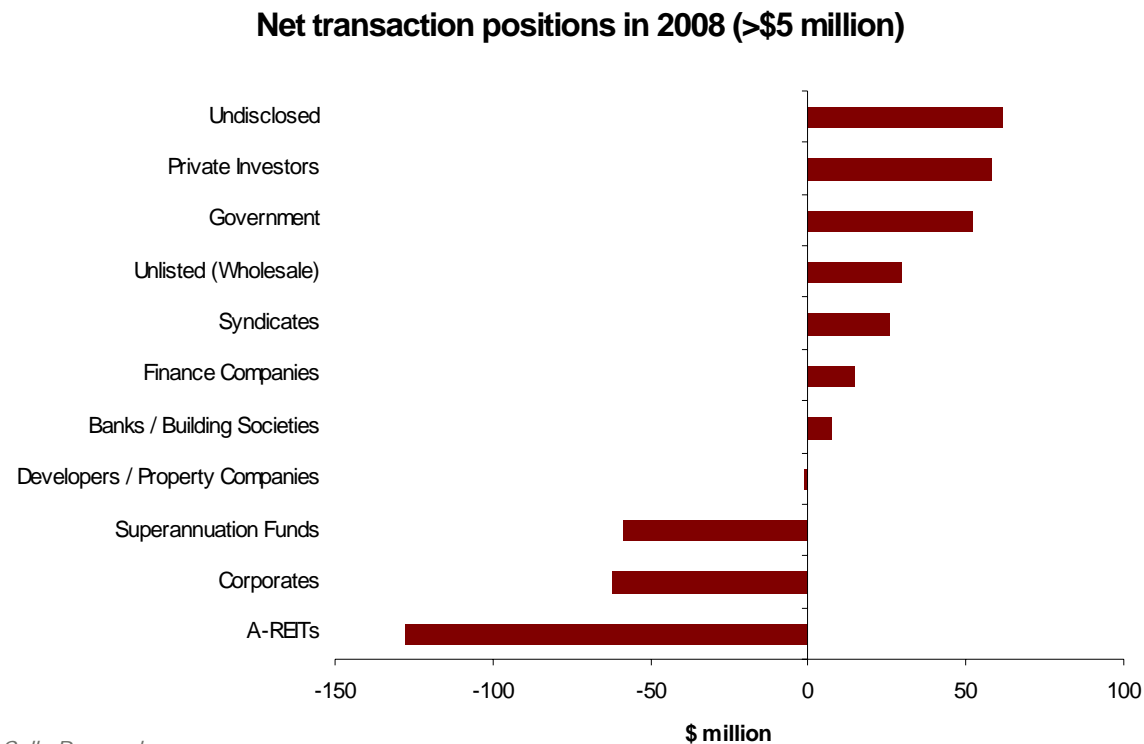
Drop in new demand in all cities throughout 2008



Source : Jones Lang LaSalle Research

Investments market in 2008

- Privates active and will continue to be
- Foreign investors increasingly interested (benefiting from weaker AUD)
- Domestic institutional investors are net sellers – de-leveraging will lead to more sales activity



Source: Jones Lang LaSalle Research

Industrial Market Summary

- Run up in inventories lags the impact of downturn on property demand
- Demand is now very tough, particularly for development stock
- Supply pipeline is demand-led and shrinking quickly
- Rents are stabilising and falling in some areas
- Land values need to adjust further, which will cause some genuine pain
- New stock will eventually come back in favour as tenant focus on cost saving efficiencies
- Positives for demand – Port expansion programs and limited / localised oversupply
- Tenants will be: locking into short-term leases with a focus on cost containment
- Landlords will be: focused on maximising occupancy rates and cashflow and reviewing their assets for risk of tenant delinquency or overexposure to certain industry sectors
- Winners: inner metro markets with limited new supply opportunities offering good access to clients
- Losers: speculatively hot markets running ahead of infrastructure improvements



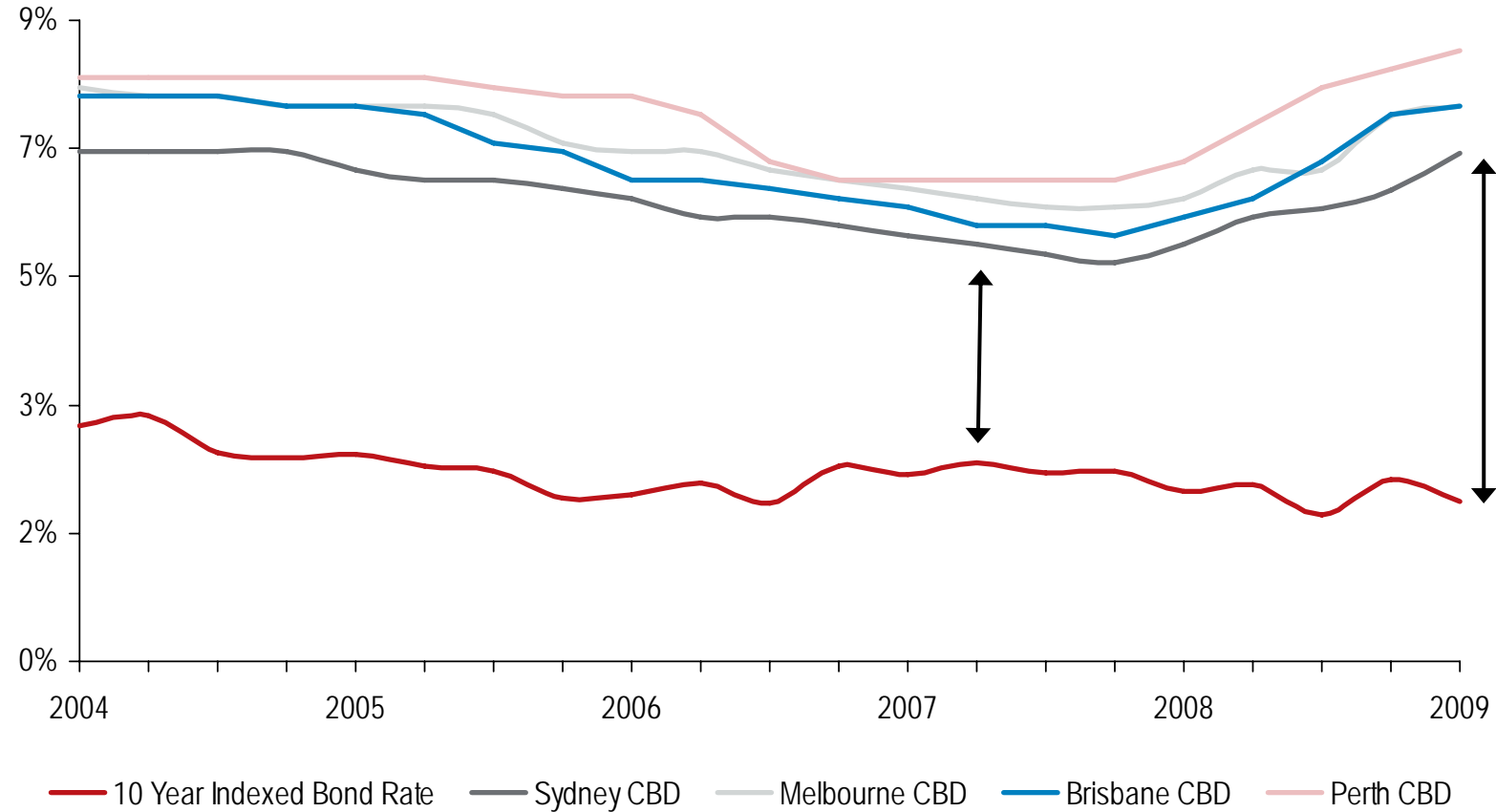
Outlook for *Values*

How did we get to this point?

- Yield compression defined the period from 2000-2007
- Delivered large capital gains for all property, but particularly secondary
- The typical property strategy became:
 - Buy what ever assets you can (preferably secondary)
 - Use debt (cheaper than equity)
 - Borrow short (falling interest rates makes rollovers cheaper)
- Themes are all reversed now!!!

Office Market Valuation – Long Term Benchmarks Hit?

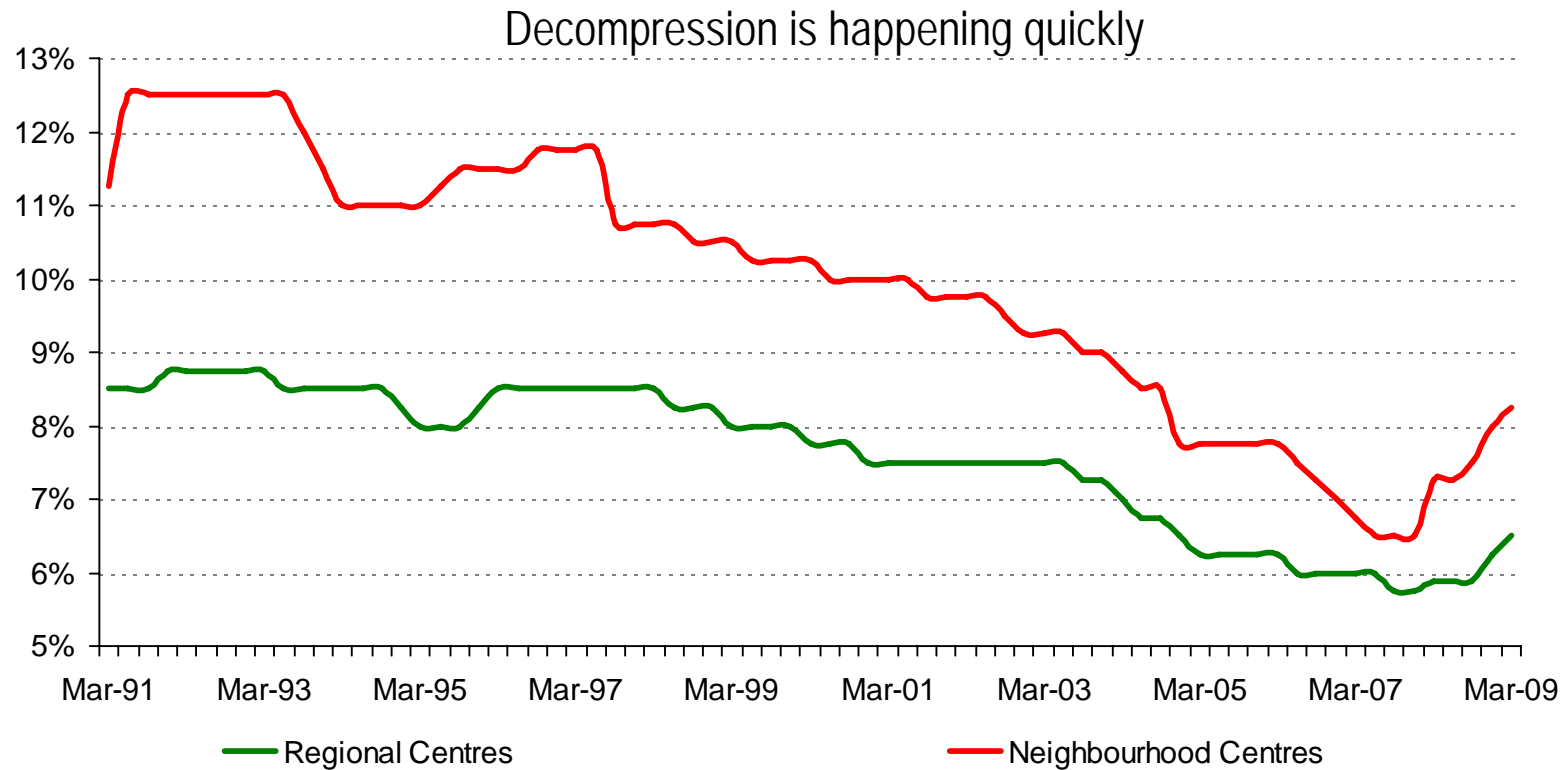
Average Prime CBD Yields vs. Indexed Bonds: March 2009



Source : Jones Lang LaSalle Research, RBA

SEQ Retail Yields

Average yields



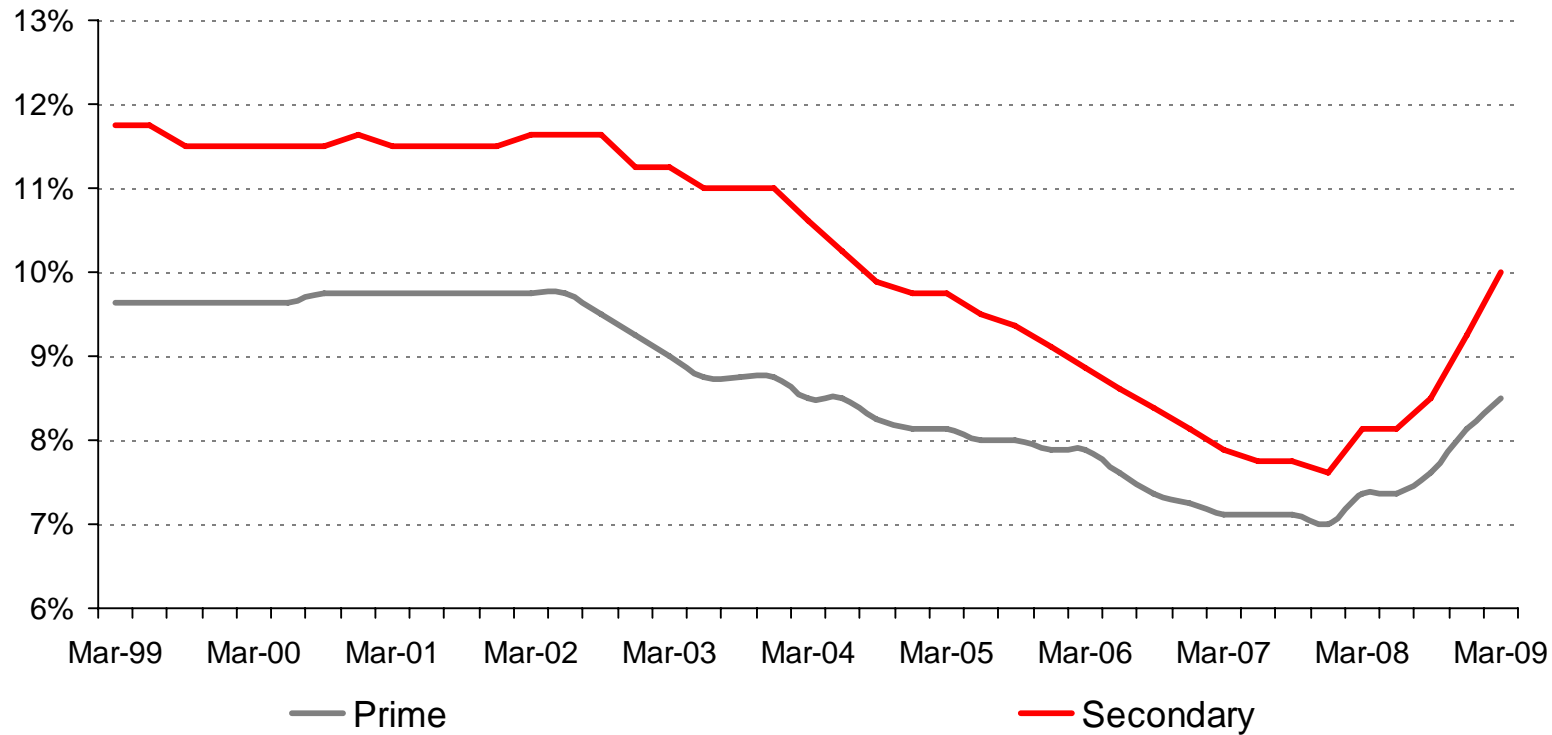
As at Q1 2009

Source: Jones Lang LaSalle Research

Industrial Yields

Average yields

Secondary assets have lost their shine



As at Q1 2009

Source: Jones Lang LaSalle Research

Where to next?

- Constraints on the market:
 - Yield adjustment – process is well advanced
 - Access to credit – will take some time to recover, but alternative funding may emerge
 - Income certainty – the clouds will start to clear as 2009 progresses

- Buyer profile is having a big impact on the market
 - A-REIT focus is still debt reduction, super funds trying to balance portfolios
 - Privates and syndicates are showing greater interest current yields
 - Lower value assets are becoming increasingly saleable, but >\$50m still very tough
 - Those groups reducing debt are realising they need to put quality, but smaller assets to the market – large won't sell, secondary will be hammered

Where to next?

- Yield decompression will continue
 - Secondary assets will soften further
 - But greater buyer interest will increasingly provide some support to values
- Prime yields theoretically have little scope left for softening
 - Low bond yields mean risk premiums are historically high
 - Office yields are now approaching the upper bounds of historical range
 - Retail and industrial yields have been 're-rated' and won't return to 1990s levels
 - Nobody is keen to test the depth of the market for trophy assets

Final Thoughts.....

- While the global recession is severe, there is good reason to believe property will fare better than it did in 1990s.
- There will be no more 'easy' gains from the market, the focus will be on asset specific issues and active property management.
- Someone will always be making a dollar out of property, even in a tough market!





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