

Quadrant Real Estate Advisors LLC

Australian Economic & Commercial Real Estate Market Commentary

1st Quarter 2016



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Since 1993 Quadrant’s senior management has worked together as a team providing the firm’s clients with access to both privately placed and publicly traded U.S. commercial real estate debt and equity investments through commingled funds and single client accounts. In addition to experience, senior management controls 100% of the firm, thereby providing true alignment of interests and accountability.

The firm’s executive leadership includes Kurt Wright, Chief Executive Officer; Thomas Mattinson, Executive Vice President; and Walter Huggins, Executive Vice President.

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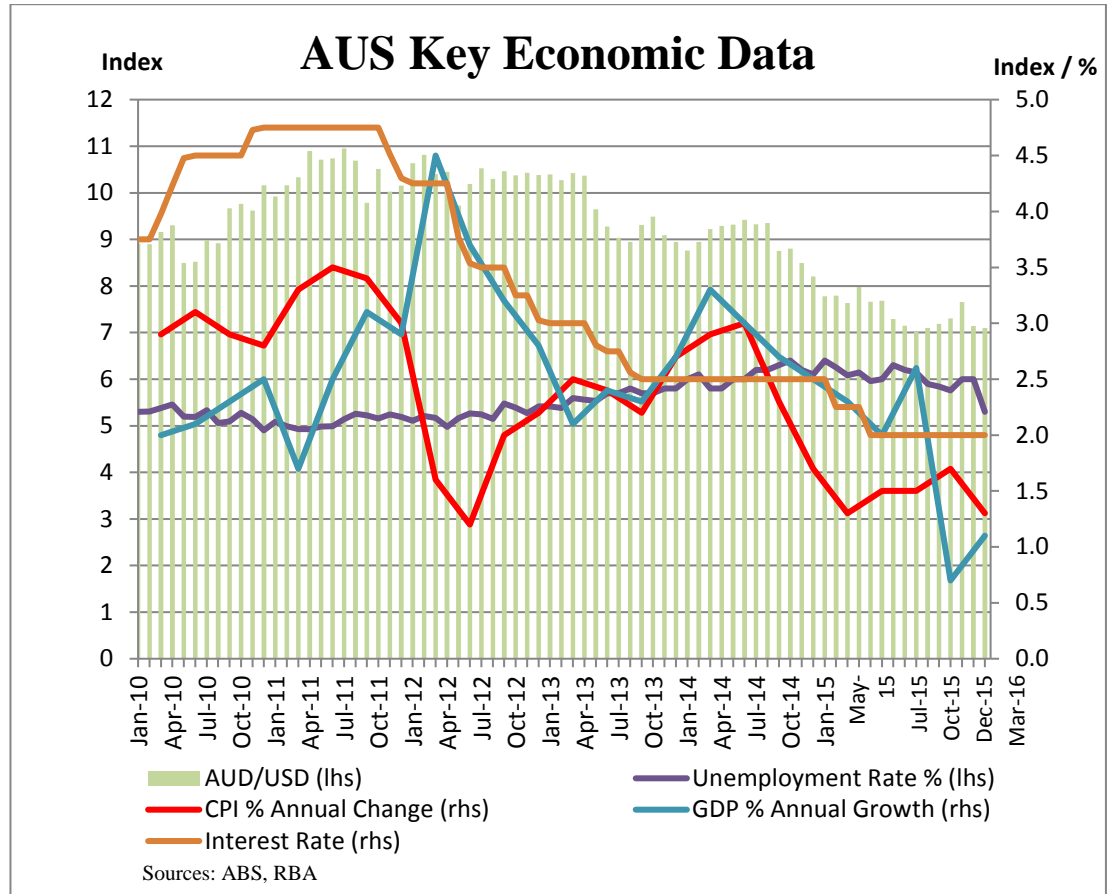


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Executive Summary

- Quarterly Australian Gross Domestic Product (GDP) expanded by 1.1% in the first quarter of 2016, providing a positive outlook for the Australian economy for the remainder of 2016.
- Consumer confidence declined slightly during the month of March to 99.1 points.
- Annual inflation figures declined during the 2016 first quarter, dropping by 0.4% to 1.3%, moving further away from the Reserve Bank of Australia’s (RBA) target inflation range of 2-3%.
- Unemployment decreased further during the quarter, falling from 5.8% in December 2015 to 5.3%.
- The Australian dollar (AUD) increased against the US dollar by 12% in the month of March 2016. The low AUD was fueling an increase in tourism and exports.

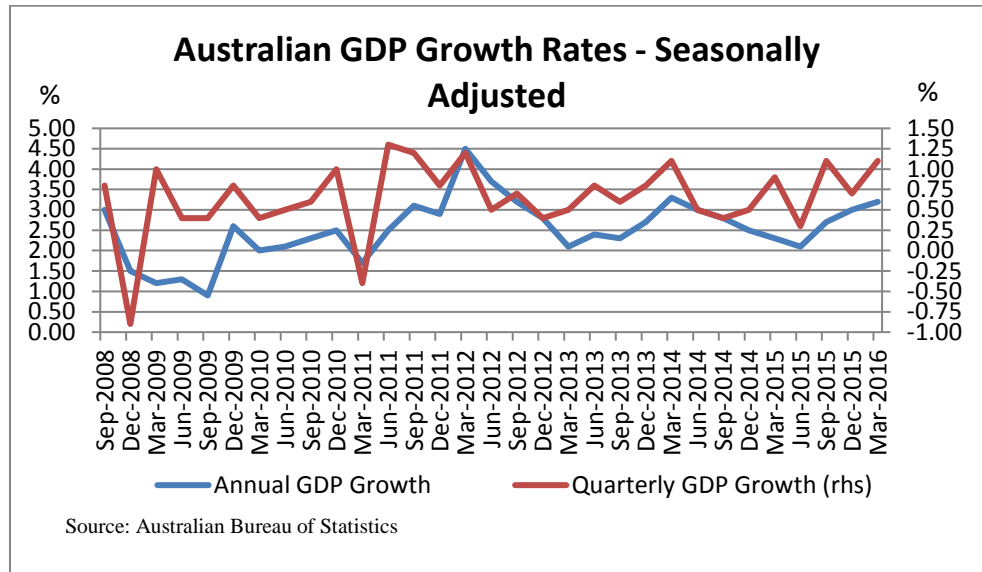


- The RBA maintained the cash rate at 2.00% throughout the quarter
- The Australian Real Estate Investment Trust (A-REIT) sector continued to out-perform all other sectors among listed stocks.
- The commercial office markets of Sydney and Melbourne performed well during the first quarter, while Brisbane and Perth continued to struggle as the decline in the resources sector persists.

State of the Australian Economy

Gross Domestic Product (GDP)

- According to the Australian Bureau of Statistics (ABS), the Australian economy expanded 1.1% in the first quarter, compared to the 0.7% (revised) growth experienced during the fourth quarter of 2015. (See chart below).
- Positive industry contributions came from agriculture, forestry and fishing, while contractions occurred in construction due to weaknesses in non-residential building and heavy and civil engineering construction.

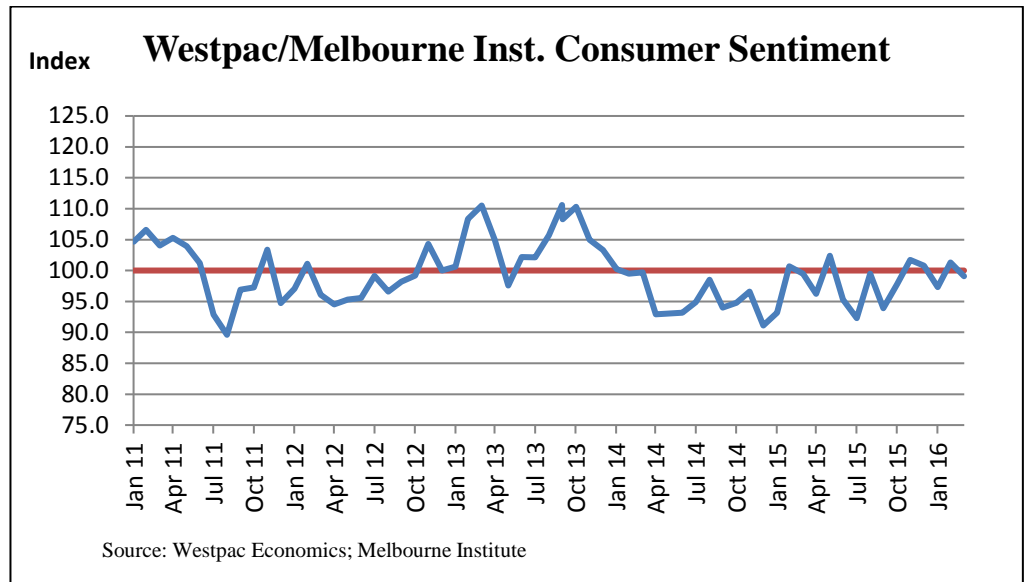


Terms of Trade

- The terms of trade for goods remained negative at -1.9% for the quarter. The index has been negative for five years following a boom driven by iron ore price strength.
- The Australian trade gap settled below market expectations at \$2.16 billion, a decrease of 29%.
- For the month of March, Australian goods and services credits rose \$1.08 billion (+4%) to \$26.53 billion (seasonally adjusted).

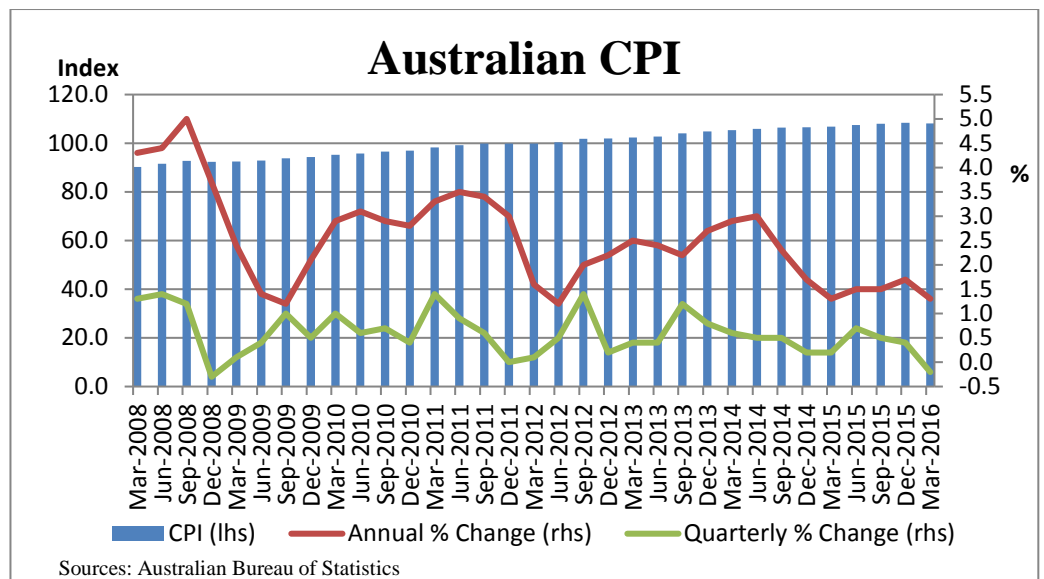
Consumer and Business Confidence

- The Westpac Melbourne Institute Index of Consumer Sentiment dropped to 99.1 in the month of March, after rising to 101.3 in February. (See chart below).
- During the month, the Westpac Melbourne Institute Index of Unemployment Expectations index increased 1.3% to 147.3, up from 145.3 in February.



Inflation & Interest Rates

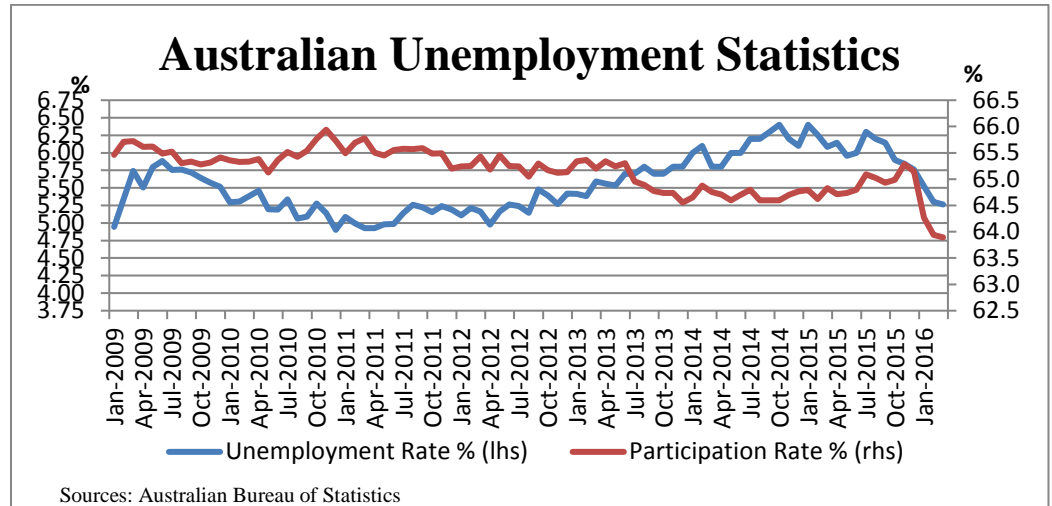
- The Consumer Price Index (CPI) increased 1.3% over the previous year. Inflation remains outside of the RBA’s target rate of 2-3%.
- Consumer prices unexpectedly dropped 0.2% during the first quarter, after increasing by 0.4% the previous period.
- The Reserve Bank of Australia (RBA) maintained the cash rate at 2.00% throughout the quarter.



Employment

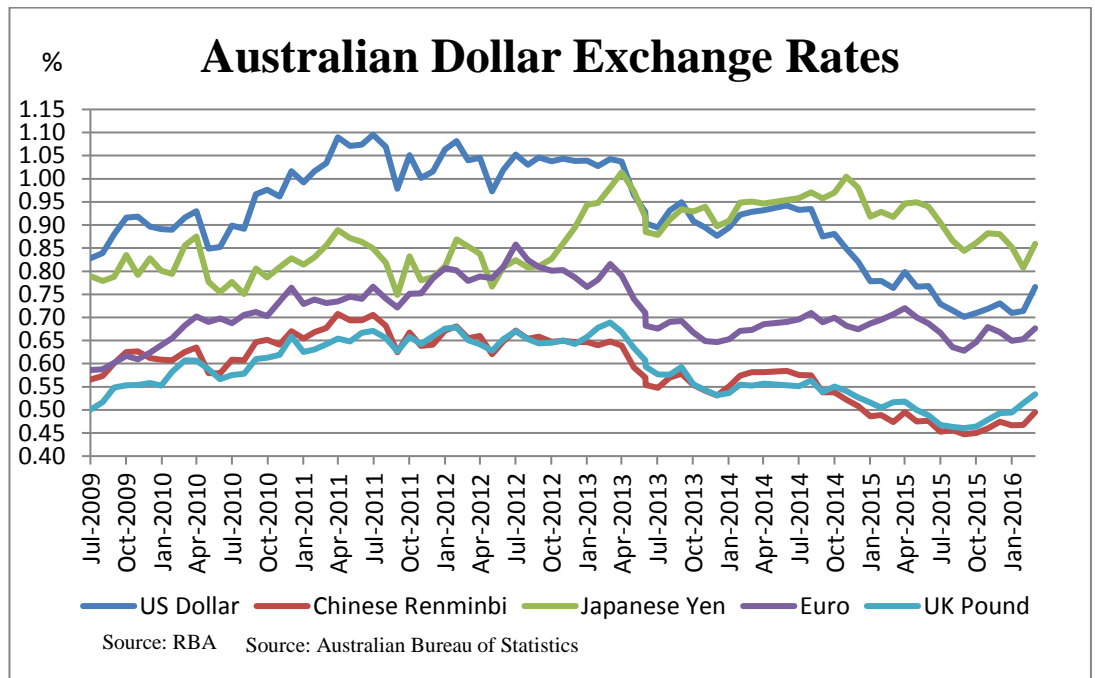
- The unemployment rate decreased throughout the first quarter, from 5.8% in December 2015 to 5.3% at the conclusion of March. The economy added 26,100 jobs and the number of unemployed decreased by 7,300. Employment rose to 11,909,600, with full-time employment declining by 8,800 and part-time employment rising by 34,900 jobs.

- The participation rate remained relatively unchanged, falling by 1.2% to reach 63.9%. (See chart below).



Exchange Rate

- The Australian dollar increased against the US dollar during March, after falling in the first two months of the year.
- The lower AUD of 2015 and early 2016 increased Australia’s competitiveness with its Asian neighbours and provided for strong export growth, tourism levels and foreign investment.



Australian Real Estate Capital Outlook

Equity Transactions

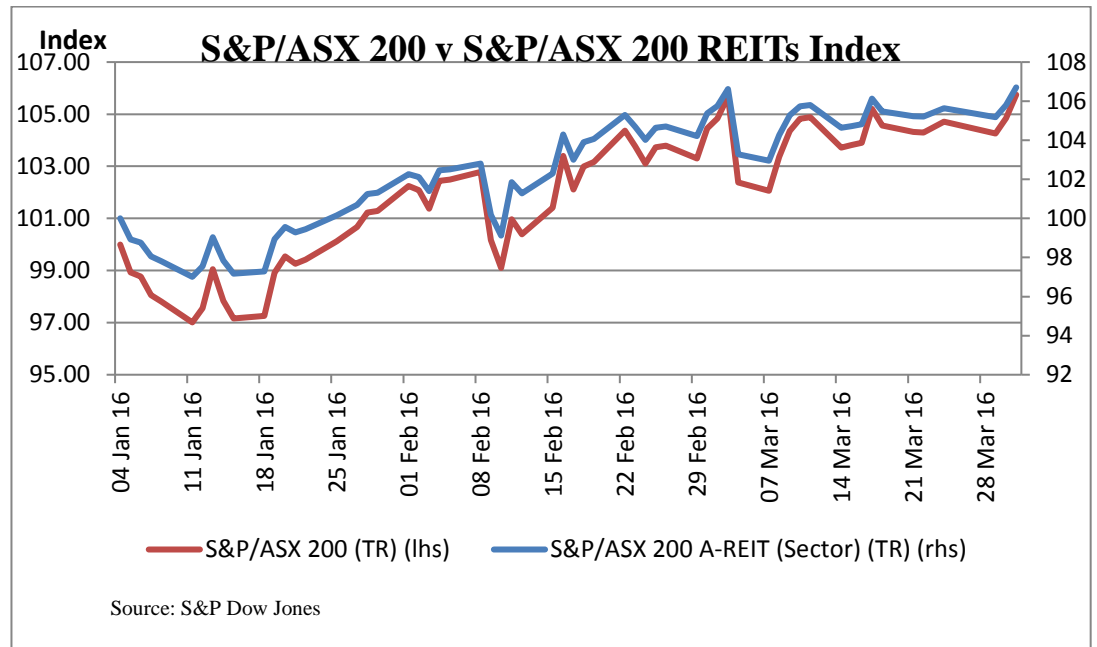
- First quarter of 2016 saw a large amount of transactional activity across all sectors of the Australian property market.
- The office sectors in Sydney and Melbourne experienced increasing transactional volumes throughout the quarter.
- The strength of the Sydney and Melbourne industrial sectors was bolstered by an increase in government infrastructure investments.
- The Brisbane and Perth markets continue to struggle due to the cyclical nature of their resources.

Debt

- Increased volatility in global financial markets is leading to increased diversification in funding within capital markets, with debt playing a larger role in corporate financing.
- Mergers and acquisition activity increased in the year leading up to March 2016, with transactions executed over a range of sectors, including real estate, telecommunications, financial, and infrastructure/utilities.
- Infrastructure investment and project financing remain the top uses of debt.
- The privatization of a number of key large-scale Australian infrastructure assets also increased demand for debt.
- Quadrant anticipates increased demand for long-term debt provided by non-bank lenders. While pricing for long-term debt is higher, it is still below bank terms for real estate debt.

Listed Property Trusts

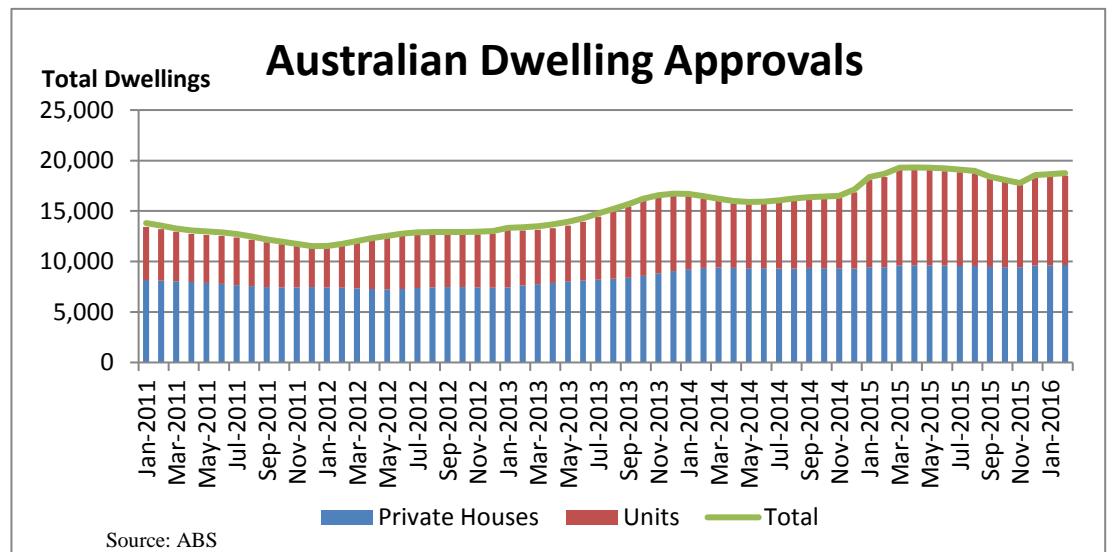
- Australian Real Estate Investment Trusts (A-REIT) yielded 4.8%, double the benchmark for 10-year Australian Government bonds.
- A-REITs have remained the top-performing asset class for the past three out of four years and have already recorded the highest results in the early months of 2016.
- The labour markets of Sydney and Melbourne continued to bolster returns for listed property trusts.
- The best performing Australian property sectors were in less-traditional classes, such as healthcare and hotels.



Australian Property Markets

Residential

- All Australian national capital cities saw an increase in median dwelling prices in the twelve months ended March 2016, with the exception of houses in Perth and apartments in Darwin and Melbourne.
- Approvals for housing increased substantially during the quarter, with Eastern Seaboard cities accounting for over 80% of all approvals. Throughout the country, transaction activity remains high as buyers remain confident in the residential market and positive employment outlook.
- Apartment approvals also increased substantially, rising by over 650 approvals during the quarter.



*Office***Sydney**

- Sydney experienced strong leasing activity in the office market during early 2016.
- Sydney CBD gross face rents range from \$735 - \$1,070 per sqm per annum for A Grade buildings and \$550 - \$750 for secondary grade buildings.
- Rent growth for secondary grade properties is expected to outpace prime rental growth in the CBD due to secondary stock conversions.
- Prime yields remained flat at 5.39% during the first quarter, while secondary yields tightened by 16 bps to 6.27%.

Melbourne

- Melbourne CBD office recorded its 13th consecutive year of positive net absorption as of January 2016.
- Melbourne CBD gross face rents range from \$580 - \$735 per sqm per annum for A grade stock and \$425 - \$517 for secondary grade.
- Vacancy levels are expected to rise later in the year with an estimated 110,000 sqm of new supply reaching the market.
- First quarter prime net face rents rose 2.0% after remaining stable for the previous 12 months.

Brisbane

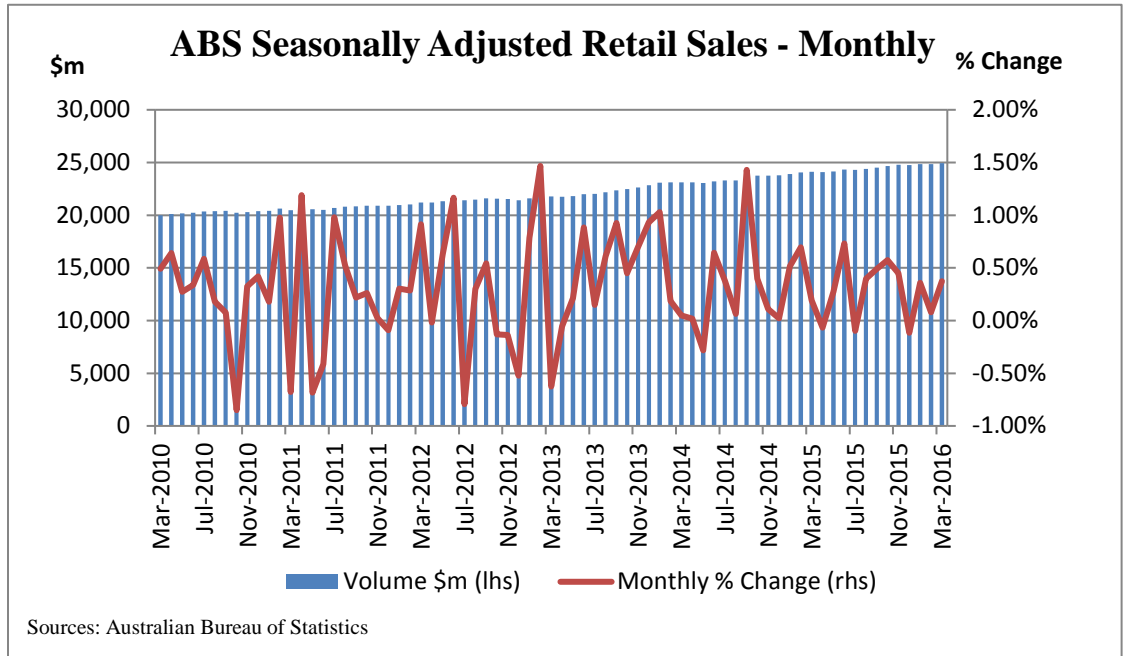
- As Brisbane and Queensland's resources sector declines, the state economy continues to struggle. Development activity in Brisbane is stagnant, with only one large office building confirmed for completion in 2016.
- Gross face rents ranged from \$580 - \$700 per sqm per annum for A grade stock and \$490 - \$580 for secondary grade.
- CBD yields in both prime and secondary stock remained unchanged at 6.78% and 9.00% respectively in the quarter.

Perth

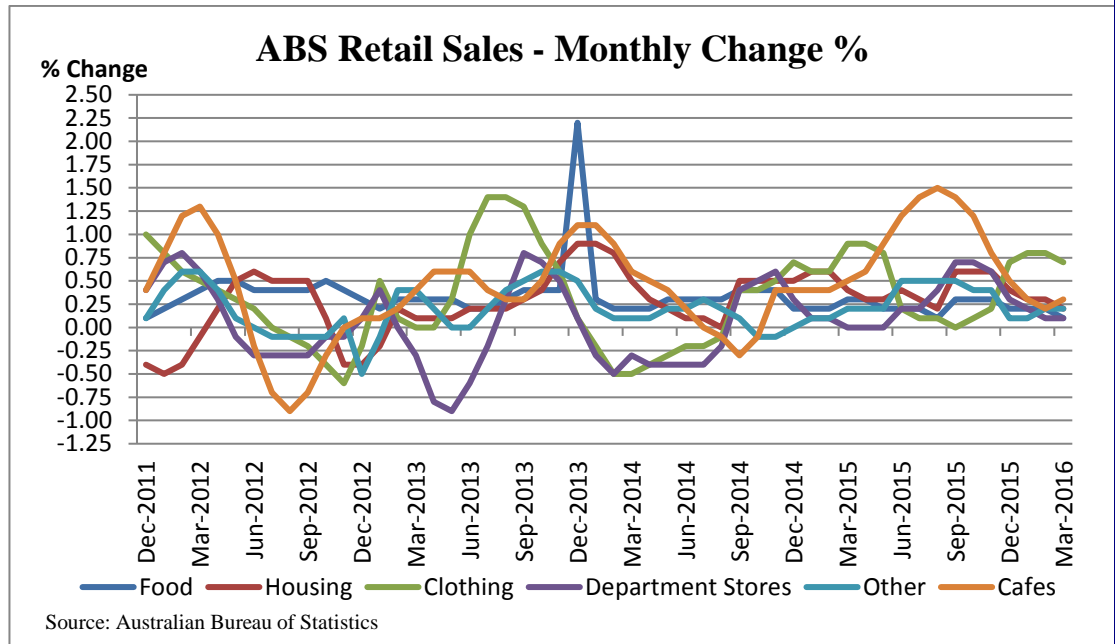
- The Western Australian market continues to feel the effects of a declining resources sector.
- Prime net face rents continued to decline, falling 2.8% to \$587/sqm, while secondary rents fell 2.4% to \$415/sqm.
- Over the past year the number of vacant full floors increased from 153 to 174.

Retail

- The ABS retail trade figures saw total sales increase slightly to \$24.95 billion.



- Retail sales improved slightly in the first quarter, with very little change across all sectors.



Industrial

Sydney

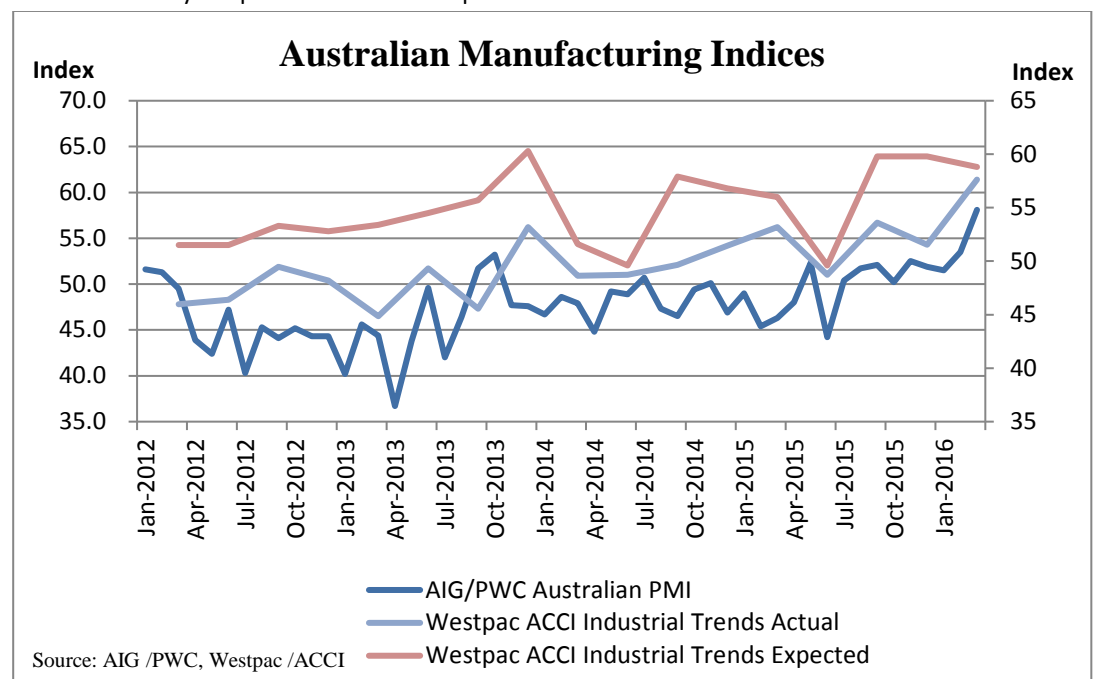
- Transaction activity in the Sydney Industrial sector recorded \$1.9 billion sales over the past year.
- Leasing activity increased over the previous year with 1,091,000 sqm of 138 new leases.
- A large amount of development in the Western Precinct is creating new supply.

Melbourne

- Investment activity in the Melbourne industrial market recorded a total of 121 property sales with a volume of \$1.89 billion.
- Leasing activity in the Melbourne industrial sector increased by an additional 75,000 sqm in the year to March.
- Tenant demand remains patchy throughout the Melbourne industrial sector, with developers vying to secure tenants.

Economic Data

- The Australian Industry Group – PwC Performance of Manufacturing Index (PMI) increased by 6.2 points to 58.1 points in March. This is the strongest reading in the index since April 2010.
- The Westpac – Australia Chamber of Commerce Survey of Industrial Trends Actual Composite increased by 7.1 points to reach 61.4 points.



Hotels & Tourism

- Foreign and domestic investors remained active in the hotel market during the first quarter, seeking opportunities for top range hotel acquisitions.
- Brisbane and Perth continued to struggle from the downturn in the resources sector.
- The regional markets of Cairns, Hobart, and the Gold Coast produced the strongest results nationally.
- Australia welcomed up to 754,600 visitors in March, an increase of 11.6% from the same period last year.

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