

Property Funds Australia

Cairns Conference

“bifurcation”

May 2022

PFA Conference – Cairns May, 2022

- Theme – the Bifurcating Office Market

- Shrinking Tenants vs Expanding Tenants

- Shrinkers – Westpac, Telstra, NAB, Any American or European Firm whose parent panicked because of CoVid.
- Expanders – Atlassian, Google, Salesforce, Amazon, Tik Tok, Willow, Citadel, Jefferies, Oxford, Jarden, GIC, Foster & Partners, Blackstone . . .

- Co-Working during the Period . . . Survival.

- The Old Guard - We Work, Regus, Victory
- The New Players - Wotso, The Commons, Hub Australia, Justco, Work Club

- Rent & Incentives

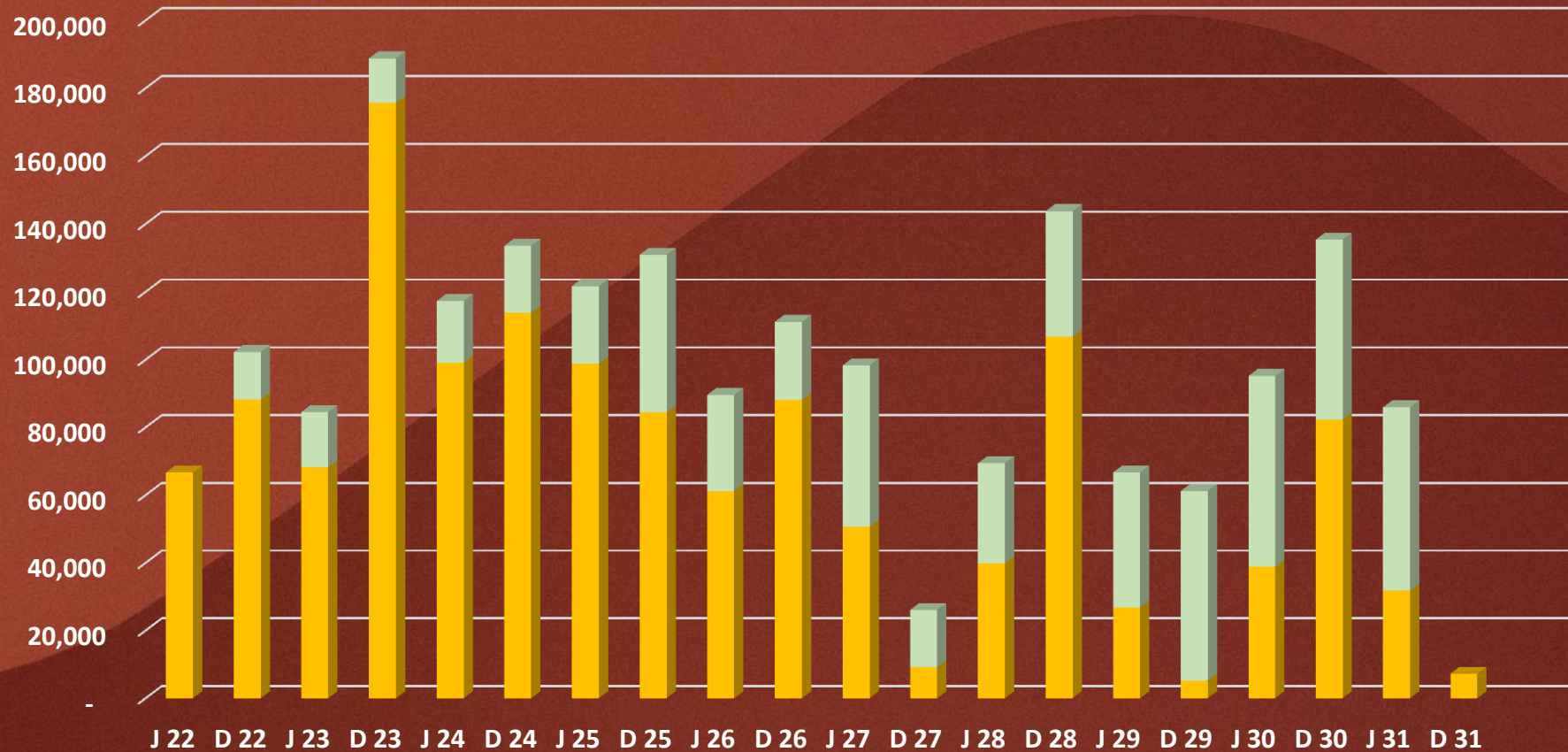
- Commodity Stock (A Grade, B Grade, C Grade) – Rents under pressure, incentives up (>35%)
- Coveted Stock (Premium) – Rents growing, incentives stable (~25%)

- The Future

- End of the supply cycle (CQT, QQT).
- ISD Cycle (1 Elizabeth, 39 MP, Parkline)
- The next cycle – into the unknown - Over-Development, Supply shocks, Rising Costs, softening Cap

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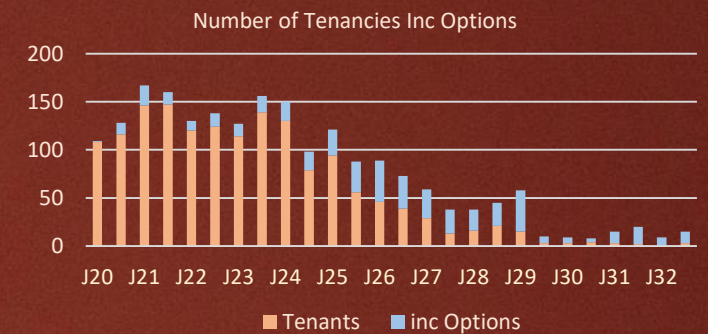
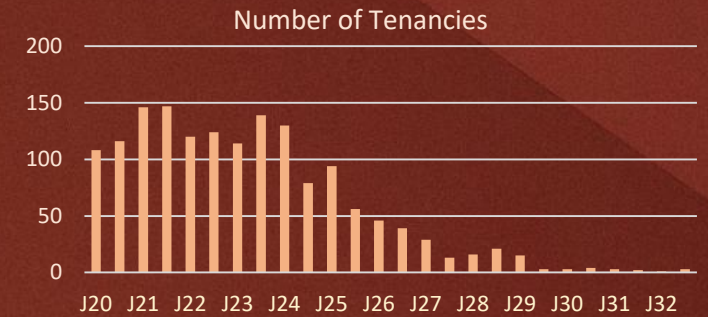
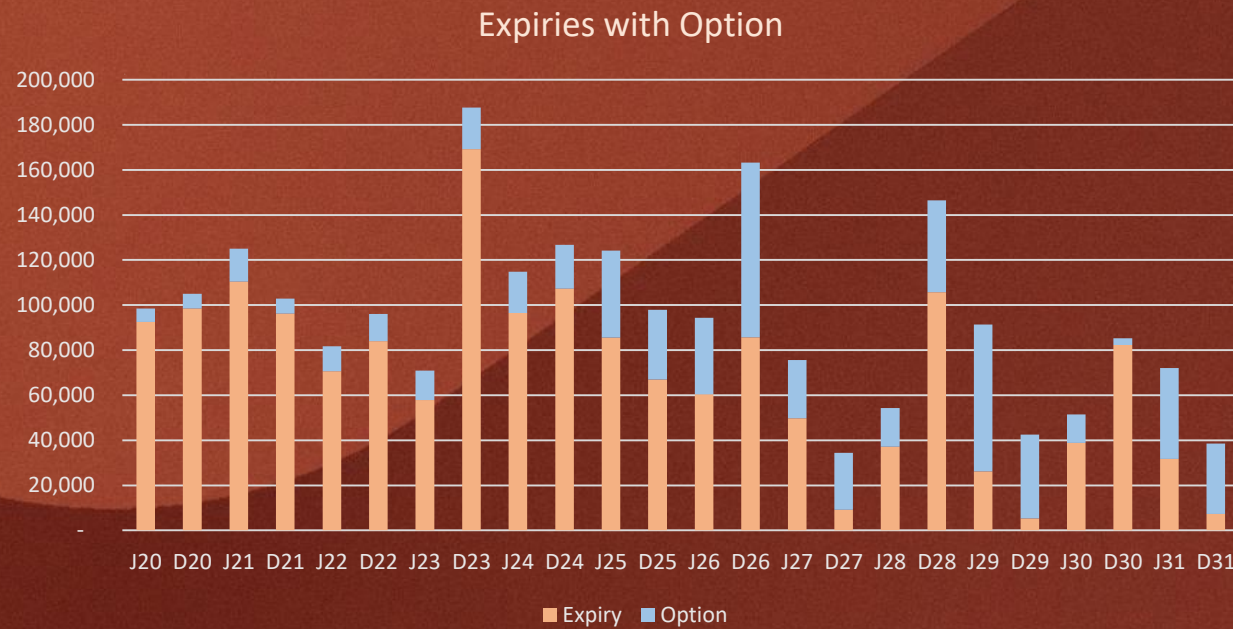
Sydney Prime (68 buildings) Expiries + Options



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The Data (in detail)

- More even distribution of expiry over the 4-5 target expiry periods
- Anticipate spike in Dec 24 & Dec 25 to coincide with “covid” lease extensions.
- 39MP the only “premium” core asset delivered during the period.



When data kills a good story . . .

- Hypothesis – Due to the uncertainty around Covid, tenants would take shorter term leases . . .
 - 2018 & 2019 – 1,101 transactions, average lease term – 56.9 months
 - 2020 & 2021 – 636 transactions, average lease term 54.7 months
- Is a circa 5% drop in lease terms a trend, a structural shift or a statistical anomaly?
- The more important “accidental” leading indicator was the drop in the number of transactions - 40%
- Will this sector return?