AUSTRALIA'S PROPERTY PEOPLE

Investment Sales Report

2019/20 Financial Year

Burgess Rawson

Who is Burgess Rawson?

For more than 45 years, we've helped thousands of everyday Australians maximise their wealth through property, and though times have changed, and our business has evolved, an overwhelming number of our clients continue to trust us with their commercial investments.

If you've sat down with any of our agents across Australia, from our directors right down to our newest additions, you'll know what we are talking about. We tell it like it is, we're partial to a bit of banter and at the end of the day, we love what we do.

All directors have a financial stake in the business, meaning that they are directly invested in every single decision or representation they make on behalf of clients. It's this unmatched care and dedication, coupled with decades of industry experience, that makes Burgess Rawson the best in commercial property business.

With offices in Brisbane, Canberra, Melbourne, Perth and Sydney, we are a true national network of dedicated property professionals, offering local expertise in all markets through our extensive regional alliance partnerships. Our reach also extends internationally, with offices and agents in Asia.

As Australia's largest privately owned commercial real estate company, we're also incredibly proud of our track record and success in delivering results.

With the strength and reach of a national group but the intimate market knowledge, client care and attention to detail of a local agency, it's no secret why we're the first choice for vendors and investors at all levels, from multinational corporations to first time 'mum and dad' entry level buyers.

The statistics speak for themselves: an industry-leading 86 per cent client retention rate shows vendors and investors turn to us time and time again as their trusted agents and consultants.

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2019/20 Financial Year

Executive Summary

No one could have predicted what a rollercoaster this financial year would be.

The market started strongly, with a renewed buoyancy following a politically turbulent year prior. Interest rates were low, yields were stable and demand for properties with good security and lease tenure was high.

And then COVID-19 reached Australian shores and impacted our nation in an extraordinary way. Initially, the market was subdued – auctions were prohibited, the property pool reduced – but slowly and surely the strength of the commercial property market emerged.

Essential services as an asset class showed the most resilience. Government, Medical/Pharmacy, Liquor, Supermarkets, Retail Fuel, Industrial/Logistics, Childcare & Fast Food in particular all performed well. The fundamentals of commercial property investment - ongoing demand, stable tenants, long-term leases – proved appealing.

So much so, many sectors of the commercial property industry were as strong at the end of the financial year as they were pre-COVID-19 which surprised many. Our Portfolio Auction Campaign provided that in spades.

Across the nation all eyes were on the auction campaign as it was widely considered a litmus test for the market. The results were outstanding; of the 15 properties listed, 13 sold under the hammer or just before auction, translating to a success rate of 87 per cent. Total sales exceeded $46.8 million.

Investors were particularly drawn to freestanding or single-tenanted properties leased to tenants that had traded through the various stages of lock down and leased to essential services, Government, fast food or ASX-listed tenants.

Interestingly, the types of investors drawn to commercial property changed throughout the year as well.

While we saw a variety of regular buyers such as investors from mainland China, developers and fund managers, a diverse mix of private investors also dipped their toe in commercial property.

Encouragingly for the market, this indicated that well leased commercial property is widely seen as an appealing alternative to a volatile share market as it offers long-term stability, particularly during uncertain times.

While the year has presented unique challenges, commercial property remains the darling.

National Overview

As the book closes on another huge 12 months in the commercial property market, at Burgess Rawson we look back on a challenging and complex year.

A year of extraordinary generational events for our nation – bushfires, negative CPI, lowest interest rates and a global pandemic for good measure.

While negative CPI was recorded, the true underlying figures are not as bad as first thought. If we removed the substantial childcare subsidies introduced and the low cost of fuel, it would not have been negative.

As reported by the Bureau of Statistics, a 19.3 per cent fall in fuel prices and a big drop in primary education costs — due to free preschool in New South Wales, Victoria and Queensland — contributed to the record-low result.

ABS chief economist Bruce Hockman said, "Excluding these three components, the CPI [consumer price index] would have risen 0.1 per cent in the June quarter,".

The past 12 months could be described as the tale of contrasts, describing sentiment and confidence pre and post COVID-19.

However, commercial property has come out on top with relatively low to no impact.

With more than $939 million worth of assets changing hands it has been a successful year despite unprecedented obstacles and challenges.

The market showed once again that properties with strong investment fundamentals always come to the fore.

Traditionally, investors follow the three main principles of lease tenure, location and tenant profile. However, in 2019/20, we saw a fourth principle added to the mix - defensiveness.

Investors were introduced to a new rule book with added complexities and challenges, leading to defensive attributes proving most popular.

The negative market commentary regarding property assets, transaction levels and price stability were proven wrong with 38 per cent of property selling in the last five months of the year.

$939.7 million

Total value of all sales

300

Total sales

6.48%

Average yield

[1] ABC News

Impact of COVID-19

The 2019/2020 year is one like no other, major catastrophic events have changed the way we live, work, engage and invest.

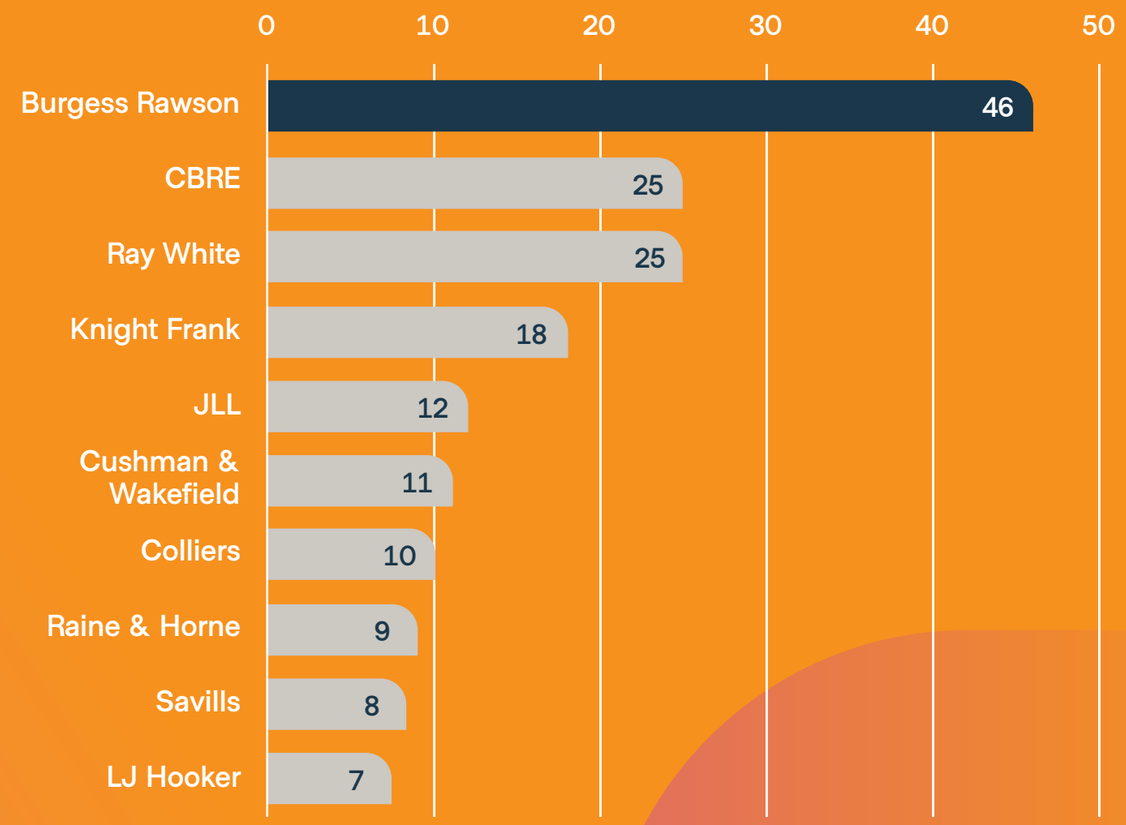
The bushfire season affected metropolitan areas, unlike ever before and this created a change to the way we holidayed, and where we shopped. Then COVID-19 hit our shores. All in all, the year could not have had more unexpected twists and turns.

Burgess Rawson sales data shows that despite these factors, that there is strong investor demand for properties that demonstrate resilience and defensive qualities.

Widespread media reports that many businesses in essential service sectors have benefited from community lockdowns and large-scale workplace shifts from offices to work from home.

Recent sales of properties leased to tenants in essential service sectors demonstrates that there has been no COVID-19-related price deterioration.

The most active agent through COVID



Overall the market has seen a reduction in sales activity however Burgess Rawson, being specialists in essential service offerings, have sold more freehold investment properties across Australian than any other agent.

The table above shows the top five most active agencies through COVID-19, based on leased investments sold on-market above $1 million since the WHO pandemic declaration (as at 9 September 2020)[8].

In addition to these on-market sales, Burgess Rawson has sold 58 properties via off-market processes.

[8] Real Commercial

A new appetite for essential services

Our focus throughout the pandemic has been on essential service investments, which has made up $216 million (or 81 per cent) of our sales. Demand for liquor, supermarket, pharmacy, fuel, childcare and government investments, for instance, is more intense than ever and we can now demonstrate that there has been no COVID-19 related price deterioration in these sectors.

Demand for freehold investments leased to non-discretionary businesses has accelerated over the past 12 months, in particular with private 'mum and dad' investors looking for an alternative to the residential market attracted by greater security and long-term returns that commercial property provides.

There has been a clear distinction between properties where tenants have traded through COVID-19 and those that have not.

Despite a lot of broad brush negative commentary regarding the retail market, essential service businesses have been well-placed to benefit from community lockdowns. Buyers are aware of this and recognize the 'defensive' qualities of these investments.

We expect A-Grade properties such as Bunnings, Woolworths and Coles will continue to enjoy a status akin to a term deposit or bond.

The strength of essential service-leased freehold investments pre and post COVID is undeniable. COVID-19 cemented the investor drive as they sought out "defensive" asset classes.

It is this demand that has driven a new category of investment - Essential Services. This category includes:

Supermarket

Due to the introduction of restrictions across the nation, consumers responded with changing buyer behavior and patterns. The "winners" during COVID, supermarkets saw a significant increase in sales, particularly with products deemed 'essential', and an increased demand in Australian made products.[3]

Category fundamentals:

+ Percentage rent upside
+ Prime locations, not easily replaceable or portable
+ Strong lease covenants
+ Large landholdings with future development potential

[2] Foundation for Alcohol Research and Education

Fuel

Despite a downturn in fuel sales, the underlying lease covenant drives these assets.

Category fundamentals:

+ Major land holdings in prime locations
+ Identifiable, ASX-listed tenants
+ High capital tenant investment
+ Reversions and redevelopment opportunities

Childcare

The childcare industry has enjoyed bipartisan support for many years. The economic return of workforce participation far outweighs the cost to assist in childcare funding. COVID-19 has reiterated the importance Government places on this sector with some of the earliest specialist assistance packages directed to the industry.

Category fundamentals:

+ Government funding and bipartisan support
+ Prime locations
+ Strong rental growth
+ Long leases

Liquor

A substantial winner in the consumer post-COVID spending habits research shows that 70 per cent of Australians were drinking more than usual since the COVID-19 outbreak[2].

Category fundamentals:

+ High quality locations near major retail precincts
+ Identifiable tenants
+ Percentage Rent upside
+ Increased trading opportunities during COVID

Medical/Pharmacy

Government funding for telehealth and extra services have provided much needed support, resulting in lower levels of requests for rent assistance.

Category fundamentals:

+ Long leases
+ High levels of capital investment
+ Low portability of tenant

Banks

Branches have widened services to become consumer hubs, adding important one to one customer service.

Category fundamentals:

+ ASX-listed tenants
+ Contraction of branches have made remaining branches key to the network, reducing exit risk that was prominent some 5 years ago.

218

Total Essential Service Sales

$742.12 million

Total Essential Service Sales Volume

[3] bcg.com
[4] 7news.com.au

Woolworths, Coles and Wesfarmers Freehold Investments

$94.98 million
Total Volume

4.92%
Average Yield
Woolworths, Coles, & Bunnings

Yields Compressed

> The strength of essential service investments is undeniable.

The year in review

During challenging times, demand intensifies at the top end of the market as most investors look for quality, defensive assets. The standout players are Woolworths, Coles and Wesfarmers freehold investments. These highly coveted investments are viewed as akin to a bond.

COVID has increased the drive for these assets as investors sought tenants who could be relied on to pay their rent and be authorised to trade.

Long leases, in premium locations with substantial land holdings tick all the boxes regardless of whether they are in regional or metropolitan areas.

Data shows that investors actively looked to consolidate their holdings leased to the big three, particularly during COVID-19.

Who is buying?

When quality freehold essential service assets are presented to the market, they are an Australian wide affair, with investors worrying little about the cross-border transaction.

In particular private investors, including large family offices, are drawn to the security of this asset class with confidence to invest in not just their home State but also interstate.

Where are they buying?

Investors from across Australia vied for the opportunities presented with the growth of this segment only limited by supply.

Highlights

FIRST CHOICE LIQUOR
Werribee VIC

Sale
$7,750,000
Lease Term
7 years
Yield
4.1%

BUNNINGS
Lawnton QLD

Sale
$18,680,000
Lease Term
10 years
Yield
4.7%

COLES
Drouin VIC

Sale
$12,500,000
Lease Term
3 years
Yield
5.1%

WOOLWORTHS/BWS
Seymour VIC

Sale
$15,420,000
Lease Term
3 years
Yield
5.2%

Fuel

Burgess Rawson is Australia's market leader in the sale of fuel freehold investments.

The year in review

"Investment in the fuel sector offers long term security and appeal. In excess of 19.8 million vehicles are registered in Australia, with electric vehicles making up less than 0.1 per cent of those vehicles."

Fuel is a non-discretionary purchase and a major component of the weekly budget essential to our modern way of life. The $31.4 billion fuel industry is immune from the threat of online sales and operators are actively developing strategies in response to alternate energy technologies.

In 2019/20, Burgess Rawson cemented its position as Australia's market leader in the sale of fuel freehold investments.

During the financial year there were 95 freehold investment sales in the fuel sector nationally. Burgess Rawson handled 73 of these transactions, resulting in a majority market share of 73 per cent.

The designation of fuel stations as an essential service has been a major win for owners of fuel investments.

For example, average yields and prices, along with the number of sales, remained almost identical pre and post COVID.

Who's buying?

While private buyers still dominate fuel investment sales, this financial year we saw an increase in foreign and institutional buyers, making up 26 per cent of sales. Institutional buyers were drawn to the sector this year, snapping up investments in Queensland, SA and WA, totalling more than $39 million.

Overseas buyers saw opportunity in Victoria ($21 million), NSW ($11.5 million), ACT ($9.8 million) and WA ($1.6 million).

Where are they buying?

Due to the essential nature of fuel, sales were seen across Australia, including an almost 50/50 split between metropolitan and regional sales.

Interestingly, the top two sales regions were NSW and Victoria with 26 and 20 sales respectively, and a combined value of $199.5 million. With the average price increasing 48% on the 2018/2019 financial year.

In FY2018/19, the highest selling regions were Victoria and NSW with combined result of 20 sales and a total value of $45 million highlighting solid growth over the past 12 months.

[5] ABS Media
[6] IBIS World report

Highlights

7-ELEVEN
Wahroonga NSW

Sale
$4,670,000
Lease Term
12 years
Yield
2.5%

7-ELEVEN
Braddon ACT

Sale
$7,100,000
Lease Term
12 years
Yield
4.1%

WOOLWORTHS PETROL
Coburg VIC

Sale
$5,220,000
Lease Term
3 years
Yield
5.1%

7-ELEVEN
Coomera QLD

Sale
$5,550,000
Lease Term
12 years
Yield
5.2%

Childcare

$198.9 million
Total Volume

74%
of childcare sales in metro areas

No Impact on Yield

> **There is great willingness by Government to protect early learning services.**

The year in review

Demonstrating Burgess Rawson's continued dominance in the early learning sector, and the strength of childcare as an investment class, Burgess Rawson achieved an incredible milestone this financial year.

In the last ten years, Burgess Rawson has sold 328 freehold centres nationally with a combined value that has now surpassed the $1 billion milestone.

In 2019/2020, approximately 1.3 million children were accessing some form of funded early learning education as part of the $11.2 billion industry. The industry comprises mainly of Long Day Care providers, representing 61.5 per cent.

The arrival of COVID-19 in early 2020 has changed the landscape and projected higher unemployment threatened to affect childcare. However, history tells us that there is great willingness by Government to protect and ensure childcare/early learning services. The industry-specific 3-step framework delivered in May 2020 to support childcare illustrates this commitment.

In response to the pandemic, and its impact on childcare enrolments and attendance, the Australian Government introduced a first for the industry 'fee free' childcare for families. The stimulus provided an additional $1.6 billion of funding to the sector.

Childcare as an asset class continues to offer attributes that investors are favouring such as long net leases, quality tenants underpinned by land value and intrinsic business value. As a result, we predict childcare being a favourite for the post COVID investors' world.

Who's buying?

Childcare freeholds remain accessible to a range of investors due to long leases, strong returns and a wide range of entry points. In addition, long leases have been a favourite for investment funds looking for 'set and forget' assets.

Overwhelmingly, private buyers are the largest investors in the early learning sector, comprising 74 per cent of all sales. Across the country, most buyers purchase within their home state, which is particularly evident in NSW with 96 per cent of transactions by local investors (totalling in excess of $77 million in sales).

Where are they buying?

The trend of FY 2019/20 continued with Victoria and Queensland continuing to dominate the early learning sector, comprising 75 per cent of national sales, with properties totalling $133 million.

In Victoria, an impressive 20 properties with a combined value of almost $84 million. And in Queensland, 13 properties sold for a total of $49 million.

NSW saw a marked increase in overall transactions, up 40 per cent on the year prior.

Regional areas across Australia have proven popular for investors at lower price points. These areas have performed impressively over the ten-year period, increasing by over 41 per cent from 2010.

Highlights

G8 EDUCATION
Middleton Grange NSW

Sale
$3,025,000
Lease Term
10 years
Yield
3.9%

GREEN LEAVES
Ashgrove QLD

Sale
$4,500,000
Lease Term
15 years
Yield
5.1%

STORY HOUSE
Black Rock VIC

Sale
$5,055,000
Lease Term
15 years
Yield
5.1%

PAISLEY PARK
Mount Barker SA

Sale
$6,650,000
Lease Term
20 years
Yield
6.3%

Fast Food

$26.03 million
Total Volume

15
Total Sales

Yields Compressed

> One of the most sought-after commercial investments in Australia is fast food.

The year in review

Fast food assets rank amongst the most sought-after commercial investments in Australia, due to the appeal of iconic global brand tenants and the perceived stable nature of long leases. Burgess Rawson is at the forefront of this market, transacting numerous fast food asset sales across its national network.

The fast food sector in Australia is a $16.9 billion industry with an estimated workforce of 183,000.

Fast food operators with drive thru capability were particularly insulated by the COVID-19 pandemic and many saw an increase in sales.

"Australians have a love affair with fast food. The $17 billion industry sees 4.5 million transactions daily, with each Australian on average consuming 65 takeaways a year."[7]

Who's buying?

Fast food freeholds remain firmly in the hands of private investors, identifiable tenants, relative affordability and high profile locations make these a favourite, and appetite continues to far outweigh supply. All fast foods purchased in the 2019/20 year were by private investors and private syndicates. Location was no obstacle with 50 per cent of Queensland offerings sold to interstate buyers.

Where are they buying?

Limited supply is a major factor in this investment class, with stock predominantly available in the regional areas of NSW, WA, VIC and QLD. NSW transacted the highest volume with $9.79 million across seven sales.

Highlights

HUNGRY JACK'S
Westcourt QLD

Sale
$5,120,000
Lease Term
10 years
Yield
4.7%

KFC
Emerald QLD

Sale
$2,200,000
Lease Term
15 years
Yield
4.9%

HUNGRY JACK'S
Wodonga VIC

Sale
$4,000,000
Lease Term
12 years
Yield
4.9%

KFC
Taree NSW

Sale
$2,550,000
Lease Term
10 years
Yield
5.7%

[7] IBIS World Report

Medical

$26.2 million
Total Volume

14
Total Sales

No Impact on Yield

> The fundamentals of medical investments remain strong.

The year in review

The first half of FY2019/20 showed consistent medical sector sales to last year.

Investors were attracted to the strong benefits of this investment class, namely the strategic locations of medical assets – often located amongst other supporting medical uses to form a destination, while also central to a community with schools, childcare and retail nearby.

COVID-19 resulted in a short supply of medical investments with reduced transaction levels across Australia. This drop in offering was not met by investors, where demand rose sharply as investors sought COVID defensive assets.

Medical centres were deemed an essential service and able to trade during the various stages of lockdown, many businesses pivoted to telehealth and drive thru COVID Testing.

The fundamentals of medical investments remain strong – long-term leases and commitment from tenants, high quality, purpose built expensive fit-outs and prime locations attract strong investor interest.

Who's buying?

Overwhelmingly, private investors are attracted to medical investments securing 100 per cent of sales. This can also be witnessed in tenants actively purchasing their own premises when available. The low cost of money, longevity of the tenure, and low levels of portability drives the demand.

Where are they buying?

Victoria represented the highest transaction levels with 41 per cent of the $22.39 million. Across Australia it was a private affair, with all purchasers staying within their respective state. Only in Queensland was there a single cross border transaction.

Highlights

BUPA DENTAL
Pascoe Vale VIC

Sale
$3,285,000
Lease Term
3 years
Yield
4.6%

RYE VETERINARY CLINIC
Rye VIC

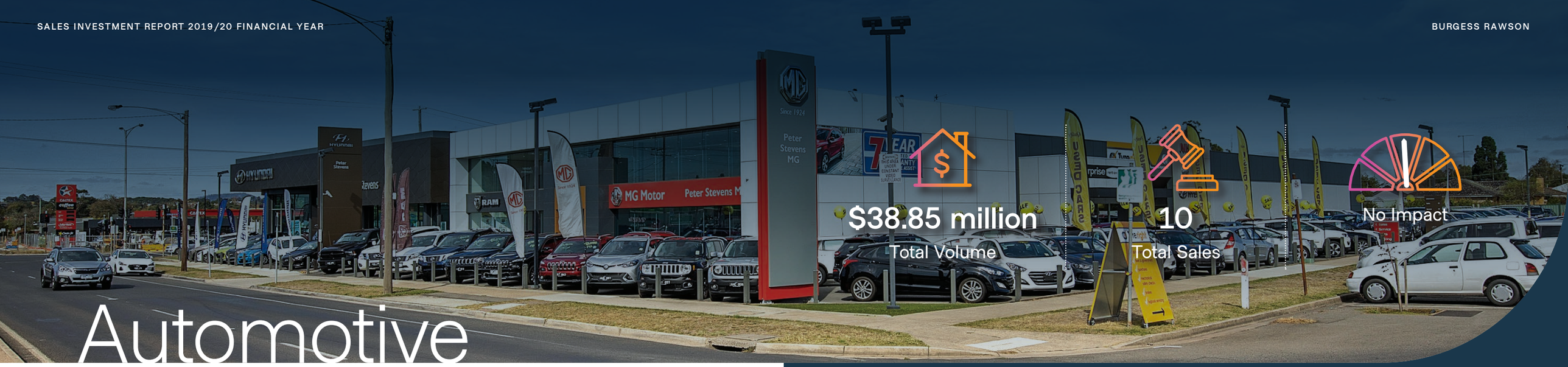
Sale
$1,150,000
Lease Term
5 years
Yield
5.2%

MEDICAL CENTRE
Kogarah NSW

Sale
$2,975,000
Lease Term
10 years
Yield
6.2%

ARTISAN CLINIC
Maroochydore QLD

Sale
$2,700,000
Lease Term
7 years
Yield
6.5%



$38.85 million
Total Volume

10
Total Sales

No Impact

Automotive

> As a COVID-defensive asset, these investments are rare.

The year in review

This category includes dealerships, auto parts, mechanical and smash repairs, typically these properties are well located on substantial land holdings or prime sites with household name, identifiable tenants.

These properties have attributes unique to the sector, many with reversion or redevelopment potential. The stand-out sale of Peter Stevens Motorworld in Ballarat is an example of long-term income, quality tenant on prime land with triple street frontage.

Investors were keen to snap up well known brands such as Burson Automotive, Autobarn, Ultra Tune, Nissan and Hyundai.

As a COVID-defensive asset, these investments are rare, with no opportunities presenting to the market post-COVID. This is a sign of vendors guarding these assets whilst the market offers little alternative opportunities of this quality.

Who's buying?

Like FY 2018/19, buyers in this sector were varied, demonstrating the wide appeal of automotive as an investment class.

From private purchasers to overseas buyers and superannuation funds, automotive investments proved popular. Private investors made up the greatest share with 50 per cent of sales, totalling $19.6 million.

Interestingly, Victorian properties were predominantly offered by interstate Vendors, and snapped up by overseas buyers who invested $13.3 million, or 73% of the total $18.1 million sold in the state.

Where are they buying?

Sales were strong across Australia due to automotive operations universally located throughout metropolitan and regional areas.

Queensland and Victoria attracted the most sales, totalling $35.6 million combined.

Highlights

AUTOBARN
Shepparton VIC

Sale
$2,422,000

Lease Term
5 years

Yield
5.7%

SUPERCHEAP AUTO
Parkes NSW

$2,575,000

Lease Term
10 years

Yield
5.9%

PETER STEVENS AUTO
Ballarat VIC

Sale
$8,700,000

Lease Term
10 years

Yield
6.2%

NAPA AUTO
Slacks Creek QLD

Sale
$11,700,000

Lease Term
3 years

Yield
6.6%

Looking ahead 2020/21

The 2019/20 financial year threw more curveballs than Sandy Koufax at a baseball game, yet the buoyancy in the commercial property sector at the beginning of the new financial year remains solid.

With such an unpredictable pandemic, and no certainty on how it will impact the economy next, we expect a few key variables to remain unchanged for the short-medium term.

For instance, Government will be fearful of introducing any taxation reform during a global pandemic. Legislative stability remains strong and is most likely to stay that way for the time being.

If you were to go back in time, it is without a doubt that commercial property would be the investment class of choice for a turbulent economic environment.

Right now, with hits to superannuation and the share market, Australians are seeking the security that 'bricks and mortar' provides. The fundamentals of commercial property fit the bill, particularly with essential services investments that have proven dependable during COVID-19.

As Australian states were impacted differently to the pandemic, we will see change in investor behaviour - regional has become sexy and cross border transactions are growing. Burgess Rawson is extremely well placed to take advantage of these two emerging trends.

In 2018/2019 we noted the market's flight to quality, that had been building in the previous 24 months, that trend is continuing and amplified in this new post COVID world that we are embarking on.

Our principles of property investments have now become four pillars with the addition of 'defensive'. What has traditionally been a defensive investment, say Government bonds, commodities, currency, has now been redefined. Investors will diversify their portfolios to include defensive investments that can perform in a post-COVID world.

> "Despite turbulent times, properties with strong fundamentals continue to be highly sought-after.

Burgess Rawson

With offices across Australia, Burgess Rawson has a truly national understanding and unparalleled collective expertise.

AUSTRALIAN CAPITAL TERRITORY

T 02 6152 9113
A Unit 152, Level 1, 41 Eastlake Parade
Kingston ACT 2604
E canberra@burgessrawson.com.au

NEW SOUTH WALES

T 02 9232 6288
A Level 18, 15 Castlereagh Street
Sydney NSW 2000
E sydney@burgessrawson.com.au

QUEENSLAND

T 07 3220 3611
A Level 24, 324 Queen Street
Brisbane QLD 4000
E brisbane@burgessrawson.com.au

SOUTH AUSTRALIA/NORTHERN TERRITORY

T 03 9613 0400
A Level 7, 140 Bourke Street
Melbourne VIC 3000
E melbourne@burgessrawson.com.au

VICTORIA/TASMANIA

T 03 9613 0400
A Level 7, 140 Bourke Street
Melbourne VIC 3000
E melbourne@burgessrawson.com.au

WESTERN AUSTRALIA

T 08 9288 0288
A Level 10, 225 St Georges Terrace
Perth WA 6000
E perth@burgessrawson.com.au

Australia's Property People
burgessrawson.com.au