MIRVAC RESEARCH

AN URBAN PERSPECTIVE ON PROPERTY

AUSTRALIA'S ECONOMY - THE GREAT RESHAPING

Most Australian's live and work in cities. More than 75% live in the country's 20 largest cities and around 60% live in Australia's four largest cities alone – Sydney, Melbourne, Brisbane and Perth.[1]

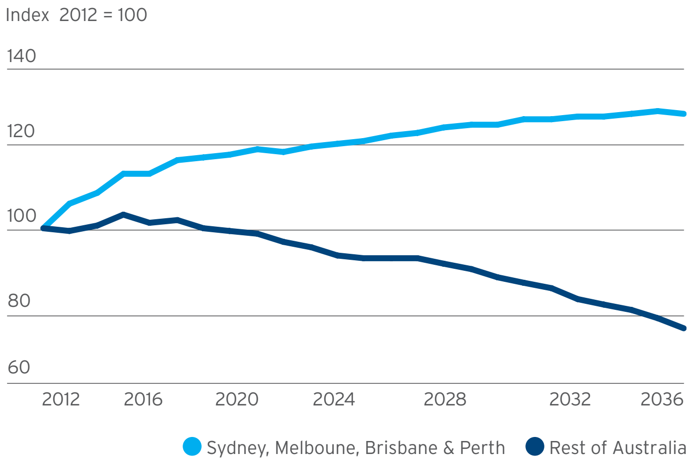
A great reshaping of Australia's economic geography is currently underway; the nation's moving from prosperity derived from regional jobs in primary industry a century ago, to suburban jobs in manufacturing after WWII, city centre jobs in knowledge-intensive businesses today.

By 2031, it is estimated that more than 30 million people will call Australia home, six million more than 2016 levels. Over the 20 years to 2031, Australia's four largest cities will need to accommodate an additional 5.9 million more people.[2]

Australia's projected number of new households (and dwelling requirements) average around 172,000 per year for each year to 2036. Over the next 20 years, the share of dwelling requirements for Sydney, Melbourne, Brisbane and Perth are expected to increase from 65% of total Australian dwellings to 74%. The proportion in metropolitan Sydney and Melbourne alone is expected to increase from close to one in three new Australian dwellings in 2012 to close to one in two by 2036.[3]

INDEX - PROJECTED AUSTRALIAN ADDITIONAL HOUSEHOLDS & IMPLIED DWELLING REQUIREMENTS

SPLIT BY MAJOR CITIES & BALANCE OF AUSTRALIA



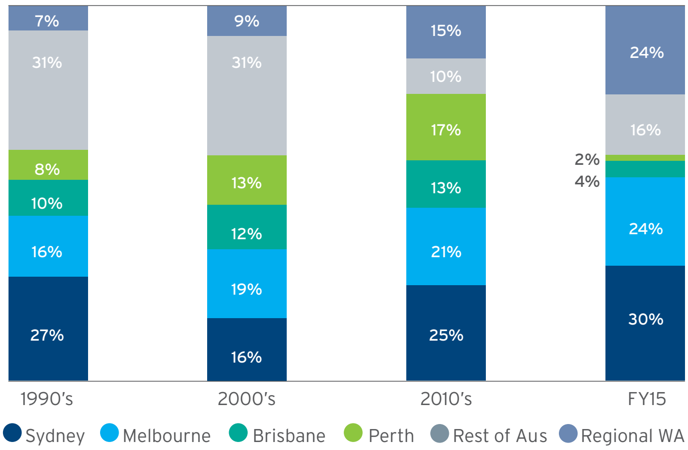
Source: ABS, Household & Family Projections, 2011 to 2036, Cat 3236.0

A growing population is a source of economic dynamism. Growing demand for resources and services from a vibrant Asia Pacific region is triggering substantial shifts in Australia's economy.

According to SGS Economics & Planning ('SGS'), Australia's four major cities contributed to 60% of Australia's GDP growth in FY15.[4] Sydney and Melbourne accounted for over 50% of national GDP, with Sydney alone accounting for 30% of the nation's economic output. Regional Western Australia accounted for 24% of economic growth, being the region where the majority of Australia's primary exports are extracted and shipped. However, in this region populations are small, liquidity for commercial real estate is shallow and the region has strong links to volatility in resource pricing and activity.

Notably, outside of these regions, the rest of Australia contributed to just 16% of Australia's economy. A look into Australia's two largest state economies show it's the capital cities that are striding ahead - the rate of Melbourne's economic growth in FY15 was 10 times that of regional Victoria and Sydney's growth rate was five times that of regional NSW.[5]

CONTRIBUTION TO GDP GROWTH



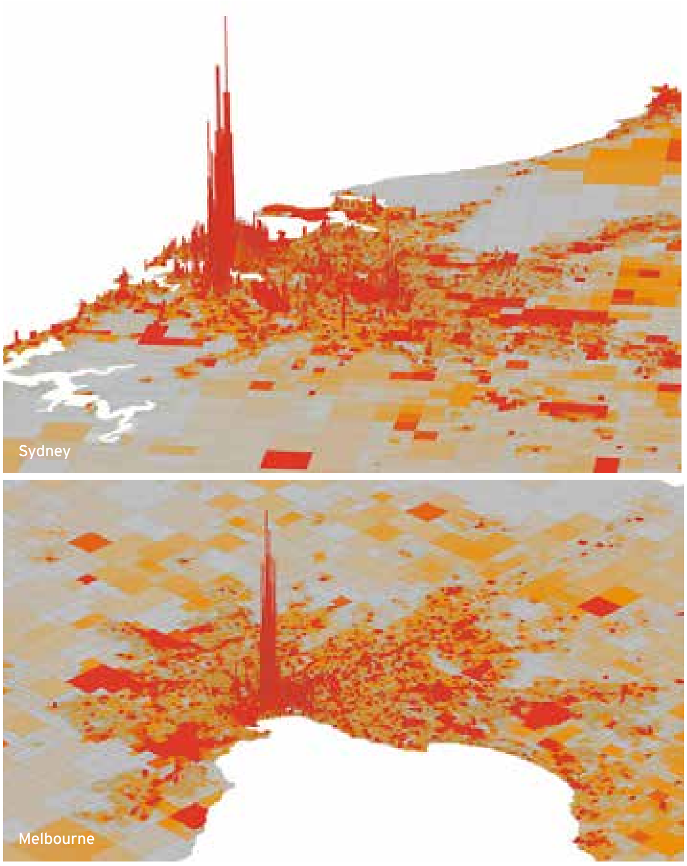
Source: SGS Economics and Planning
Columns do not total 100% due to rounding

According to SGS estimates of regional economic activity, the rise of knowledge-intensive industries in Australia's two largest cities has resulted in Sydney and Melbourne becoming more hooked into the global economy and developments in places like Shanghai, Hong Kong, Tokyo and New York. Global cities such as these are more important to the economic performance of Sydney & Melbourne than activity in smaller Australian cities or regional Queensland.

1) ABS, Regional Population Growth, 2014-15, Cat 3218.0
2) Infrastructure Australia, Australian Infrastructure Plan – Priorities and reforms for our nation's future, February 2016, http://infrastructureaustralia.gov.au/policy-publications/publications/files/Australian_Infrastructure_Plan.pdf
3) ABS, Household and Family Projections, Cat 3236.0
4) SGS Economics and Planning, Australian Cities Accounts 2014-15, http://www.sgsep.com.au/publications/sydney-and-melbourne-race-ahead-mining-boom-fades
5) The big cities strike back: Why Sydney and Melbourne are closer than you think, Sydney Morning Herald, http://www.smh.com.au/comment/the-big-cities-strike-back-why-sydney-and-melbourne-are-closer-than-you-think-20160415-go7o9b.html#ixzz46KAh1Equ

SYDNEY – HIGH ECONOMIC ACTIVITY CLUSTERS

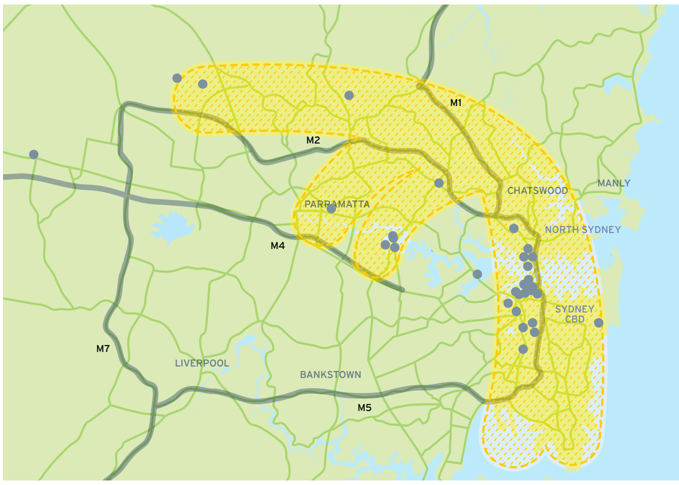
Spatial data from PwC[6] highlights economic activity concentrating in CBDs and inner urban areas as highly knowledge-intensive firms co-locate with highly skilled workers.



Source: PWC Geospatial Economic Model

The knowledge-intensive services that cluster around the CBDs of both Sydney and Melbourne are the bases of some of the most productive industries and firms. For instance, Sydney has high value economic clusters known as the 'Global Economic Corridor'. This extends from Port Botany in the south of Sydney, through the CBD and to the inner and North West of Sydney. These areas generate half of Sydney's economic activity, estimated to be 15% of Australia's GDP in FY15.[7]

SYDNEY GLOBAL ECONOMIC CORRIDOR

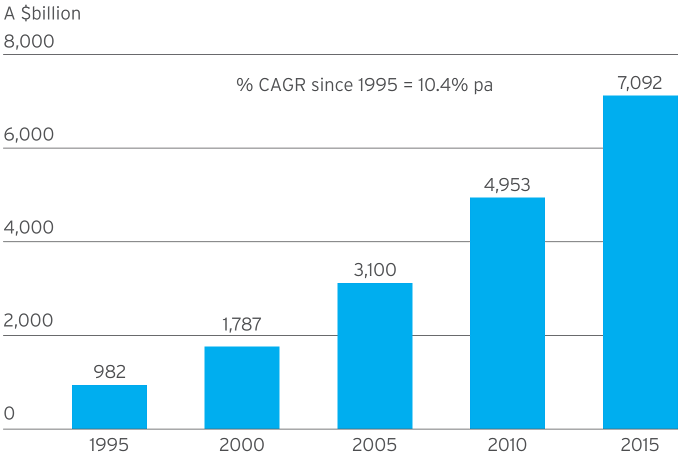


Source: Grattan Institute and NSW Department of Planning & Environment

Sydney's most important industry is the financial services sector, which contributed more than 16% of Sydney's output in FY15, up from about 10% in 1995 and by far the biggest contributor to economic output.[4] Around 21% of all Australian finance and insurance sector workers are employed in the City of Sydney and it is estimated that nearly one in three workers in Sydney CBD's white collar workforce was employed in these industries in March 2016.[8,9]

Australia's sophisticated financial services sector has significant depth with assets of more than A$7 trillion – over four times Australia's nominal GDP. The sector has grown at 10% a year over the past two decades, making it Australia's largest contributor to gross value added and one of its highest growth sectors.[10]

ASSETS OF AUSTRALIAN FINANCIAL INSTITUTIONS
YEAR ENDING JUNE

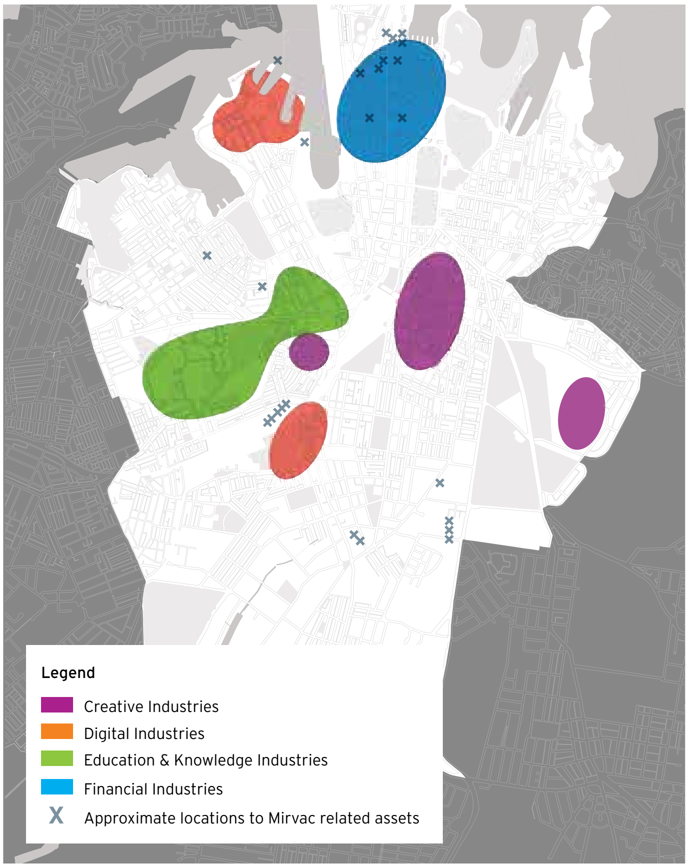


Source: Austrade Why Australia. Benchmark Report.

6) Geospatial Economic Model, PwC, http://www.pwc.com.au/analytics/gem.html
7) State Infrastructure Strategy Update 2014, Infrastructure NSW, page 17, http://www.pwc.com.au/analytics/gem.html
4) SGS Economics and Planning, Australian Cities Accounts 2014-15, http://www.sgsep.com.au/publications/sydney-and-melbourne-race-ahead-mining-boom-fades
8) Unlocking the potential: The Fintech opportunity for Sydney, KPMG and The Committee for Sydney, October 2014, https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Documents/fintech-opportunity-sydney-oct-2014-full-report.pdf
9) Employment Forecasts Q1 2016, Deloitte Access Economics
10) Why Australia: Benchmark Report, Austrade, http://www.austrade.gov.au/International/Invest/Resources/Benchmark-Report

In addition to being the dominant city for finance and insurance firms, inner Sydney has a significant cluster of critically linked industries that support financial services such as Information & Communication Technology ("ICT") and digital services, tertiary education, and creative and professional services.[11]

INDUSTRY CLUSTERS IN THE CITY OF SYDNEY LOCAL GOVERNMENT AREA (LGA)



Source: City of Sydney, Floor Space and Employment Survey 2012

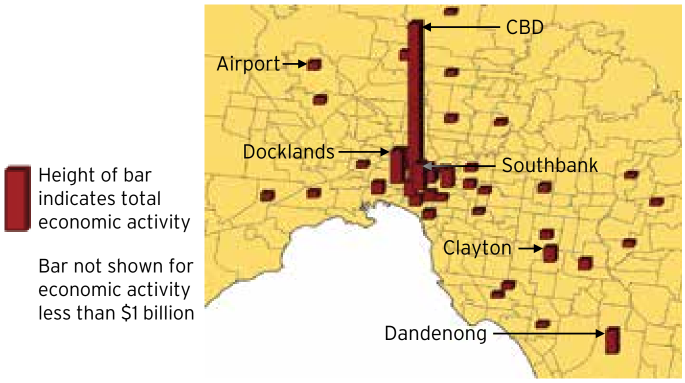
MELBOURNE - INNER URBAN CONCENTRATION OF DIVERSIFIED INDUSTRIES

Melbourne has successfully transitioned from an economy heavily reliant on manufacturing to a diversified economy with significant growth in professional and financial services. According to SGS, these sectors combined represent around 22% of Melbourne's economy, up from around 7% in 1994-95. Over the same period, manufacturing declined from around 18% to 7%.[4]

With regards to Melbourne CBD's white collar workforce, professional and financial services sectors accounted for 39% of employees in 2014-15, up from 35% in 1994-95. Deloitte has forecast this to increase to 41% by 2024-25. Together with this large share of knowledge workers, Melbourne has significant concentration of diversified firms within the CBD and adjacent precincts, such as Southbank and Docklands.[9]

ECONOMIC ACTIVITY IS MOST INTENSE IN INNER MELBOURNE

ECONOMIC ACTIVITY BY LOCATION, 2011-12

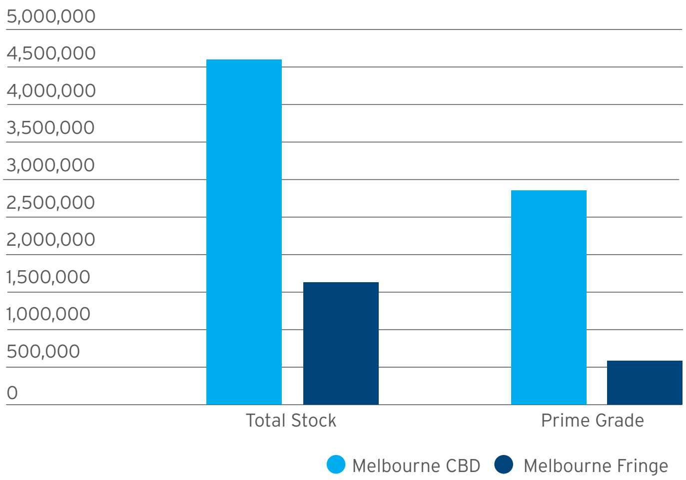


Source: Grattan Institute, Mapping Australia's Economy

In broader Melbourne, location choices are limited for businesses seeking office accommodation given Melbourne has just only a handful of fringe office markets, compared to nine for Sydney, along its Global Economic Corridor. Opportunities for prospective Melbourne tenants seeking to occupy prime quality space are further constrained with prime grade stock just 20% of the levels in Melbourne CBD.[12]

SCALE OF MELBOURNE OFFICE MARKETS – CBD VS FRINGE

TOTAL STOCK AND PRIME GRADE – SIZE IN SQUARE METRES



Source: JLL Research Q1 2016

11) Economic Development Strategy, Sydney's economy: global city, local action, City of Sydney, http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0006/156525/8946_FA5_Economic_Strategy_A4_UPDATE-Final-Low.pdf, page 16

4) SGS Economics and Planning, Australian Cities Accounts 2014-15, http://www.sgsep.com.au/publications/sydney-and-melbourne-race-ahead-mining-boom-fades

9) Employment Forecasts Q1 2016, Deloitte Access Economics

12) Real Estate Intelligence Service (REIS), JLL, Q1 2016

Limitations of quality options and a desire to co-locate with clients and competitors has motivated a diverse range of businesses to migrate to the CBD from suburban locations over the past decade. According to JLL Research, over 50 major tenants have relocated into Melbourne CBD since 2008, totalling over 260,000 square metres. This occurred following the commencement of the Docklands precinct, which recorded over 660,000 square metres of net absorption in the four years prior to 2007, again comprised of significant tenant net migration.[12]

SELECT EXAMPLES OF TENANT MIGRATION INTO THE CBD, PAST FEW YEARS

Industry	Tenant	Lease size (sqm)
Finance & Insurance	AAMI	10,600
Utilities	Melbourne Water	12,200
Government	The Victorian Police Department	28,000
Engineering	Aurecon	9,300
Entertainment	Channel Nine	9,000
Health	BUPA	11,500
Electronics	NEC	5,600
Food Manufacturing	National Foods & Mars Australia	12,000/1,500
Energy	Jemena	12,000
Education	Academy of Interactive Entertainment	2,565

Source: JLL Research.

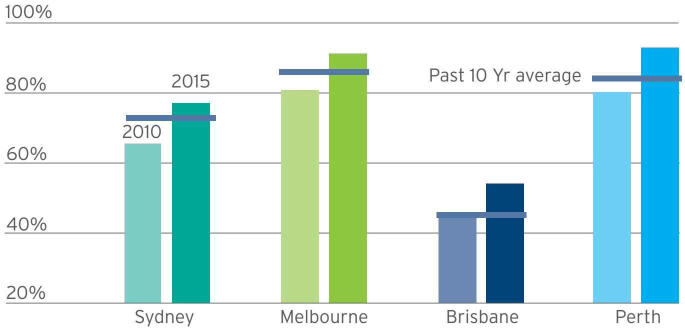
Along with the productivity benefits (co-location with clients and competitors) and a desire to enhance corporate identity, tenant surveys highlight the importance of remaining close and relevant to increasing levels of inner-urban living workforce.

Tech firms have shown a clear preference for CBD markets, seeking locations that support a 24/7 working environment, proximity to immediate amenity and public transport. While well-known major tech firms have been sizeable drivers of office demand in recent years, ICT workers are expected to be a significant driver in office demand. According to Deloitte and customised ABS data, there were around 628,000 ICT workers in Australia in 2015, with 53% employed in industries outside of ICT-related industries, such as in professional and financial services, and the public sector. Demand for ICT workers is forecast to increase by an average annual growth rate of 2.0% per annum over the five years to 2020, compared to 1.4% for the workforce as a whole.[13]

POPULATION - URBAN AREAS ON THE RISE

While often noted that Australia's population growth has been slowing in recent years, it is still the fastest in the OECD after Israel and Luxembourg, and considerably faster than other comparable advanced economies such as Canada, the United States and The United Kingdom. Over the past five years, net population gains in Australia's major cities have been rising as a share of total state net additions. In FY15, gains for major cities also exceeded the past 10 year average share. This was particularly pronounced in the resource states over the past year to June 2015, with both Brisbane and Perth accounting for a higher share of state population growth than the past 10 year average.[15]

CITY SHARE OF STATE POPULATION ADDITIONS
AS AT JUNE 30



Source: ABS, Cat 3218

The population of Australia's largest state, New South Wales, has increased significantly in the past five years, with net gains lifting from around 74,000 per year in FY11 to 104,000 in FY15. Sydney has been the driver of this, with net additions to population rising from 53,000 to over 83,000 in that time. Sydney now attracts four out of every five new New South Wales residents.

NSW NET POPULATION GAINS – SPLIT BY SYDNEY VS REST OF NSW
ANNUAL – YEAR ENDING JUNE 30

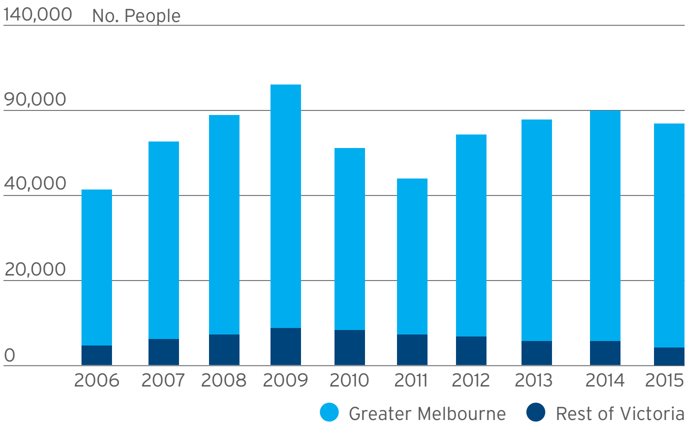
Source: ABS, Cat 3218

12) Real Estate Intelligence Service (REIS), JLL, Q1 2016
13) Australia's Digital Pulse 2016, Deloitte, http://www2.deloitte.com/au/en/pages/economics/articles/australias-digital-pulse.html
14) Population growth rate: Summary tables, OECD.Stat, http://stats.oecd.org/index.aspx?queryid=27482
15) Regional Population Growth 30 March 2016, ABS Cat. 3218.0

Melbourne remains Australia's fastest growing city and continues to record the highest levels of net inflows, averaging around 92,000 additional residents per year for each of the past three financial years.

VIC NET POPULATION GAINS – SPLIT BY MELBOURNE VS REST OF VIC

ANNUAL – YEAR ENDING JUNE 30



Source: ABS, Cat.3218

A look into the inner urban areas of Melbourne shows very strong population growth, recording an additional net increase of 500 people per week on average. Melbourne City alone accounts for one third of all inner growth, with an extra 130 people per week on average.

MELBOURNE INNER RING - AVERAGE NET POPULATION ADDITONS PER WEEK YEAR ENDING JUNE 30

Source: ABS, Cat.3218

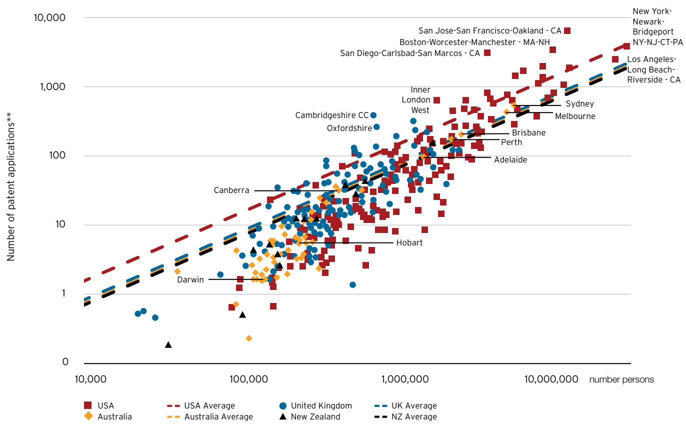
INNOVATION - WHY PROXIMITY MATTERS

"Virtually all of the economic growth has that has occurred since the eighteenth century is ultimately attributable to innovation." William J. Baumol[16]

Driving productivity and innovation growth has become an essential policy priority for Australia as it seeks to build competitive advantage against a background of challenging global market conditions, slowing productivity growth, disruptive technologies, and population changes.

The clustering of innovation is a key feature of knowledge economies and a powerful factor in economic growth. Research from Bankwest Curtin Economics Centre shows that countries and cities with a higher share of population in larger cities tend to be more innovative and larger cities tend to produce more innovations per person than smaller cities. [17]

AVERAGE ANNUAL PATENT APPLICATIONS BY CITY SIZE, 2008-2012*



Notes: *Regions and city sizes based on OECD TL3 statistical areas. In Australia these are equivalent to ABS SA4 regions in regional areas and the sum of SA4 regions in contiguous urban areas. TL3 regions correspond to the new Australian Statistical Geography Standard. The patent count average line is not shown for ACT because there is only one statistical region. ** Patent count data is recorded under the patent cooperation treaty (PCT). The number of patents is the annual average across a five year period – 2008 to 2012.

Source: BANKWEST CURTIN ECONOMICS CENTRE | Data sourced from OECD, REGPAT database, February 2016 available at https://stats.oecd.org/Index.aspx?DataSetCode=PATS_REGION;

Innovative cities tend to have strong universities, effective business university relationships and specialised industrial clusters. Notably, Australia produces a similar number of patents to comparable sized cities in the United States and the United Kingdom.

Using an analysis of patents generated per 1,000 workers, Sydney produced the most patents, closely followed by Melbourne. Brisbane produced slightly more patents than Perth and these larger cities produced more patents on average than smaller Australian cities and non-urban areas.

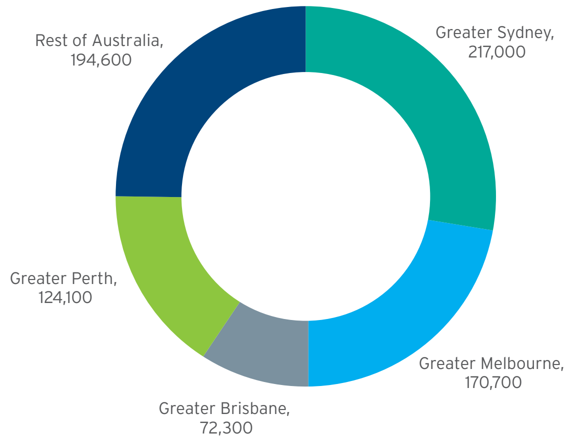
16) Princeton University Press, The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism, William J. Baumol

17) Bankwest Curtin Economics Centre, Positioned for An Ideas Boom, Productivity & Innovation in Australia, March 2016, http://business.curtin.edu.au/wp-content/uploads/sites/5/2016/03/bcec-positioned-for-an-ideas-boom-report.pdf

EMPLOYMENT - THE IMPORTANCE OF MAJOR CITIES IN JOB GENERATION

In the past five years, Australia's terms of trade underwent a rapid escalation, peak and then sharp decline. In the upswing, employment in regional locations swelled along with net overseas population growth as strong price rises in commodities prompted a tremendous construction investment boom. In the past five years to November 2015, however, 75% of all net job gains occurred in the major capital cities of Sydney, Melbourne, Brisbane and Perth and 50% were created in Sydney and Melbourne alone.[18]

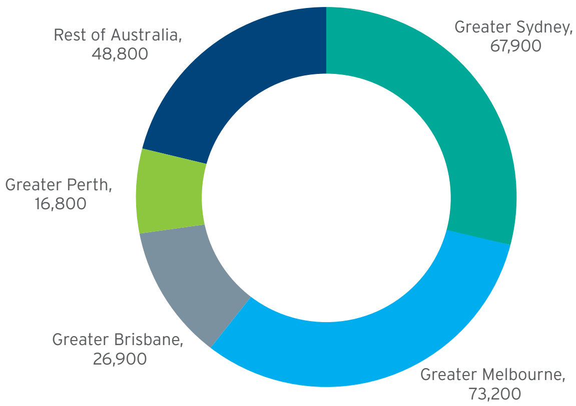
PROPORTION OF NET JOB GAINS
PAST 5 YEARS TO NOV 2015



Source: Dept of Employment, Labour Market Information Portal

Over the 12 months to November 2015, the strength of the urban areas and the diversified cities is apparent; 79% of all net Australian job gains occurred in Sydney, Melbourne, Brisbane and Perth and 60% were created in Sydney and Melbourne alone.

PROPORTION OF NET JOB GAINS
PAST YEAR TO NOV 2015

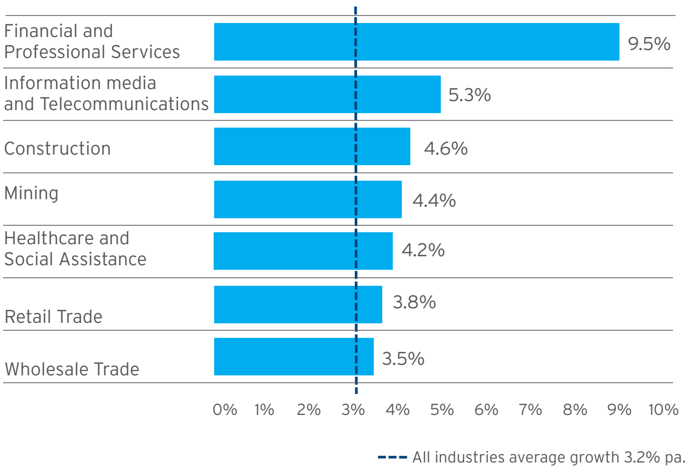


Source: Dept of Employment, Labour Market Information Portal

Over the next five years, the Federal Government is forecasting service sectors to remain the largest net employers.[19] While health care and social assistance is expected to record strong net job gains (250,000), the professional and finance services sectors are expected to record strong gains of 189,000 additional jobs over the next five years.

When combined, the finance and professional services sectors were the largest contributing industries of economic growth - 16% of real gross value added in FY15.[10] The growth rate of these sectors has far exceeded other industries at 9.5% cumulative per annum since 1991-92. This compared with Australia's overall service sector which has expanded by an average of 3.3% per annum in that time.

GROWTH BY INDUSTRY – AUSTRALIA'S REAL GROSS VALUE ADDED – TOP INDUSTRIES
ANNUAL % GROWTH RATE 1991-92 TO 2014-15

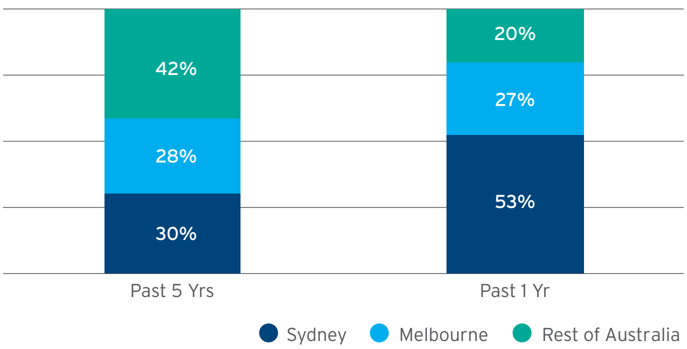


Source: Austrade Why Australia: Benchmark Report

18) Labour Force Region (SA4), Department of Employment, Labour Market Information Portal: LMIP, http://lmip.gov.au/
19) Department of Employment 2016 Projections, http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections
10) Why Australia: Benchmark Report, Austrade, http://www.austrade.gov.au/International/Invest/Resources/Benchmark-Report

Looking deeper into the locations of these professional services jobs sees Sydney and Melbourne accounting for almost 60% of the gains over the past five years. In the year to November 2015, these two cities accounted for 80% or four in every five Australian professional services jobs.[18]

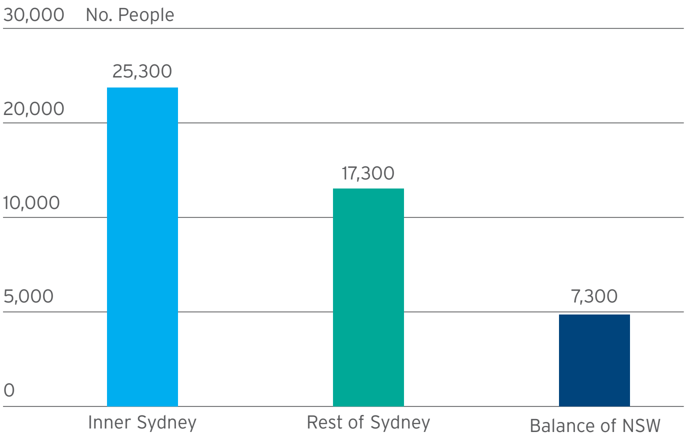
PROPORTION OF GAINS IN PROFESSIONAL SERVICES JOBS BY LOCATION, PERIOD ENDING NOV 2015



Source: Dept of Employment, Labour Market Information Portal

In both Sydney and Melbourne, it was residents of inner urban areas that recorded more than 50% of net gains in professinal services jobs over the past five years. A further 35-38% of job gains have been from residents in the metropolitans living outside of the inner urban areas.

NET GAINS IN SYDNEY PROFESSIONAL SERVICE JOBS – PAST 5 YEARS BY EMPLOYEES RESIDENT LOCATION ENDING NOVEMBER 2015



Source: Dept of Employment, Labour Market Information Portal

NET GAINS IN MELBOURNE PROFESSIONAL SERVICE JOBS – PAST 5 YEARS BY EMPLOYEES RESIDENT LOCATION ENDING NOVEMBER 2015

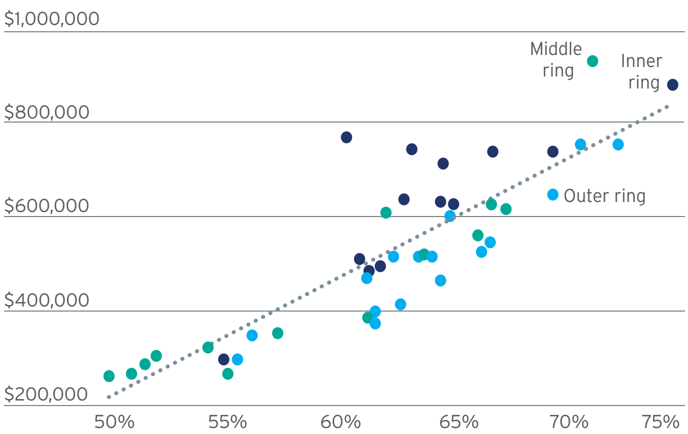
Source: Dept of Employment, Labour Market Information Portal

NET WEALTH & HOUSING EQUITY - SIGNIFICANTLY STRONGER IN SYDNEY & MELBOURNE

An analysis of home equity levels shows that households in Australia's largest cities have higher equity levels than their state averages. Sydney and Melbourne record equity levels above 50% on average.[20]

When looking deeper at locations within Sydney and Melbourne, Sydney's inner suburbs broadly have levels of equity of more than A$500,000 with almost all inner and middle ring locations having equity levels greater than 60%.

SYDNEY – HOME EQUITY BY LGA

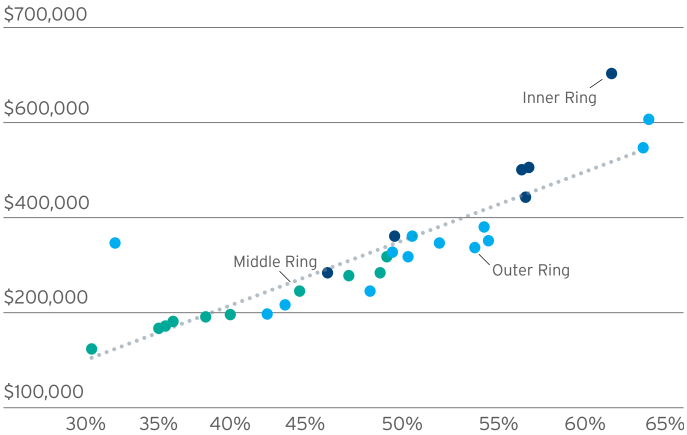


Source: Housing Equity Report, Aussie/CoreLogic[20]

Melbourne inner ring households have equity levels generally higher than 50% while outer ring locations range from 35-50%.

18) Labour Force Region (SA4), Department of Employment, Labour Market Information Portal: LMIP, http://lmip.gov.au/
20) Housing Equity Report, Aussie/CoreLogic RP Data, https://www.aussie.com.au/home-loans/property-reports/home-equity.html

MELBOURNE – HOME EQUITY BY LGA



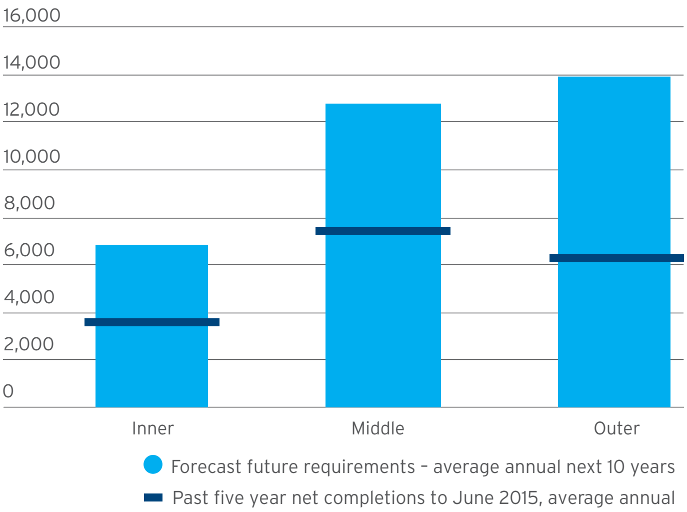
Source: Housing Equity Report, Aussie/CoreLogic[20]

SYDNEY RESIDENTIAL - SUPPLY & FUTURE DEMAND BY LOCATIONAL RING

Forecast data on residential requirements, as well as past net completions, offers insight into Sydney's strong, long demand cycle. Almost all locations within Sydney's inner, middle and outer rings are expected to have far stronger annual dwelling requirements over the next ten years than what was seen completed on average over the past five years.[21,22]

SYDNEY DWELLINGS – PAST SUPPLY VS FUTURE REQUIREMENTS[21,22]

SPLIT BY INNER, MIDDLE AND OUTER RING



GLOBAL CAPITAL - CHASING QUALITY IN CORE CITIES

According to analysis from LaSalle Investment Management, the 20 largest global cities account for nearly 40% of all institutional real estate, which is disproportionate to their Metropolitan GDP, which in total accounts for 15% of world output.[23]

LaSalle IM conclude that just a handful of markets account for the majority of global institutional real estate. Commercial property value is not evenly distributed, but overwhelmingly concentrated in a few urban markets.

For example, research from Investment Property Forum says that Greater London accounts for 36% of all real estate by value in the Unite Kingdom while Greater Tokyo accounts for approximately 60% of all institutional investment, by value, based on survey data from Sumitomo and JREIT holdings.[23]

The major cities of the G7 countries (United States, The United Kingdom, Japan, Germany, France, Italy, Canada) plus Australia, account for nearly 60% of the institutional real estate universe. LaSalle estimated that Sydney is ranked 13th in a list of global cities total commercial real estate value. Melbourne is ranked 23rd.

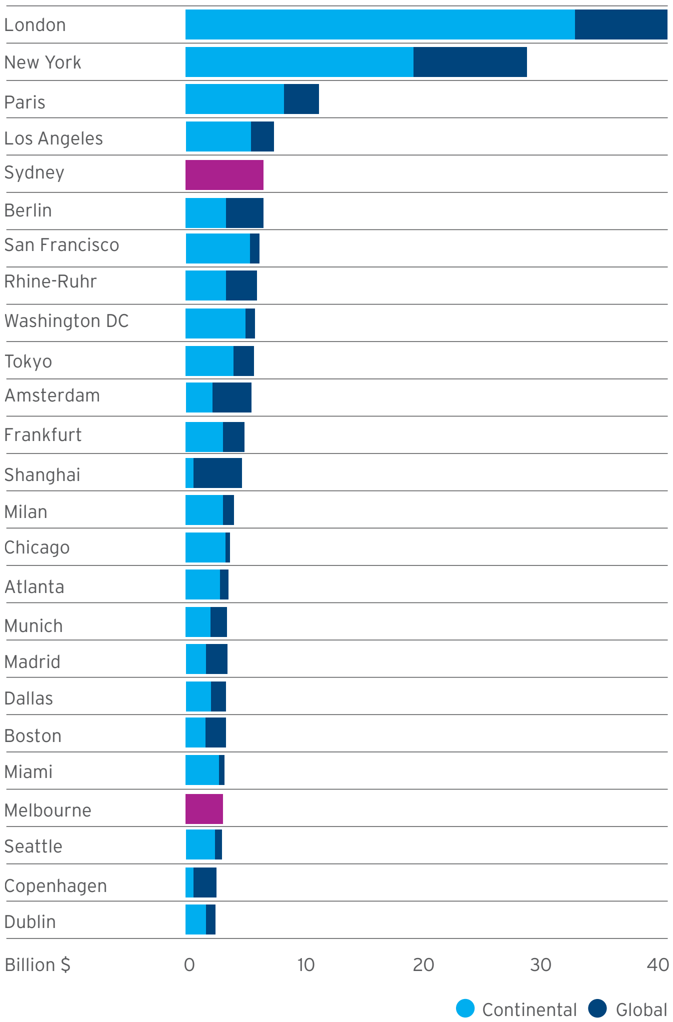
Capital allocations to real estate continue to increase globally,[24] but sourcing of product is often highlighted as a major barrier to investment. Across Asian emerging markets, it can be challenging to acquire quality assets as developers and conglomerates have long term hold investment horizons. A lack of institutional-quality assets and lower transparency are also obstacles. Australia remains an attractive destination for global capital, being one of the few advanced economies in the region and the only Asia Pacific country (other than New Zealand) ranked as a highly transparent real estate market [25]

Cross border capital volumes surged in 2015 as global volatility and geopolitical risks increased.[26] As and when volatility returns to capital markets, investors will want safety and liquidity of high quality assets in core cities. According to JLL's analysis of direct real estate investment in a city over a three year period, relative to the city's economy size, Sydney, Melbourne and Brisbane ranked in the top 20 destinations globally.[27] Sydney was in the top five, with Melbourne placed tenth. With offshore investors accounting for more than 40% of commercial property transactions in 2015, appealing factors included improving market fundamentals, an active technology sector, transparency, liveability and sustainability.

Australia's major urban markets also now offer the prospect of better net operating income growth, with an outlook of declining vacancy rates, stronger business conditions and tightening employment markets. We think this offers the best defence against any future risks of rising cap rates - the creation and ownership of high-quality assets in preferred markets capable of above-average growth, leads to enhanced value appreciation and the best offset of potential risks in softening cap rates.

21) Housing Monitor Reports, Sydney Region Local Government Area Net Dwelling Completion, NSW Planning & Environment, http://www.planning.nsw.gov.au/Research-and-Demography/Research/Housing-Monitor-Reports
22) NSW Projections - Sydney Metro LGA data, NSW Planning & Environment, http://www.planning.nsw.gov.au/Research-and-Demography/Demography/Population-Projections
23) LaSalle Investment Management Research, The 2016 Global Real Estate Universe, lasalleresearch.com
24) IPD, Global Annual Property Index Webinar, 2015 Results, www.msci.com
25) Global Real Estate Transparency Index, 2014, JLL http://www.jll.com/GRETI
26) Real Capital Analytics, Global Capital Trends 2015 Year in Review, https://www.rcanalytics.com
27) JLL Real Estate Investment Intensity Index, March 2016, http://www.jll.com/research/172/jll-III-q4-2015

TOP 25 MARKETS FOR CROSS BORDER INVESTORS IN 2015



Source: Real Capital Analytics[26]

CONCLUSION

The ongoing reshaping of Australia's economy towards knowledge-intensive industries will continue to drive the competitiveness of our major cities. Just as economic activity has become more highly concentrated in major cities around the world, Australia's largest cities, particularly Sydney and Melbourne, have greater connection with the global economy than other locations within Australia.

Urban areas outperform national benchmarks on metrics such as economic activity, employment generation, growth of high-value knowledge industries, population additions, household net worth and housing equity.

So too, global capital flows and indeed commercial property value, is overwhelmingly concentrated in a few urban markets around the world. Australia's major cities, along with G7 countries, account for over half the global real estate universe and offer investors deep liquidity for prime grade assets as well as high transparency and resilience.

Mirvac's urban strategy, focused on ownership and creation of quality assets, caters to the greatest depth of demand and offers better prospects for achieving higher growth and return outperformance for investors.

Our portfolios across all four sectors are strategically overweight to Sydney and Melbourne and have delivered strong metrics as a result of the strategy put in place three years ago. We will continue to leverage our urban footprint and seek to grow our exposure in these markets in the future.