

15 January 2019

APN Funds Management Limited
Level 30, 101 Collins Street
Melbourne Victoria 3000

Dear Sir/Madam

RE: COMMERCIAL MARKET OVERVIEW, NEWCASTLE, NSW

Colliers International (Newcastle) Pty Limited has been instructed by APN Funds Management Limited to provide an overview of the commercial property market in Newcastle, and have pleasure in reporting as follow.

The key facets of the Newcastle market are summarised below:



\$650 million government investment in infrastructure has resulted in over \$3 billion of development activity in the CBD



Newcastle light rail is due to be running early 2019, with the Honeysuckle light rail stop adjacent to Honeysuckle House



Proximity to major markets, affordability and lifestyle offering are key drivers for businesses staff attraction and retention



Healthcare and social assistance is the largest industry in the Newcastle LGA (18.24%), followed by manufacturing and retail trade



Total commercial market is approximately 306,300 square metres
Newcastle A Grade market is approximately 105,028 square metres



Newcastle A Grade vacancy rate currently estimated at 4.26% (January 2019)
Strongest non-metropolitan office market in Australia



Average A grade net face rental \$395/sqm



HONEYSUCKLE HOUSE
TOWER I & II



OUTLINE INDICATIVE ONLY

LOCATION

The properties are located on the southern side of Honeysuckle Drive adjacent to the Steel Street intersection, within the Newcastle CBD. The site is located within the Honeysuckle Precinct that incorporates A Grade commercial buildings and existing and proposed prestige residential developments.

The properties are approximately 450 metres from the Newcastle Interchange, 430 metres from the University of Newcastle's (UoN) expansion site in Honeysuckle, and 800 metres from UoN's existing 'NeW Space' campus.

HONEYSUCKLE

The properties are centrally located within the Honeysuckle Redevelopment Project, within close proximity to the Newcastle CBD and the recently completed Newcastle Interchange.

Surrounding development currently comprises a diverse range of residential and commercial projects. There are six A Grade commercial buildings including Honeysuckle House from Steel Street to Worth Place. Situated on the south-western corner of Honeysuckle Drive and Worth Place is the residential project known as Edition (72 apartments), however owing to the aspect and harbour views available, there are three mixed use projects in various stages of development extending along Honeysuckle Drive. The University of Newcastle has also prepared a master-plan for a 2.2 hectare superlot in the precinct.

NEWCASTLE

Newcastle is recognised as the economic hub of the Hunter Region and is currently experiencing a significant level of investment across a key number of sectors. The \$650 million NSW Government commitment to revitalising Newcastle's city centre seeks to stimulate urban transformation by strengthening connections between the city and waterfront, creating job opportunities, providing new housing and delivering attractive public spaces connected to better transport.

Due to the region's excellent connectivity to Sydney, being approximately 160 kilometres north of the Sydney CBD, the Hunter Region is a viable alternative to Sydney for many businesses. The proximity to major markets is also enhanced by direct flights from Newcastle Airport to Brisbane, Sydney, Canberra and Adelaide, along with international flights to New Zealand.

The Hunter Region has a population of more than 650,000 and is considered the leading regional economy in Australia. The Hunter Region produces a Gross Regional Product of \$48.351 billion (REMPAN 2017).

The connectivity, affordability and lifestyle offering are seen as key drivers for business staff attraction and retention.

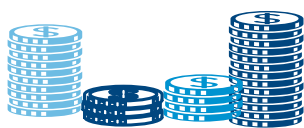
DEMOGRAPHIC SNAPSHOT



651,610 people*



37.2% of the population
professionals and managers**



\$1,778 per week
Median family income**



37 years
Median age**

SOURCE: ABS *Hunter Region **Newcastle LGA





OUTLINE INDICATIVE ONLY

HONEYSUCKLE DEVELOPMENT



UNIVERSITY OF NEWCASTLE - A 22,053 square metre superlot conditionally secured in Honeysuckle to further strengthen the University's CBD presence. A master plan has been developed and is on public exhibition.



21 HONEYSUCKLE DRIVE - The LUME project comprising 154 apartments. Construction has commenced on the 7,292 square metre parcel of prime waterfront land following a marketing campaign in October 2017 that was well received by purchasers.



35 HONEYSUCKLE DRIVE - The \$35 million Huntington project comprising 88 apartments, together with circa 1,500 square metres of ground floor retail accommodation. The development is directly east of the Lee 5 site, situated on north facing waterfront holding extending to approximately 5,250 square metres.



42 HONEYSUCKLE DRIVE - Comprising a \$45 million four-star 149 room Little National Hotel, together with 52 residential apartments and five serviced apartments, known as Halcyon and more than 1,000 square metres of commercial and restaurant space. The development is opposite the Lee 5 site on a 3,728 square metre holding, situated to the western end of the existing built form in Honeysuckle.



Artist Impression - 854 Hunter Street, Newcastle



Newcastle Law Courts



Artist Impression - Newcastle Airport

NEWCASTLE INFRASTRUCTURE

TRANSPORT INFRASTRUCTURE UPGRADES

- The Newcastle Interchange forms a key part of the NSW Government's plans to revitalise Newcastle, with construction having been completed.
- Newcastle Light Rail is an important new transport initiative that will transform the city centre. It will strengthen connections between the city and the waterfront, provide more public space and amenity, and deliver more public transport – activating Hunter and Scott Streets and bringing people back into the city centre. The introduction of light rail in the city centre will transform the way Newcastle functions and help create a world-class harbourfront city.
- The NSW Government has selected national transport group Keolis Downer to plan and run Newcastle Light Rail, buses, ferries and the interchange.
- The Williamstown Royal Australian Air Force (RAAF) base has been approved for \$1.5 billion in Federal Government Funding to upgrade roads, buildings, runway and facilities for the new Joint Strike Fighter Fleet.
- Newcastle Airport completed its planned \$1.6 million upgrade in August 2017, with the terminal infrastructure upgrade demonstrating their commitment to securing international flights. In 2016-17, a record 1.257 million passengers* traveled through the airport, representing growth of 6.6% on FY16. In March 2018, the Airport released its master plan, with the 2036 Vision stating that Newcastle Airport will become the Airport the Hunter Region deserves, offering direct international flights to key trading and tourism destinations. Passenger numbers are forecast to grow to 2.649 million* by 2036 and 5.57 million* by 2076.

EDUCATION

- NeW Space is a landmark education development by the University of Newcastle. The \$95 million campus is located in the heart of Newcastle CBD and caters for over 3,000 students.
- The University of Newcastle has lodged a concept development application for the University of Newcastle, Honeysuckle City Campus, comprising seven new buildings for academic and ancillary uses, including student accommodation with a maximum gross floor area of 62,573 sqm. The campus will extend over a circa 22,053 square metre superlot within Honeysuckle. Development of the site will enhance the University's CBD Presence through the development of a dedicated facility that complements existing uses and provides new support services and functional areas including expanded library, collaboration spaces, community venues and student accommodation. The project has a capital investment value of approximately \$382.50 million.
- Japanese based Nihon University has purchased the former Newcastle Law Court to house the university's first ever Australasian campus. The heritage-listed building will be restored to include classrooms for up to 200 local and international students, a library and a 100 bed dormitory.

NEWCASTLE LAW COURTS

Construction of the new justice complex has been completed. The seven-storey building comprises ten court rooms and two tribunal rooms.

URBAN RENEWAL

With the removal of heavy rail lines and overhead pedestrian bridges in the former corridor, new public domain is under construction for the emerging community to enjoy. Works have been completed on the Market Street Lawn public domain, creating a vibrant and engaging public space for the community.

HUNTER STREET RENEWAL

Stage One of Iris Capitals' East End project has begun, comprising the redevelopment of Hunter Street from Perkins Street to Newcomen Street. The site extends to 1.66 hectares and once fully developed will include over 500 apartments including one, two and three bedroom options, approximately 4,900 square metres of mainly boutique shops and cafes at ground level and 2,700 square metres of office space.

*2036 Newcastle Airport Vision

THE ECONOMY

Newcastle's Gross Regional Product is estimated at \$17 billion. Newcastle represents 35.13% of Hunter Region's GRP of \$48.4 billion, 2.95% of New South Wales' Gross State Product (GSP) of \$576.7 billion and 0.97% of Australia's GRP of \$1.75 trillion*.

As illustrated on the following page, Newcastle and the Hunter Region benefit from a diversified local economy that stretches well beyond the traditional industrial functions associated with coal. The economy is based on a range of industries including finance, health, education, tourism, commercial, cultural and trade, with a major area of economic growth being knowledge-based industries.

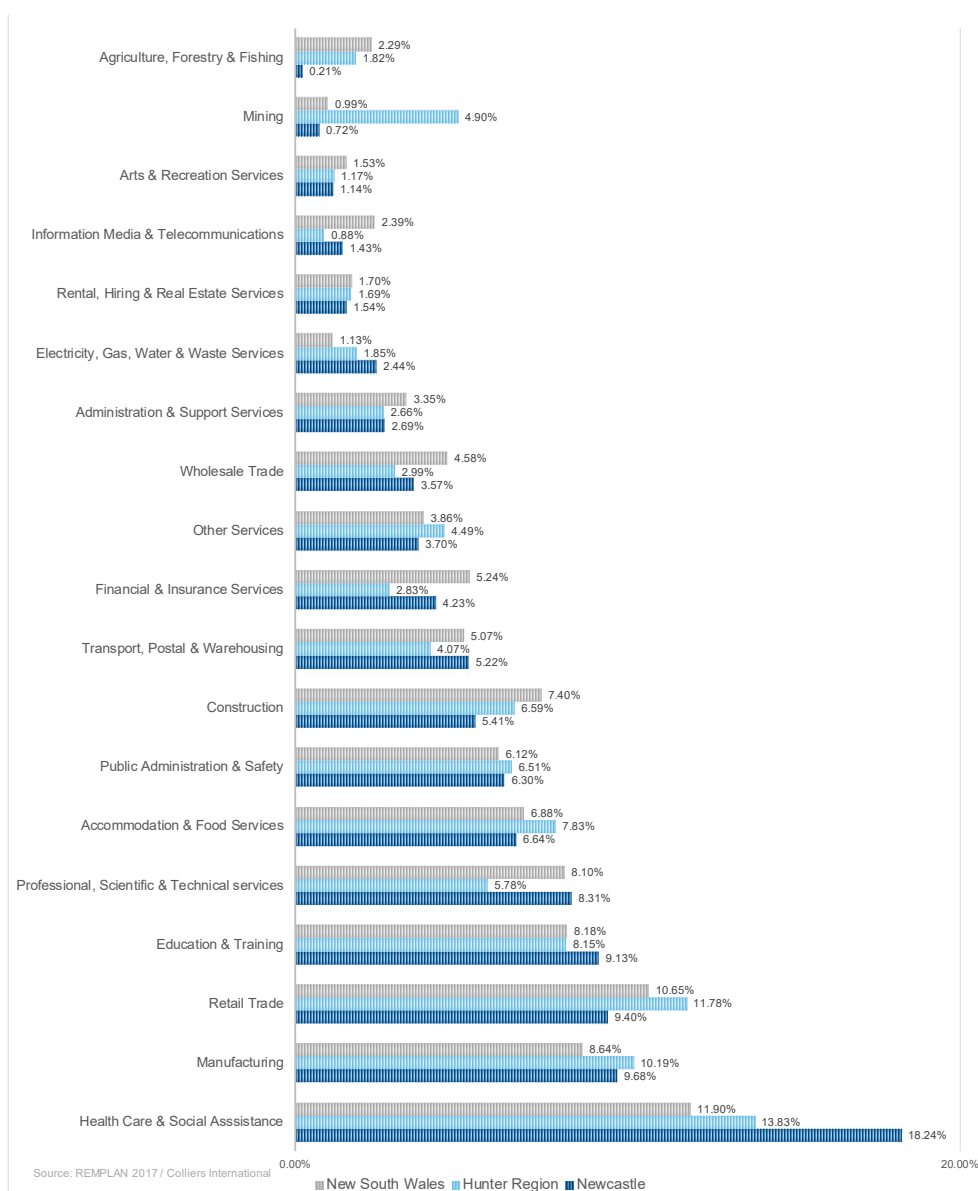
\$48.351 billion

Hunter Region
Gross Regional Product

Over the next 20 years, economic growth in the Hunter region will lead to a reduction in the importance of mining and manufacturing as the region continues to diversify into areas such as health care, finance professional services, and knowledge based industries.

The diversified local economy is illustrated below, with Newcastle's top ten industry sectors shown in comparison to the Hunter Region and NSW as follow:

EMPLOYMENT BY INDUSTRY



WORK FORCE

The Hunter will benefit from jobs growth with the projected amount of jobs in the Hunter Region growing by 8.1% or 24,500 jobs by 2020*. The biggest sources of new employment are Health Care, Business Services, Education and Hospitality which have been reviewed below.

HEALTH CARE

Health care is currently the largest employment sector in the Hunter and the fastest growing. By 2020, the sector is projected to account for one in six Hunter jobs which is above the State average*.

Growth is underpinned by its focus on health research through the oldest Medical School outside metropolitan areas, two large teaching hospitals and the Hunter Medical Research Institute.

EDUCATION & TRAINING

Education is the Hunter Region's seventh largest employment sector and is the second-fastest projected growth to 2020. Hunter education and training jobs growth is projected to outpace the rest of the State and Nation.

HOSPITALITY

Hospitality has seen strong growth in the Hunter Region and is expected to continue, underpinned by improved domestic and international tourism and recent announcements including the Newcastle Cruise Terminal and the Newcastle Airport upgrade.

BUSINESS SERVICES

The Hunter Service sector provides a similar number of jobs and skill mix to health. The sector is expected to be the second most important contributor to overall employment growth. Service sector jobs are most concentrated in the Newcastle CBD and, to a lesser extent, the urban centres of Charlestown and Maitland.

8.1%
increase in jobs
predicted by 2020



Between 2015 to 2020*:

24%

growth in
Health Care

18%

growth in
Education and training

14%

growth in
Hospitality

12%

growth in Business
Services



*Source: ABS
REI NSW
Newcastle Regional Plan 2036

COMMERCIAL OVERVIEW

The Lower Hunter region features two major central business districts within the Local Government Areas (LGA's) of Newcastle and Lake Macquarie providing a combined total 306,300m² of commercial floor space. The City of Newcastle is considered the business capital of the Hunter Region and the latest Property Council of Australia (PCA) data indicates that Newcastle CBD provided some 253,956m² of commercial floor space as at 1 January 2018. Commercial stock in the CBD is predominantly A and B Grade, representing 76% of the market.

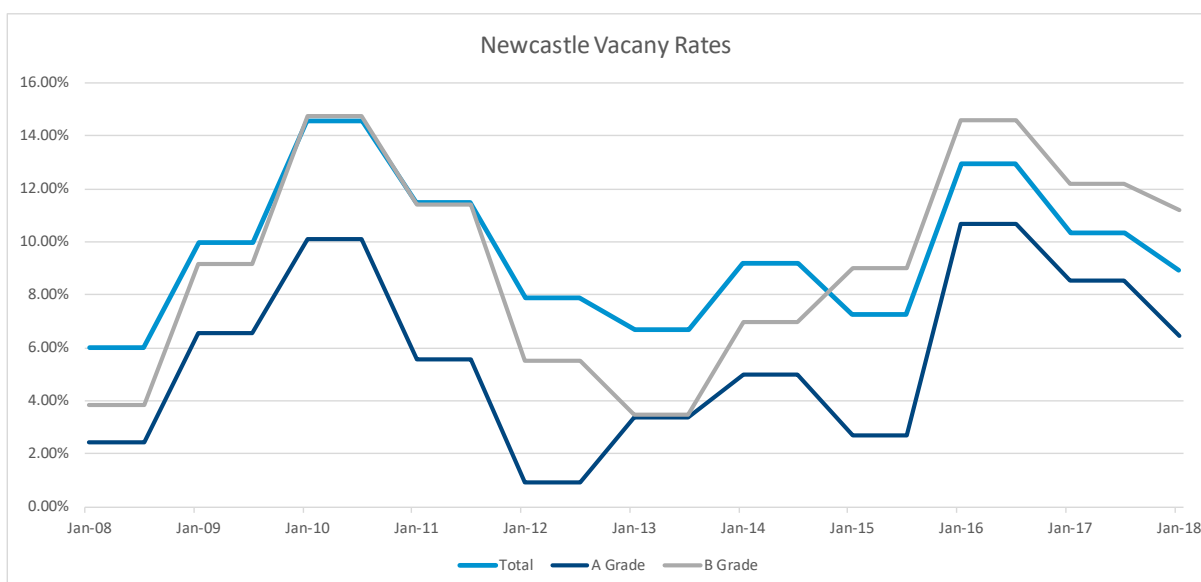
Grade	Stock (m ²)	Vacancy (m ²)	Vacancy (%)
	2017 - 2018	2017 - 2018	2017 - 2018
A Grade	105,028 - 105,028	8,992 - 6,756	8.6% - 6.4%
B Grade	86,850 - 88,100	10,593 - 9,851	12.2% - 11.2%
C Grade	53,415 - 51,195	6,078 - 5,334	11.4% - 10.4%
D Grade	9,808 - 9,633	696 - 802	7.1% - 8.3%
Total	255,101 - 253,956	26,359 - 22,743	10.3% - 9.0%

4.26%
A Grade
Vacancy rate*

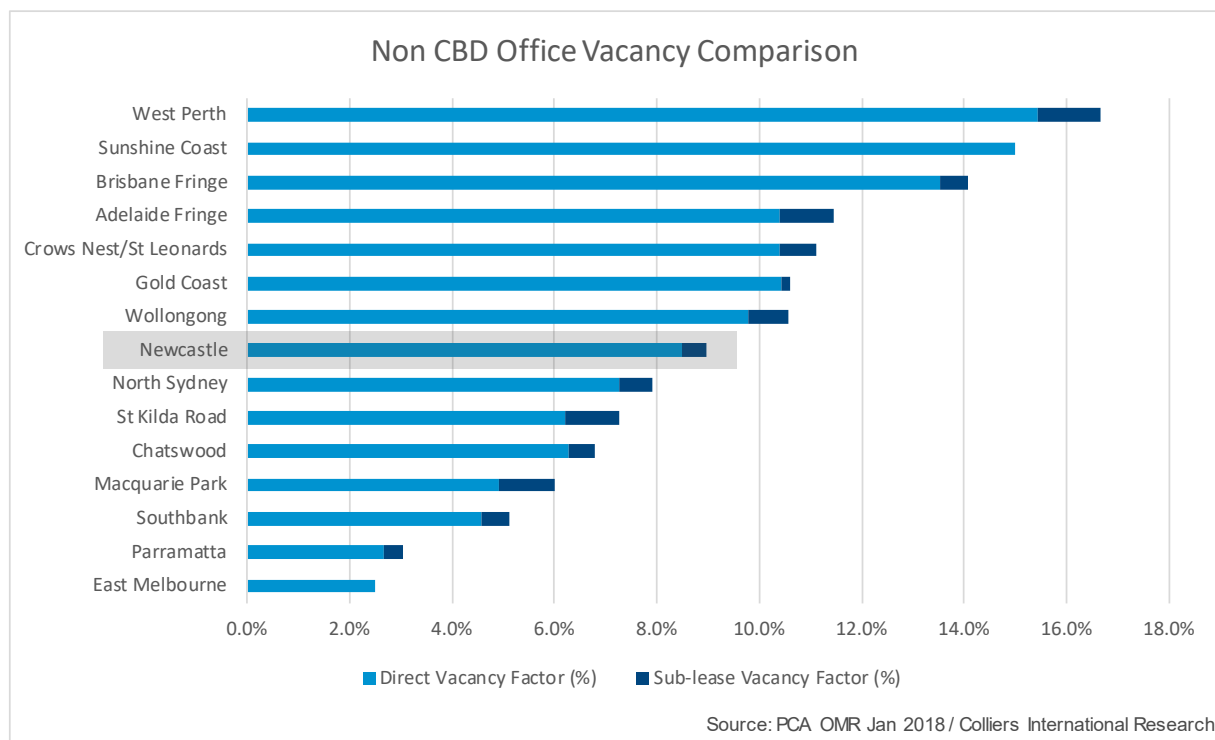
The A grade vacancy rate is forecast to decrease in the short term, with A Grade demand absorbed by Stage II of the 10,100 square metre Gateway project. The project is fully leased, with Newcastle City Council committing to over 5,000 square metres. The building is anticipated to be completed by Q1 2019.

Owing to the fact that the current Newcastle City Council administration building is not included in the Property Council's A Grade stock, the vacancy is anticipated to decrease to sub 5% by 2019/20 upon occupation of the Gateway Stage II development.

The overall performance of the Newcastle market is considered strong, with reference to the PCA Office Market Report showing that the only other Non-CBD markets with lower vacancy rates are within metropolitan locations as detailed over leaf.



*Assessed by Colliers International January 2019



Newcastle CBD accommodates financial and insurance services, public administration, health care and professional service uses, although Government Agencies (State and Federal) represents approximately 40% of the A Grade market.

The majority of new A Grade tenants have upgraded from lower grade stock or suburban locations, with companies motivated to improve their corporate profile and to attract/retain skilled labour. Improved business conditions and confidence from smaller business, together with stock withdrawals over the last few years has kept the lower grade vacancy rates in check.

LEASING MARKET FUNDAMENTALS

As at December 2018 average gross A Grade rental levels in Newcastle CBD ranged between \$480 and \$500 per square metre with B Grade floor space at \$275 and \$300 per square metre. Incentives for A-Grade accommodation typically range between 7% and 15%, however there has been instances in the last twelve months whereby larger incentives have been offered by some institutional owners. Conversely, B Grade rentals have declined as vacancy increases and tenants upgrade to A Grade accommodation.



COMMERCIAL OVERVIEW

FULLY COMMITTED NEW SUPPLY KEEPS MARKET VACANCY SHORT TERM OUTLOOK LOW



Doma Group's recently completed (Q1 2017) 6,894 m² A Grade building at 18 Honeysuckle Drive is the most recent new A Grade building in the market.

The building has a typical floor plan of 1,284 m², with 104 secure car spaces and 40 bicycle storage spaces.

The development has achieved a 5 star Greenstar and 4.5 NABERS rating.



Stage II "The Gateway" is under construction and is anticipated to be completed by Q1 2019. Newcastle City Council announced in December 2017 they will relocate its administrative headquarters to the new building, having signed a new 15 year lease over 5,550m² of office space. As a consequence of the Council decision the 11,675 m² five storey A Grade Commercial Office development at 12 Stewart Avenue, Newcastle West is now fully leased.



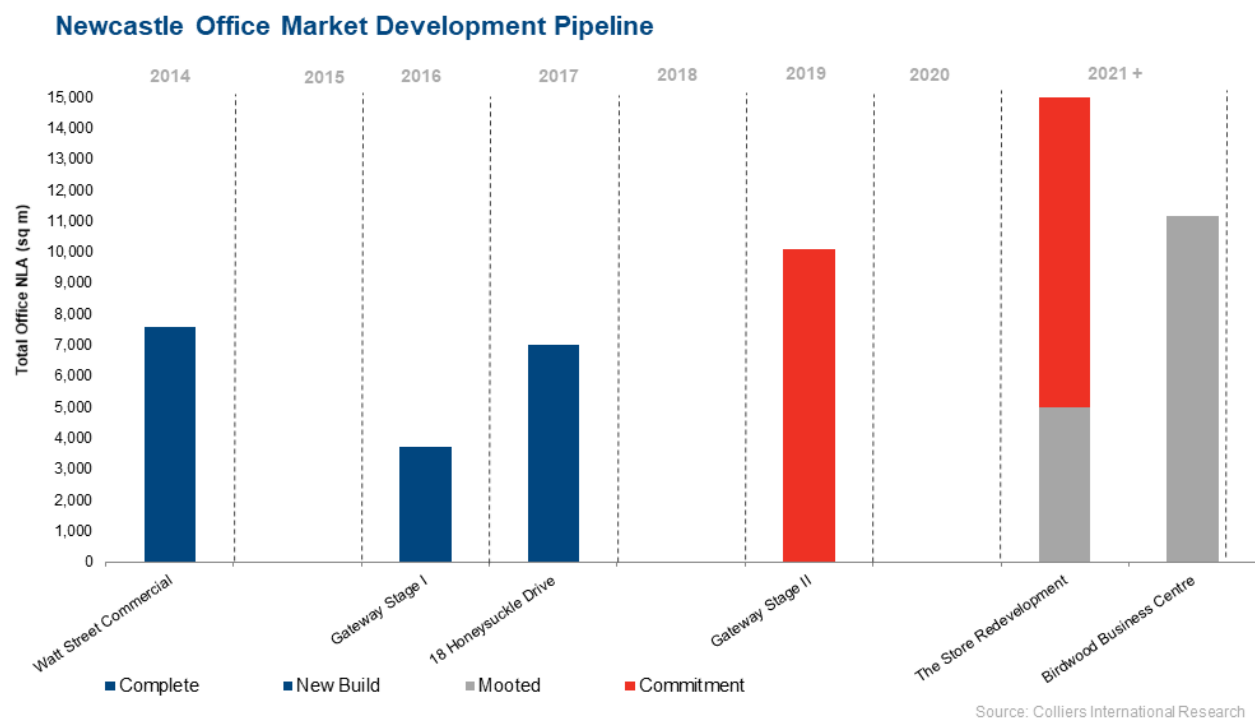
The proposed development has been designed as two towers with a shared entry and car park for 263 vehicles. The development is targeting a 4.5 star NABERS energy rating.

The Council relocation, combined with A Grade developments within Honeysuckle and The Store redevelopment aligns with the planning strategies to move the commercial hub towards the west end of the CBD.



Hunter Development Corporation (HDC) announced in April 2018 that DOMA Group had successfully acquired The Store site. Colliers International marketed the 1.20 hectare site at 854 Hunter Street, Newcastle West, which is capable of circa 60,000 square metres Gross Floor Area. The \$200 million development of the site is proposed to incorporate a bus interchange, which will be integrated with the adjoining heavy rail and light rail stations, providing for residential apartments within two 90 metre towers, 16,600m² of commercial office space and associated retail space. The commercial component was underpinned by a large leasing requirement from Property NSW.

The development pipeline for Newcastle is illustrated as follows:



The urban renewal program and planned \$650 million investment in infrastructure by the NSW State Government has improved sentiment, with our project marketing team evidencing unprecedented demand for apartment living, which has resulted in continued demand from national and local developers. As a result, the CBD is being transformed with education, residential, commercial and retail development, complemented by attractive open public spaces.

As a result of the urban renewal, the feasibility of either upgrading or adaptively reusing older buildings has also improved, and whilst leasing lower grade stock remains challenging, the above facets has seen strong demand and sales activity.

This potential new supply, coupled with back-fill vacancy by the respective Property NSW agencies is anticipated to result in a short-term increase in the A Grade vacancy levels once The Store redevelopment is completed. This is currently anticipated to be circa FY2021.



PLANNING/DA APPROVAL

1. 20 Denison Street | \$14m
2. 495 & 501 Hunter Street | \$19.8m
3. 990 Hunter Street | \$20.9m
4. Empire Hotel Site | \$26m
5. 291 King Street | \$9.4m
6. 313-317 Wharf Rd Student Accom | \$22.5m
7. 21 Parnell Place | \$7.1m
8. Annie Street Residential | \$38m
9. 12-14 Hall Street | \$7.8m
10. 5 Hall Street, Maryville | \$8.3m
11. Nihon University
12. 815 Hunter Street | \$9.39m
13. 59 Darby Street | \$19,790,000m
14. Merewether Street Affordable Housing | \$5m
15. Horizon, 45 Honeysuckle Drive | \$TBC



UNDER CONSTRUCTION

1. Verve | \$74m
2. "East End" Stage One | \$83m
3. Herald Apartments | \$42m
4. Parque Apartments | \$8.3m
5. Stewart Avenue (Mixed Use) | \$21m
6. 510 King Street, Residential Care | \$44m
7. Lume, 21 Honeysuckle Drive | \$47m
8. 116 Parry Street | \$3m
9. Parry Grande, 122-124 Parry Street | \$12.5m
10. 854 Hunter St | \$200m



COMPLETED PROJECTS

1. The Huxley Apartments | \$9m
2. 25 Throsby Street Apartments | \$5.4m
3. Edition Apartments | \$38.5m
4. M on Watt | \$3.7m
5. Quest Apartments | \$8.3m
6. AERO Apartments | \$13m
7. Spire Apartments | \$57.5m
8. Civic Green Apartments | \$13.6m
9. Arena Apartments Newcastle | \$65m
10. 121-123 Union Street | \$6.6m
11. Bishopsgate Apartments | \$9.3m
12. "Millhorn" 5-11 Wickham St | \$11.2m
13. West End Apartments | \$18.8m
14. Holiday Inn Express | \$26.3m
15. Go Kindy, 745 Hunter Street | \$4.2m



PRE-SALES

1. Stella on Hannell | \$39m
2. Sky Residences, 509 Hunter | \$TBC
3. Neufort, Railway Lane | \$60m
4. Little National Hotel, 42 Honeysuckle Drive | \$40m
5. Eaton on Union, Wickham | \$25m
6. The Crossing, Merewether St | \$19m
7. Huntington, 35 Honeysuckle Drive | \$TBC
8. Ireland Bond Apartments | \$4m

GOVERNMENT INVESTMENT PROJECTS

1. Cruise Ship Terminal | \$12.7m
2. Newcastle Transport Interchange | \$73m
3. CBD Light Rail | \$510m
4. V8 Supercars
5. University of Newcastle Campus Space | \$450m
6. NeW Space University of Newcastle Campus | \$95m
7. State Law Courts | \$90m

Colliers
INTERNATIONAL



OUTLOOK

We are anticipating A Grade gross face rental growth to increase throughout 2019 based on the existing low A Grade vacancy, with the current supply being fully pre-committed that increases the A Grade stock level to over 115,000 square metres.

The long term outlook is likely to be impacted by potential new supply and back-fill space once the transport orientated development of The Store site is completed. The exact composition and timing of this project remains unknown as at the date of this report, however there remains the risk that A Grade vacancy rates can increase, which will result in increasing incentives, however rents are anticipated to remain constant. Furthermore, the time lag before the completion of any development at The Store site may result in further pent-up demand, noting the average A Grade net absorption since 2009 has been 4,048 m² per annum.

Notwithstanding the Revitalising Newcastle Program, the construction of the light rail is also anticipated to attract more demand for A Grade stock, with Newcastle becoming a viable alternative to other markets for expansion or back-of-house operations for national/global companies.

Yours sincerely

Colliers International (Newcastle) Pty Limited



Peter Macadam

Director | Commercial

Ground Floor, 18 Honeysuckle Drive,
Newcastle NSW 2300

M: 0402 074 159

P: 02 4915 4020

E: peter.macadam@colliers.com

Disclaimer. The opinions, estimates and information given herein or otherwise in relation hereto are made by Colliers International and affiliated companies in their best judgment, in good faith and as far possible based on data or sources which are believed to be reliable. The material contained herein is not intended to as substitute for obtaining individual advice from Colliers International or another advisor able to provide the services of a qualified professional person. Colliers International, its officers, employees and agents expressly disclaim any liability and responsibility to any person whether a reader of this publication or not in respect of anything and of the consequences of anything done or omitted to be done by any such person in reliance whether wholly or partially upon the whole or any part of the contents of this publication. Copyright Colliers International 2010 all rights reserved No part of this work may be reproduced or copied in any form or by any means (graphic, electronic or mechanical, including photocopying, recording, record taping, or information retrieval systems) without the written permission of Colliers International.

