



Property Funds Association Sydney Next Gen Event

**Hosted by SW Accountants &
Advisors**

31st May 2023

Presented by
Gregory Preston AM



Preston Rowe Paterson
International Property Consultants and Valuers



Competition

People

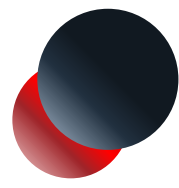
Economy

Property

**Money &
Asset
Classes**



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THE ECONOMY

Marbles Up In The Air



Easing inflationary pressure in 2023

Work from home

Business Confidence Resilience!

Rent Review Type and Frequency?

Listed WACC - Relationship with Discount Rates and Cap Rates?

Office Use Demand Evolution?

Premium Versus A, B and C Grade Office?

Construction Cost Increases!

Cash Rate Increasing?

New Demand New Supply?

Liquidity (Listed immediate response - versus Unlisted)?

Hedging For the Times?

Weight Of Capital - is it a cushion to decompression?

Pent Up Demand!

Victorian Tax Reform - Land Tax Stamp Duty

Historic and Current Vacancies - A Story!

Rental Cash Flow Resilience?

Yield Curve?

Continuing Hectic Times

Debt- Equity Ratios!

Hedging Strategies - Income and Debt!

COVID Black Swan - Impact Lingers!

Rising Cost of Debt?

Balance Sheet Impact?

Equity Betas?

Cap and Discount Rate Stability?

RAPID INFLATION - ABERRATION OR LONG TERM?

Supply Chain Disruption!

Risk Free Rate (10 yr. Bond Rate) Increasing?

Statutory Outgoings and Opex - Inflation?

Albanese Government are being tested

Swap Rates?

New Strategies for Lease T & C's

Pre-COVID Legacy Lease T&C's

CPI and Face/ Effective Rent Movement?

Premium Offices versus A,B and C Grade

Industrial Versus Retail Versus Office?

Cap & Discount Rate Expansion (OR Decompression)?

Impact of Ukraine?

Sydney vs Melbourne forward office supply?

Due Diligence Timing

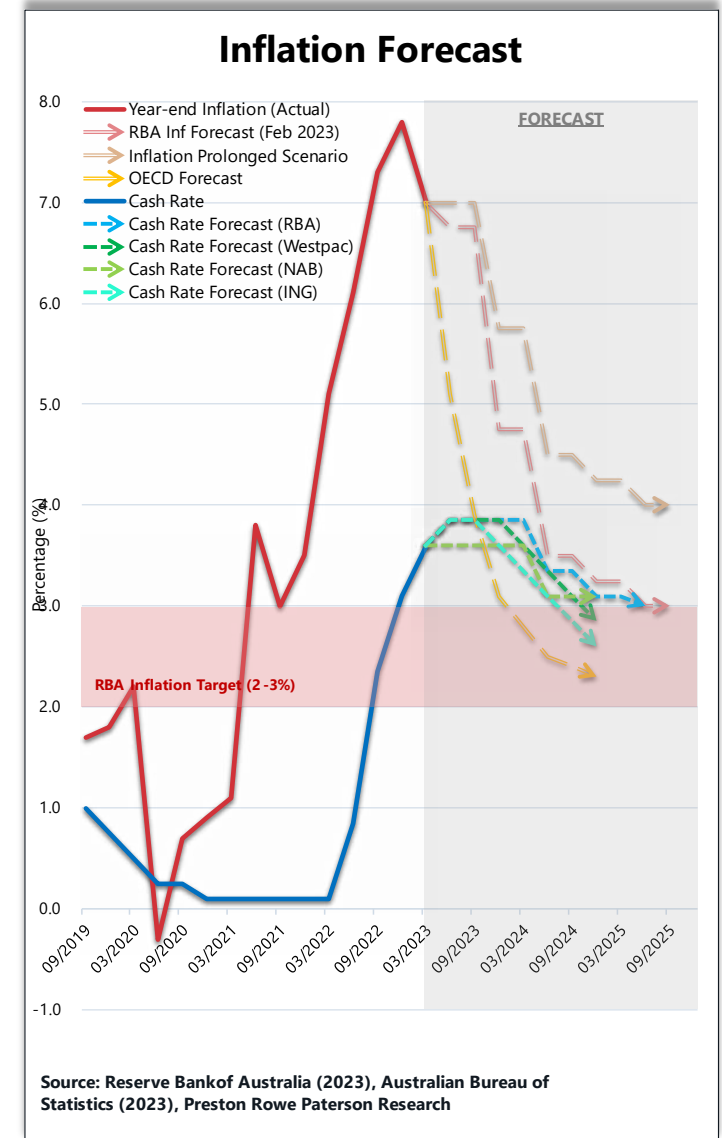
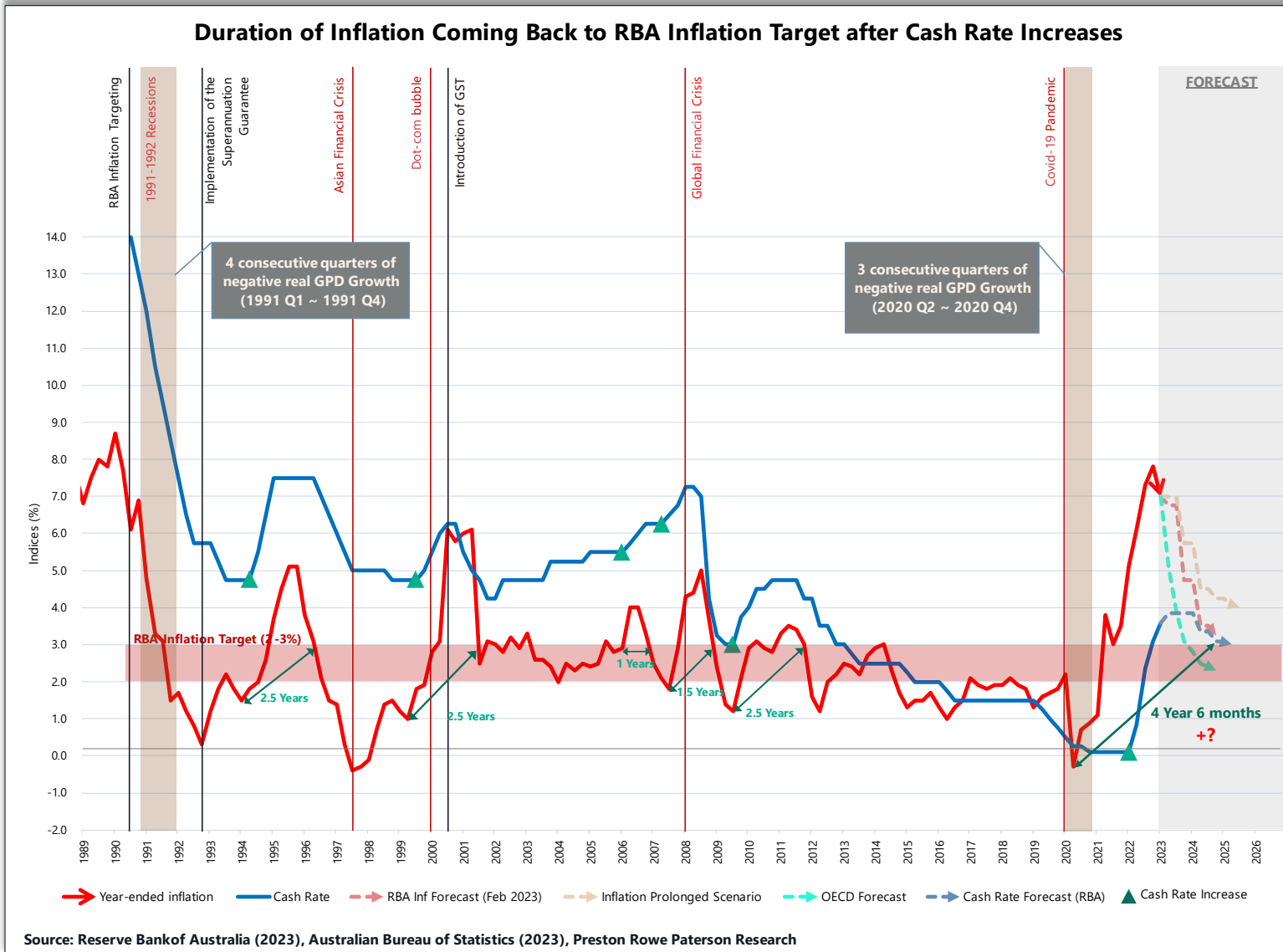


2023 - Forces Driving Change

- Central banks increasing rates to curb inflation
- Increase in short and long term to maturity rates due to the cash rate increasing
- The impact of the increasing cash rates on the yield curve and money markets in general
- **Inflation - economic cycle duration?**
- Consequential impact on property cap rates and discount rates, development values as if complete, development cost and debt service cost
- COVID-19 induced supply chain disruptions (China) – borders now opening up and supply chain distantly improving
- The War in Ukraine and wage claims accelerating inflation
- Global flow on effect of the US Fed Reserve interest rate rises
- **No asset class is immune to the cost of capital increasing**
- **Will there be an impact on market rent relative to lease rent?**
- **Consequential impact of all this on development site values – conundrum or opportunity?**



Inflation forecast





**Many challenges
with all this going
on**

Reducing number of sales and leasing transactions – detailed analysis of them will tell the story in due course

Impact of rising interest rates on investment and development markets

Ongoing Covid tenant stress in some sectors

Office versus industrial versus retail – very different characteristics post COVID and into inflationary environment

Rising construction costs and supply chain timing disruptions

People with longer positions in property and manageable gearing will weather the storm better

Recent buyers at high LVR's across all asset classes under more pressure

Valuing only looking backward at yesterday's market transactions is problematic

Taking a view on the consequential economic impact on net incomes, yields and discount rates and the duration of the cycle paramount

Office occupancies and resultant rental cash flows an unresolved challenge

Monitoring the case for recompression timing will be a further challenge

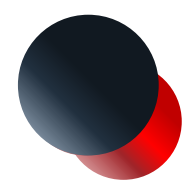




COMPETITION

‘Learning to
win and lose’



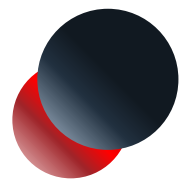


Learn from

PEOPLE

Mirvac 1989 - 2023



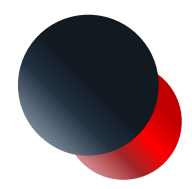


'Developing a
moral
compass'

**Kajima – Early
90's**



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PROPERTY

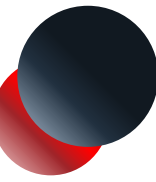
‘The devil is in
the detail’

**Grosvenor Place
1994-1998**



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'Relationships
through the
years'



Qantas
1998 - 2023



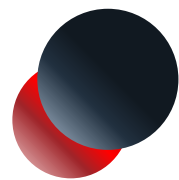
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'Going the extra yard – it will pay off!'

Caltex and Chevron 2003 & 2015 1275 Petrol Stations



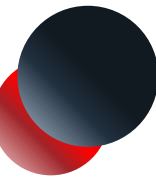


‘Even
established
assets need
frequent
restructuring’

**QVB
2005**



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‘Getting it right,
a great reward’

Paddy's Markets / Peak Apartments 1996



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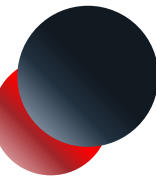
‘The money
wins over
design’

Horizon Apartments 1998



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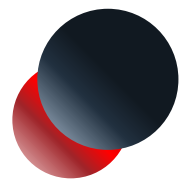


'Seeing the fruits
of your input'

**Alfred, Pitt, Daley,
George Street - 2011**

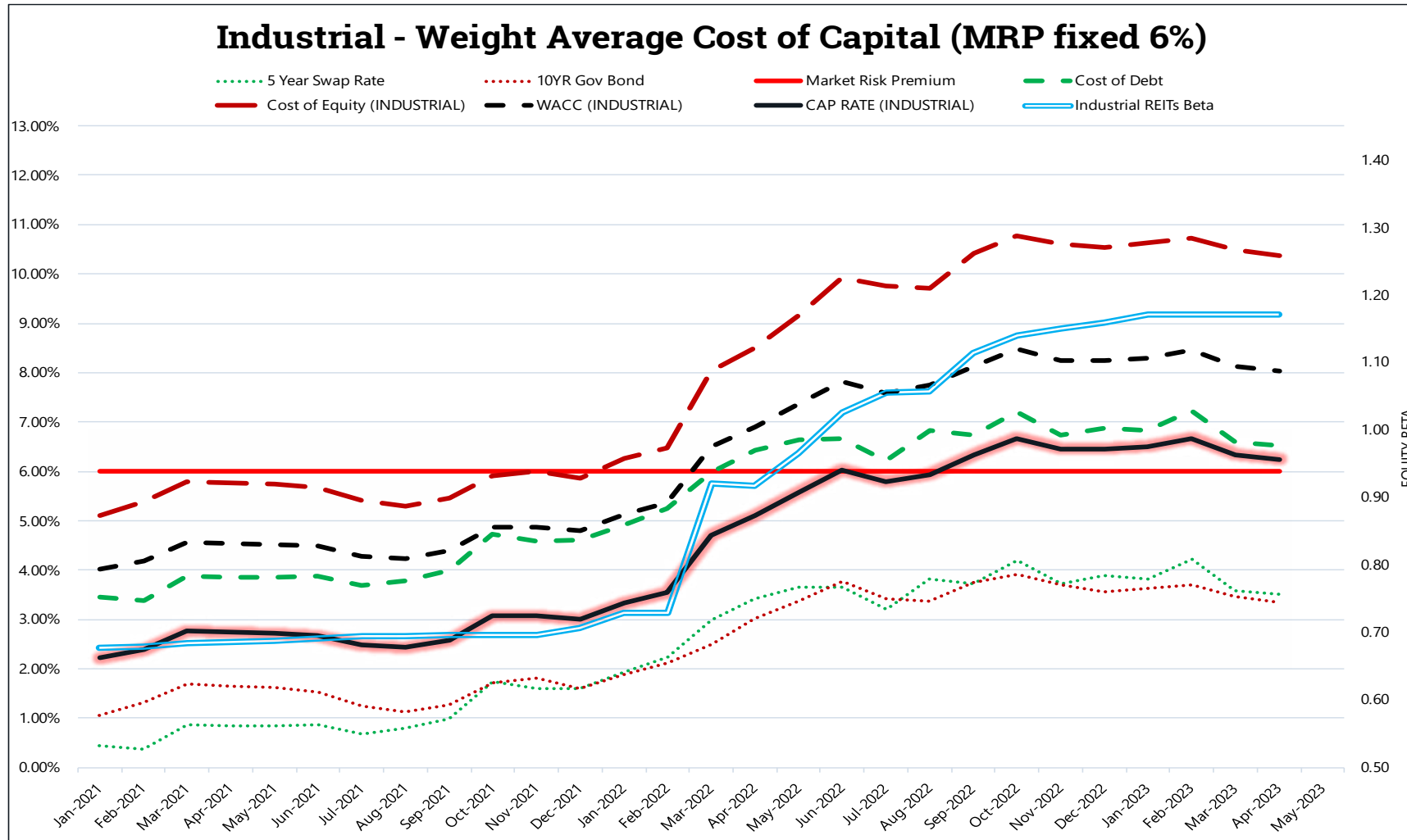


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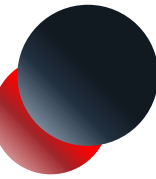


MONEY & ASSET CLASSES

Yields / Discount rates – Efficient Capital Markets Vs Inefficient Real Estate Markets – Lag Effect



'WACC Table – Chart – Market Participant Motivations'



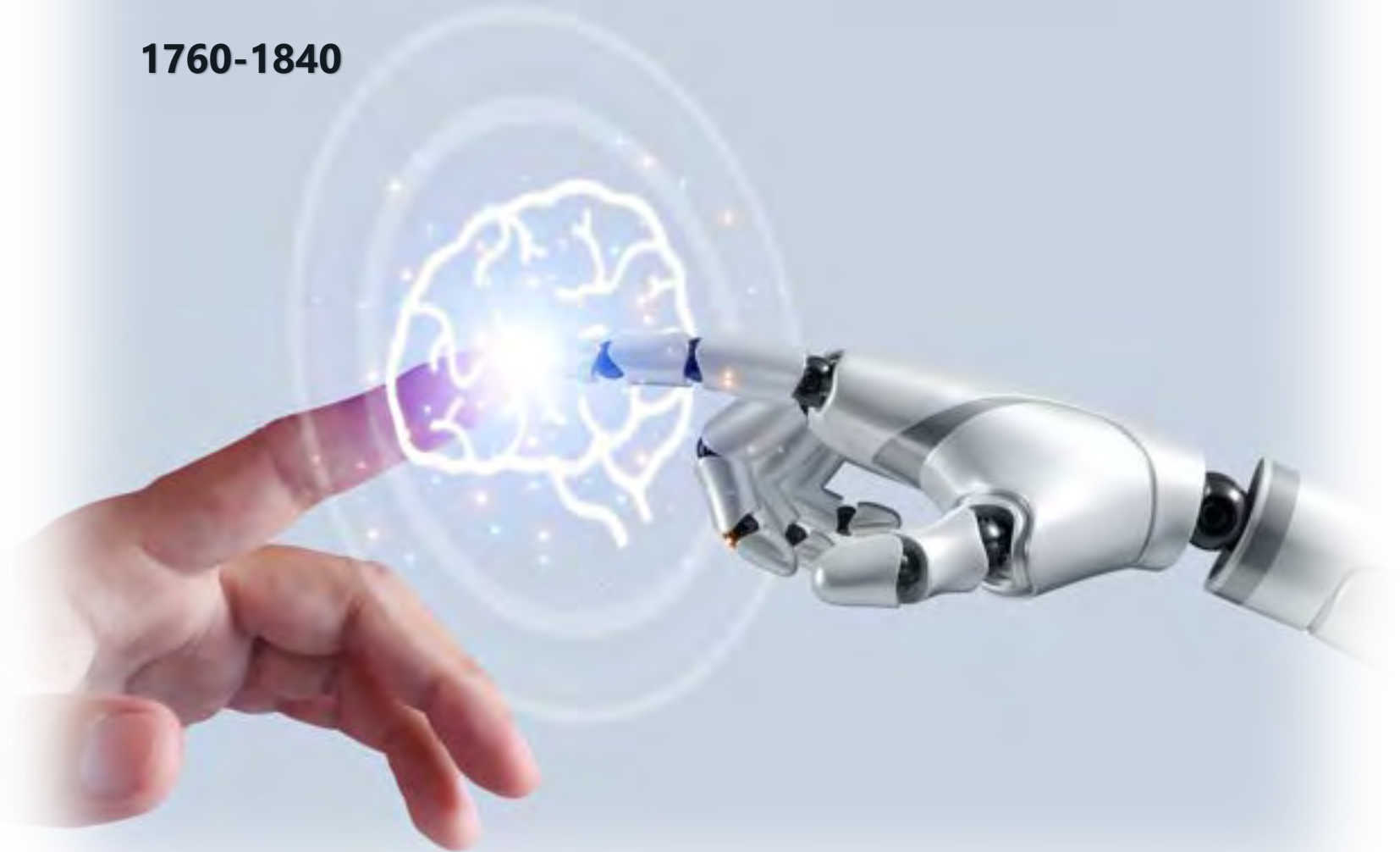
THE FUTURE

**Industrial
Revolution**

1760-1840

2023 - ?

Our Brains and AI





Competition

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