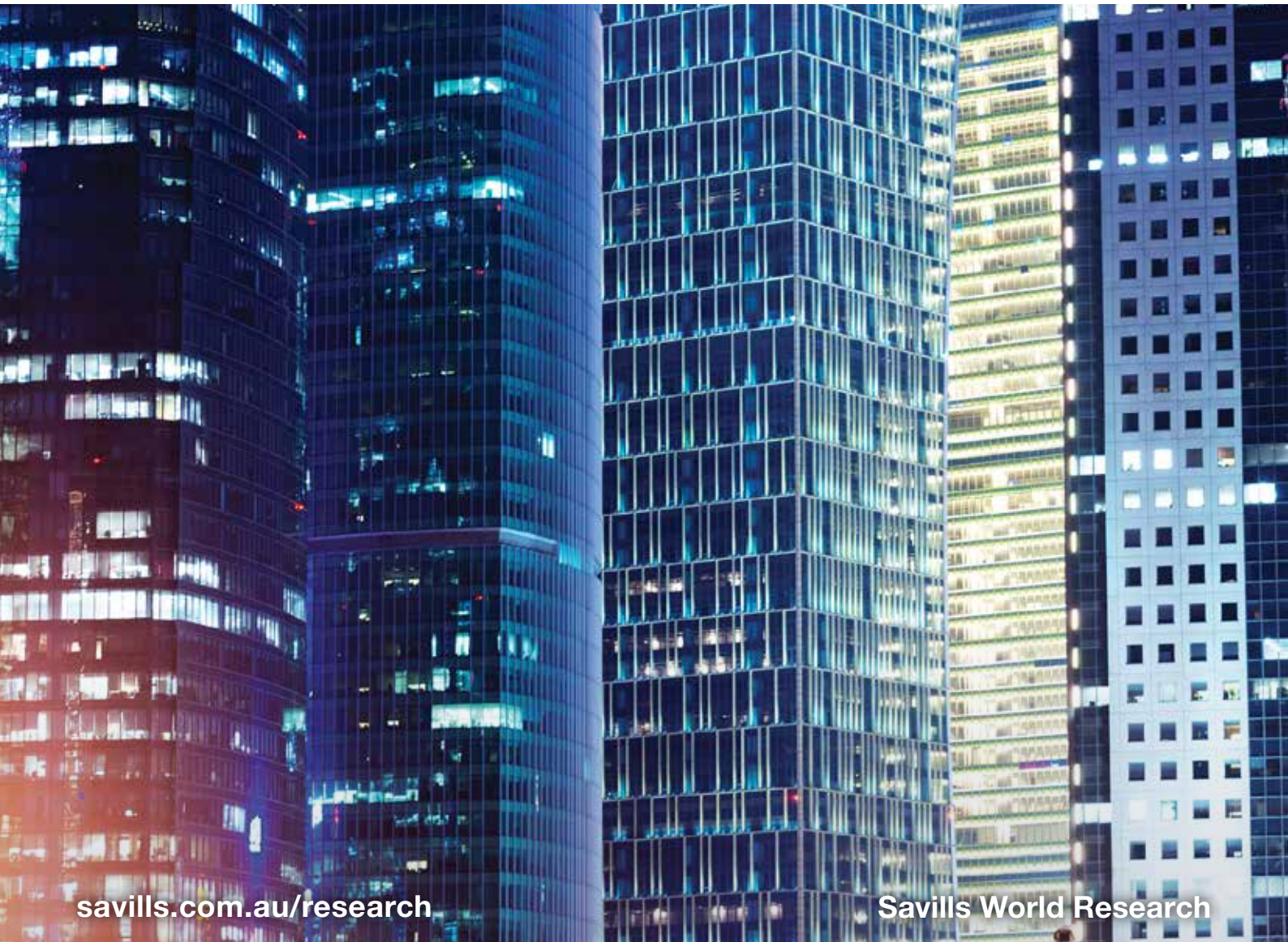




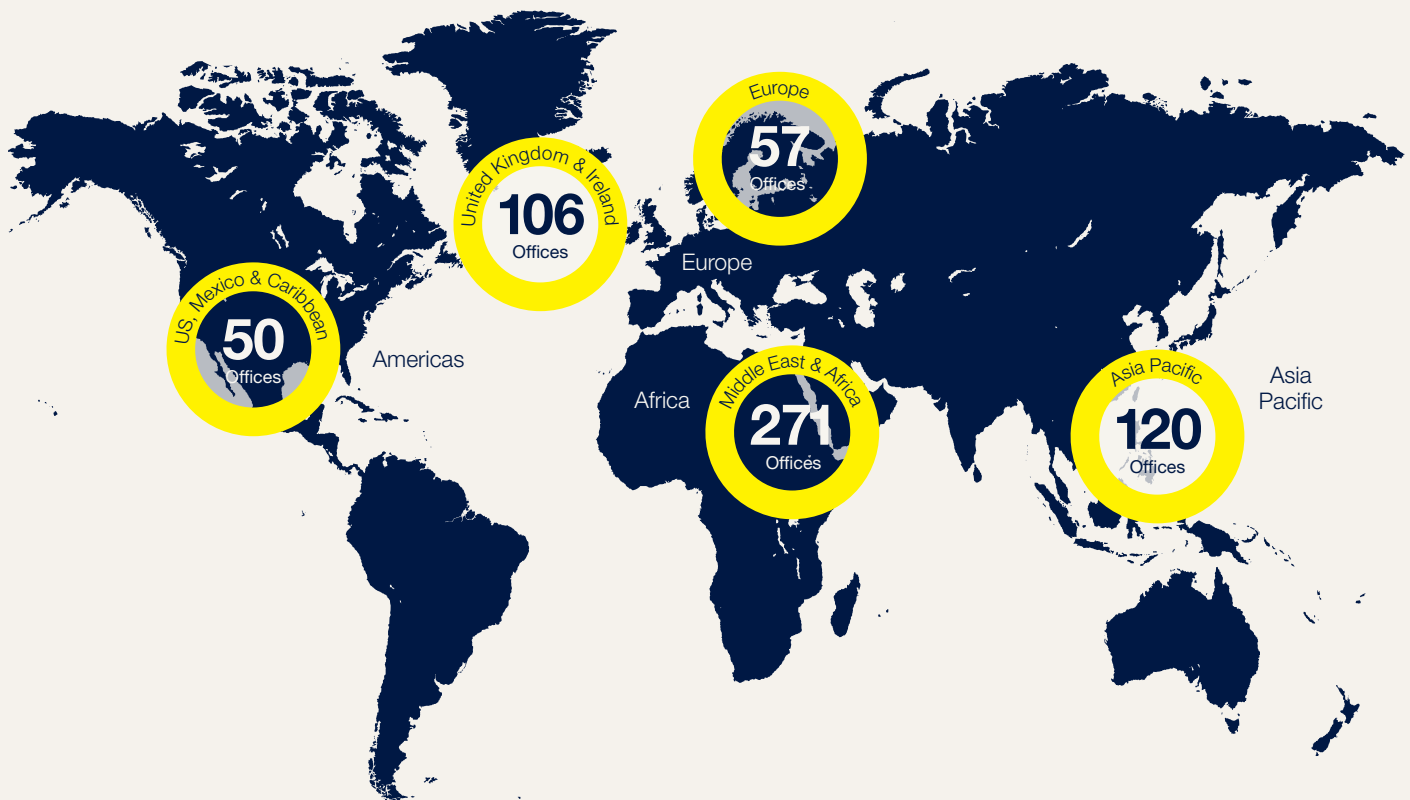
World Office Yield Spectrum

1H/2015



Savills global presence

Over 600 offices and associates worldwide



UK, Ireland & Channel Islands

England
Ireland
Jersey
Northern Ireland
Scotland
Wales

Asia Pacific

Australia
China
Hong Kong
India
Indonesia
Japan
Macau
Malaysia
Myanmar
New Zealand
Philippines
Singapore
South Korea

Taiwan
Thailand
Vietnam

Continental Europe

Austria
Belgium
Croatia
Finland
France
Germany
Gibraltar
Greece

Italy
Luxembourg
Monaco
Montenegro
Netherlands
Norway
Poland
Portugal
Russia
Spain
Serbia
Sweden
Switzerland

Middle East & Africa

Bahrain
Kenya
Mauritius
Mozambique
Namibia
Oman
Qatar
Seychelles
South Africa
Zambia
Zimbabwe

Americas

Mexico
Panama
U.S.

Caribbean

Antigua & Barbuda
Barbados
Grenada
St Kitts & Nevis
St. Lucia

Introduction



With investment capital becoming more global in its search for returns and diversification, the need for a standardised set of indicators to make sense of opportunities, risk and return expectations has become critical.

The Savills/Deakin University World Office Yield Spectrum is designed to fill a void in market knowledge.

For too long the global property investment community has been denied a credible, factual yields series which can be reliably used to compare 'apples with apples.' This world first publication is the culmination of over a year's work by dozens of researchers in the Savills team.

Savills Research trusts you find this body of work useful, illuminating and of value to you in your endeavours. As always your thoughts, feedback and ideas are most welcome. Please feel free to contact your Savills representative with regard to this publication.

Methodology



Market Yields

This yield is derived by capitalising current market rents (Net Face) against current capital values for office buildings. The Net Face rent is the rent payable by the tenant excluding both statutory and operating outgoings (recoverables) and **includes** the value of any **incentive** paid to the tenant by way of fitout, cash, rental rebate or rent free. The capital value is calculated to be for the office component only and excludes retail, excess car parking, signage, storage and other "non-office" sources of income.

Effective Yields

This yield is derived by capitalising current market rents (Net Effective) against current capital values for office buildings. The Net Effective rent is the rent payable by the tenant excluding both statutory and operating outgoings (recoverables) and **excludes** the value of any **incentive** paid to the tenant by way of fitout, cash, rental rebate or rent free. The capital value is calculated to be for the office component only and excludes retail, excess car parking, signage, storage and other 'non-office' sources of income.

Weighted Average Cost of Capital (WACC)

The WACC is derived by having reference to the rents described above, the rental growth outlook and the management fee recoverable from owning the building (in sum a proxy for equity) and the current cost of debt. Using a 30%/70% equity/debt split, a WACC is calculated.

Accretive Premiums

By subtracting the effective and market yields derived above from the WACC we can calculate the 'accretion' inherent in each market using the metrics as described.

Market Risk Premiums

Having reference to the market yield calculated above we subtract the risk free rate (10 year bond) then add the expected annual income growth rate to establish the 'expected return for risk.'

Effective Risk Premiums

Having reference to the effective yield calculated above we take that yield, subtract the risk free rate (10 year bond) then add the expected annual income growth rate to establish the 'expected return for risk.'

World Cities



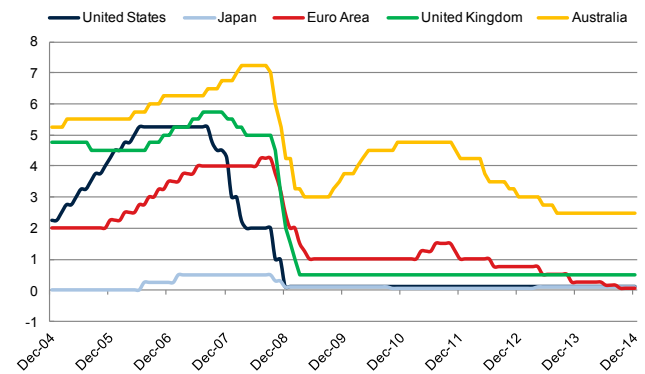
The calendar year 2014 marked another year of strong performance in capital markets.

The world capital markets continue to see large amounts of capital inflows and commercial property markets remain a popular home. Despite variable economic fundamentals around the globe, capital continues to chase some generous returns. Local operators continually cite a lack of fundamental support for some pricing. Nevertheless, the competitive tension to place capital remains.

The S&P500 index posted a record high during the year and rose 12 percent in 2014 reflecting a sense of economic recovery in the United States. This was further emphasised by the official end of quantitative easing. The Australian ASX200 Index rose 1 percent as commodity prices plunged. The Nikkei 225 rose 10 percent in response to economic stimulus in Japan. The German Dax rose 5 percent whilst the FTSE 100 fell just over 2 percent. In bond markets 10 year yields closed out the year around 2 percent in the United States, 1.8 percent in the UK, 0.6 percent in Germany, 0.35 percent in Japan and 2.8 percent in Australia.

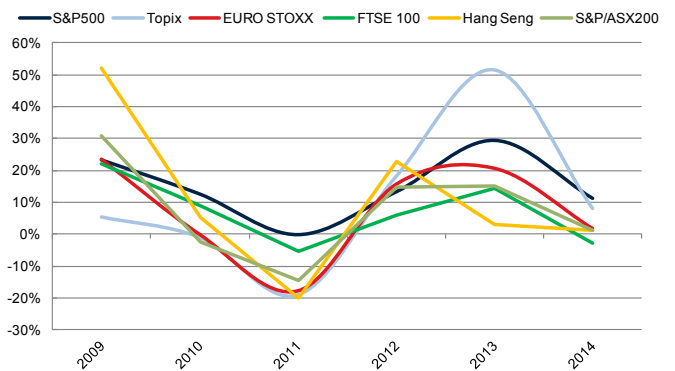
Globally, interest rates remain low and are anticipated to remain low for the foreseeable future. Burgeoning amounts of sovereign debt coupled with impaired budgetary positions and an ageing population demanding more from governments is likely to keep interest rates low. As the world population ages, a great deal of retirement saving can be expected to chase yield. This, when combined with low interest rates, can be expected to keep downward pressure on income returns into the foreseeable future. On a global scale Tokyo stands out as a market where inflationary income growth expectations defy the extremely low cost of debt to make investment returns particularly attractive in the Asian region. Globally, commercial property yields in particular continue to look attractive.

Central Bank Target Cash Rates by Country (%)
Dec 2004–Dec 2014



Source: Central Banks/Savills Research

Share Price Indices by Country (1990=100)
2009–2014



Source: Bloomberg/Savills Research



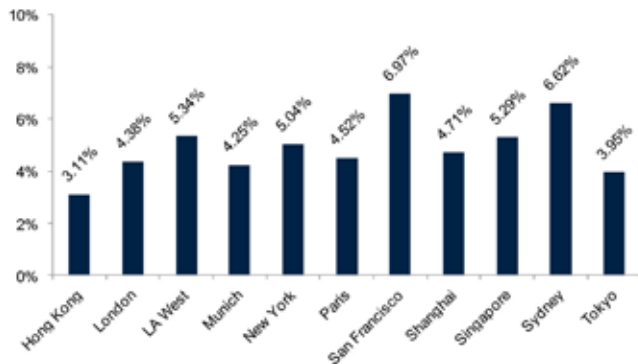
Tony Crabb
National Head – Research Australia

+61 (0) 422 221 604

tcrabb@savills.com.au

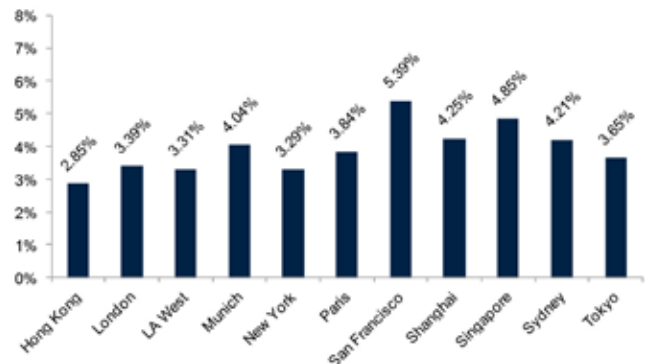
World Cities/CBD/Grade A Office January 2015

Market Yields



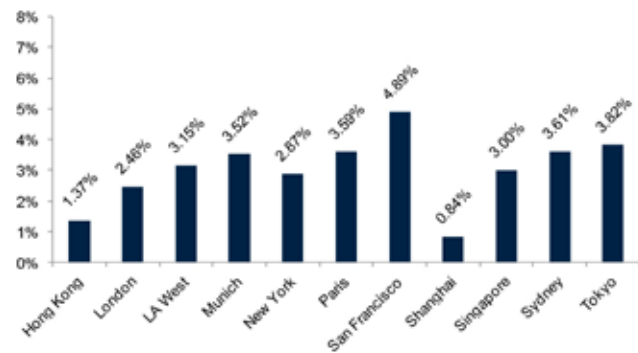
Source: Savills Research

Effective Yields



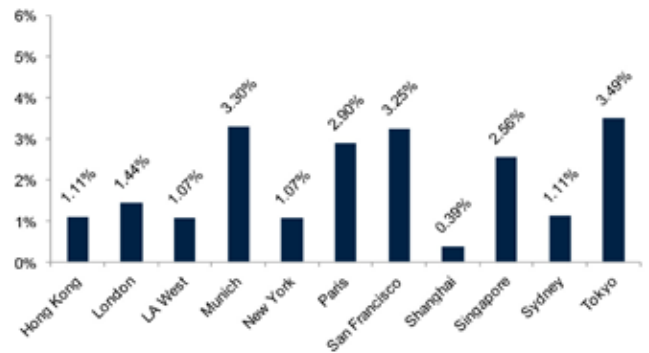
Source: Savills Research

Market Risk Premium



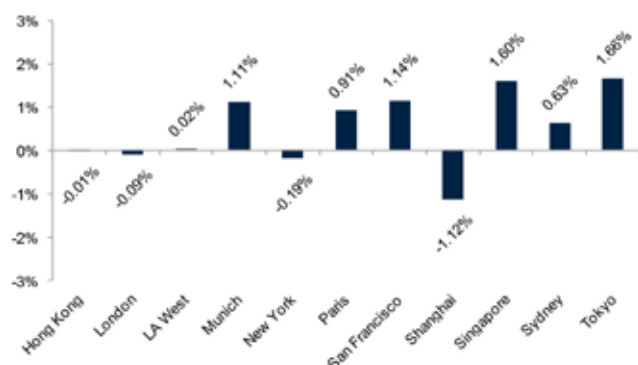
Source: Savills Research

Effective Risk Premium



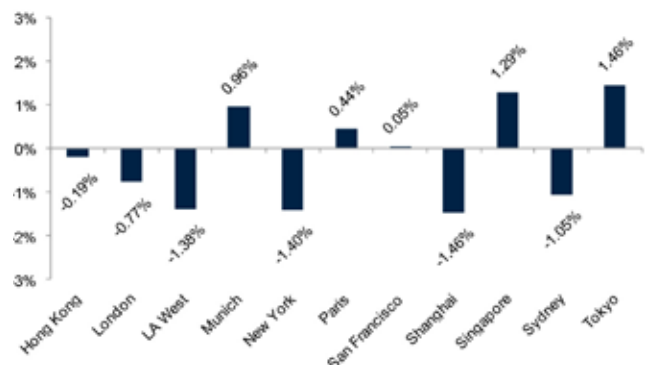
Source: Savills Research

Market Accretion



Source: Savills Research

Effective Accretion



Source: Savills Research

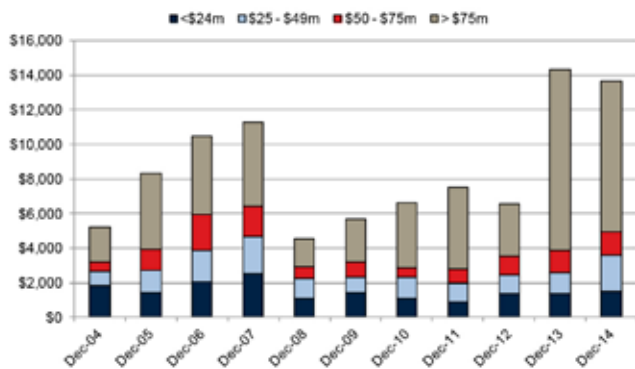
Australia



The Australian CBD office markets comprise some 17 million square metres of space.

Sydney (5 million) and Melbourne (4 million) represent over half of all CBD office space and are the centres of banking, finance and business services in the country. Sydney is regarded as an international city and is generally the first city for property investment allocation in Australia.

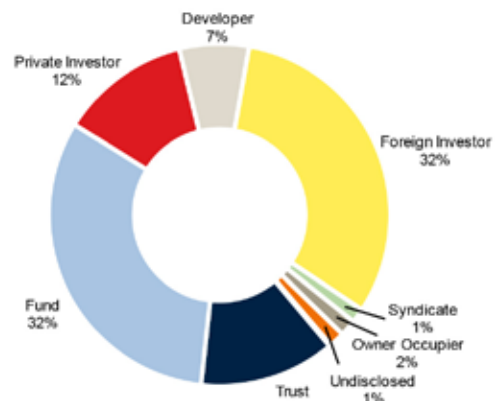
Office Property Sales by Price Range (AU\$ million)
Dec 2004–Dec 2014



Source: Savills Research

Institutional investors were the most active in the national office investment market in 2014. Having been sidelined for several years due to issues surrounding their balance sheet and their units trading at a discount to NTA, the A-REITS are back and buying again. Managed funds are increasingly active as flows to superannuation continue unabated. Foreign investors continue to be attracted to CBD office buildings in Melbourne and Sydney.

Office Property Buyer Profile
12 months to Dec 2014



Source: Savills Research

If the Reserve Bank of Australia is successful in stimulating growth in the non-resources side of the economy, then the office markets in both Melbourne and Sydney should be the beneficiaries of stronger tenant demand. Signs of this were seen in the last six months of 2014 and Savills Research expects this trend to strengthen in 2015. Incentives are currently prevalent in the Australian CBD office markets in order to attract tenants into vacant space. These large levels of incentives are reflected in the difference between market and effective yields and can be seen in the charts. Incentives account for between 150 basis points and 340 basis points gap between market and effective yields.



Tony Crabb

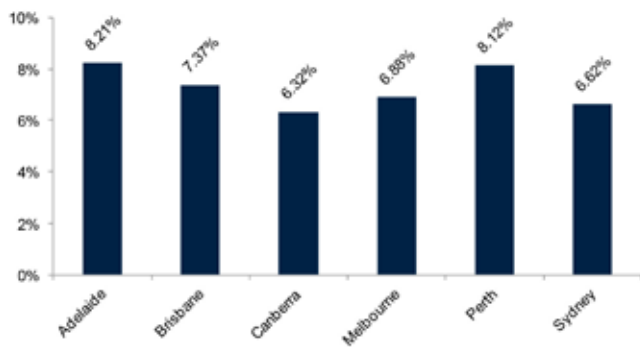
National Head – Research Australia

+61 (0) 422 221 604

tcrabb@savills.com.au

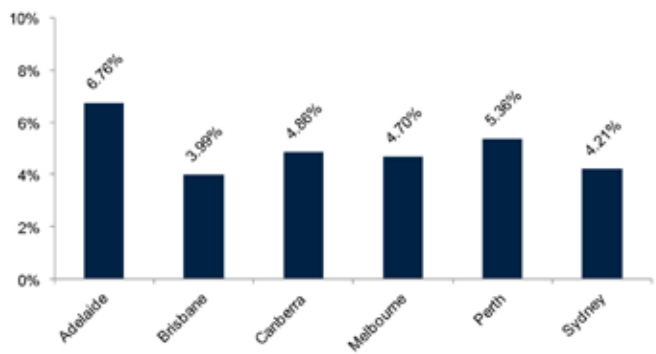
Australia/CBD/Grade A Office January 2015

Market Yields



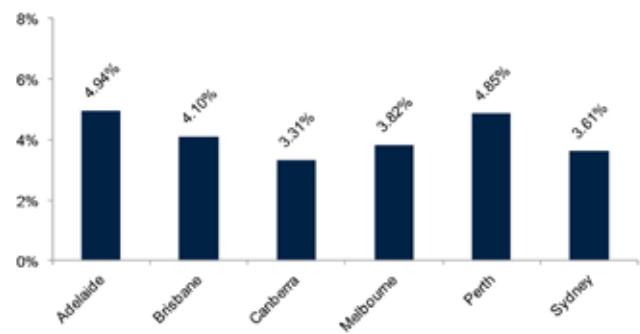
Source: Savills Research

Effective Yields



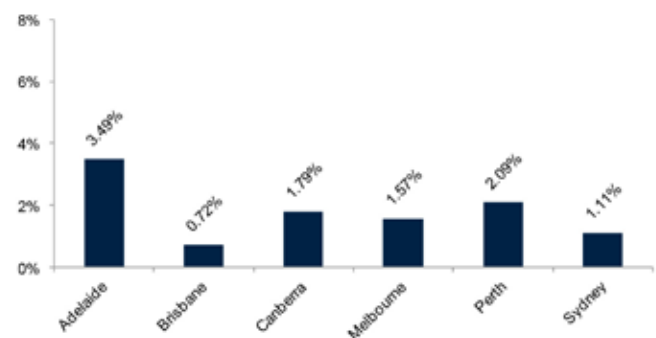
Source: Savills Research

Market Risk Premium



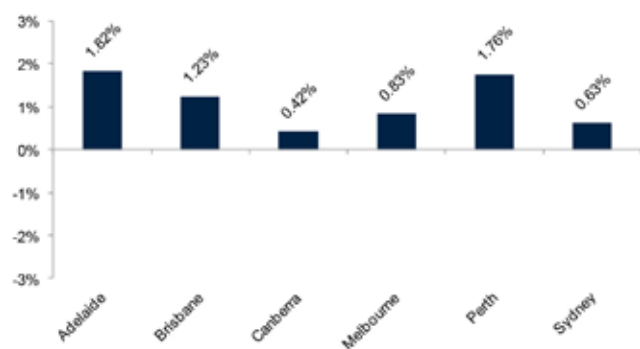
Source: Savills Research

Effective Risk Premium



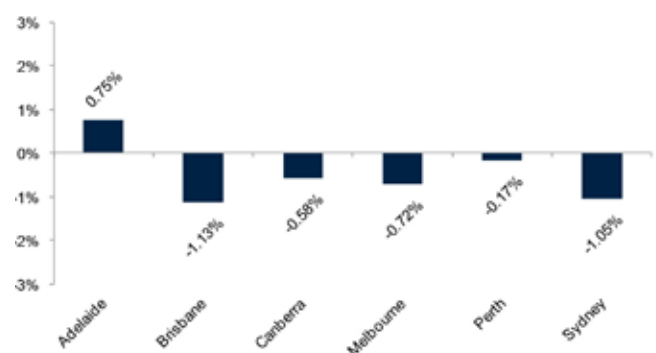
Source: Savills Research

Market Accretion



Source: Savills Research

Effective Accretion



Source: Savills Research

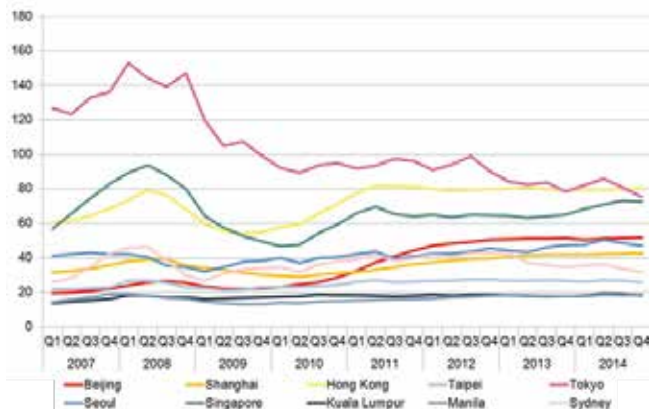
Asia



Given an abundance of capital chasing real estate opportunities, a limited number of investment grade assets and accommodative global credit conditions, cap rates in Asia-Pacific have witnessed substantial declines over recent years.

The Asian real estate investment landscape has undergone many changes, not least the recent increase in the number of domestic funds of all kinds (often core focused) looking for opportunities both at home and abroad.

Regional Grade A Office Rents (US\$ per sq m net per month) Q1/2007 – Q4/2014



Source: Savills Research. Tokyo (5 Wards), Singapore (CBD)

Pension funds, sovereign wealth funds, insurance companies, and even high net worth individuals are all contributing to the weight of money chasing real estate assets. Ownership restrictions, markets where assets are tightly held by local developers/investors and a surfeit of investors driven by considerations other than yield, have ensured that good quality investable properties remain scarce. Successive waves of quantitative easing from the U.S., China and more recently Japan has also contributed to the excess liquidity.

Asia Pacific Office Transactions (US\$ million) Mar 2007–Sep 2014



Source: Savills Research

While Asia-Pacific remains challenging in yield terms, there are early indications that capital flows are reversing and more real estate capital is leaving the region than entering it. In 2014, US\$22.4 billion flowed into the region while US\$37.4 billion left, mostly for Europe and the U.S. Initially targeting first tier cities, this capital is now looking for opportunities in fringe and second tier locations. Cap rate spreads remain healthy in some local markets and Tokyo, Osaka, Sydney and Melbourne continue to attract significant investor demand. Most notable has been a decline in the appeal of China where yields remain heavily compressed, overbuild is evident in many markets and economic growth has failed to match expectations. Elsewhere, while improving occupier markets may hint at rising yields in select markets, returns from prime assets look unlikely to increase substantially in the immediate future, forcing investors further up the risk curve. In the absence of suitably priced stock, investment volumes are expected to remain constrained well into 2015.



Simon Smith

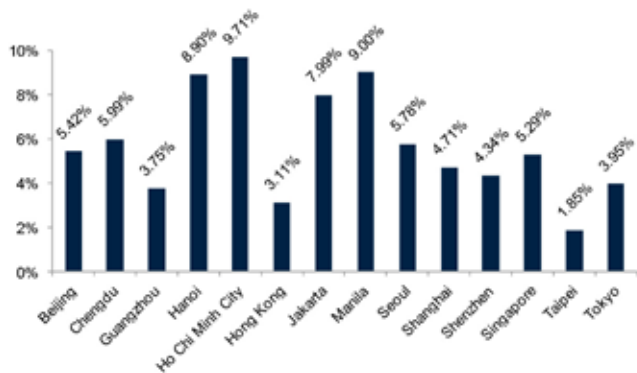
Senior Director – Research Asia Pacific

+852 2842 4573

ssmith@savills.com.hk

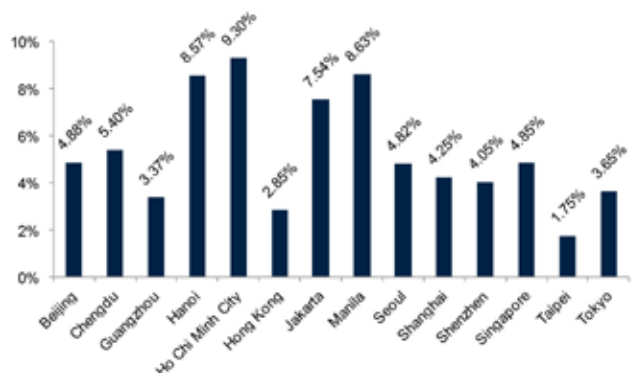
Asia/CBD/Grade A Office January 2015

Market Yields



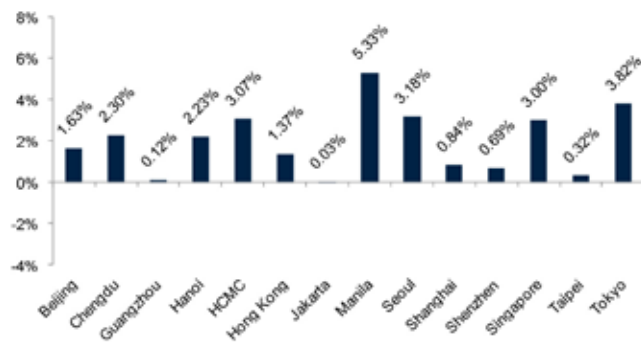
Source: Savills Research

Effective Yields



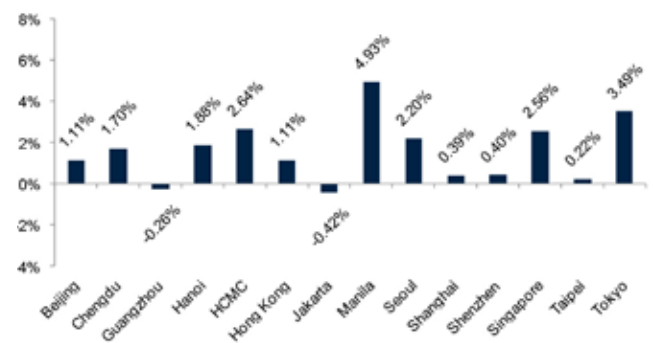
Source: Savills Research

Market Risk Premium



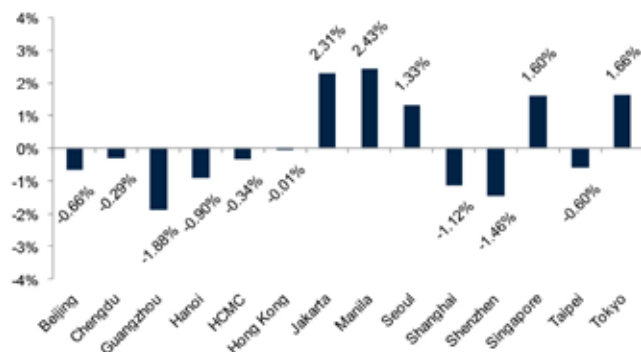
Source: Savills Research

Effective Risk Premium



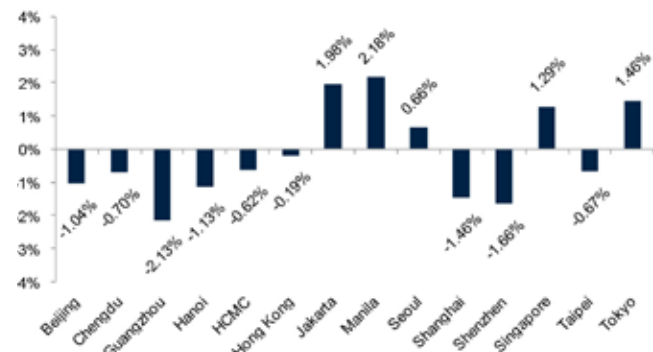
Source: Savills Research

Market Accretion



Source: Savills Research

Effective Accretion



Source: Savills Research

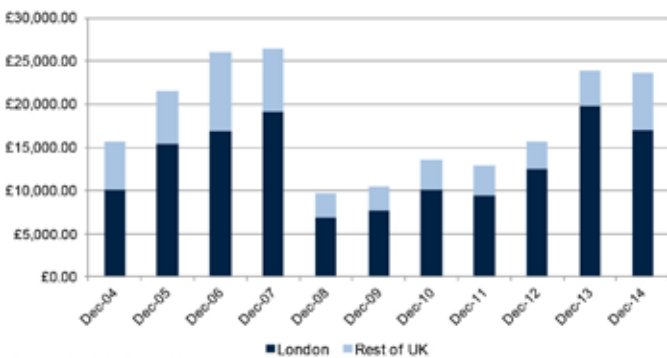
Europe



The combination of a more positive economic outlook and investor's global hunt for yield has led to a sharp recovery in the European commercial property investment markets this year.

We expect the total volume of property investment in the European markets that we monitor to be in the region of €175bn for the whole of 2014, 20 percent above last year's level and 28 percent higher than the eight-year average.

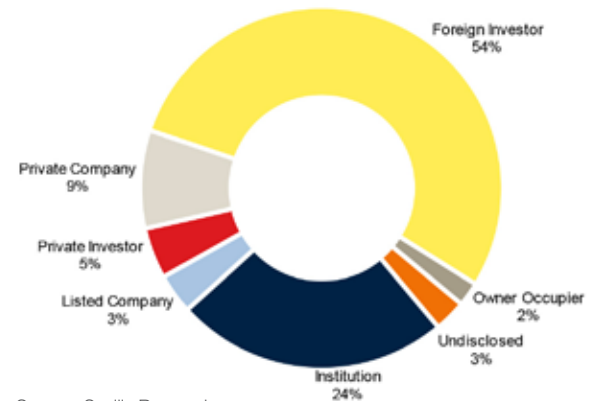
UK Office Property Sales (GBP million) Dec 2004–Dec 2014



Source: Savills Research

There is a clear sign that investors are starting to look to value-add and opportunistic markets as they become more comfortable with the prospects of an economic and property market recovery, as well as in some cases becoming disenchanted with the low yields and strong competition prevalent in core locations.

UK Office Property Buyer Profile 12 months to Dec 2014



Source: Savills Research

We expect the average prime CBD office yield to reach 5 percent by the end of 2014, 41bps below Q4 2013. Non-CBD yields for prime assets are also moving in, and the average is at 6.50 percent, 30bps lower compared to last year at the same period. This yield shift is supported by an increasingly broad-based recovery in the European office leasing markets, with stable levels of take-up meeting low levels of development activity to deliver some prime rental growth.

The yield spread between the core and periphery countries have started to narrow and this is being followed by the spread between CBD and non-CBD locations. However, in both cases this gap remains wider than normal and we expect to see continuing investor demand for these markets as opportunistic investors bet on the likelihood of these gaps closing further in 2015 and 2016.



Lydia Brissy

Director – Research Europe

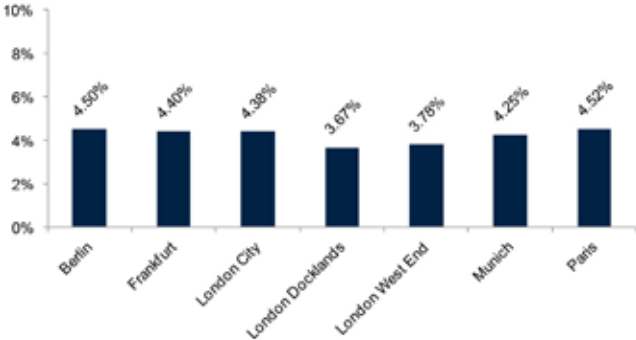
+33 1 44 51 73 88

lbrissy@savills.com

Europe/CBD/Grade A Office

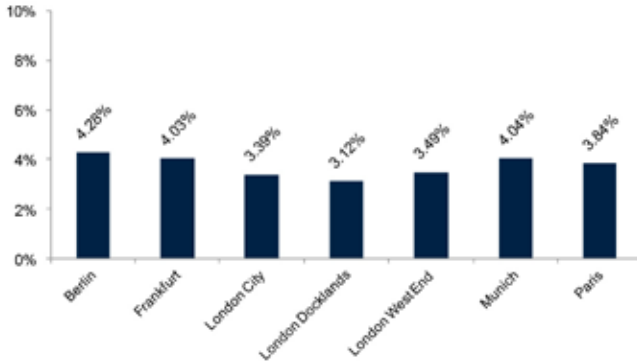
January 2015

Market Yields



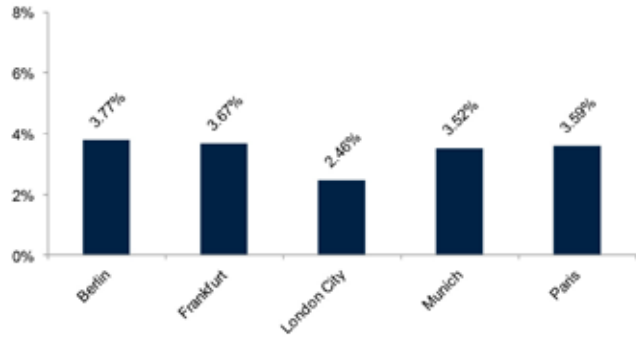
Source: Savills Research

Effective Yields



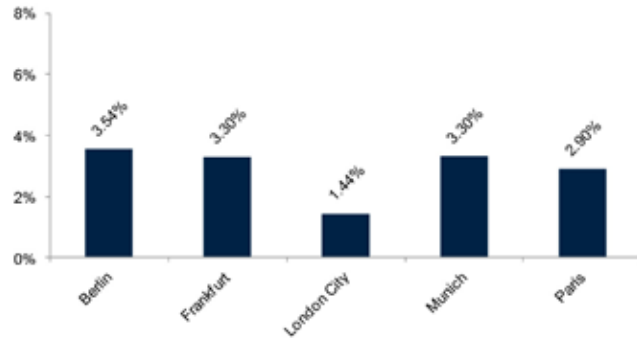
Source: Savills Research

Market Risk Premium



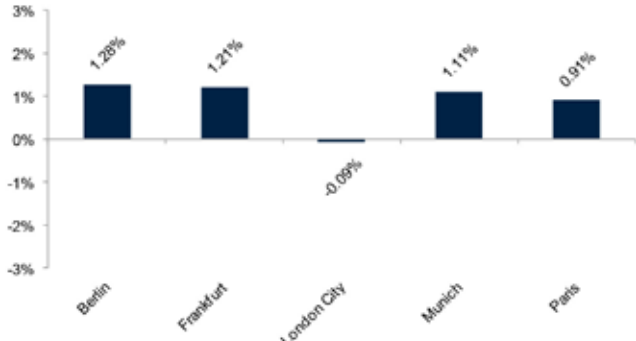
Source: Savills Research

Effective Risk Premium



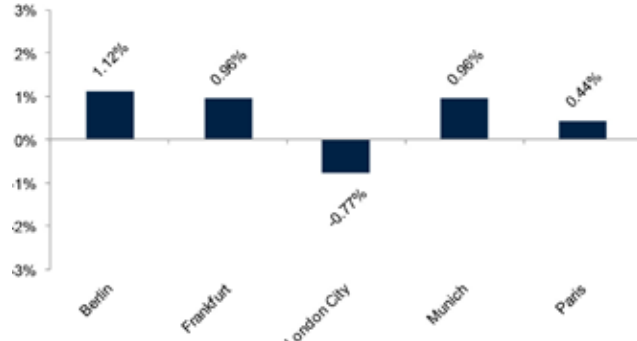
Source: Savills Research

Market Accretion



Source: Savills Research

Effective Accretion



Source: Savills Research

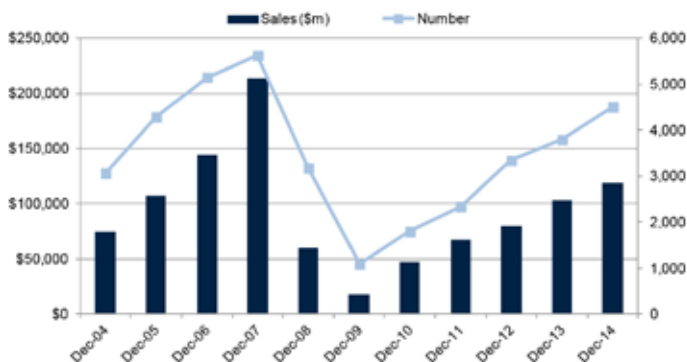
United States



Heading into 2015, the U.S. economy appears to have achieved the lift-off velocity that has eluded it for the last several years.

Private employers are adding 200,000-plus jobs per month, GDP growth is expected to exceed 3.0 percent in 2015 and the sharp reduction in oil/gas prices should alleviate the lagging problem of anaemic household income growth.

Office Property Sales (US\$ million) Dec 2004–Dec 2014

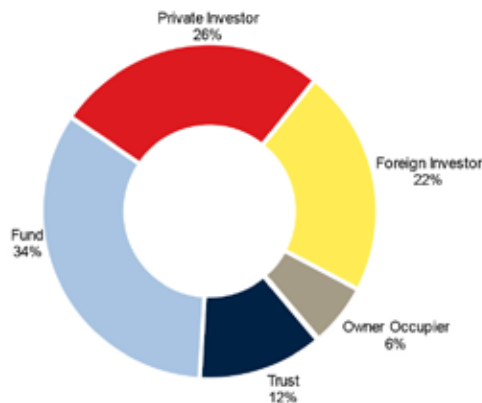


Source: RCA/Savills Research

Property values in U.S. gateway markets (Boston, Manhattan, Washington, DC, Los Angeles and San Francisco) started to increase more than two years ago, well before the broader economy started to gain traction. Pricing is exceeding or matching the peak levels attained in 2006 and 2007. A paucity of prime assets for sale, abundant capital at low borrowing costs, and a thirst for yield among a wide range of investors is keeping cap rates in the sub-5 percent range in top metro areas. Cap rate compression in these markets continues to push buyers to strong secondary markets. Cities with steady population

growth and strong linkages to tech and energy, such as Houston, Denver, Atlanta and Chicago are benefitting from the search for yield.

Office Property Buyer Profile 12 months to Dec 2014



Source: RCA/Savills Research

Cross-border investment continues to heighten the competition for institutional properties in the U.S. In addition to chasing yield, foreign funds from Canada, Germany, China and South Korea are pursuing the safety and stability that U.S. office assets offer. Investors from Hong Kong and Mainland China have acquired 20 U.S. office properties in the last 12 months with a combined value of \$3.4 billion. The flow of overseas capital is likely to persist in 2015. According to the most recent Association of Foreign Investors in Real Estate survey, foreign buyers rank the U.S. as the top market globally in terms of security and stability (followed by Germany) as well as for capital appreciation (followed by Spain). Of note, as market fundamentals improve more buyers are taking on riskier investments with extensive vacancy or lease rollover. This includes the purchase of loft and warehouse buildings in emerging tech submarkets (SoMa in San Francisco and River North in Chicago) that can be repositioned as creative office space.



Steve Coutts

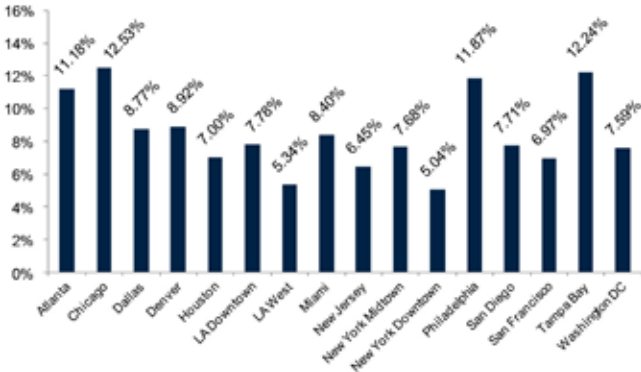
National Head – Research United States

+1 (212) 326 8610

scoutts@savills-studley.com

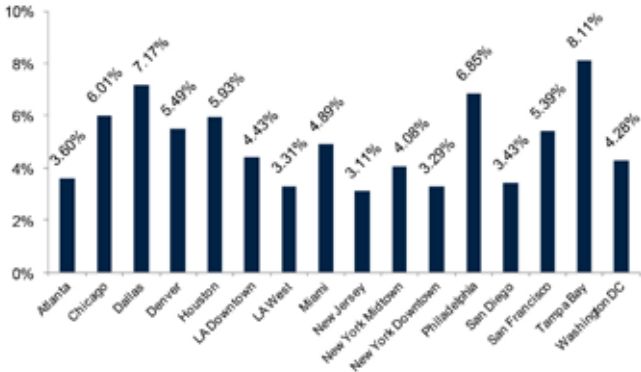
United States/CBD/Grade A Office January 2015

Market Yields



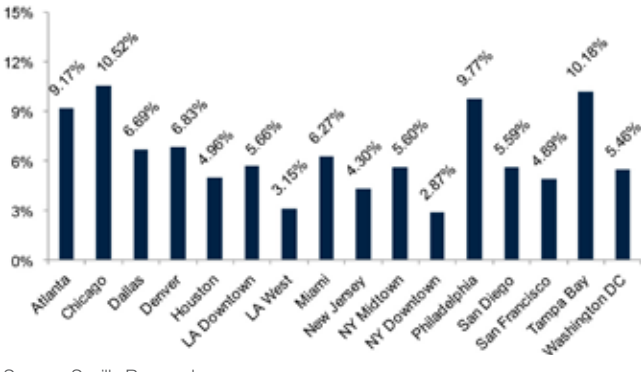
Source: Savills Research

Effective Yields



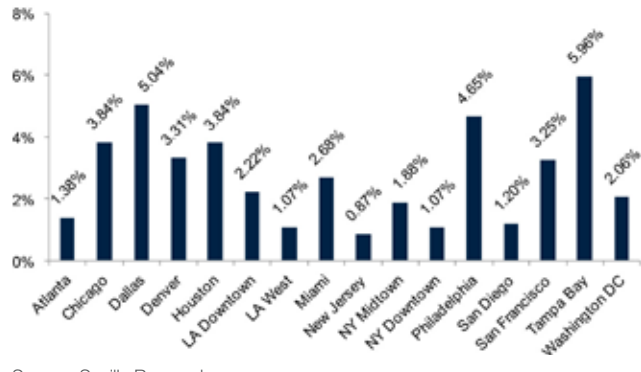
Source: Savills Research

Market Risk Premium



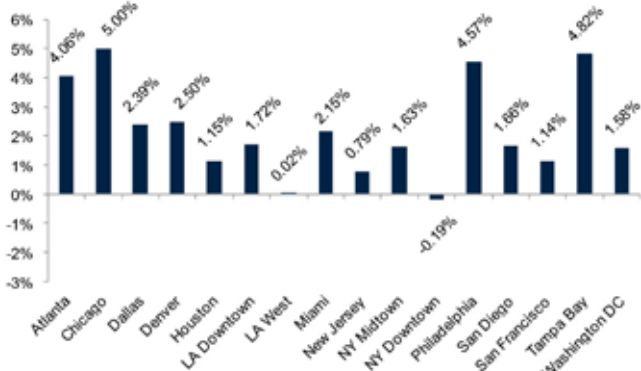
Source: Savills Research

Effective Risk Premium



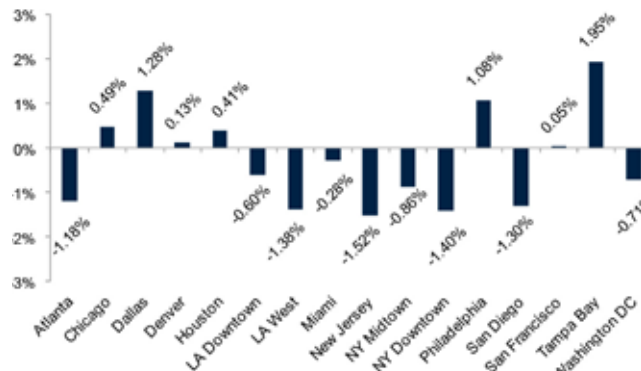
Source: Savills Research

Market Accretion



Source: Savills Research

Effective Accretion



Source: Savills Research

About



Savills

With a rich heritage and a reputation for excellence that dates back to 1855, Savills is a leading global real estate provider listed on the London Stock Exchange.

Savills advises corporate, institutional and private clients, seeking to acquire, lease, develop or realise the value of prime residential and commercial property across the world's key markets.

Savills is a company that leads rather than follows with over 600 offices and associates throughout the UK, Europe, Americas, Asia Pacific, Africa and the Middle East. With over 27,000 staff, we seek out people who possess that rare mix of entrepreneurial flair and rock solid integrity, and are focused on delivering clients with advice and expertise of the highest calibre.

A powerful combination of global connections and deep local knowledge provides Savills with an almost unparalleled ability to connect people and property.

Savills extensive Asia Pacific network spans 50 offices throughout Australia, New Zealand, China, Hong Kong, India, Indonesia, Japan, Korea, Macao, Malaysia, Myanmar, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Savills offers the full spectrum of services from providing strategic advice to managing assets and projects and transacting deals. With a firmly embedded corporate culture that values initiative, innovation and integrity, clients receive outstanding service and can be assured of the utmost professionalism.

For advice that gives advantage, contact Savills.



Tony Crabb

National Head – Research Australia



+61 (0) 422 221 604



tcrabb@savills.com.au

Deakin University

Through its agenda LIVE the future, Deakin aims to build the jobs of the future, using the opportunities of the digital age to widen access to education and make a difference to the communities it serves.

Deakin enjoys a reputation for being accessible, helpful and friendly. It has a longstanding record for its use of cutting-edge information technology while providing highly personalised experiences, whether in the cloud on Deakin's media-rich campuses or through a combination of cloud and campus learning. Deakin has over 50,000 students, with a third choosing to study wholly in the cloud (online).

Deakin was awarded a 5-star rating by the prestigious university ranking organisation Quacquarelli Symonds (QS); the rating indicates Deakin is world-class in a broad range of areas, has cutting-edge facilities and is internationally renowned for its research and teaching. Deakin is in the top 50 of the QS ranking of the world's universities under 50 years.

Deakin is now in the top 3 percent of the world's universities in each of the three major international rankings including the prestigious Shanghai Jiao Tong Academic Ranking of World Universities (ARWU), Times Higher Education and QS World University Rankings. Established in 1974, Deakin was Victoria's fourth university and the first in regional Victoria. In 2014 Deakin celebrated its 40th anniversary.

Deakin has been strengthened by a series of successful mergers with strong partners, each of whom has contributed significantly to our character and approach. Today, Deakin operates in a global, connected world with the digital economy influencing every aspect of our activities.



Professor Richard Reed

Chair in Property & Real Estate



+61 (0) 3 9251 7605



r.reed@deakin.edu.au

Savills Key Contacts



Cross Border Investment

United Kingdom

Simon Hope

Head of Global
Capital Markets
+44 (0) 20 7409 8725
shope@savills.com

Rasheed Hassan

Director, Head of
Cross Border Investment
+44 (0) 20 7409 8836
rhassan@savills.com

Ned Baring

Director, Residential
Cross Border Investment
+44 (0) 20 7409 9998
nbaring@savills.com

Cordea Savills**Jon Crossfield**

Head of Investment Mandates
+44 (0) 207 409 8886
jon.crossfield@cordeasavills.com

Europe

Tristam Larder

Director, European Investment
+44 (0) 20 7409 8014
tlarder@savills.com

Danny Kinnoch

Director, European Retail
+44 (0) 207 409 8864
dpkinnoch@savills.com

Dirk Hoenig-Ohnsorg

Director, Cross Border
Investment
+49 89 427 292 303
dhohnsorg@savills.com

Asia Pacific

Frank Marriott

Regional Head,
Capital Markets
+852 2842 4475
fmarriott@savills.com.hk

Craig Ward

Senior Director,
Regional Capital Markets
+65 6415 7582
cward@savills.com.sg

Middle East

Hassan Farran

Director, Cross Border
Investment
+44 (0) 20 7409 8923
hfarran@savills.com

Australasia

Paul Craig

Managing Director
+61 (0) 8 9488 4180
pcraig@savills.com.au

North America

Robert Stamm

Managing Director
+1 (949) 679 9090
rstamm@savills.com

Savills Key Contacts

Worldwide Research

Asia Pacific

Simon Smith

Senior Director, Research
+852 2842 4573
ssmith@savills.com.hk

Australia

Tony Crabb

National Head, Research
+61 (0) 422 221 604
tcrabb@savills.com.au

China

James Macdonald

Director, China
+8621 6391 6688
james.macdonald@savills.com.cn

Joan Wang

Director
+8610 5925 2042
joan.wang@savills.com.cn

Dave Law

Senior Associate Director
+8628 8658 7120
dave.law@savills.com.cn

Sam He

Senior Manager
+8620 3892 7350
sam.he@savills.com.cn

Hong Kong

Jack Tong

Director, Research & Consultancy
+852 2842 4213
jtong@savills.com.hk

Ron Mak

Assistant Manager, Research & Consultancy
+852 2842 4287
rolmak@savills.com.hk

Indonesia

Anton Sitorus

Associate, Research & Consultancy
+62 (21) 293 293 80
Anton.sitorus@propertyconnection.co.id

Japan

Hafiz Ismail

Associate, Research & Consultancy
+81 (0) 3 5562 1787
hismail@savills.co.jp

Korea

JoAnn Jieun Hong

Director, Research & Consultancy
+82 2 2124 4182
jhong@savills.co.kr

Jihe Lee

Senior Manager, Research & Consultancy
+82 (0) 2 2124 4183
jihealee@savills.co.kr

Philippines

Antton Nordberg

Head of Research
+63 (917) 599 44 30
antton.nordberg@kmcmaggroup.com

Singapore

Alan Cheong
Senior Director, Research & Consultancy
+65 6415 3641
alan.cheong@savills.com.sg

Taiwan

Erin Ting

Senior Manager
+886 (2) 8789 5828 137
eting@savills.com.tw

Vietnam

Troy Griffiths

Deputy Managing Director
+84 (0) 933 276 663
tgriffiths@savills.com.vn

Europe

Mat Oakley

Head of European Research
+44 (0) 20 7409 8781
moakley@savills.com

Lydia Brissy

European Research Director
+33 1 44 51 73 88
lbrissy@savills.com

Eri Mitsostergiou

European Research Director
+31 20 301 2087
emitso@savills.com

France

Marie Josée Lopes

Head of France Research
+33 1 44 51 17 50
mjlopes@savills.fr

Germany

Matthias Pink

Head of Germany Research
+49 30 726 165 134
mpink@savills.de

United States

Steve Coutts

National Head Research United States
+1 (212) 326 8610
scoutts@savills-studley.com

Keith DeCoster

Senior Manager, U.S. Real Estate Analytics
+1 (212) 326 1023
kdecoster@savills-studley.com

Mike Roessle

Manager, U.S. Real Estate Analytics
+1 (212) 326 8621
mroessle@savills-studley.com