Allens > < Linklaters

Real estate M&A and industry review

An industry once predominantly shaped by low cost of capital and traditional square metre yields continues to evolve in the way it does business in an increasingly experience-driven, technology focused world where people demand more from their built environment.

Together with industry and investment banking leaders, our real estate sector M&A experts share insights into the recent real estate M&A and industry trends and conditions, and consider what lies ahead for the sector. This will be of interest to all involved in the Australian real estate sector – particularly those who invest or have an eye on corporate activity in this space.

Market conditions

ECONOMIC CONDITIONS

The 2019 Federal election result brought a welcome period of significant policy certainty for the sector, and was a boon for the residential market and business confidence generally.

The significant reduction in the 10-year Bond Yield (from 2.3% to a low of 0.87% in late August) was a key driver of REIT prices in 2019. The succession of interest rate cuts, resulting in an all-time low of 0.75% at the end of the year, has contributed to buoyant asset prices in certain sectors, and – as noted by UBS – drove significant new investment into the REIT sector from yield hungry investors (both retail and institutional). Much will depend on available stock, and time will tell whether this translates into consistently higher sales volumes in the housing market.

Economic conditions in 2020 will be crucial to the performance of the sector more broadly. The Reserve Bank has flagged it is prepared to ease monetary policy further if needed, but with little room to move we expect there will be a focus on fiscal policy to support growth in the economy.

FINANCING

Operators and developers saw major Australian banks retreat significantly from parts of the property market in the last 18 months. Measures introduced following the Financial Services Royal Commission undoubtedly cooled residential and commercial real estate lending. With monetary policy easing in line with global interest rate declines, financing is expected to remain cheap in the short to medium term. Nevertheless, availability of funding will remain a function of the lender's assessment of the quality of the borrower where higher-quality, lower-geared borrowers possess a distinct competitive advantage.

The market continues to be challenging for small to medium-sized players, particularly in the residential development space. This has allowed alternative debt capital sources to fill the space with the emergence of non-bank lenders in the sector evident this year.

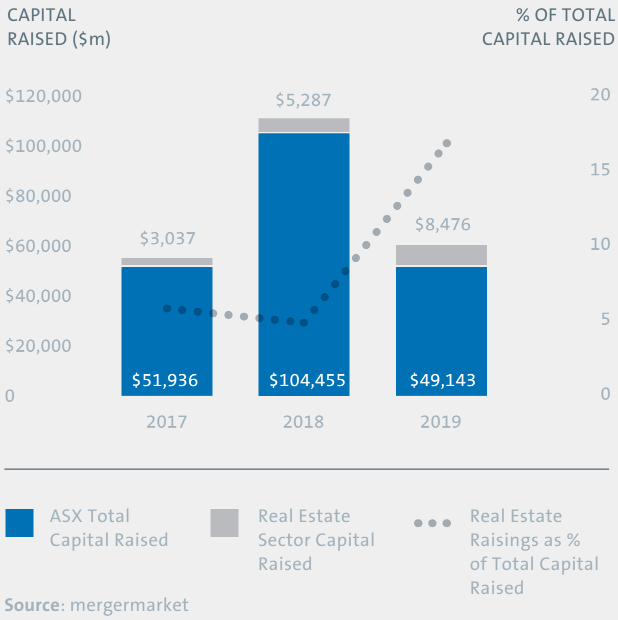
GLOBAL VOLATILITY

Following a number of significant international events, including the US/China trade war and the growing political unrest of the Hong Kong riots – 2019 made Australia a go-to destination for investment capital, particularly into securely leased real estate.

Real estate M&A and ECM trends

At the beginning of 2019, experts predicted that a reduction in market volatility would be a catalyst for a number of high-quality IPO's with different offerings to meet demand for new products. While this didn't eventuate, 2019 did see a flurry of secondary raisings. Dexus ($964m), GPT ($866m) and Mirvac ($796m) led the pack in the middle of the year, with the amount of capital raised across the sector almost equal to the total amount of equity capital raised by real estate players in all of 2018. In 2019, almost 20% of all secondary capital raised was by real estate players, compared to just approximately 5% in 2018 and 6% in 2017.

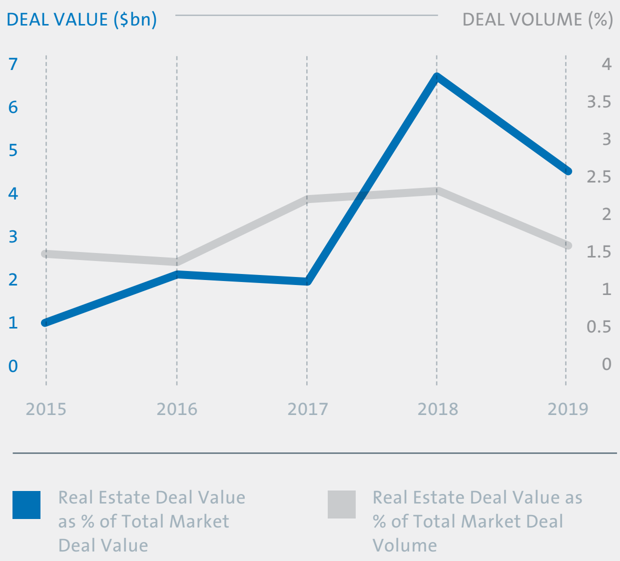
REAL ESTATE SECTOR CAPITAL RAISED RELATIVE TO TOTAL ASX CAPITAL RAISED



Source: mergermarket

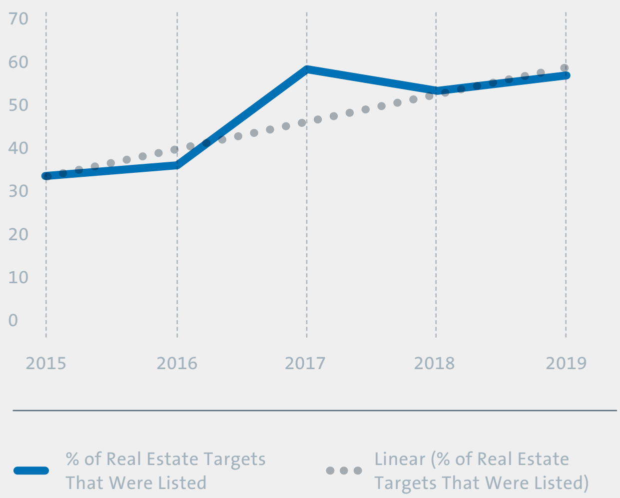
Despite less M&A activity in 2019 than was expected, and even excluding the Westfield/Unibail and Novion/Federation 'mega' deals on which Allens advised, there has been overall growth in value of the real estate sector M&A activity since 2017 relative to the Australian market as a whole. In 2017, Australian real estate deals represented only 2% of the value of all announced public and private M&A deals in Australia. In 2018, this increased to 6.9% and, although down from 2018 levels, 2019 continued the upward trend with announced real estate M&A deals representing 5.6% of the Australian market.

AUSTRALIAN REAL ESTATE PROPORTIONATE DEAL VOLUME AND VALUE



Source: mergermarket
Note: Announced deals where dominant industry is Real Estate (excludes lapsed/withdrawn)

PROPORTION OF REAL ESTATE TARGETS THAT WERE LISTED



Source: mergermarket
Note: Completed deals where dominant industry is Real Estate

2019
Market trends
THE YEAR THAT WAS

RE-WEIGHTING TOWARD INDUSTRIAL, LOGISTICS AND ALTERNATIVE ASSET CLASSES

While investors remain cautious, there continues to be appetite amongst local and offshore patient capital for preferred real estate asset classes, in particular, optimally located industrial logistics sites, well-leased and located offices (including those that house co-working spaces) and specialist assets. Notably, there is also growing interest in alternative asset classes such as residential land lease communities, student accommodation, childcare, dark warehousing and data centres, provided they are supported by robust fundamentals. Globally, these assets have attracted mainstream investment for many years and we are now seeing increased activity in Australia.

IMPACT OF CO-WORKING

Australian operators have noted that domestic office demand has belied economic conditions at a time when it was expected that the market would stall. Instead, Australia's five key office markets are experiencing low levels of vacancy, with commentators pointing to financial services tenants pushing up demand as they bolster their risk and compliance teams following the Financial Services Royal Commission. In terms of office sector risks, analysts highlight the mismatch in rental periods between co-working spaces and landlords as cause for concern, particularly should a recession eventuate. Operators and investors are focusing a great deal on the exposure of REITs to co-working, balancing the upside of increased occupancy and access to new markets against default risk. These concerns remain topical, particularly considering the withdrawal of the WeWork IPO.

RESIDENTIAL CONDITIONS

While we saw a pronounced decline in residential mortgage approvals across Australia in the shadow of the Financial Services Royal Commission, market data shows a 4% lift in residential mortgage valuations for 2019. Nationally, house prices rose more in November than in any month since 2003, with property prices in Melbourne and Sydney increasing 2.2% and 2.7% respectively. In the final quarter of 2019, nationwide prices remained 5.7% off their mid/late 2017 peak, yet with values having risen 2.9% from their June floor it is fair to say the market rebound has been healthy. The recent growth rates have not been seen since early 2016 in Sydney and not since 2015 in Melbourne. As the Australian population continues to grow, particularly in capital cities, Australia could soon return to a period of residential undersupply.

REDEMPTION REQUESTS

The trend toward an increase in redemption requests out of established unlisted property funds remained, particularly in the retail asset class but also, to a lesser degree, in office funds. It is likely this 'churn' reflects re-weighting rather than a loss of confidence in the sector. With funds increasingly pursuing investment in relatively illiquid real estate assets to chase yield in a low-interest rate environment, there could be cause for concern should a macro-economic event spark a flurry of redemptions. With growing volumes of capital looking for investment opportunities, we don't expect this trend to continue.

2019
Market trends
THE YEAR THAT WAS

AVAILABILITY OF CAPITAL

Global private equity houses remain keen to find ways of putting capital to work after continuing to attract large scale funds over the last 18 months. That trend seems set to continue, with Blackstone announcing in September 2019 the close of its US$20.5bn BREP IX fund, the largest-ever real estate fund.

Australia remains an attractive destination for foreign capital. In recent years, Chinese investors have spent tens of billions of dollars on real estate assets globally, paying record prices. As China's policy settings have changed, Canada, the Gulf countries, Singapore, South Korea, Germany, Israel and Norway have become amongst the biggest investors in global real estate assets.

While not without its own headwinds, Australia continues to be perceived (at a macro-level) as an attractive market for investment due to its relative economic performance, stability, transparency and governance. The collapse in the Australian 10-year bond yield has been beneficial to A-REITs, which are often sensitive to the yield curve.

Key sale and leaseback deals

- **Telstra sold a 49% stake to a consortium of investors led by ASX-listed Charter Hall, in a newly created $1.43 billion property trust established to hold 37 Telstra exchange sites.**
- **BP established a $1.75 billion unlisted REIT containing a national portfolio of convenience retail sites, with a Charter Hall consortium taking a 49% stake.**
- **KKR has sold key assets from its Arnott's property portfolio in sale and leaseback deals to each of Centuria Industrial REIT and Charter Hall.**

2020
Market insights
WHAT IS TO COME?

EXPERIENCE ECONOMY AND E-COMMERCE INCREASINGLY IMPORTANT

Notwithstanding the challenges presented by the penetration of e-commerce, 2018 and 2019 results continued to demonstrate that flagship retail assets and assets positioned toward the 'experience economy' and non-discretionary retail performed best in class. This is reflective of a broader structural change where customers are drawn to retail centres for customer experience and service, rather than necessity. The most successful retail operators are expected to be those who re-position their portfolios to cater to the growing number of customers, particularly in urban areas, who visit shopping centres (or 'living centres') for experiences, to access services, eat, drink, socialise, see a movie or browse. Retail investors and operators also remain focused on the opportunities created by Australia's ageing population, with increased provision of health and aged care services within mixed/retail spaces.

FURTHER GROWTH IN INDUSTRIALS AND LOGISTICS

Seasoned investors still see further investment upside and growth in demand for industrial and logistics assets . The assumption is that this will provide an opportunity for the development of strategically located supply chain assets and sets the scene for increases in yield for well-located sites with good access to major arterial roads, shipping and airports. Cities that embrace and support high-density warehouse development in urban areas will be those where investors see the greatest returns.

GREATER SCRUTINY ON ESG

Across the market, 2019 was a year where community expectations were loud and clear on climate change, renewables, deforestation and associated environmental issues. Operators and investors alike are increasingly being challenged on what they are doing in this space. We have observed a growing number of institutional investors taking an active position on ESG issues, not least by imposing specific environment and sustainability screening requirements on investment mandates. Similarly, developers and commercial real estate investors have acknowledged a degree of responsibility to the people impacted by the built environments they create and manage. We see this scrutiny continuing in the coming year.

TECHNOLOGY AND DATA BRING OPPORTUNITY FOR MANY

While technology has created something of a headwind for traditional retail assets as the market continues to shift toward e-commerce, we expect technology will act as a tailwind for industrial/logistics assets. Technological changes are driving demand for intelligent customised industrial development and have created significant efficiencies for supply chain via the use of next-generation robotics and sophisticated supply chain management software.

There is also substantial value in optimising data sets for real estate assets under management and using technology to drive revenue, track energy costs and enhance the tenant and customer experience. This is echoed in the healthcare real estate sector with asset management technology being used to track implementation and compliance with public regulatory measures.

2020
Market insights
WHAT IS TO COME?

ALTERNATIVE ASSET CLASSES – BUILD-TO-RENT

The build-to-rent space continues to gain momentum domestically as various projects underpin the viability of this asset class in Australia. Opportunities within this model exist for both institutional investors and developers, and seizing them requires a keen understanding of this emerging asset class. Learnings from the UK market on the dynamics of housing policies, funding scenarios and planning frameworks are expected to prove valuable in planning for future growth of this sector.

SALE AND LEASEBACK

2019 saw an increasing number of sale and leaseback arrangements as corporates sought to release capital tied up in real estate assets. Competitiveness of the current investment market has enabled corporates with quality assets to realise sums considerably above book value, which is driving the trend. Transactions such as Charter Hall's 49% stake in Telstra's exchanges in a deal valued at A$700 million, and KKR's reported appointment of advisers to sell parts of the Arnott's property portfolio are expected to be only the beginning of this trend.

BUILDING QUALITY AND IMPACT OF TECHNOLOGY ON CONSTRUCTION

There remains a degree of scepticism and concern toward the quality of new-builds, particularly apartments. Commentators also continue to observe heated debate around the role of independent certifiers and the perceived conflicts posed by their remuneration emanating from the developers whose projects they are required to certify.

Technology-driven solutions are expected to continue to impact and revolutionise the construction space, from real-time updates ensuring more precise budgetary and time estimates, to innovation in building products and the use of drones to conduct highly accurate site surveys.

Q&A with operators and investors

1

WHAT WILL HAVE THE GREATEST INFLUENCE ON A-REITS AND THE WIDER AUSTRALIAN PROPERTY SECTOR IN THE NEXT 12 MONTHS?

"Over the next twelve months the following interlinked themes will continue to play into the property space: continued urbanisation and the growth of cities, particularly Sydney and Melbourne; record low interest rates, which should improve confidence and affordability, offset by increased bank scrutiny; increased house prices, which should boost consumer confidence and retail spending (both of which will benefit retail); and then finally overall consumer and business confidence, which are still patchy and hard to read."

Susan Lloyd-Hurwitz
Mirvac

"Interest rates will be the greatest influence on investment in A-REITs and the wider Australian property sector in the next twelve months. If we see further interest rate cuts, that should bolster the premia to net asset value across the board."

Chris Tynan
Blackstone

"The two key factors that will drive markets in the year ahead are interest rates and the growing latent capital wanting to be deployed into the sector. The appetite for yield driven by record low interest rates will see both domestic and global investors continue to acquire commercial property given the relative attractive yield. It's a relative game for investors and commercial real estate still generally offers significant risk premia spreads of 400+ basis points versus other major asset classes such as bonds, equities and other alternatives, where spreads are negligible.

The focus should be on securing income-generating cash flows underpinned by strong tenant covenants and long WALEs. Core income based total returns providing cashflow resilience will be a go to for many with a natural flight to quality. The reality is there will be limited tier one investment stock to satisfy capital demand putting further pressure on asset pricing and pushing capital up the risk curve or into alternate adjacencies."

Sean McMahon
Charter Hall

Q&A with operators and investors

2

WHAT IS THE BIGGEST CURRENT CHALLENGE FACING A-REITS AND THE WIDER AUSTRALIAN PROPERTY SECTOR?

"We believe that the greatest challenge is trust. The decline in institutional trust across Australia has increased the need for companies like Mirvac to step up and demonstrate that we can be a force for good and we can improve the communities in which we work. This requires increased levels of community engagement, commitment to sustainability, collaboration with government and other stakeholders, and a genuine desire to make a positive impact and not just profit. It also requires an acknowledgement that we don't always get things right, and a willingness to learn."

Susan Lloyd-Hurwitz
Mirvac

"Depending on where you sit on the development curve, we see planning as an area that will continue to pose a number of challenges. Anyone exposed to development has experienced planning being a big challenge for years, and this doesn't seem to be ebbing."

Chris Tynan
Blackstone

"The biggest challenges facing the sector are competition for assets, continued regulatory bottlenecks and investor expectations around sustainability and governance. We expect growing capital appetite for commercial real estate to increase competition for assets. Now is not the time to be chasing secondary assets which are trading at small discounts to premium assets. Every real estate cycle has had similar features with new entrants particularly mispricing secondary trades. Regulatory bottlenecks especially around planning will continue to cause delays and increase costs. For all levels of government to provide core infrastructure for growth will be an ongoing challenge. Investors will continue to ramp-up their focus on ESG and how the industry responds to this will be critical in maintaining investor and community confidence going forward."

Sean McMahon
Charter Hall

Q&A with operators and investors

3

HOW DO YOU SEE TECHNOLOGY AND DATA CHANGING THE WAY YOU WORK AND INVEST?

"Data and technology will continue to transform our industry. This will require substantial investment, but we also believe it will deliver attractive returns, both in terms of greater internal efficiency and in improved outcomes for our customers. Technology will help us deliver more sustainable developments (for example, our House with No Bills which leverages solar, batteries, artificial intelligence and smart appliances to minimise utility costs), will help us better meet our 120 million retail customers' needs by identifying what they are seeking from our retail centres, and will empower our construction teams to build both more safely and efficiently than ever before."

Susan Lloyd-Hurwitz
Mirvac

"Technology already is, and has been for some time, changing the way we work, and this is only going to continue. Technology has already significantly impacted the way consumers spend their money shifting from stores to online platforms, and restaurants to apps. We think this trend will also play out in residential and other sectors such as retirement and aged care, as the provision of services direct to consumers gets increasingly personalised and driven through apps, artificial intelligence, and other tech platforms."

Chris Tynan
Blackstone

"Technology touches every aspectof the property industry. It is changing how people work, shop and live and this is influencing investment decisions. We have seen this play out in the retail and industrial sectors, as on-line shopping impacts traditional bricks and mortar retail while there is record demand for industrial property driven in part by e-commerce and supply chain changes. The internet, digitisation, artificial intelligence, virtual reality, the shared economy (open platforms and APIs), big data and cloud computing are all contributing to the transformation right through the property value chain. From the delivery and utilisation of buildings, to the way we measure and manage the performance of property."

Sean McMahon
Charter Hall

Key secondary raisings

In the largest of the capital raisings this year in the sector, Dexus, GPT, and Mirvac all respectively raised $964 million, $866 million and $796, meaning that by halfway through 2019 REIT raisings had hit their highest levels since 2010. Allens advised each of Mirvac, GPT, National Storage REIT, Abacus Property Group, Charter Hall Long WALE REIT and Charter Hall Education Trust, and the underwriters to Dexus and VIVA Energy REIT in connection with each of their raisings this year.

dexus	$964m
GPT	$866m
mirvac	$796m

OUTLOOK FROM THE MARKET

Q&A with operators and investors

4

WHAT IS THE SINGLE MOST IMPORTANT THING STATE AND FEDERAL GOVERNMENT CAN DO TO PROMOTE GROWTH IN THE AUSTRALIAN PROPERTY SECTOR?

"The biggest inhibitor to growth is inefficient and opaque planning systems. Great planning systems can deliver great social outcomes, and great economic outcomes. Across Australia, but especially in NSW, poor planning systems are creating uncertainty, adding costs and inhibiting the ability to deliver high quality urban solutions. We are encouraged by the NSW Premier declaring her intent to build the “simplest and most effective planning system in the country” – that would be a massive improvement for NSW and set an example for other states."

Susan Lloyd-Hurwitz
Mirvac

"Sounds simple, but stability is key. We have seen almost all State Governments and the Federal Government tinker with taxes over the last two years. Things like absentee owner surcharges on land tax, mandating a 30% MIT rate for build-to-rent as compared to 15% on all other asset classes of commercial real estate disincentivises foreign capital investment into key real estate projects which would otherwise generate longer term employment benefits both in construction and asset operation."

Chris Tynan
Blackstone

"We need to ensure that at all levels of government focus on streamline taxes, planning and bureaucratic red-tape. The property industry is a major employer and custodian of the nation’s retirement savings. Inefficient and poorly designed regulation places unnecessary costs on the property sector which can negatively impact on the sector’s productivity and reduce returns to investors. Global capital accounted for up to one third of commercial real estate activity last year and the reality is this is a discretionary call, so ease of business and the cost of business are key drivers. Australia generally ranks in the top quartile for ease of business globally but this has slightly drifted in recent years with the advent of new taxes and regulations on foreign investment playing out."

Sean McMahon
Charter Hall

Statistics

- With the Australian 10-year bond yield at 1.18% as at December 2019 (and Germany, France and Japan all below zero), rates globally are expected to remain ultra-low in what appears to be a 'new normal.'
- The Australian dollar remains at attractive levels for offshore acquirers and investors chasing yield in the current environment and A-REITs are therefore expected to continue to attract significant demand from investors. The A-REIT 300 Index yielded approximately 4.2%, several percentage points higher than bonds and term deposit returns.
- Despite a rebound pre-GFC, Australian real estate capitalisation rates have fallen steadily since 2000 for office (~7% to 5.2%), retail (~8% to 5.1%), and industrial (~10% to 5.8%) properties.
- Australia's superannuation assets have grown at 10.2% p.a. over the past 10 years, the fastest globally, and pension funds' asset allocation to real estate and other alternatives has increased from 7% to 26%.

OUTLOOK FROM THE MARKET

Q&A with investment bankers

1

LOOKING BACK ON 2019, WAS THE CORPORATE ACTIVITY AS YOU EXPECTED?

"We had forecast that M&A was likely to be relatively benign and this has played out due largely to the significant performance of the overall REIT sector given the extremely favourable interest rate environment. Significant M&A activity is often predicated when there is significant mispricing across the sector but with most REITs trading at premiums to their NTA (despite significant NTA growth again this year) this mispricing is not evident. There was very little IPO activity and the standout area of action for the REIT sector in 2019 was the significant amount of secondary capital raisings for existing REITs where we have seen almost AUD$8bn raised in 2019 with Charter Hall Long WALE REIT raising the most capital of any REIT for the year at $1.053bn. 2019 is the largest year of REIT capital raisings in the last 10 years."

Tim Church
UBS

"In the six-week period to mid-Oct 2018, the A-REIT Index fell 8% on the expectation of increasing interest rates (and in fact there was a 25bps target rate increase by the US Fed in late-Dec 2018). So late in 2018/early 2019 with A-REITs experiencing pricing pressure, there was a much greater prospect of A-REIT M&A. But sentiment turned quickly in 2019 with a reverse and now a falling interest rate environment. A-REITs responded with strong positive price performance with the A-REIT Index up ~20% CY2019 YTD. Rather than a year of M&A, 2019 became the year of equity raising with over $7.5 billion raised CY2019 YTD."

Antony Green
Macquarie Capital

"In 2019 there were relatively few public market M&A deals announced in the REIT sector. We saw Aveo privatised by Brookfield, Charter Hall and Abacus make a bid for Australian Unity Office Fund and ESR complete the takeover of Propertylink. Part of the reason for the reduced deal count was the rally in A$ bonds from 2.5% to 1.1% (at the time of writing) which led to a strong rally in REIT security prices. This meant that potential acquirers viewed targets as relatively expensive compared to just a few months earlier and long run historical prices. The pricing dynamics were especially challenging for acquirers using cash consideration to make an acquisition well above NTA."

Simon Ranson and
Valli Arunachalam
JP Morgan

Q&A with investment bankers

2

WHAT CORPORATE ACTIVITY MIGHT WE SEE IN THE REIT/DIRECT PROPERTY MARKET IN THE NEXT 12 MONTHS AND WHAT DO YOU THINK WILL DRIVE THAT ACTIVITY?

"We expect Corporate Real Estate to again play out in 2020 with high quality real estate to continue to come off corporate balance sheets. M&A activity may appear if we see mispricing amongst existing players and this could come about from very elevated NTAs exceeding listed REIT's market pricing. The "Lower for Longer" interest rate environment will continue to advantage the securely leased and long WALE thematic."

Tim Church
UBS

"The majority of A-REITs are trading strongly with an excellent cost of capital and stable balance sheets. With trading prices at premiums to NTA and access to capital, corporate activity will be driven by A-REITs continued desire to source acquisitions and achieve further growth."

Antony Green
Macquarie Capital

"The market has now had some time to adjust to the new low interest rate environment and recalibrated its expectations of the required rate of return to do property deals. We are now seeing acquirers comfortable buying property on IRRs which were previously unheard of. In addition, there is a weight of foreign capital which views Australia as an attractive low risk geography to invest in with a relatively high spread between property yields and bond yields. This should culminate in increased buyside M&A activity in the sector, with both listed REITs and direct property portfolios being the targets."

Simon Ranson and
Valli Arunachalam
JP Morgan

Q&A with investment bankers

3

WHAT DO YOU EXPECT TO HAVE A GREATER INFLUENCE ON A-REIT VALUATIONS IN THE NEXT 12 MONTHS – MACRO-FACTORS SUCH AS BOND YIELDS AND INTEREST RATES, OR UNDERLYING ASSET FUNDAMENTALS?

"Interest rates (both Bond Yields and Cash Rates) will continue to have a significant impact on the performance of listed REITs as they are the most sensitive sector on the ASX to interest rate movements. In a low growth environment it is difficult to see interest rates increasing rapidly and therefore having a negative impact on REIT pricing. With low cash rates; ultra-low term deposits; bank stocks under pressure we expect the REITs to be again well supported by both retail and institutional investors. Sentiment towards the preferred asset classes will also be a key driver with Industrial logistics being the standout and retail the more challenged."

Tim Church
UBS

"Both factors are clearly important, however, we believe the performance of the listed A-REIT market will be driven by response to bonds / interest rates movements. Falling interest rates have trended to trigger A-REIT outperformance. The thematic continues to be all about income yield, yield and more yield."

Antony Green
Macquarie Capital

"Macro factors have been a tailwind across the entire property sector and J.P. Morgan's view is that low interest rates will continue to be a large factor supporting valuations and returns to investors. Wage growth and inflation in Australia remains modest and it's tough to see the impetus for the RBA to begin raising rates anytime soon. J.P. Morgan research is forecasting the RBA cash rate to reduce by a further 25bps over the next twelve months.

Asset fundamentals vary markedly different between sectors. This year we saw a large divergence in the performance of office, industrial and residential property exposed stocks compared to non-discretionary retail stocks for example. In the next twelve months J.P. Morgan equity research is expecting some cap rate softening for lower productivity retail malls and continued strong demand for industrial assets."

Simon Ranson and
Valli Arunachalam
JP Morgan

OUTLOOK FROM THE MARKET

Q&A with investment bankers

4

WHAT CORPORATE ACTIVITY MIGHT WE SEE IN THE REIT/DIRECT PROPERTY MARKET IN THE NEXT 12 MONTHS AND WHAT DO YOU THINK WILL DRIVE THAT ACTIVITY?

"Securely leased triple net assets on long term leases with attractive rent review structures will top the list. If you want the 'cherry on top' then apply that wish list to industrial and logistics assets and you will have the absolute asset class of choice!"

Tim Church
UBS

"We continue to be slightly agnostic between the assets classes. Residential is improving, industrial logistics is attracting attention, office is underpinned by continued investor appetite and even retail could be seen to present good buying opportunities (particularly if underpinned by alternate uses). Another area to watch is 'alternate real estate' such as healthcare, student housing and other social infrastructure as investors gain comfort on the stability of the earnings generated by these assets."

Antony Green
Macquarie Capital

"We think there is an opportunity in Australia to institutionalise and grow alternative property sectors (ie anything outside of retail, office and industrial). If you look at the number of specialized alternative REITs in the US for example, it is clear we have some way to go in securitizing this type of real estate. With bond yields where they are now, J.P. Morgan expects more sale and leasebacks in the next 12 months from corporates in the healthcare, social infrastructure and hospitality fields to investors who are looking to gain exposure to these alternative sectors."

Simon Ranson and
Valli Arunachalam
JP Morgan

Key M&A deals

- Brookfield's A$1.3 billion acquisition by scheme of arrangement of aged care provider Aveo Group, which involved an option for Aveo securityholders to elect to receive a scrip alternative giving securityholders 'stub equity' in a vehicle which would have exposure to Aveo, instead of cash consideration. Allens advised Brookfield in connection with the acquisition.
- The tussle for ASX-listed Australian Unity Office Fund is a clear reflection of the degree to which assets in the sector are increasingly hotly contested. Allens advised the Charter Hall / Abacus consortium on the proposed scheme of arrangement.
- ESR's $723 million acquisition of ASX-listed Propertylink Group earlier in 2019 was implemented by way of an agreed off-market takeover bid, demonstrating a willingness for bidders to consider the structure as an alternative to a scheme of arrangement. Allens advised the lender group to ESR on the debt financing for the acquisition.

CONTACTS

Kate Towey
Partner
T +61 2 9230 5053
Kate.Towey@allens.com.au

Vijay Cugati
Partner
T +61 2 9230 4940
Vijay.Cugati@allens.com.au

Stuart McCulloch
Partner
+61 2 9230 4420
Stuart.McCulloch@allens.com.au

Victoria Holthouse
Partner
+61 2 9230 4303
Victoria.Holthouse@allens.com.au

David McLeish
Partner
+61 3 9613 8954
David.McLeish@allens.com.au

Annabelle Aland
Partner
+61 7 3334 3312
Annabelle.Aland@allens.com.au

Marc Kemp
Partner
+61 2 9230 4991
Marc.Kemp@allens.com.au

Craig Milner
Partner
+61 2 9230 4063
Craig.Milner@allens.com.au,

Mark Kidston
Partner
+61 2 9230 4419
Mark.Kidston@allens.com.au,

Jo Folan
Partner
+6 2 9230 4625
Jo.Folan@allens.com.au