

7. BUSINESS OVERVIEW (Cont'd)

EW-Ballymore Embassy Gardens is developing Phase 2 of the Embassy Gardens project, which has an estimated GDV of GBP932.5 million⁽¹⁾ (about RM5,076.1 million⁽²⁾).

Based on the IMR Report and the valuation report prepared by JLL in respect of the Embassy Gardens Phase 2 project dated 14 September 2016, Phase 1 of Embassy Gardens, which is being solely developed by Ballymore, is completed and will deliver 639 units, of which 541 units will be private residential units. Phase 1 of Embassy Gardens was launched in the second quarter of 2013 with estimated prices ranging from about GBP1,000 to GBP1,500 per sq ft, and all of the units available for sale under the Embassy Gardens Phase 1 project have been pre-sold.

Based on the IMR Report, Phase 3 of Embassy Gardens, which is being solely developed by Ballymore, has been cleared for construction and will deliver 207 private residential units. Estimated prices for the private residential units range from about GBP1,000 to GBP1,500 per sq ft.

As at the LPD, of the 430 private residential units available for sale under the Embassy Gardens Phase 2 project, we have pre-sold 153 units, representing a take-up rate of about 35.6%, as well as 163 units of affordable homes, with contracted sales totalling GBP219.3 million (equivalent to RM1,213.1 million⁽³⁾) (including parking). We have also sold the ground rent of all the private residential units under the Embassy Gardens Phase 2 project for GBP21.8 million (equivalent to RM120.5 million⁽³⁾) to Nationwide Trustee.

Construction works for Embassy Gardens Phase 2 project commenced in October 2015 and construction for all the blocks is expected to be completed in the second half of 2021. In terms of the construction progress for the Embassy Gardens Phase 2 project, all cores have been completed while super structure works are currently underway for Block A04. As for Block A03, substructure and concrete frames have been completed with low level internal wall construction progressing, while for Block A05, piling works have been completed and substructure works are ongoing.

Notes:

(1) GDV as at 14 September 2016 and based on the valuation report prepared by JLL in respect of the Embassy Gardens Phase 2 project dated 14 September 2016 inclusive of the value of the private residential units, affordable homes, commercial components, car parking spaces and freehold ground rent. For further details of the components of the estimated GDV of the Embassy Gardens Phase 2 project, please refer to the valuation certificate prepared by JLL in respect of the Embassy Gardens Phase 2 project dated 14 September 2016 as appended in Section 9 of this Prospectus.

(2) Based on the exchange rate of GBP1.00: RM5.4435, being the middle rate for GBP to RM quoted by BNM at 5.00 p.m. as at 14 September 2016.

(3) Based on the exchange rate of GBP1.00: RM5.5325, being the middle rate for GBP to RM quoted by BNM at 5.00 p.m. as at the LPD.

(iii) Wardian London

Wardian London, located at the Isle of Dogs in the London Borough of Tower Hamlets, situated next to Canary Wharf, is expected to deliver 626 private residential units and 138 units of affordable homes across two blocks (the West Tower and the East Tower) with about 6,448 sq ft of commercial gross internal area. The private residential units range from 388 sq ft to 1,623 sq ft in terms of area and GBP389,940 to GBP2,250,000 in terms of price. The West Tower will be 50 storeys and the East Tower will be 55 storeys. There will be 102 car parking spaces.

7. BUSINESS OVERVIEW (Cont'd)

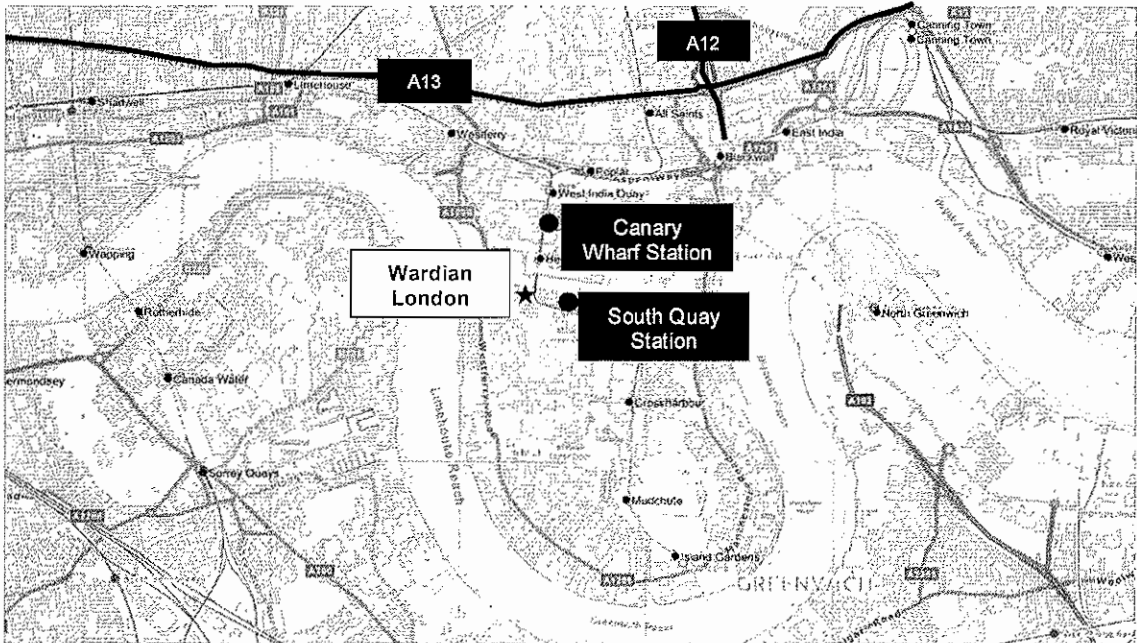
The total land area of the Wardian London development is about 1.35 acres.

In addition to apartment units, the towers will also include retail, leisure and café amenities and a new, landscaped public plaza. Wardian London will have views over South Dock towards Canary Wharf (which is an almost three-minute walk away), with a westerly panorama of the London cityscape.

The design of Wardian London was inspired by Nathaniel Bagshaw Ward, a London physician and botanist who invented a method of transporting plant life across vast distances using tightly-sealed glass terraria, known as "Wardian cases", which allowed ships to transport live specimens of plants collected from around the world to be brought back to Britain during the early 19th century. In line with our focus on building properties that promote an eco-friendly lifestyle, the concept of Nathaniel Bagshaw Ward's innovation is remade in Wardian London, with giant "Wardian cases" being featured throughout the building, exhibiting arrangements of exotic trees and plants. Each apartment in Wardian London will also have a private sky-garden, made possible with the provision of generously-sized balconies.

The amenities in Wardian London will also include a private gym, a residents' cinema, a residents' sky lounge with a private dining area and bar, and a rooftop garden with an observation deck.

Wardian London benefits from good links to public transport. The South Quay station (which is served by the DLR) is only about 500 metres to the east of the site. The South Quay station provides access to the city of London (Bank station) in about 17 minutes on the DLR. The Canary Wharf station (which is served by the London Underground) is accessible via a pedestrian bridge over South Dock. The Canary Wharf station is within easy reach of London Bridge (with travel time at about seven minutes), Waterloo Station (with travel time at about 10 minutes), Stratford/Olympic Village (with travel time at about 11 minutes) and Bond Street (with travel time at about 15 minutes) via the Jubilee Line.

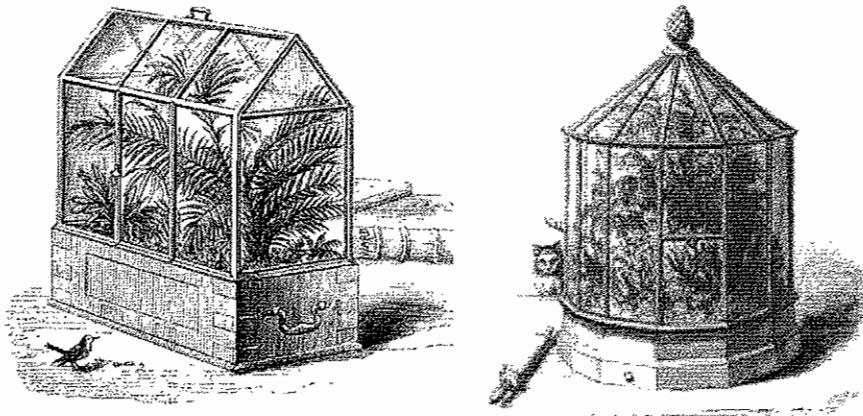


Overview map of Wardian London

7. BUSINESS OVERVIEW (Cont'd)



Artist's impression of the Wardian London project



Examples of "Wardian Cases"

7. BUSINESS OVERVIEW (Cont'd)

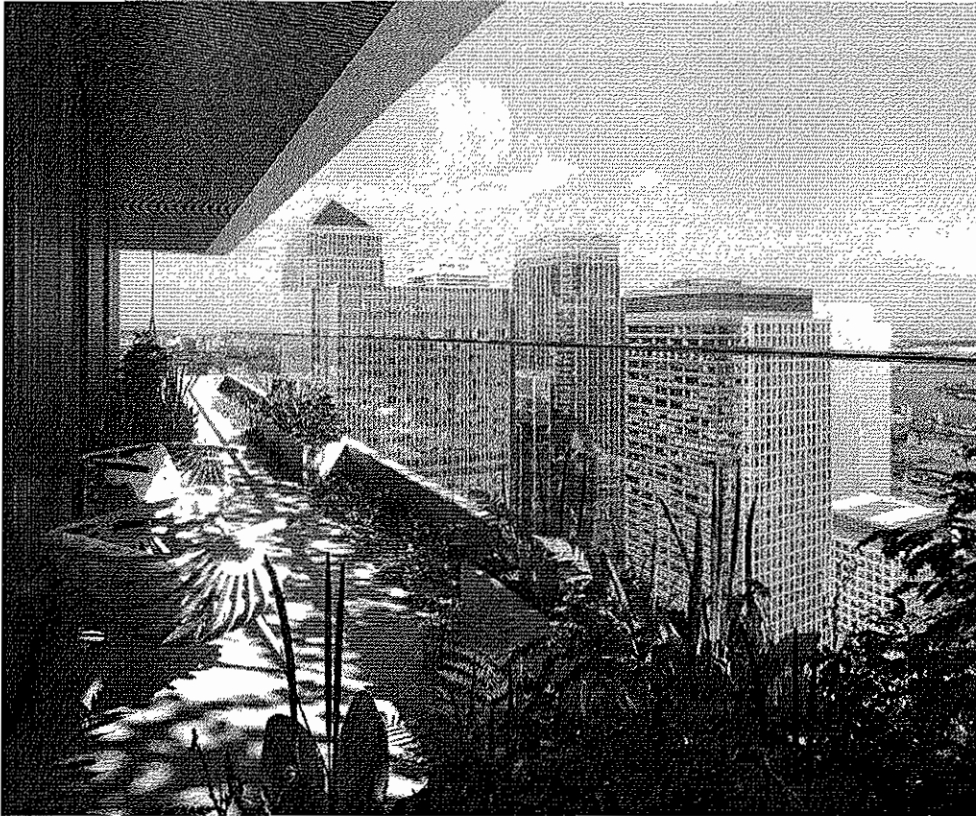


Artist's impression of "Wardian cases" in the lobby



Artist's impression of the residents' sky lounge

7. BUSINESS OVERVIEW (Cont'd)



Artist's impression of the private sky garden in each apartment

EW-Ballymore Arrowhead is developing the Wardian London project, which has an estimated GDV of GBP566.1 million⁽¹⁾ (equivalent to RM3,081.6 million⁽²⁾).

As at the LPD, of the 626 private residential units available for sale under the Wardian London project, we had pre-sold 412 units, representing a take-up rate of about 65.8%, as well as 138 units of affordable homes, with contracted sales totalling GBP331.3 million (equivalent to RM1,833.2 million⁽³⁾) (including parking). We have also sold the ground rent of all the private residential units under the Wardian London project for GBP13.8 million (equivalent to RM76.2 million⁽³⁾) to Nationwide Trustee.

Construction of the East Tower commenced in May 2016 and the construction of both towers is expected to be completed in the first half of 2020. In terms of the construction progress for the Wardian London project, the concrete hard standing 'basement box' has been demolished and cleared while piling works have completed. Works on the core structures for both East Tower and West Tower are underway, with the East Tower raft completed and the West Tower foundation in progress.

Notes:

(1) GDV as at 14 September 2016 based on the valuation report prepared by JLL in respect of the Wardian London project dated 14 September 2016 inclusive of the value of the private residential units, affordable homes, commercial components, car parking spaces and freehold ground rent. For further details of the components of the estimated GDV of the Wardian London project, please refer to the valuation certificate prepared by JLL in respect of the Wardian London project dated 14 September 2016 as appended in Section 9 of this Prospectus.

(2) Based on the exchange rate of GBP1.00:RM5.4435, being the middle rate for GBP to RM quoted by BNM at 5.00 p.m. as at 14 September 2016.

7. BUSINESS OVERVIEW (Cont'd)

(3) Based on the exchange rate of GBP1.00: RM5.5325, being the middle rate for GBP to RM quoted by BNM at 5.00 p.m. as at the LPD.

7.7.2 Sydney, Australia

Our wholly-owned subsidiary, EW Sydney Development, is developing the West Village, Parramatta project in Sydney, Australia.

West Village, Parramatta is a mixed residential and commercial development which is expected to deliver 398 private residential units with about 11,937.2 sq ft of internal area for commercial and retail space. The private residential units range from 538.2 sq ft to 1,270.1 sq ft in terms of area and AUD524,000 to AUD1,455,000 in terms of price. The development is expected to consist of a 39-storey tower and a six-storey podium and include over four levels of 401 basement car parking spaces.

The total land area of West Village, Parramatta development is about 1.18 acres.

The development site occupies a corner position with frontages to Church Street, Parkes Street and Anderson Street and is an almost five-minute walk to Parramatta's CBD. Parramatta is about 24 kilometres west of Sydney's CBD.

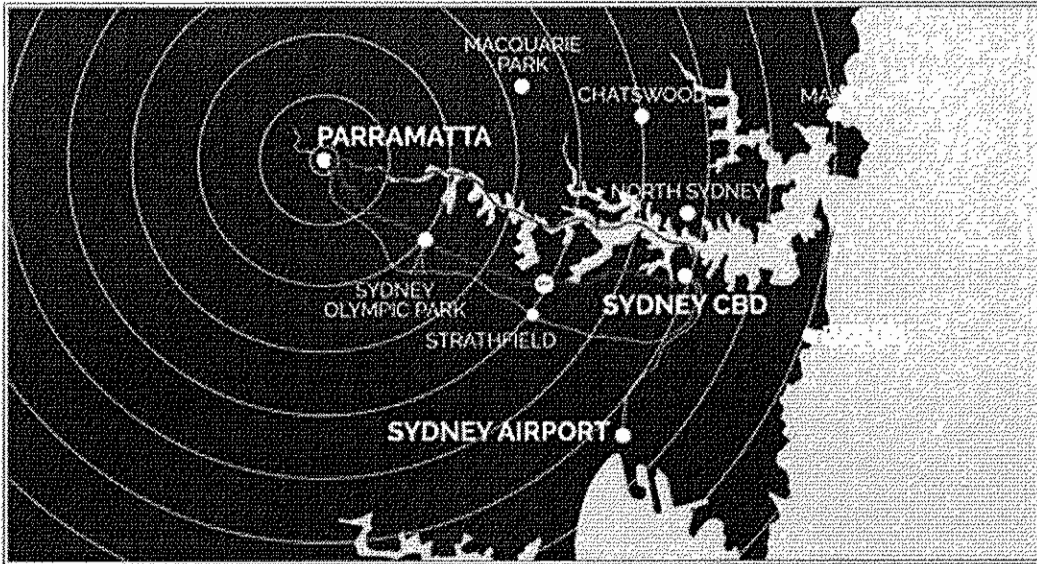
According to the IMR Report, Parramatta is a sizeable commercial centre containing 690,000 sq m of office space, with comprehensive retail amenities, including the nearby Westfield Parramatta Regional Shopping Mall. Parramatta is also a major transport interchange with extensive road, rail and bus infrastructure in place. The increased residential supply in Parramatta combined with substantial local and state government investment in infrastructure have increased awareness of Parramatta as an emerging second CBD within the Sydney metropolitan area. Significant transportation linkages and ongoing commercial development (both retail and office) has resulted in more jobs created in the area and a resultant increase in demand for residential property.

The amenities in West Village, Parramatta are expected to include a residents' sky terrace at the highest floor with views of Sydney's CBD and the Blue Mountains. Additionally, it is expected to have rooftop charcoal grille dining areas, a city view lounge deck area and an open lawn for residents. An additional podium roof garden on the sixth storey with private enclaves and barbecue facilities is also expected to be made available for the exclusive use of the residents.

Other common spaces are expected to include a central ground floor courtyard (named "The Village Green"), a lobby and a ground floor retail precinct with cafés and international cuisine options. West Village, Parramatta is also expected to feature an indoor nine to 18-hole virtual golf driving range and a fully sound-proofed private music room with a baby grand piano for private performances. Internally, each apartment is expected to be fitted out with modern finishing and joinery with expansive open plan layouts aimed to maximise natural light and ventilation. Some of the apartment units are also expected to have uninterrupted views of Sydney's CBD while others will enjoy a view of the Blue Mountains.

West Village, Parramatta is well-connected via transportation links and is located about 1.5 kilometres from the Parramatta Ferry Wharf, 500 metres from the Parramatta train station (which connects commuters to Sydney's CBD in about 30 minutes), 300 metres from a bus terminal and 300 metres from the Westfield shopping centre. West Village, Parramatta is also almost a five-minute walk away from Parramatta's CBD.

7. BUSINESS OVERVIEW (Cont'd)



KEY
—— Motorway
—— Train
● Ferry
))) 5km zone

Approximate travel time from Parramatta to the Sydney CBD via the motorway is 36 minutes

Overview map of West Village, Parramatta



Artist's impression of West Village, Parramatta

7. BUSINESS OVERVIEW (Cont'd)



Artist's impression of West Village, Parramatta

EW Sydney Development is developing the West Village, Parramatta project which has an estimated GDV of AUD314.8 million⁽¹⁾ (about RM1,042.3 million⁽²⁾).

As at the LPD, of the 398 units available for sale under the West Village, Parramatta project, we had pre-sold 329 units, representing a take-up rate of about 82.7%, with contracted sales totalling AUD248.8 million (equivalent to RM831.5 million⁽³⁾) (including parking).

Construction of the West Village, Parramatta project is expected to commence in the first half of 2017 and completion is targeted for the first half of 2020.

In May 2014, our Group acquired the West Village, Parramatta site with a previously approved development consent from the City of Parramatta Council ("**Existing Development Consent**"). In June 2015, we marketed and pre-sold units in the West Village, Parramatta project to purchasers based on another development plan ("**Marketed Development Plan**") for which we were required to obtain a new development consent. In the process of doing so, our Group conducted an invited architectural design competition, pursuant to which the design jury selected a preferred design in February 2016. In June 2016, our Group applied for a new development consent and submitted, as part of the application, the selected design based on the outcome of the design competition. The selected design does not differ significantly from the Marketed Development Plan. The application was approved in November 2016 and the City of Parramatta Council granted us a development consent based on the design that we submitted as part of our application ("**New Development Consent**").

7. BUSINESS OVERVIEW (Cont'd)

The salient differences between the designs contained in the Existing Development Consent, Marketed Development Plan and the New Development Consent are as follows:

	Design contained in the Existing Development Consent	Design contained in the Marketed Development Plan	Design contained in the New Development Consent
Total no. of storeys	39 storeys	39 storeys	39 storeys
Podium	Five levels	Six levels	Six levels
Basement	Four levels containing 427 car parking spaces	Four levels containing 405 car parking spaces	Four levels containing 401 car parking spaces
No. of residential units	364	397	398
Total gross floor area	31,085 sq m	31,475 sq m	32,935 sq m
Total balcony area	6,507 sq m	8,188 sq m	8,780 sq m

Prior to the application for the New Development Consent, we marketed and pre-sold units and entered into sale and purchase agreements with purchasers based on the Marketed Development Plan. Subsequent to our application but prior to the issue of the New Development Consent, we notified all purchasers regarding the amended design that was contained in the application. As part of our commitment to customer service and as a sign of good faith, we also offered all purchasers the opportunity to rescind their sale and purchase agreements in the event that their units be affected by the amended design. As at the LPD, there have been 31 rescissions of sale and purchase agreements. To effect such rescissions, both we and the purchasers have entered into a deed of release. Such units have since been made available for sale in the market again.

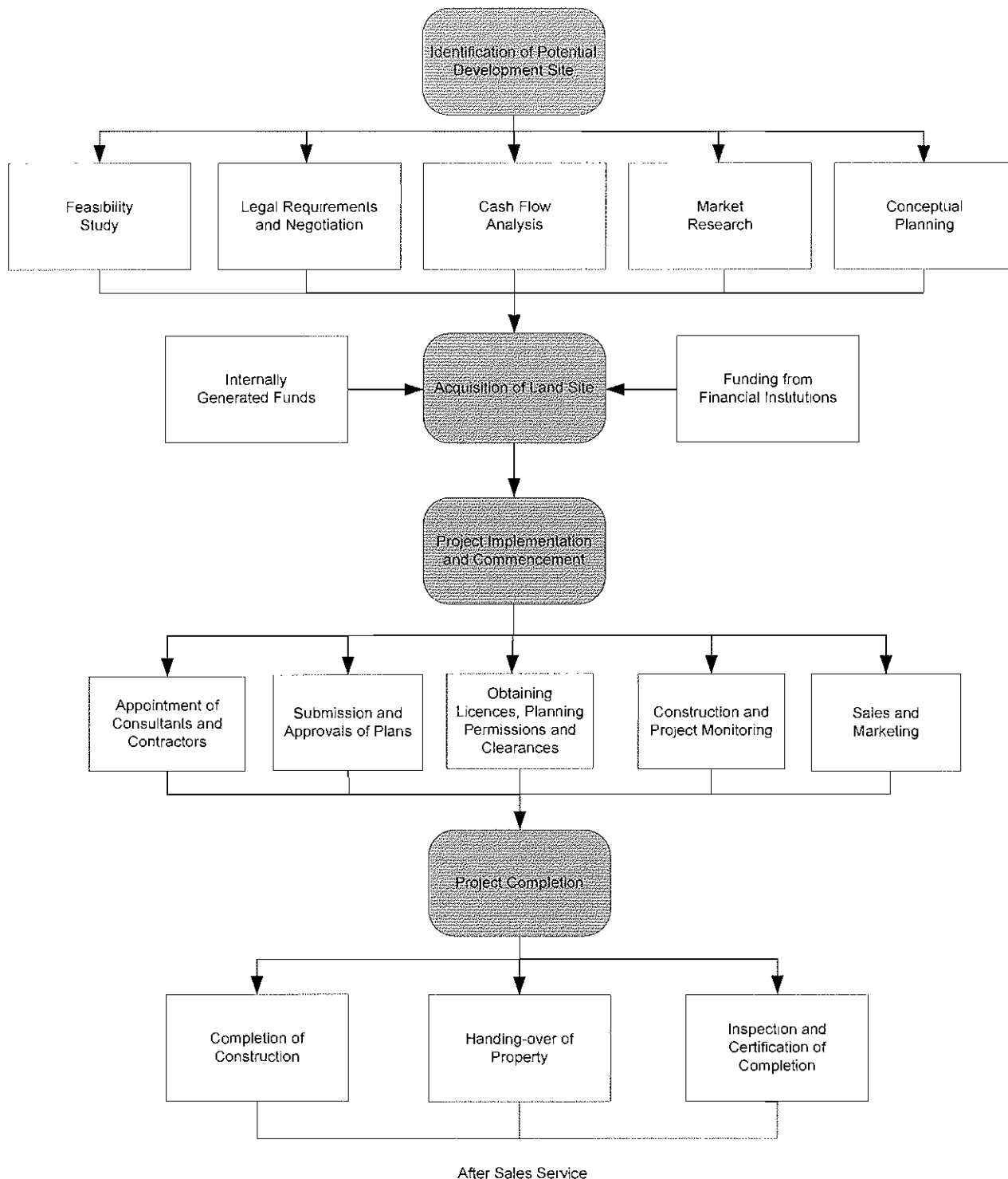
Notes:

- (1) *GDV as at 15 December 2016 based on the valuation report prepared by m3property in respect of the West Village, Parramatta project dated 15 December 2016 inclusive of the value of residential (inclusive of car parking spaces) and commercial components. For further details of the components of the estimated GDV of the West Village, Parramatta project, please refer to the valuation certificate prepared by m3property in respect of the West Village, Parramatta project dated 15 December 2016 as appended in Section 9 of this Prospectus.*
- (2) *Based on the exchange rate of AUD1.00: RM3.3110, being the middle rate for AUD to RM quoted by BNM at 5.00 p.m. as at 15 December 2016.*
- (3) *Based on the exchange rate of AUD1.00: RM3.3415, being the middle rate for AUD to RM quoted by BNM at 5.00 p.m. as at the LPD.*

7. BUSINESS OVERVIEW (Cont'd)

7.8 PROCESS FLOW

The key stages of our property development process are as follows:



7. BUSINESS OVERVIEW (Cont'd)

(i) Identification of potential development site

As part of the identification of a potential site for development by our business development team, a preliminary study is performed. The preliminary study involves market research to ascertain market demand and pricing for the proposed development, and a feasibility study such as cash flow analysis to evaluate the viability, profitability and risks of the proposed project. Our business development team comprises representatives from our projects and technical department, sales and marketing team as well as our Group's accounts and finance departments.

Relevant factors taken into consideration include the purchase price of the site, availability of financing, whether the potential site comes with any planning permissions or development consents, restrictions or requirements imposed by the relevant authorities in respect of the land site, zoning and land use, size and location, population density, traffic flows, competition from neighbouring developments, environmental issues as well as the profile and requirements of our target buyers. The aforementioned factors, which are specific to the identified land site, will be reviewed by our management together with other considerations which may be more broad-based, such as the economic outlook, business environment and property market sentiment.

We will also undertake standard due diligence procedures on the target land sites, which will involve, amongst other things, site visits and land searches to determine whether the proposed project is in line with the local plan endorsed by the relevant authorities.

If the business development team is of the view that the site is suitable for development, the potential development project together with the findings of the preliminary feasibility study will then be endorsed by our CEO before consideration by our Board.

(ii) Acquisition of land site

If a decision is made to acquire the land site or enter into a joint venture with an existing landowner, we will then proceed to make a bid for the site or put forward a proposal for a joint venture with the existing landowner to develop the land site. In determining our bidding price and/or terms of the joint venture, our projects and property development departments will carry out detailed feasibility studies to estimate the project costs and selling price for the completed property development project in order to calculate the profitability of the property development project. Having these detailed studies will help mitigate the possibility of us acquiring or making a bid at a price which may result in the project being unprofitable. Comparative market studies are also conducted on similar projects to validate our bidding price.

In addition to the internal evaluation, where required, external feasibility studies may also be conducted by a professional architect and cost consultant engaged by our Group. Together with the feasibility study reports, the architect assists us in ascertaining the maximum realisable potential of the land site and the cost consultant provides us with realistic construction cost estimates.

It is also at this stage that we undertake negotiations with the sellers of the land site or with the potential joint venture partner in tandem with a formal due diligence process which will encompass legal, financial and operational due diligence as well as a technical verification of the reports relating to the land site.

If the results of both our internal and, where applicable, external evaluations are favourable, we will then seek approval from our Board to proceed with the land acquisition or submission of a suitable bid for the same, or entry into the joint venture, as the case may be.

7. BUSINESS OVERVIEW (Cont'd)

(iii) Project implementation and commencement

Upon the successful acquisition of the land site or entry into the joint venture with the existing landowner to develop the land site, we will commence parallel work streams to implement the project. Such work streams include the appointment of the relevant professional consultants and contractors, the ongoing process of obtaining the relevant licences, planning permission and clearances as well as undertaking sales and marketing activities for the development project.

(a) *Appointment of professional consultants and contractors*

We may engage a development manager, who will be responsible for handling the day-to-day operations of the development project and a project management consultant, who will help to oversee the construction aspects of the development project (including the contractors). Alternatively, we may choose to appoint an internal project manager to be responsible for the day-to-day operation of the development project supported by an independent quantity surveyor in relation to tenders and meetings with consultants who will make decisions jointly with us. In determining the selection of a third party development manager, property management consultant and/or independent quantity surveyor, we take into consideration several factors, including the experience, track record, financial background, reputation, contract price and suitability of the relevant development manager, property management consultant and/or independent quantity surveyor.

We will also engage a team of professional consultants, which will include, amongst other things, architects, engineers, lawyers and other professionals such as registered surveyors. The team of professional consultants are typically located in the country where the land site is located, save for the architects and designers, whom we may source globally.

These professional consultants, such as the architects, engineers and lawyers, will assist in schematic design, design development, contract documentation and construction before final completion. The various design proposals are reviewed, re-worked and improved until they are deemed to be satisfactory by our management team and within the agreed specifications and budget. We select our professional consultants through a tender process. The evaluation process may differ based on the specific property development project and the main factors taken into consideration in the selection process would include the architectural design proposal, contract price, financial background and track record of the relevant consultants.

Main contractors and sub-contractors will also be appointed to carry out the main building works and provide other services, and are engaged via a tender process. Main contractors and sub-contractors with a good track record are invited to participate in our tender exercises. Such tender process would be administered by the appointed project consultants (i.e. the development manager, project management consultant and/or independent quantity surveyor), who will evaluate and assess all tenders and conduct tender interviews before submitting their tender reports to us. The board of directors of the development company will then make the decision as to which contractor to award the contract to. The contractors are selected based on various factors including their price, qualifications, reliability, financial status, track record and quality of work.

7. BUSINESS OVERVIEW (Cont'd)

Our management and project development team, with the assistance of the professional consultants, supervises the construction closely to ensure that building standards are adhered to and monitors the progress of the property development project to ensure that the property development project is completed on time, within budget and meets our quality standards and requirements.

(b) *Obtaining licences, planning permissions and clearances*

As part of the project implementation, we will also obtain the necessary licences, planning permissions and clearances from the relevant authorities at each relevant stage of the property development project, as required.

(c) *Sales and marketing*

We adopt customised sales and marketing strategies for each of our individual projects. For projects that are undertaken with joint venture partners, the sales and marketing strategy is usually formulated together with the relevant representatives of our joint venture partners. External marketing consultants may also be engaged to execute the necessary sales and marketing activities, including media advertising, and the design, production and distribution of promotional materials.

For further details on our sales and marketing activities, please refer to Section 7.9 of this Prospectus.

(iv) *Project completion*

Once the construction works are completed, a joint inspection will be conducted by the appointed professional consultants and contractors together with our management and project development team which include testing and commissioning each aspect of the development to certify that the project works have been completed in accordance with contract requirements and to our quality standards and requirements. Any defective works identified will be recorded and rectified by the contractors. Once the professional consultants have certified that the works have been satisfactorily completed, the handing-over process to purchasers will commence. This would include serving a completion notice and payment of the balance purchase consideration by the purchaser as set out in the relevant sale and purchase agreement. For a leasehold property, the purchaser will also have to, upon completion, apply to the land registry to register the leasehold interest.

In the United Kingdom and Australia, the purchaser typically makes a partial payment of the purchase consideration on the date the sale and purchase agreement is exchanged followed by the payment of the remaining purchase consideration (which usually represents a substantial portion of the total purchase consideration) to the developer when the construction work is completed and vacant possession has been delivered.

In the United Kingdom, the purchaser typically pays an initial cash deposit of either 5.0% or 10.0% of the purchase consideration as required by the developer upon signing of the sale and purchase agreement. An additional 15.0% or 10.0% of the purchase consideration, as the case may be, is then payable a year later which will be held by the developer's solicitors as stakeholder in a trust until the construction of our project is completed and handover of the vacant possession of the unit to the purchaser is completed. The remaining purchase consideration is only paid upon physical completion and handover of the vacant possession of the unit to the purchaser. An amount equivalent to the lower of 10.0% of the purchase consideration or GBP100,000 per unit out of the amounts received from the purchasers, can be utilised by the developer to fund the development works if such developer has procured deposit insurance from an insurance provider for that amount. We will review our sales report on a quarterly basis to determine the number

7. BUSINESS OVERVIEW (Cont'd)

of units pre-sold for the respective blocks of our existing United Kingdom property development projects, following which we will register the pre-sold units for NHBC Buildmark cover (deposit insurance and warranty on defects). Registration for the NHBC Buildmark cover involves paying an upfront premium and NHBC may also impose additional requirements (such as the provision of a corporate guarantee or the retention of a percentage of the initial cash deposit). Once these units have been registered, an amount equivalent to the lower of 10.0% of the purchase consideration or GBP100,000 per unit out of the amounts received from the purchasers will be released to us and can be used to fund the development costs of our property development projects, including funding the payment of insurance premiums for future insurance cover of amounts paid in connection with the sale of additional units in the project. In relation to the NHBC Buildmark cover for the London City Island Phase 2, Embassy Gardens Phase 2 and Wardian London projects, NHBC has required that 15.0% of the initial cash deposit be retained to NHBC's order and held by the developer's solicitors as stakeholder in a trust until either (i) an alternative security acceptable to NHBC has been put in place; or (ii) the construction of the respective project is completed and handover of the vacant possession of the unit to the purchaser is completed.

In Australia, the purchaser typically pays an initial cash deposit of 10.0% of the purchase consideration upon the signing of the sale and purchase agreement, which cannot be used by the developer to finance the development of the project and is held in trust by the relevant solicitor. The remaining 90.0% of the purchase consideration is only paid upon physical completion and handover of the vacant possession of the unit to the purchaser.

Further, from an accounting perspective, revenue from the sale of property in the United Kingdom and Australia can only be recognised by our subsidiaries and joint ventures when the risks and rewards of the property sold have been fully transferred to the purchaser, which is upon physical completion and handover of vacant possession of the property. Accordingly, our subsidiaries and joint ventures will not recognise the deposits received from purchasers or development progress of property for which a sales contract has been signed as revenue until the physical completion and handover of the vacant possession of the property.

In the United Kingdom, where our projects are currently undertaken through our joint ventures, the revenue of these companies on a year-to-year basis will fluctuate, depending on the number of projects completed in each financial year, which will, in turn, cause our share of profits from each of these joint ventures to fluctuate as well. In Australia, where our project is currently undertaken through our wholly-owned subsidiary, our revenue on a year-to-year basis will fluctuate as well, depending on the number of projects completed in each financial year.

(v) After-sales services

As part of our commitment to provide good customer service to our customers, we provide a variety of after-sales services beyond the completion of the relevant development projects.

For further details on our after-sales services, please refer to Section 7.9 of this Prospectus.

Our projects typically comprise a commercial and/or retail component and we may retain the commercial and/or retail component as investment properties for a period of time, to manage the quality and composition of the tenant mix and to enhance the value of the residential component of our projects. Nevertheless, once the above objective has been achieved and rental income stabilises, we may seek to unlock its value by divesting the commercial and/or retail component. Additionally, in the United Kingdom, annual ground rent is payable by residential apartment owners and carpark owners to the holder of the freehold interest and such ground rent generates an income stream. We may also seek to unlock the value of such

7. BUSINESS OVERVIEW *(Cont'd)*

income stream by divesting it to investors who seek for a steady stream of income in exchange for an upfront payment.

7.9 SALES AND MARKETING

Our Chief of Sales and Marketing, Norhayati binti Subali, leads our sales and marketing activities and is supported by a team of sales and marketing personnel. The team is responsible for formulating and conceptualising our overall sales and marketing strategy, conducting market research and analysis, developing our image and brand name, co-ordinating promotional events and providing before and after-sales services to our purchasers.

As part of the sales and marketing strategy for our Group, we constantly seek to enhance our image and brand name to reinforce brand loyalty. We reach out to customers in a variety of ways including through print media such as newspapers and magazines, social media, billboards, internet portals, mails, calls and private previews (for our existing customers). We also offer perks and rewards to repeat buyers by giving them priority in unit selection during launches and offering loyalty discounts, where applicable.

Our sales and marketing approach is also highly customised and seeks to highlight each individual project's unique qualities and selling points. We begin this by adopting a name for the project which emphasises its main features. For example, London City Island is named to reflect the contemporary urban island lifestyle that the project aims to provide to its residents. Our subsequent marketing activities also showcase the development's positioning as an artistic and cultural hub with regular open theatre performances on site to give potential purchasers a sense of the cultural atmosphere that London City Island will offer. Similarly, as part of our sales and marketing strategy for Wardian London, we installed large "Wardian cases" at the Design Cube show gallery located near the Canary Wharf estate to allow potential customers to have a preview of the garden living concept features of Wardian London.

For projects that are undertaken with joint venture partners, the sales and marketing strategy is usually formulated together with the relevant representatives of our various partners.

We also engage property agencies who have a good reach to the customers in target markets where we do not have dedicated sales offices (such as Hong Kong, China, Indonesia and the United Arab Emirates), to assist us during our project launches and in other sales activities in relation to our Group's projects. These property agencies are responsible for the sales and marketing of our projects based on marketing strategies we have established and are supervised and monitored by our own in-house sales and marketing team. Whilst external sales and marketing consultants and agencies may be engaged to support our marketing efforts, we primarily adopt a direct-to-customer sales strategy by training and equipping our internal sales and marketing team to sell units directly to customers. This allows us to get to know our customers to attain a better understanding of their requirements, which serves as a feedback mechanism to us for continuous improvement and future project selection as well as product development.

Our Company has also entered into a Collaboration Agreement with EW Berhad to establish a framework for mutual collaboration and strategic alliance. For details of the Collaboration Agreement, please refer to Section 7.10.1 of this Prospectus.

As part of our commitment to provide good customer services to our customers, we provide a variety of after-sales services beyond the completion of the development projects.

In the United Kingdom, we supplement our after-sales service by paying for third party warranties such as the NHBC Buildmark cover. The NHBC Buildmark cover is a warranty and insurance policy which is purchased and paid for by the developer and provides up to 10 years of housing warranty and insurance coverage for the purchasers.

7. BUSINESS OVERVIEW (Cont'd)

In addition, we assist our customers by referring them to banking, legal, sale, leasing, interior design, furnishing and property management service providers. We also ensure our purchasers are provided with regular updates through e-newsletters and have installed webcam services so that purchasers can view different stages of the construction progress via the internet.

These after-sales services are conveniently accessible by our Malaysian and Singapore customers through our representative offices located in these jurisdictions.

7.10 RELATIONSHIP WITH THE STRATEGIC INVESTORS

7.10.1 Relationship with EW Berhad

Under the EW Berhad Share Subscription Agreement, after the IPO, EW Berhad, a public company listed on the Main Market of Bursa Securities, which is principally involved in property development in Malaysia, through EW Capital, will own 27.0% of our enlarged issued and paid-up share capital.

EW Berhad is a fast-growing property development company in Malaysia. Following EW Berhad's takeover by its current major shareholders in November 2013, the EW Berhad Group grew its landbank from 991 acres all located in Iskandar Malaysia to 8,052.7 acres across Klang Valley, Iskandar and Pulau Pinang in Malaysia with a total GDV of RM87.5 billion as at 31 January 2017. As at the LPD, the EW Berhad Group has 15 property projects under development with another three projects expected to be launched within the next two years.

EW Berhad has also established the "ECOWORLD" brand as a highly sought-after property name in Malaysia with a strong and loyal customer following. This is evidenced by the total cumulative sales of RM6.8 billion recorded by the EW Berhad Group over its last two financial years.

Through its 14 sales galleries which are spread throughout the Klang Valley, Iskandar and Pulau Pinang in Malaysia and in Singapore, the EW Berhad Group regularly engages with existing and potential customers via its direct-to-customer marketing approach. Plans are being finalised for the launch of several new projects which include the Bukit Bintang City Centre project located at the heart of Bukit Bintang in Kuala Lumpur. This will further expand EW Berhad Group's customer database thus providing increased opportunities for cross-selling of our products as an added service to their customers who may be seeking to purchase properties overseas.

As at the LPD, about 3.3% of the total contracted sales achieved by our Group were attributable to cross-selling by the EW Berhad Group.

Our Company has entered into the Collaboration Agreement with EW Berhad to establish a framework for mutual collaboration and strategic alliance to, amongst other things, (i) enhance the "ECOWORLD" brand name; (ii) further develop the parties' respective capabilities and expertise; (iii) increase sales of the parties' respective property development projects and grow market share; and (iv) mitigate any conflict of interest situations whereby EW Berhad agreed not to undertake any property development or investments in countries other than Malaysia, except through our Company while we agreed not to undertake any property development or investments in Malaysia.

For the avoidance of doubt, the investments referred to in item (iv) above shall not be limited to direct acquisitions of lands, properties or sites but shall include other investment structures whether through acquiring shares or otherwise, which will result in the relevant party having an interest in such lands, properties or sites.

7. BUSINESS OVERVIEW (Cont'd)

The Collaboration Agreement shall take effect on the date on which the IPO Shares are issued and allotted to EW Capital in accordance with the EW Berhad Share Subscription Agreement and shall continue in force and effect unless terminated in accordance with the terms of the Collaboration Agreement.

If either EW Berhad or our Company defaults in its or our obligations under the Collaboration Agreement and the default is not remedied within 30 days of notice by the non-defaulting party (or such extended period as the non-defaulting party may agree to), the non-defaulting party may, without prejudice to any other rights and remedies available to it, terminate the Collaboration Agreement by written notice to the defaulting party.

Any of the following events will result in an automatic termination of the Collaboration Agreement:

- (i) the Admission and the Listing do not occur within the period specified in the EW Berhad Share Subscription Agreement (i.e. five Market Days from completion of the subscription of the IPO Shares by EW Capital); or
- (ii) the shareholding of EW Berhad in our Company (whether directly or indirectly) after completion of the IPO is reduced to less than 5.0% of our then issued and paid-up share capital,

whereupon neither party to the Collaboration Agreement shall have any right against each other save for any antecedent breaches.

For the avoidance of doubt, the termination of the Collaboration Agreement does not have any impact on our rights under the Brand Licensing Agreement.

Our Company has also entered into the Brand Licensing Agreement pursuant to which we have been granted the non-exclusive, worldwide, royalty-free licence to use the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks, including logos, brands and other features associated therewith, which allows us to leverage on the established branding and goodwill of EW Berhad within the property development industry and with customers. We will also be able to benefit from the name recognition resulting from sales and marketing activities, such as advertisements in the print and social media as well as branding initiatives undertaken by EW Berhad to promote the "ECOWORLD" brand.

7.10.2 Relationship with GuocoLand

Under the GuocoLand Share Subscription Agreement, after the IPO, GuocoLand, a public company listed on the Main Board of the SGX-ST, through GLL EWI, will own 27.0% of our enlarged issued and paid-up share capital. The subscription of our IPO Shares by GuocoLand, through GLL EWI, is subject to the fulfilment of certain conditions precedent within the stipulated cut-off period, as well as the performance by the relevant parties of their respective obligations as set out in the GuocoLand Share Subscription Agreement. This includes, amongst other things, the Retail Underwriting Agreement and the Placement Agreement having been entered into and having become unconditional and our Company providing GuocoLand a written confirmation that the aggregate proceeds from the IPO are not less than RM2.0 billion.

The principal activities of GuocoLand's subsidiaries are property development, property investment, hotel operations and property management, marketing and maintenance services. The GuocoLand Group has property operations in Singapore, China, Malaysia and Vietnam, comprising residential, hospitality, commercial and retail developments.

7. BUSINESS OVERVIEW (Cont'd)

Going forward, we intend for the strategic investment by GuocoLand to be the basis for a mutually beneficial relationship between GuocoLand and our Group, wherein both parties can work together and leverage on each other's strengths to pursue future projects. Such collaboration may be in the form of projects undertaken via our Group, or in the form of joint venture projects between our Group and GuocoLand that will bring together the "ECOWORLD" and "GuocoLand" brands, allowing for such projects to leverage on the respective brands' reputation, marketing channels and customer base.

7.10.3 Shareholders' Agreement

As an integral part of the EW Berhad and GuocoLand subscriptions, Tan Sri Liew, EW Berhad and GuocoLand have entered into the Shareholders' Agreement on 27 October 2016 to regulate their relationship with one another as shareholders in our Company.

The key terms of the Shareholders' Agreement are as follows:

(i) **Effective Date**

The Shareholders' Agreement will take into effect on the date of execution of the GuocoLand Share Subscription Agreement, save for the following main provisions relating to:

- (a) the parties' representations and warranties, termination and costs, which took effect as at the date of the Shareholders' Agreement; and
- (b) minimum shareholdings in our Company by EW Berhad as set out in Section 7.10.3(iii)(a) below and the entitlement to nominate Directors as set out in Section 7.10.3(v) below, which will take effect from the Completion Date.

(ii) **Equity interests in our Company held by the parties**

On the date of Listing, EW Berhad and GuocoLand shall each hold, directly and/or indirectly, such number of IPO Shares representing 27.0% of our enlarged issued and paid-up share capital, and such number of entitled Warrants representing 27.0% of the total number of Warrants in issue.

Based on our enlarged issued and paid-up share capital of 2,400,000,000 Shares and the bonus issue of 960,000,000 Warrants, Tan Sri Liew shall hold 246,540,798 Shares and 98,616,319 Warrants upon the Listing, representing about 10.3% of our enlarged issued and paid-up share capital and about 10.3% of the total Warrants in issue, respectively.

The shareholdings and warrant holdings of Tan Sri Liew, EW Berhad and GuocoLand in our Company upon the Listing are summarised in the table below:

	No. of Shares	%(¹)	No. of Warrants	%(²)
EW Berhad	648,000,000	27.0%	259,200,000	27.0%
Tan Sri Liew	246,540,798	10.3%	98,616,319	10.3%
GuocoLand	648,000,000	27.0%	259,200,000	27.0%

Notes:

- (i) Based on our enlarged issued and paid-up share capital of 2,400,000,000 Shares.
- (ii) Based on 960,000,000 Warrants in issue upon completion of the IPO and bonus issue of Warrants.

7. BUSINESS OVERVIEW (Cont'd)

(iii) Minimum shareholdings

(a) Minimum shareholdings in our Company by EW Berhad

EW Berhad (or EW Capital) must, whether directly or indirectly, from the Completion Date and during the tenure of the Shareholders' Agreement, hold not less than 27.0% of our issued and paid-up share capital, save and except where the failure to maintain such minimum shareholding is due solely to dilution arising from:

- (aa) the issuance of EWI Shares and/or conversion of the Warrants and/or other convertible securities other than conversion of the Warrants by GuocoLand, GLL EWI, Hong Leong Company (Malaysia) Berhad or its direct or indirect subsidiary (as defined under the Act) (collectively referred to as "**GuocoLand Group Companies**" and individually, "**GuocoLand Group Company**"), and such dilution does not persist for a consecutive period of more than six months; or
- (bb) the conversion of the Warrants by GuocoLand, GLL EWI or the GuocoLand Group Companies, and such dilution does not persist for a consecutive period of more than 12 months.

In addition, EW Berhad must hold 100% of the issued and paid-up share capital of EW Capital ("**EW Capital Shares**").

Save as allowed under the Shareholders' Agreement, EW Berhad (or EW Capital) shall not, without the prior written consent of GuocoLand, sell, dispose or transfer (1) any of the EWI Shares held by them representing 27.0% of the issued and paid-up share capital of our Company, or any of the EW Capital Shares during the tenure of the Shareholders' Agreement; and (2) any of the new EWI Shares issued arising from the exercise of the Warrants ("**Warrant Shares**") owned by them during the period of six months from the date of Listing.

(b) Minimum shareholdings in EW Berhad by Tan Sri Liew

Tan Sri Liew shall ensure at all times during the tenure of the Shareholders' Agreement, that Tan Sri Liew, Liew Tian Xiong and EW Holdings (collectively, the "**Expanded Group**") shall hold, in aggregate, not less than 30.0% of the issued and paid-up share capital of EW Berhad. In addition, Tan Sri Liew and/or Liew Tian Xiong's direct shareholdings in EW Berhad shall, in aggregate, not be less than 17.0% during the tenure of the Shareholders' Agreement.

If there is a change in the direct shareholders of EW Holdings to persons other than Tan Sri Liew and Liew Tian Xiong, the Expanded Group (without EW Holdings) shall thereafter during the tenure of the Shareholders' Agreement hold, in aggregate, not less than 30.0% of the issued and paid-up share capital of EW Berhad.

Save as allowed under the Shareholders' Agreement, Tan Sri Liew shall ensure that the Expanded Group shall not, without the prior written consent of GuocoLand sell, dispose or transfer the aggregate 30.0% of the issued and paid-up share capital of EW Berhad held by them, including 17.0% of the issued and paid-up share capital of EW Berhad held directly by Tan Sri Liew and/or Liew Tian Xiong during the tenure of the Shareholders' Agreement.

7. BUSINESS OVERVIEW (Cont'd)

(c) Summary of minimum shareholdings and lock-up arrangements

EW Berhad	Minimum shareholdings in our Company	Minimum shareholdings in EW Capital	Minimum shareholdings in EW Berhad	Lock-up on arrangements
	Not less than 27.0% of our issued and paid-up share capital throughout the tenure of the Shareholders' Agreement	Not less than 100.0% of the issued and paid-up share capital of EW Capital throughout the tenure of the Shareholders' Agreement	N/A	<p>Prior consent from GuocoLand for any disposal of:</p> <p>(a) EW Shares below the minimum shareholdings throughout the tenure of the Shareholders' Agreement;</p> <p>(b) EW Capital shares below the minimum shareholdings throughout the tenure of the Shareholders' Agreement; or</p> <p>(c) the Warrants Shares within six months from date of the Listing.</p>
Expanded Group	N/A	N/A	<p>(a) Not less than 30.0% of the issued and paid-up share capital of EW Berhad; and</p> <p>(b) Tan Sri Liew and/or Liew Tian Xiong's direct shareholdings shall not be less than 17% of the issued and paid-up share capital of EW Berhad,</p>	<p>Prior consent from GuocoLand for any disposal of shares in EW Berhad below the minimum shareholdings throughout the tenure of the Shareholders' Agreement.</p>
			throughout the tenure of the Shareholders' Agreement	

There is no restriction from selling, disposing or transferring any of our Warrants held by EW Berhad (or EW Capital).

7. BUSINESS OVERVIEW (Cont'd)

(iv) Lock-up on Tan Sri Liew and GuocoLand

(a) Lock-up on Tan Sri Liew

Save as allowed under the Shareholders' Agreement, Tan Sri Liew shall not, without the prior written consent of GuocoLand sell, dispose or transfer any of our Company's Shares held by him as at the date of the Admission and any Shares issued to him arising from the exercise of the Warrants during the 12 months period from the date of Listing.

Tan Sri Liew shall not, after 12 months from the date of Listing, dispose any of our Company's Shares held by him save with the prior written consent of GuocoLand if such disposal would result in any party, and/or such party's group of companies or persons connected (as defined in the Listing Requirements), holding or having an interest of 5.0% or more in the issued and paid-up share capital of EWI.

(b) Lock-up on GuocoLand

Save as allowed under the Shareholders' Agreement, GuocoLand (or GLL EWI) shall not, without the prior written consent of EW Berhad sell, dispose or transfer (1) any of our Shares held by it as at the date of Admission and any of the shares in the issued and paid-up share capital of GLL EWI during the 12 month period from the date of Listing; and (2) any Shares issued to it arising from the exercise of the Warrants during the 6 months period from the date of Listing.

Notwithstanding the above, GuocoLand may:

- (aa) dispose the shares in the issued and paid-up share capital of GLL EWI held by it; and
- (bb) dispose any of our Shares and Warrants held by it as well as any Shares issued to it (or GLL EWI) arising from the exercise of the Warrants,

to a corporation within the GuocoLand Group Companies, provided always that if GuocoLand disposes all but not some of the shares in the issued and paid-up share capital of GLL EWI or all of our Shares held by it to a GuocoLand Group Company, all the rights and obligations under the Shareholders' Agreement shall be novated to the relevant GuocoLand Group Company and the said relevant GuocoLand Group Company shall become a party to the Shareholders' Agreement in place of GuocoLand.

7. BUSINESS OVERVIEW (Cont'd)

(c) Summary of lock-up arrangements

	EWI Shares	GLL EWI shares	EWI Warrants	Warrant Shares
Tan Sri Liew	Prior consent from GuocoLand required for any disposal: (a) within 12 months from the date of Listing for our Shares held by Tan Sri Liew; and, (b) after 12 months from the date of Listing, if the disposal results in any party having 5.0% or more interest in EWI	N/A	No lock-up	Prior consent from GuocoLand required for any disposal within 12 months from the date of Listing
GuocoLand	Prior consent from EW Berhad for any disposal within 12 months from the date of Listing		No lock-up	Prior consent from EW Berhad for any disposal within 6 months from the date of Listing

(v) Nomination of Directors to the Board and our subsidiaries or joint ventures

EW Berhad and GuocoLand have agreed for the following existing six Directors to remain as directors of our Board on our Listing:

Name	Position
Tan Sri Azlan bin Mohd Zainol	Chairman/Senior Independent Non-Executive Director
Tan Sri Liew	Executive Vice Chairman
Dato' Teow	Executive Director/President and CEO
Dato' Seri Ahmad Johan bin Mohammad Raslan	Independent Non-Executive Director
Dato' Siow Kim Lun @ Siow Kim Lin	Independent Non-Executive Director
Cheah Tek Kuang	Independent Non-Executive Director

EW Berhad and Tan Sri Liew collectively shall be entitled to nominate up to three Directors to the Board, and Tan Sri Liew shall be one of the nominated Directors in view that he is also currently a Non-Independent Non-Executive Chairman of EW Berhad. If Tan Sri Liew ceases to hold any of our Shares, EW Berhad shall be entitled to nominate three Directors to the Board. GuocoLand shall be entitled to nominate up to three Directors to the Board.

The Parties shall give effect to the above appointments of Directors nominated by the other Parties and will consult and mutually agree with each other with regards to the identity of any person proposed to be appointed to our Board. This arrangement will take effect on the Completion Date and shall remain in force until the termination of the Shareholders' Agreement or otherwise mutually agreed by the Parties in writing.

7. BUSINESS OVERVIEW (Cont'd)

As at LPD, EW Berhad and GuocoLand have not deliberated on whether its nominees will be executive or non-executive Directors. However, EW Berhad and GuocoLand took note that Tan Sri Liew is currently the Non-Independent Executive Vice Chairman of EW Berhad. Likewise, the Parties have not deliberated on the process for appointment of the chairman to our Board. EW Berhad and GuocoLand have however taken note of Tan Sri Azlan bin Mohd Zainol, who is the current Chairman/Senior Independent Non-Executive Director, and have agreed for him to remain as the chairman of our Board on the date of Listing.

Each of EW Berhad and GuocoLand shall be entitled to appoint at least one Director from among the Directors of the Board nominated by EW Berhad and GuocoLand respectively, to the Board of each subsidiary or joint venture of EWI undertaking development projects ("**Development Company**"), each major subsidiary and each major joint venture of EWI. The appointment of more than one Director by either or both of EW Berhad and GuocoLand on the existing or future Development Companies, major subsidiaries or major joint ventures of EWI will depend on such company's board size and composition. Unless otherwise agreed to by EW Berhad and GuocoLand, all persons appointed to the board of the Development Companies, our major subsidiaries or joint venture companies by EW Berhad and GuocoLand (if any) shall be non-executive Directors and shall be from amongst the Directors to our Board nominated by EW Berhad and GuocoLand respectively.

(vi) Appointment of CEO and CFO of our Company

Tan Sri Liew, EW Berhad and GuocoLand have mutually agreed to the individuals currently appointed as the CEO and CFO of EWI, namely Dato' Teow Leong Seng and Melissa Tan Swee Peng, respectively. If the person occupying the position of CEO or CFO ceases to be acceptable to either EW Berhad or GuocoLand, that party may require the removal of that person and all parties to the Shareholders' Agreement shall give effect to such requirement. The parties to the Shareholders' Agreement shall also give effect to the appointment of a replacement that is mutually agreed by them.

(vii) Reserve matters

The parties to the Shareholders' Agreement agree that in relation to the reserved matters (which include, amongst other things, approval of any business plan and any budget of our Group, entry into any investment or project, merger, acquisition and joint venture or partnership or similar arrangement by our Group, declaration or payment of any dividends or other contribution by our Company and appointment of development managers by any company within our Group in respect of future developments or projects), they will conduct themselves in the following manner:

- (a) they will discuss the matter under consideration and come to a consensus in respect of the decision or approval; and
- (b) if any party rejects the matter, the other parties will not approve the said matter and shall undertake with each other that matters not agreed or approved will not be implemented.

7. BUSINESS OVERVIEW (Cont'd)

(viii) Territorial restrictions

Save as allowed under the Shareholders' Agreement, Tan Sri Liew shall not and shall procure that, no member of the Tan Sri Liew Connected Group (as defined herein) shall invest in, participate, undertake, carry on, be engaged in, be economically interested in, have an interest in or provide technical or financial assistance to, any development or project involving any land, property or site in any country outside of Malaysia except through our Company ("**Territorial Undertaking**"). Tan Sri Liew shall use his best endeavours to procure that EW Holdings and its subsidiaries and related corporations (as defined in the Act) comply with the Territorial Undertaking.

"**Tan Sri Liew Connected Group**" shall mean Tan Sri Liew, his spouse and Liew Tian Xiong, and companies, partnerships or any other bodies corporates controlled by any of them or any trusts under which any of them is a beneficiary.

In the case of Liew Tian Xiong, the Territorial Undertaking will end six months after he ceases:

- (a) to be a substantial shareholder of EW Berhad and our Company; or
- (b) to occupy an executive position or directorship with any company within the EW Berhad Group, or any joint ventures of EW Berhad, or our Group,

whichever is later.

EW Berhad shall, and shall procure that its related corporations (as defined in the Act but excluding Tan Sri Liew, any member of Tan Sri Liew Connected Group and EW Holdings) (together with EW Berhad, referred to as "**EW Berhad Group Companies**") will comply with the Territorial Undertaking.

The parties agree that our Group shall not invest in, participate, undertake, carry on, be engaged in, be economically interested in, have an interest in or provide technical or financial assistance to, any development or project involving any land, property or site in Malaysia, save and except for any technical assistance provided under the Collaboration Agreement.

GuocoLand agrees that if any proposed property development project is rejected by our Board and the GuocoLand-nominated Directors have voted to reject the said project, GuocoLand will not undertake the said project in the next 12 months from the date of our Board's decision.

(ix) Priority right

The parties to the Shareholders' Agreement agree that if:

- (a) EWI undertakes or pursues any investment or development in or upon any land, property or site in China, Singapore and/or the United Kingdom; and
- (b) EWI wishes to invite a partner for the project, whether the participation is by way of equity, financial or technical assistance or otherwise,

Tan Sri Liew and EW Berhad shall exercise and cause their nominee Directors to exercise their respective voting rights to the effect that EWI shall give GuocoLand priority to be its partner for the project.

7. BUSINESS OVERVIEW (Cont'd)

Where our Company is presented with any future opportunities or investments in property development, particularly in Singapore, China and the United Kingdom, we may seek to co-invest alongside GuocoLand by pooling our resources for acquisitions and/or joint developments. GuocoLand, which is a member of the Hong Leong group, has significant international property development experience and financial strength, making them the ideal partner to work with to extend our development footprint without straining the financial resources of our Group.

(x) Default events

The occurrence of any of the following events shall be deemed as a "Default Event":

(a) in the case of EW Berhad:

(aa) if the shareholding held by EW Berhad (or EW Capital) in EWI falls below the minimum shareholding set out in Section 7.10.3(iii)(a) above, save and except where the failure to maintain the minimum shareholding is due solely to dilution arising from:

(1) the issuance of EWI Shares and/or conversion of the Warrants and/or other convertible securities other than conversion of the Warrants by GuocoLand, GLL EWI or the GuocoLand Group Companies, and such dilution does not persist for a consecutive period of more than six months; or

(2) the conversion of the Warrants by GuocoLand, GLL EWI or the GuocoLand Group Companies, and such dilution does not persist for a consecutive period of more than 12 months; or

(bb) if EW Capital ceases to be a wholly-owned subsidiary of EW Berhad;

(b) in the case of Tan Sri Liew:

(aa) if he disposes our Shares held by him as at the date of the Admission and any Shares issued to him arising from the exercise of the Warrants prior to the expiry of the 12-month period from the date of our Listing;

(bb) if the shareholding held by the Expanded Group in EW Berhad falls below the minimum shareholding as set out in Section 7.10.3(iii)(b) above;

(cc) if he disposes of our Shares owned by him in breach of the terms of the Shareholders' Agreement; or

(dd) if there is a breach of any representations and warranties given by Tan Sri Liew under the Shareholders' Agreement;

(c) in the case of GuocoLand, if it (or GLL EWI or the GuocoLand Group Companies) disposes any of our Shares held by GLL EWI or GuocoLand following from the GuocoLand Allocation; any of the shares in the issued and paid-up capital of GLL EWI; or any Shares issued to GLL EWI arising from the exercise of the Warrants in breach of Section 7.10.3(iv)(b) above;

(d) (d) if any of the parties to the Shareholders' Agreement commits a material breach of its/his other obligations under the Shareholders' Agreement and, where such breach is capable of remedy, such breach is not remedied within 20 business days of the occurrence of the material breach;

7. BUSINESS OVERVIEW (Cont'd)

- (e) if any insolvency event as set out in the Shareholders' Agreement has occurred to any of the parties to the Shareholders' Agreement; or
- (f) if an event has occurred pursuant to which the financial institution, being the chargee or holder of a security interest over the Shares and/or the Warrants (which are subject to the minimum shareholding requirement or lock-up arrangement as set out in Sections 7.10.3(iii) and 7.10.3(iv) above) decided to exercise its rights, remedies and powers in respect of the Shares and/or the Warrants under the facility or loan agreement or security documents.

The Party not in breach ("**Non-Defaulting Party**") may terminate the Shareholders' Agreement and/or:

- (a) require the party in default or breach ("**Defaulting Party**") to either:
 - (aa) sell to the Non-Defaulting Party all or any of the Shares and the Warrants held by the Defaulting Party at:
 - (1) in respect of the Shares, the lower of (a) 15% discount to the 5-day volume weighted average price ("**VWAP**") of the Shares immediately preceding the date of service of the default notice; or (b) 15% discount to the consolidated net asset value ("**NAV**") of EWI based on the latest published results; and
 - (2) in respect of the Warrants, 15% discount to the 5-day VWAP of the Warrants immediately preceding the date of service of the default notice; or
 - (bb) purchase all or any of the Shares and the Warrants held by the Non-Defaulting Party at:
 - (1) in respect of the Shares, the higher of (a) 15% premium over the 5-day VWAP of the Shares immediately preceding the date of service of the default notice; or (b) 15% premium over the consolidated NAV of EWI based on the latest published results; and
 - (2) in respect of the Warrants, 15% premium over the 5-day VWAP of the Warrants immediately preceding the date of service of the default notice; or

7. BUSINESS OVERVIEW (Cont'd)

- (b) claim damages, compensation or remedies.

In the case of a Default Event, the right of each Party to terminate the Shareholders' Agreement and/or pursue the above remedies is summarised in the table below:

	Defaulting Party		
	EW Berhad	Tan Sri Liew	GuocoLand
Right to terminate the Shareholders' Agreement	GuocoLand (as against EW Berhad or both EW Berhad and Tan Sri Liew)	GuocoLand (as against Tan Sri Liew or both EW Berhad and Tan Sri Liew)	EW Berhad and Tan Sri Liew
Right to remedies:			
(a) sell the Shares and the Warrants held by the Non-Defaulting Party to the Defaulting Party at premium	GuocoLand	GuocoLand	EW Berhad or Tan Sri Liew (not collectively) ⁽¹⁾
(b) purchase the Shares and the Warrants held by the Defaulting Party at discount	GuocoLand	GuocoLand	EW Berhad or Tan Sri Liew (not collectively) ⁽¹⁾
(c) claim for damages, compensation, or remedies available based on legal rights	GuocoLand	GuocoLand	EW Berhad and Tan Sri Liew

Note:

- (1) *EW Berhad and Tan Sri Liew will have to discuss in good faith to agree on whether or not to elect for and who should be pursuing the remedies. If the outcome of the discussion is for EW Berhad to sell/purchase our Securities, Tan Sri Liew will not be able to exercise his rights to sell/purchase our Securities, and vice versa.*

- (xi) Termination

The Shareholders' Agreement shall terminate by mutual consent of the parties to the Shareholders' Agreement or upon the occurrence of any of the following:

- the GuocoLand Share Subscription Agreement is not executed within four months after the execution of the Shareholders' Agreement;
- the EW Berhad Share Subscription Agreement and/or the GuocoLand Share Subscription Agreement is terminated prior to the Completion Date, in accordance with their respective terms thereof;
- the Completion Date does not occur within 70 calendar days from the date of execution of the GuocoLand Share Subscription Agreement;
- the Initial Public Offering is aborted;

7. BUSINESS OVERVIEW *(Cont'd)*

- (e) the Listing does not occur by 9:00 a.m. (Kuala Lumpur time) on the expiry of the five Market Days period from the Completion Date or such later date as may be agreed between the parties to the GuocoLand Share Subscription Agreement;
- (f) when either of the EW Berhad Group Companies or GuocoLand Group Companies acquires majority (50% plus one) shareholding in the issued and paid-up share capital of EWJ; or
- (g) when the shareholding of GuocoLand Group Companies in the issued and paid-up share capital of EWJ, in aggregate, falls below 20.0% save and except where the dilution arises from:
 - (aa) the issuance of Shares and/or conversion of the Warrants other than by Tan Sri Liew Connected Group, EW Berhad, EW Capital and EW Holdings, and/or other convertible securities, and such dilution does not persist for a consecutive period of more than six months; or
 - (bb) the conversion of the Warrants by Tan Sri Liew Connected Group, EW Berhad, EW Capital, and/or EW Holdings, and such dilution does not persist for a consecutive period of more than 12 months.

In light of the Shareholders' Agreement, EW Berhad, Tan Sri Liew and GuocoLand will together be entitled to exercise or control the exercise of more than 50.0% of the voting shares in EWJ following the completion of the IPO. Accordingly, the parties to the Shareholders' Agreement will be deemed as persons acting in concert (as defined in Section 216(2) of the CMA) following the IPO, for as long as the Shareholders' Agreement subsists.

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7. BUSINESS OVERVIEW *(Cont'd)*

7.11 TYPES, SOURCES AND AVAILABILITY OF CONSTRUCTION MATERIALS/INPUT

7.11.1 *Financial*

We are able to source required financing from various sources such as internally generated cash, borrowings from financial institutions and/or from the capital markets.

7.11.2 *Non-financial*

As at the LPD, we had access to a land bank of about 14.19 acres. However, we constantly seek to acquire strategic land bank overseas that are in line with our development philosophy.

We maintain a list of experienced contractors and professional consultants with good track records given their importance to our Group.

7.12 MAJOR CUSTOMERS AND PRINCIPAL MARKETS

Our customers mainly comprise individual purchasers of residential property. We do not have any customers who have contributed 10.0% or more to our Company's total revenue for the FPE 31 October 2014 and FYE 31 October 2015; and our Group's total revenue for the FYE 31 October 2016.

The units in our development projects in the United Kingdom have been primarily sold to customers in the United Kingdom, Malaysia, Hong Kong and China, and Singapore. As at the LPD, of the 2,186 private residential units launched from all our projects in the United Kingdom, we have confirmed sales of 1,370 units (of which 54% are from the United Kingdom, 17% are from Malaysia, 19% are from Hong Kong and China, 4% are from Singapore, 5% are from the Middle East and North Africa region and 1% are from Others).

Savills has indicated in the IMR Report that the GBP has experienced increased volatility and significant devaluation against other currencies since the national referendum. For instance, between 23 June 2016 and end of 2016, the GBP lost about 7.0% of its value against the RM. Savills expects that the devaluation of the GBP will benefit foreign investors and we believe that our customers, of whom about 46% are from outside of the United Kingdom, will benefit from this as well.

The units in our development project in Australia have been primarily sold to customers in Australia, Malaysia, Hong Kong and China, Indonesia and Singapore. As at the LPD, of the 398 units launched from our project in Australia, we have confirmed sales of 329 units (of which 49% are from Australia, 19% are from Malaysia, 22% are from Hong Kong and China, 8% are from Indonesia and 2% are from Singapore).

7.13 MAJOR SUPPLIERS/CONTRACTORS

Our main suppliers primarily comprise the main contractors appointed to construct our property development projects and other professional consultants such as architects, sales and marketing agents and engineers to assist in our development operations.

Our appointment of these contractors and/or consultants will vary from year to year, depending on the requirements of our projects in a particular year. We select our contractors and/or consultants depending on the specific needs of a property development project, which include, amongst other things, the quality and pricing of the products or services supplied and the track record of the contractors and/or consultants. The percentage of total development costs that our contractors and/or consultants account for would depend on the stages of completion of our respective projects and the amount of costs incurred in that particular financial year.

7. BUSINESS OVERVIEW (Cont'd)

Save as disclosed below, we did not incur any project costs payable to our contractors and/or consultants for the London City Island Phase 2, Embassy Gardens Phase 2, the Wardian London, and the West Village, Parramatta projects which accounted for 10% or more of total project costs incurred for the FPE 31 October 2014, FYE 31 October 2015 and FYE 31 October 2016.

Name of contractor / consultant		Length of relationship	Type of service	FPE 31 October 2014		FYE 31 October 2015		FYE 31 October 2016	
		Years		RM ('000)	As a percentage of total project costs incurred (%)	RM ('000)	As a percentage of total project costs incurred (%)	RM ('000)	As a percentage of total project costs incurred (%)
CBRE Pty Ltd		2.5	Supervisory fees for the management of contractors	231	16.9	-	-	-	-
City of Parramatta Council		2.5	Council services for West Village, Parramatta project	382	28.0	-	-	-	-
Whistleglade Company ⁽¹⁾		1.5	Provision of project management services and sales and marketing for our projects in London	-	-	73,388	31.3	180,706	38.7
Wandsworth London Borough Council		1.0	Council services for Embassy Gardens Phase 2 project	-	-	-	-	79,942	17.1

Note:

(1) *Whistleglade Company is a related party to our Company. For further details on the nature of the relationship, please see Section 12.1 of this Prospectus.*

For the FPE 31 October 2014, we incurred RM612,849 for services rendered by the above-mentioned consultants to facilitate the launch of our West Village, Parramatta project, which accounted for more than 10% of the total project costs incurred by our Group.

For the FYE 31 October 2015, we incurred RM73,387,877 for services rendered by the above-mentioned contractors and/or consultants, relating to the launch and provision of development and marketing services for our three projects in London, which accounted for more than 10% of the total project costs incurred by our Group. We launched all three of our projects in London between May and October 2015 and only began to incur the bulk of our projects costs after FYE 31 October 2015.

7. BUSINESS OVERVIEW (Cont'd)

For the FYE 31 October 2016, we incurred RM260,647,510 for services rendered by the above-mentioned contractors and/or consultants, relating to the provision of project development and construction management services as well as sales and marketing services for our three projects in London as well as contributions in respect of planning obligations to the Wandsworth London Borough Council pursuant to Section 106 Agreements (as defined in Section 7.27.1(iv)(c) below), which accounted for more than 10% of the total project costs incurred by our Group.

Our Group is not dependent on any single contractor or consultant as we can source alternative contractors and/or consultants, if required. We have implemented internal control procedures for the selection of our contractors and/or consultants to ensure they meet our criteria in terms of pricing, track record, financial strength, quality, efficiency, reliability and capacity.

7.14 QUALITY ASSURANCE PROCEDURES AND MANAGEMENT

The quality of our development projects is an important factor contributing to our continued success. Hence, we place great emphasis on developing quality properties for our customers. In order to maintain our quality standards, we implement strict quality assurance procedures at various stages of our projects. These procedures include (i) the selection and appointment of experienced and reliable contractors and consultants through a robust selection process that will evaluate these potential contractors and consultants against our criteria such as track record, quality, pricing and timeliness; (ii) careful evaluation of architectural design concepts; (iii) close supervision of the construction progress and project timeline; (iv) frequent quality and safety checks carried out by our team of professional engineers and surveyors; and (v) stringent requirements on craftsmanship and interior fittings.

As part of our continuous efforts in ensuring quality products, careful selection of suitable, proven and good quality construction materials is also carried out. Rigorous controls are put in place during construction. Samples and test reports are submitted to us for approval prior to commencement of any physical construction work. Where required, installation of mock-ups are insisted upon and inspected by us before any full installation is allowed. Site inspections are regularly carried out to ensure that the expected level of quality is met. Representatives from our team of professional consultants and contractors also convene meetings on a regular basis to keep abreast of the progress of the project as well as to resolve any issues. We also keep abreast of the development of new and innovative construction materials that we can utilise in our property developments, which may be of higher aesthetic and performance quality.

7.15 INSURANCE

There are currently no stipulated regulations under the United Kingdom and Australian laws and regulations which require a property developer to take up insurance in respect of its property developments which are applicable to us.

We have, amongst other things, the following insurance policies for our ongoing property development projects:

- the NHBC Buildmark cover for our United Kingdom projects;
- building and property insurance against fire;
- public liability insurance;
- third party liability insurance; and
- contractors' all risk insurance.

7. BUSINESS OVERVIEW *(Cont'd)*

In addition, we require our appointed contractors to be sufficiently covered by the necessary insurance during the construction phase of our projects.

In terms of the NHBC Buildmark cover for our United Kingdom property development projects, we will review our sales report on a quarterly basis to determine the number of units pre-sold for the respective blocks of our existing United Kingdom property development projects. Following such review, we will register the pre-sold units for NHBC Buildmark cover by paying an upfront premium. Once these units have been registered, an amount equivalent to the lower of 10.0% of the purchase consideration or GBP100,000 per unit out of the amounts received from the purchaser will be released to us and can be used to fund the development costs of our property development projects, including funding the payment of insurance premiums for future insurance cover of deposits paid in connection with the sale of additional units in the project. Based on our experience in the industry, we believe that we have sufficient insurance coverage and will conduct periodic reviews to ensure sufficiency of insurance coverage.

7.16 COMPETITION

We face competition posed by existing property developers as well as the emergence of new players in the property development industry. As such, we may have to compete with them in acquiring land sites for development. Some of these property developers, including overseas publicly-listed developers and top-tier domestic property developers, are more established than us in respect of having greater brand recognition, financial, technical, marketing and other resources. As such, they may be able to operate more successfully than us.

Nevertheless, we believe that the property development business is a capital intensive business which presents substantive barriers to entry. The principal competitive factors affecting the property development industry include the location of the developments, the price, quality, workmanship and variety of designs of the properties developed, the developer's experience, track record, and its ability to come up with effective sales and marketing strategies, build a strong brand and the ability to provide the requisite services sought by customers whether before or after-sales.

For further details on the barriers to entry and competition, please refer to Section 8 of this Prospectus.

7.17 SEASONALITY

Generally, our property development business is not subject to any seasonality in the markets in which we have chosen to operate.

7.18 RESEARCH AND DEVELOPMENT

Our principal activities are focused on property development, and hence, scientific/technical research and development is not relevant to our operations. However, we do conduct extensive market research prior to site selection as outlined in Section 7.8 of this Prospectus. Further, in order to remain competitive, we strive to continuously improve our product designs and the quality of the properties we are developing by keeping abreast of market trends and conditions, as well as new development designs and materials which may become available from time to time.

7.19 TECHNOLOGY USED

As our principal business activities are in property development, scientific technology is not directly relevant to our business.

7. BUSINESS OVERVIEW (Cont'd)

7.20 INTELLECTUAL PROPERTIES

As at the LPD, our Group does not have any licences, patents, trademarks, brand names, technical assistance agreements, franchises and other intellectual property rights, save as disclosed below.

In line with the terms of the Brand Licensing Agreement, our Company has been granted the non-exclusive, worldwide, royalty-free licence to use the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks including logos, brands and other features associated therewith by EW Berhad (the "Licensor") at a licence fee of RM10.00 for the following services (including the marketing thereof) ("**Services**");

- (i) real estate and property development, construction and maintenance;
- (ii) real estate affairs, management and investment;
- (iii) advertising, marketing and promotional services relating to real property; and
- (iv) provision of facilities and recreational areas.

At the request of our Company, the Licensor has agreed to assist us to register the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks in respect of the goods or services relating to the Services in countries other than Malaysia in which event, our Company shall grant to the Licensor the licence to use the marks in such countries in similar terms to the Brand Licensing Agreement. The Licensor undertakes not to cancel the entry of our Company as registered user of the marks unless and until the Brand Licensing Agreement is terminated.

Under the Brand Licensing Agreement:

- (i) our Company shall not challenge or dispute the rights of the Licensor over the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks including logos, brands and other features associated therewith in any manner whatsoever;
- (ii) our Company shall not do, or omit to do, or permit to be done, any act that will or may damage or be detrimental to the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks including logos, brands and other features associated therewith or the reputation associated with such marks, or may invalidate or jeopardise any registration of such marks; and
- (iii) our Company shall not apply for, or obtain, registration of the "ECOWORLD" and "CREATING TOMORROW & BEYOND" marks including logos, brands and other features associated therewith for any goods or services other than those related to the Services in any country.

The Brand Licensing Agreement shall continue to subsist indefinitely unless terminated by the Licensor:

- (i) if our Company misuses any of the marks or do any act which damages the reputation associated with any of the marks, or contest the validity or ownership thereof;
- (ii) if our Company purports to assign any of the rights or licences granted to us in contravention of the terms of the Brand Licensing Agreement;
- (iii) if our Company fails to obtain any prior approval or consent which is required from the Licensor in accordance with the requirements of the Brand Licensing Agreement; and/or
- (iv) if our Company otherwise neglects or fails to perform or observe any of the provisions of the Brand Licensing Agreement or commits any breach of its obligations thereunder (which breach if remediable, is not remedied to the satisfaction of the Licensor within 30 days of notice in writing to our Company requesting its remedy).

7. BUSINESS OVERVIEW *(Cont'd)*

The Brand Licensing Agreement is governed by the laws of Malaysia, and each party to the Brand Licensing Agreement agrees to submit to the non-exclusive jurisdiction of the Malaysian courts.

For further details of the marks, please refer to Annexure C of this Prospectus.

7.21 MAJOR LICENCES, PERMITS AND APPROVALS

We have obtained all material licences, permits and regulatory approvals required to conduct our business activities. Please see Annexure B of this Prospectus for further details of the major licences, permits and approvals held by our Group together with the material conditions attached and the status of compliance as at the LPD.

7.22 HIGHLY DEPENDENT CONTRACTS

As at the LPD, save as disclosed below, there are no material agreements or contracts (including informal arrangements or understandings), which have been entered into by our Group and which our Group is highly dependent upon:

7.22.1 *Brand Licensing Agreement*

For further details of the terms of the Brand Licensing Agreement, please refer to Section 7.20 of this Prospectus.

7.22.2 *EW-Ballymore Shareholders' Agreement*

(i) *General*

EW ACE, AIHL and EW-Ballymore Holding on 30 April 2015 entered into a shareholders' agreement ("**EW-Ballymore Shareholders' Agreement**") which governs the rights and obligations of EW ACE and AIHL as shareholders of EW-Ballymore Holding.

EW ACE owns a 75.0% equity interest while AIHL owns the remaining 25.0% equity interest in EW-Ballymore Holding.

The parties to the EW-Ballymore Shareholders' Agreement agreed that EW-Ballymore Holding Group shall engage in the business of development and to undertake activities in relation to the financing, development and the sale or letting of the following properties (including to finance and contract for the development of the properties) and to undertake all activities ancillary thereto:

- (a) London City Island Phase 2;
- (b) Embassy Gardens Phase 2; and
- (c) Wardian London;

(collectively, "**Properties**" and each of them "**Property**").

7. BUSINESS OVERVIEW (Cont'd)

(ii) Shareholder Funding Commitments

The shareholders of EW-Ballymore Holding are committed to provide advances to EW-Ballymore Holding ("**Loan Commitment**") and to subscribe for shares in EW-Ballymore Holding ("**Share Subscription**") at a Share Subscription to Loan Commitment ratio of 0.01%: 99.99% (the Loan Commitment and the Share Subscription are collectively known as "**Commitments**"). The total Commitments of the shareholders (pro rata to their respective percentage interest) under the EW-Ballymore Shareholders' Agreement is GBP440 million, of which a total of GBP242.27 million has been drawn as at 31 December 2016. The balance of GBP197.73 million ("**Undrawn Commitments**") may be called at such time or times as the board of EW-Ballymore Holding (subject to the agreed business plan) may require for the purpose of making additional funds in connection with the development of the Properties, meeting working capital requirements, repaying indebtedness and meeting other obligations of the EW-Ballymore Holding Group.

Unless otherwise agreed between the shareholders or provided in the EW-Ballymore Shareholders' Agreement, EW-Ballymore Holding cannot require the shareholders to provide funds in excess of their respective Commitments. Notwithstanding the foregoing, if further funding is required by EW-Ballymore Holding and either shareholder is willing to provide such additional funding, then that shareholder may do so by way of a loan to EW-Ballymore Holding, which will accrue interest at the rate of 15% per annum, in the case of an emergency funding event (as determined in accordance with the terms of the EW-Ballymore Shareholders' Agreement), or at the rate of 12% per annum in any other case where such funding is in excess of that shareholder's Commitment.

It is also agreed that if the EW-Ballymore Holding Group has insufficient funds to make payment under certain facility agreements in respect of which the lenders are entitled to make a valid claim on the guarantees that are given under the terms of such facility agreements ("**Claim**"):

- (a) EW-Ballymore Holding shall first fund the Claim by drawing down on EW ACE and AIHL's respective portion of Undrawn Commitments;
- (b) If the Undrawn Commitments are insufficient to satisfy the Claim, the shareholders shall increase the Commitments to an amount equal to the balance of the Claim, but in any event such increase is notionally capped at an amount agreed upon by the shareholders in the EW-Ballymore Shareholders' Agreement ("**Increased Commitments**"); and
- (c) If funding in excess of the Increased Commitments is required to satisfy the Claim, AIHL shall have the right but not obligation to fund pro-rata its percentage interest of such additional funding and where AIHL does not fund any amount in excess of its portion of the Increased Commitments, then EW ACE shall fund (in addition to its percentage interest of such additional funding) any shortfall arising therefrom, in which event AIHL's percentage interest in EW-Ballymore Holding will be diluted accordingly. Conversely, if EW ACE does not fund pro-rata its percentage interest of such additional funding and AIHL agrees to fund any shortfall arising therefrom, then EW ACE's percentage interest in EW Ballymore Holding will be diluted accordingly.

7. BUSINESS OVERVIEW (Cont'd)

(iii) *Matters Requiring Unanimous Approval and Deadlock Procedures*

The EW-Ballymore Shareholders' Agreement also provides deadlock procedures to be complied with in the event a reserved matter is not unanimously agreed by the directors or shareholders of EW-Ballymore Holding, as the case may be. Upon a deadlock occurring, the shareholders of EW-Ballymore Holding shall procure that their senior representatives shall use all reasonable endeavours to resolve the dispute amicably. In the event a dispute is not resolved and provided the matter in dispute is not one of the super reserved matters (as set out in the EW-Ballymore Shareholders' Agreement), the status quo shall prevail and the matter in dispute shall not be implemented. In the event the matter in dispute relates to one of the super reserved matters (as set out in the EW-Ballymore Shareholders' Agreement), a deadlock buyout procedure will be implemented, and the shareholder who offers a higher price per share to acquire the interest of the other shareholder shall complete the purchase (provided that the offer price shall be equal to or higher than the appraised price determined by experts appointed by EW-Ballymore Holding as part of the deadlock procedure).

If no shareholder offers to acquire the interest of the other shareholder or the offer price is lower than the appraised price determined by the experts, EW-Ballymore Holding and its shareholders shall carry out the procedures necessary for sale or winding-up of the EW-Ballymore Holding Group.

The super reserved matters are as follows:

- (a) any amendments or modifications to a business plan which could result in a 10% increase in total costs or 10% decrease in total revenues under a business plan, prior to such prospective amendment or modification, or the adoption of a new business plan;
- (b) any decision regarding the construction procurement methodology and the price of the main building contract at a property;
- (c) any decision that requires further shareholder funding in excess of the approved business plan and the Commitments in order to complete the development of the Properties; and
- (d) entering into any binding agreement or commitment to do any of the above matters.

Upon occurrence of the events of default set out in the EW-Ballymore Shareholders' Agreement and if it is capable of remedy by the defaulting shareholder but has not been remedied within the timeframe set out in the EW-Ballymore Shareholders' Agreement, the non-defaulting shareholder may elect:

- (a) to acquire the defaulting shareholder's interest in EW-Ballymore Holding for an amount equal to 90% of the market value of the defaulting shareholder's interest in EW-Ballymore Holding as determined by experts; or
- (b) to require the defaulting shareholder to acquire the non-defaulting shareholder's interest in EW-Ballymore Holding for an amount equal to 110% of the market value of the non-defaulting shareholder's interest in EW-Ballymore Holding as determined by experts;

(collectively "**EoD Options**").

7. BUSINESS OVERVIEW (Cont'd)

Without prejudice to rights under the EoD Options, the shareholders shall use reasonable endeavours to resolve an event of default. If an event of default is not resolved amicably or any of the EoD Options is not proceeded with, the non-defaulting shareholder may require the winding-up of the EW-Ballymore Holding Group. On liquidation of the EW-Ballymore Holding Group, the non-defaulting shareholder shall be entitled to an amount equal to 110% of the proceeds and/or assets otherwise to be distributed in specie to them (calculated by reference to the percentage interest that it holds in EW-Ballymore Holding). The balance of the available distributions shall be payable to the defaulting shareholder (calculated by reference to the percentage interest that it holds in EW-Ballymore Holding). All amount payable shall be calculated after the satisfaction of any amounts due and payable to creditors.

7.23 INTERRUPTIONS IN BUSINESS DURING THE PAST 12 MONTHS

There has not been any interruption in our business which had or may have a significant effect on our Group's operations during the past 12 months preceding the date of this Prospectus.

7.24 CORPORATE SOCIAL RESPONSIBILITY

We believe in being a responsible corporate citizen and seek to improve the lives of the poor and underprivileged through active philanthropy and to enrich the communities that we are a part of through the promotion of arts and culture.

In Malaysia, we will be supporting the EcoWorld Foundation which was established in May 2014 by EW Berhad to undertake humanitarian projects in areas of education and literacy, health and well-being, poverty and disaster relief, regardless of race, religion and ethnicity.

The EcoWorld Foundation seeks to help disadvantaged Malaysians to improve their quality of life by promoting education as the key to break the cycle of poverty. Through its Eco World Students Aid Programme ("SAP"), the EcoWorld Foundation provides financial assistance and educational support to about 3,000 underprivileged primary and secondary students. As part of the SAP, the EcoWorld Foundation frequently engages with students and parents with the aim of assisting the needy children of all races in school to achieve their full academic potential.

Apart from championing education, the EcoWorld Foundation also contributes to needy Malaysians by providing financial donations and aiding less fortunate communities towards the betterment of their health and living conditions.

To assist the EcoWorld Foundation in carrying out its charitable works, the EcoWorld Volunteers Club was established which to date has over 350 volunteers comprising employees of EW Berhad Group. Our employees in Malaysia are also encouraged to sign up to support the EcoWorld Foundation's noble cause.

In the United Kingdom, EW-Ballymore Holding recently announced a partnership with the English National Ballet to work with them to create a new purpose-built centre that combines a unique production space with state-of-the-art training facilities, teaching and rehearsal studios. We, together with our joint venture partner, Ballymore, have committed to delivering the shell and core of the building, whilst the English National Ballet and English National Ballet School will jointly fundraise for the costs of fitting out the facility.

This significant investment by EW-Ballymore Holding will strengthen the internationally-renowned ballet company's ability to create new work and to rehearse, as well as to allow its talent development and creative learning plans to flourish. The move will also open up new opportunities for artistic collaborations and further enhance East London's growing status as an important cultural centre.

7. BUSINESS OVERVIEW (Cont'd)

7.25 ENVIRONMENTAL, HEALTH AND SAFETY-RELATED MATTERS

As at the LPD, our Group has not experienced any regulatory requirement or environmental issue which may materially affect our Group's operations and utilisation of assets. Please see, however, Sections 5.1.25 and 5.2.5 of this Prospectus for our risks relating to environmental, health and safety-related matters.

Our operations are subject to regulatory requirements and potential liabilities arising under applicable environmental, health and safety-related laws and regulations in the United Kingdom and Australia in which we operate.

We believe that we are in compliance in all material respects with all applicable environmental, health and safety-related laws and regulations in the United Kingdom and Australia. To date, no material environmental, health and safety-related incidents involving our Group has occurred.

Our commitment is to develop high quality residential-led, mixed-use developments in mature markets with growth potential and favourable macroeconomic conditions. We strive for excellence in all aspects of our operations. This is premised on the need to strike a balance between our business objectives, the environment and a healthy and safe work culture.

We constantly promote a safe and healthy work culture for a more conducive working environment and place great importance on environmental conservation.

7.26 EMPLOYEES

As at the LPD, our Group has a total of 52 employees. Our Group has not encountered any major problems with staff turnover and there has been no labour and/or industrial dispute taken against our Group. No employees for our Group are members of any trade union.

The table below sets out the number of employees segmented by business function as at the dates indicated:

Function	As at 31 October 2014		As at 31 October 2015		As at 31 October 2016		As at LPD	
	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)
Management and professionals	1	33.3	3	14.3	20	40.0	20	38.5
Finance	-	-	1	4.8	8	16.0	8	15.4
Sales and marketing	2	66.7	11	52.3	7	14.0	7	13.4
Business development	-	-	1	4.8	3	6.0	4	7.7
Technical	-	-	1	4.8	1	2.0	1	1.9
Clerical and administrative	-	-	4	19.0	11	22.0	12	23.1
Total	3	100.0	21	100.0	50	100.0	52	100.0

7. BUSINESS OVERVIEW (Cont'd)

The table below sets out the number of employees segmented by geographical location as at the dates indicated:

Geographical location	As at 31 October 2014		As at 31 October 2015		As at 31 October 2016		As at LPD	
	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)	No. of employees	Proportion of total no. of employees (%)
Malaysia	-	-	12	57.1	38	76.0	39	75.0
United Kingdom	-	-	4	19.0	6	12.0	6	11.5
Australia	3	100.0	5	23.9	6	12.0	7	13.5
Total	3	100.0	21	100.0	50	100.0	52	100.0

We do not have contract workers. Our number of employees increased from three as at 31 October 2014 to 21 as at 31 October 2015 as a result of us launching our West Village, Parramatta project and the completion of the acquisition of our three projects in London in April/May 2015. Our number of employees further increased to 50 as at 31 October 2016 as we recruited new employees relating to the finance, internal audit, legal, investor relations and corporate functions.

We regard our employees as crucial assets to our organisation and place great emphasis on the cultivation of their skills as a means for us to remain competitive in the industry. Our training plans consist of on-the-job training and external training (through programmes organised by external parties such as the JLL Central London Development Seminar organised by JLL and the Development Feasibility Certification organised by Estate Master Pty Ltd).

7.27 REGULATIONS ON THE PROPERTY DEVELOPMENT INDUSTRY

The regulations and policies set out below are not exhaustive and are only intended to provide general information to the investors. The summary is neither designed nor intended to be a substitute for independent professional advice, and prospective investors should consult their own advisers regarding the implications of the United Kingdom and Australian laws and regulations on our Group and our activities.

7.27.1 *United Kingdom*

A property developer in the United Kingdom must consider various laws and regulations in relation to its development projects. These may require the developer to obtain certain permissions or comply with certain minimum standards.

(i) *The Construction (Designs and Management) Regulations 2015 ("CDM 2015")*

The CDM 2015 came into force on 6 April 2015 replacing the CDM 2007. They affect all construction and engineering projects, property development and construction for domestic property. There is no exclusion for small projects.

The CDM 2015 imposes responsibilities on various duty holders in the construction process, beginning with the 'client'. The client is the organisation for which the construction project is carried out. Their principle responsibility is to "ensure that construction work is carried out as far as reasonably practicable without risk to the health and safety of any person affected by the project". It is an ongoing obligation requiring the client to review and maintain the necessary arrangements throughout the lifetime of the project. The client

7. BUSINESS OVERVIEW (Cont'd)

will appoint designers and contractors to progress the project who each have their own individual duties.

Amongst other things, the client must:

- make suitable arrangements for managing a project by appointing other duty holders and ensuring that sufficient time and resources are allocated to them;
- ensure that other duty holders are provided with relevant information and that they carry out their duties; and
- ensure that welfare facilities are provided for the well-being of workers.

Projects that are scheduled to last longer than 30 days and have more than 20 workers on site at any point of time must be notified to the Health and Safety Executive. Projects that involve construction work that is scheduled to exceed 500 person days (a 'person day' is a unit of measurement used especially in accountancy that is based on an ideal amount of work done by one person in one working day) must also be notified to the Health and Safety Executive.

The client is accountable for their decisions on health, safety and welfare on the project and criminal sanctions are applicable for breach of the CDM 2015 (through the Health and Safety at Work etc. Act 1974).

(ii) Building Regulations 2010 ("BR 2010")

The function of BR 2010 is to ensure the health and safety of people in and around buildings and provide a minimum standard when it comes to the construction and alteration of buildings.

The regulations derive from two main statutory instruments: BR 2010 and Building (Approved Inspectors etc.) Regulations 2010 and are split into Parts A to Q:

- Part A: structure;
- Part B: fire safety;
- Part C: site preparation and resistance of contaminants and moisture;
- Part D: toxic substances;
- Part E: resistance to the passage of sound;
- Part F: ventilation;
- Part G: sanitation, hot water safety and water efficiency;
- Part H: drainage and waste disposal;
- (No Part I)
- Part J: combustion appliances and fuel storage system;
- Part K: protection from falling, collision and impact;
- Part L: conservation of fuel and power;
- Part M: access to and use of buildings;
- Part N: glazing – safety in relation to impact, opening and cleaning (this was repealed in 2013 and its content moved into Part K);
- (No Part O)

7. BUSINESS OVERVIEW (Cont'd)

- Part P: electrical safety; and
- Part Q: security (this was added in 2015).

They apply to all “building work” which includes, amongst other things, the following:

- the erection or extension of a building;
- the material alteration of a building or controlled service or fitting; and
- work required where there is a material change of use.

The BR 2010 are supplemented by detailed technical guidance contained in the Approved Documents which are also labelled Part A to P. These explain how the regulations can be complied with and are taken into account when building work is assessed.

Enforcement is carried out by the local authority building control service and methods include the service of an enforcement notice, an application for an injunction and prosecution in the Magistrates court.

(iii) Housing Grants, Construction and Regeneration Act 1996 (“HGCR 1996”)

The HGCR 1996 came into force in May 1998 and was substantially amended by the Local Democracy, Economic Development and Construction Act 2009. The purpose of the HGCR1996 is to enforce fair and prompt payment in construction contracts. Broadly, the HGCR1996:

- increases the certainty of payment in construction contracts;
- introduces a fairer payment regime for contractors; and
- makes adjudication more accessible when disputes arise.

Provisions of the HGCR1996 contain:

- the right to be paid in interim or stage payments;
- the right to be informed of the amount due or amounts to be withheld;
- the right to suspend performance for non-payment; and
- the right to adjudication.

The Scheme for Construction Contracts (England and Wales) Regulations 1998 applies when a construction contract does not comply with the HGCR1996.

7. BUSINESS OVERVIEW (Cont'd)

(iv) Planning permission

Planning permission is required for the "carrying out of any development on land" – Section 57(1) of the Town and Country Planning Act 1990 ("TCPA"). This can be granted by the local authority, deemed by a development order or granted by the Secretary of State. Each local authority will have different policies when it comes to granting planning permission. Under the recently enacted Housing and Planning Act 2016 (see below), a framework of powers has been introduced for the creation of a new form of "Permission in Principle" ("PiP"). This concept creates a new route to obtaining planning permission for housing-led developments. A PiP granted by a general local planning authority development order (or in some cases by application to the local planning authority) will establish the principle for development on a specific site. A subsequent application for "technical details consent" would then be made to crystallise the planning permission for each individual development. Further clarification will be available once secondary legislation is issued and prepared.

There are two different types of planning permission: outline planning permission and detailed/full planning permission.

(a) *Outline planning permission*

This is aimed at establishing whether the scale and nature of a proposed development is acceptable but certain matters will be reserved which require subsequent approval. Reserved matters can include:

- access: to the land and how routes fit in to the surrounding access network;
- appearance;
- landscaping: the treatment of the land to enhance or protect the amenities of the site, i.e. tree planting;
- layout; and
- scale: the height, width and length of the building.

Once it has been obtained, approval of the reserved matters must be obtained before work can commence. Applications for the approval of the reserved matters must be made within three years of the date of the outline planning permission.

Outline planning permission is not, however, a guarantee that detailed/full planning permission will be granted in the future.

(b) *Detailed/full planning permission*

This application will include all the necessary details to enable the development to proceed once the planning permission has been granted.

Full planning permission will usually include a specific time period in which the development must be started. This is usually three years from the date of the permission in England and five years in Wales.

7. BUSINESS OVERVIEW (Cont'd)

(c) Section 106 Agreements

Section 106 agreements are private legal agreements between the local planning authorities and landowners (including any subsequent owner(s) of the property) during the development programme ("**Section 106 Agreements**"). They are drafted when it is considered that a development will have a significant impact on the local area that cannot be moderated by means of conditions attached to a planning permission.

They are attached to the planning permission to make acceptable a development which would otherwise be unacceptable in planning terms. They are used for the following purposes:

- to prescribe the nature of the development: e.g. a requirement that a certain proportion of the housing is affordable (further details of the affordable housing scheme are detailed in item (vi) below);
- to compensate for any loss or damage that may be caused by the development;
- to mitigate the impact of a development: e.g. providing increased public transport; and
- to contribute to the public realm in making improvements to open spaces/providing community facilities.

The standard agreement requires the payment of a financial contribution to the council in exchange for the grant of planning permission. The land rather than the organisation who enters into the agreement is bound by the Section 106 Agreement and therefore, future owners of the land will need to consider their impact.

The decisions of local planning authorities and the Secretary of State are subject to judicial review where the lawfulness of the decisions made by the local planning authority is challenged. Any such challenge must be made in writing within six weeks of the grant of the planning permission, which is usually dated on or just after the Section 106 Agreement with a landowner/developer (as the case may be) is completed.

(d) Community Infrastructure Levy

Accompanying the implementation of a planning permission is the payment of the Community Infrastructure Levy (introduced by the Planning Act 2008 and the Community Infrastructure Levy Regulations 2010) which is levied by local authorities in England and Wales to help deliver infrastructure to support any development of their area. Landowners are ultimately liable for the levy, but anyone involved in a development may take on the liability to pay. Where a planning permission is phased, each phase of the development is treated as if it were a separate chargeable development for levy purposes.

7. BUSINESS OVERVIEW (Cont'd)

(e) *Environmental Impact Assessments ("EIA")*

Sometimes an "environmental impact assessment" is required alongside a planning application. This is to enable the environmental impact of a development to be considered. The rules for when this is needed are set out in the Environmental Impact Regulations 2011, which owe their origin to a European Union ("EU") directive. An EIA may be needed because of the size of a proposed development or because it is likely to have significant effects on the environment. Local authorities have to take into account the results of the EIA, where there is one, but it is only one element in decision making.

The planning regime imposes a diverse range of considerations that need to be considered from the effects of artificial light, noise, storage of hazardous substances, the treatment of waste and the requirements of flooding on a scheme. Independent legislation applies in these areas monitored by the likes of the Environment Agency and local authorities.

(v) *The Affordable Housing Scheme*

There are various different types of affordable housing in the United Kingdom. It comprises social rented housing, affordable rented housing and intermediate housing. These are provided to eligible households whose needs are not met by the market and eligibility is assessed according to local incomes and house prices. The Housing and Planning Act 2016 summarised below has widened the definition of affordable housing.

Eligibility for affordable housing will vary depending on the local authority and type of affordable housing, but it is always based on household income thresholds. For example, in the London Borough of Ealing, you will only be eligible for social housing if your household income is under £60,000 per annum or capital assets are under £24,000. In the London Borough of Wandsworth, eligibility is based on household income not exceeding the household income threshold set by the Greater London Authority for their home ownership scheme (this is currently £75,000 per annum when renting or purchasing a one or two bedroom home and £85,000 per annum when renting or purchasing a property with three bedrooms or more). In the London Borough of Tower Hamlets, household income must not exceed £85,000 per annum.

For shared-ownership schemes, the individual will be required to earn a minimum amount per annum (depending on the property they wish to purchase), but this figure cannot exceed a maximum sum. Some shared-ownership properties are available exclusively for key-workers (for example, people who work for the National Health Service, in public education, the police, the Ministry of Defence or fire-fighters). Other than this, an individual's occupation is not considered.

Social rented housing is owned by local planning authorities and private registered providers and rent targets are determined through the national rent regime.

The Homes & Communities Agency ("**Agency**") is responsible for regulating providers of affordable housing in the UK. Registered providers are those who are registered with the Agency as being providers of affordable housing. Private registered providers are those who are not linked to a public body. The Agency publishes a list of private registered providers every year. In order to become a registered provider, you must:

- be an English body;

7. BUSINESS OVERVIEW (Cont'd)

- provide or intend to provide affordable housing in England; and
- have met the registration criteria (these criteria are based on regulatory standards that registered providers must meet. They can include criteria on the applicant's financial viability, constitution and managing arrangements).

Tenants of local authorities are likely to be 'secure tenants'. This means that the tenant has a right to remain in the accommodation for the remainder of their lifetime unless there is a breach of the tenancy. They also have a right to buy the accommodation or exchange it with other social housing tenants (Right to Buy Scheme). Those who are local authority tenants are also entitled to a vote to transfer to another landlord.

Tenants of housing associations in new developments will be 'assured tenants'. This means that the tenant has a degree of security of tenure in the accommodation unless the landlord can convince the court that there are reasons to evict. For example, rent arrears, damage to the property or other breach of the agreement. Assured tenants do not have a right to buy the accommodation but could have a right to acquire after two years' of living in the accommodation (Right to Acquire Scheme).

The Right to Acquire Scheme is very similar to the Right to Buy Scheme but applies to housing association tenants as opposed to council tenants. The housing association landlord must opt into the scheme and the property must have been built or bought by the social landlord after April 1997.

Affordable rented housing is let by local planning authorities or private registered providers of social housing to households eligible for social rented housing. Affordable rent requires the landlord to charge a rent of no more than 80% of the local market rent (including service charge where applicable). The rent is payable by the affordable housing tenant in the usual way.

Intermediate housing comprises homes for sale and rent at a cost above social rent but below market levels. They can include shared equity schemes (shared ownership and equity loans), low cost homes for sale and intermediate rent (although not affordable rented housing).

Shared ownership schemes are provided through housing associations. Those eligible to participate can buy a certain share in the property (between 25.0% and 75.0%) and pay rent on the remaining equity share. There are various types of shared ownership scheme, all of which require the applicant's household income to be £60,000 a year or less (or £71,000 a year or less in London for a one or two bedroom property, or £85,000 a year or less in London for a three or more bedroom property). You must be a first time buyer and be a council or housing association tenant. Special shared ownership schemes exist for people with disabilities and the older generation.

Help to buy: equity loans: the participant contributes at least 5% of the property price as a deposit and the government will provide them with a loan for up to 20% of the price. The rest of the property price is covered by a mortgage obtained by the occupier. The property purchase price cannot exceed £600,000.

Help to buy: mortgage guarantees: the government will provide a mortgage lender with a guarantee for the mortgage monies. This scheme gives home buyers the opportunity to purchase a home with just a 5% deposit provided that the purchase price of the property does not exceed £600,000.

7. BUSINESS OVERVIEW (Cont'd)

Intermediate rent schemes allow the applicant to rent a property on a subsidised rent provided that they are committed to entering into an affordable home ownership scheme in the short to medium term (i.e. up to five years). Rents are normally 20% lower than the market rent and the applicant should use this benefit in order to save for a deposit. Those who currently own a property are not eligible and neither are those who receive housing benefits from the government. Household income must be less than £60,000 per annum.

Benefit of Affordable Housing

The National Planning Policy Framework sets out overarching principles of sustainable development and local authorities will set their own targets relating to the amount of affordable housing required in that particular area and how this can be achieved. Percentage targets in new developments vary between 20% to as high as 40% so it is often of critical importance for a developer to consider affordable housing when planning a new project.

Failing to include affordable housing in a project is often a barrier to obtaining planning permission at all and as a result, rather than it being a benefit to a developer, the inclusion of affordable housing is often an essential part of any development. For example, certain sites may only become available for development if there is a commitment to include a certain amount of affordable housing. It is sometimes possible to make a financial contribution towards affordable housing in lieu of supplying affordable housing units.

The types of affordable housing to be included will not often be included in the planning consent itself, but in the Section 106 Agreement. This is where there is some flexibility for the developer to negotiate the type of affordable housing that they wish to provide. Developers are also able to influence where the required affordable housing units will be situated in the development. For example, they may wish to put all of the affordable housing units in the same place, or they may wish to spread them out.

(a) Affordable Housing through Section 106 Agreement

Affordable housing can be imposed on property developers through the use of Section 106 Agreement. Local planning authorities will require developers to commit to allocating a certain number of units or a certain percentage of the total units in the development to affordable housing as a condition of planning permission. In some instances, the developer is required to pay a contribution towards affordable housing although the scheme may not itself accommodate any. The arrangements vary from one local planning authority to the other.

These agreements can be subject to a 'viability review'. This is usually triggered if the development has not reached a certain level of completion by a certain date. Under the viability review, the developer will carry out a viability study which will be submitted to the local planning authority. The viability study will look at the current cost of building of the entire site as compared to the rate that the developer would yield from sale of all the marketed units.

The local planning authority will then approve the affordable housing provision or will amend it in accordance with the prevailing viability of the development. This can lead to an increase or a decrease in the quantity or percentage of affordable units required under the Section 106 Agreement. The reviewed provision then takes precedence over the original provision in the Section 106 Agreement.

7. BUSINESS OVERVIEW (Cont'd)

(b) The Affordable Homes Programme

The Affordable Homes Programme 2015-2018 was introduced to increase the supply of new, affordable homes in England. The government has committed to invest GBP1.7 billion in affordable housing during this period.

Property developers are able to submit a bid to the Agency to receive funding for their developments. In exchange, they will be required to increase the supply of new affordable housing. It is similar in concept to its predecessor, The Affordable Homes Programme 2011-2013, except some funding is allocated via continuous market engagement rather than only on a one-off basis.

Whilst there are several ways in which the government aims to provide affordable housing (through shared ownership homes or affordable home ownership for example), the majority of the programme is to be made available as affordable rent. Developers will receive funding for homes which will yield a rent at a certain prescribed discount of the local market rent.

All developers must be Investment Partners to qualify for the scheme. To be registered as an Investment Partner, the applicant must fill out and submit a questionnaire which assesses the applicant's financial and technical capacity to undertake an agreed programme of new affordable homes as well as the organisation's financial standing. Further, all developers who intend to be the landlords of grant funded schemes must be 'Registered Providers' of social or affordable housing.

(c) Social housing rent cut

In July 2015, it was announced that housing associations (including all registered providers of social and affordable housing) will have to cut their rents by 1% each year for the next four years commencing in April 2016. The government intends to reinstate the consumer prices index formula for rent increase after the expiry of these four years.

(d) Housing and Planning Act 2016

The Housing and Planning Act 2016 is a new act that has been published by the Government. It provides a broader definition of Affordable Housing and lays down the primary legislation for Starter Homes. The Housing and Planning Act 2016 includes a new definition of Affordable Housing into the Town and Country Planning Act 1990 and defines it as housing for individuals whose needs are not adequately served by the commercial housing market and now includes Starter Homes (as defined by the Housing and Planning Act 2016).

7. BUSINESS OVERVIEW (Cont'd)

Starter Homes are a new form of Affordable Housing for first-time home buyers between the ages of 23 and 40. These homes will be sold at no more than 80% of open market value, capped at £450,000 in Greater London and £250,000 across the rest of England. The exact proportion of Starter Homes required and the scale of qualifying sites upon which they must be delivered will be confirmed via secondary legislation. The Housing and Planning Act 2016 does not clarify as to whether or not the delivery of 20% Starter Homes will take precedence over the delivery of other forms of 'traditional' or other affordable housing in the application of Local Plan policies to provide housing. Secondary legislation is required.

Community Infrastructure Levy ("CIL") (being a charge which allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area for a wide range of infrastructure that is needed for development) should not be payable on Starter Homes. Starter Homes should qualify for relief from CIL liability under Regulation 49A of the CIL Regulations 2010 (as amended). This permits a charging authority to introduce a policy offering discretionary social housing relief from CIL liability for a dwelling sold for no more than 80% of its market value. As this is done on a voluntary basis, a charging authority may choose not to introduce such relief.

(vi) Rights to Light

A Right to Light is an easement (a right to cross or otherwise use someone else's land for a specified purpose). It is a legal right to enjoy light to a building that enters through defined apertures across land that belongs to someone else. Rooms used for different purposes will be entitled to receive different levels of light.

The most common way to acquire a legal Right to Light is by long usage (normally at least 20 years) under the Prescription Act 1832. This can be defeated by physically interrupting the right before the prescription period is satisfied or by serving a light obstruction notice (under section 2 the Rights of Light Act 1959).

If a development reduces a neighbour's Right to Light to such an extent that it causes a nuisance, the courts will likely rule that a remedy is required. Remedies that are available to the courts include an injunction to prevent or remove the obstruction in question or an award of damages. The court will decide at its own discretion which of these remedies is most appropriate in the circumstances.

In order to obtain planning permission for a proposed development, a developer will have to demonstrate to the local authority that surrounding sensitive receptors will not incur an excessive loss of daylight or sunlight.

(vii) Energy Performance Certificates ("EPC")

The "EU" Energy Performance of Buildings Directive 2010 was implemented in England and Wales by the Energy Performance of Buildings (England and Wales) Regulations 2012 and affects both residential and commercial properties.

An EPC is a certificate detailing the energy efficiency of a property and must contain:

- the asset rating: a number which places the property on a sliding scale of energy efficiency;

7. BUSINESS OVERVIEW (Cont'd)

- a recommendations report: including cost effective recommendations to improve the property's efficiency;
- reference number of the data file containing the data about the property;
- details of the property: including the address and useful floor area (being space available for occupation) etc;
- the date the EPC was issued; and
- Green Deal information: the Green Deal is the government's initiative to improve the energy efficiency of buildings by removing the up-front cost of such measures.

EPC is required when a property is being sold or rented out, when a new property is built and when an existing property is altered in a significant way. There is a further duty to display the EPC in public buildings with a useful floor area of more than 500 sq m.

EPC will be required before the marketing of a property that is for sale or for letting and there is a duty to put the EPC rating in any advertisement of the property for sale or letting. There is also a duty to make available a valid EPC to a prospective buyer or tenant of a property.

Enforcement is normally carried out by Trading Standards Officers by issuing penalty charge notices to those who fail to comply.

(viii) **Building Research Establishment Environmental Assessment Method for Commercial Space ("BREEAM")**

This BREEAM is an environmental assessment method and rating system for non-residential buildings that was first launched in 1990. It creates an incentive to build in a manner that is environmentally-friendly as its results can lead to an increase in capital valuation. Although it is currently a voluntary programme, it is expected to become a requirement for certain organisations. It assesses and gives "credits" for categories of environmental impacts of developments including:

- management: management policy, commissioning, site management and procurement;
- health and well-being: indoor and external issues (including noise, light and air quality);
- energy: operation energy and carbon dioxide;
- water consumption and efficiency;
- materials;
- waste: construction, resource efficient and operational waste management and minimisation;
- land use and ecology; and
- pollution: external air and water pollution.

BREEAM will give a score as one of five levels: pass, good, very good, excellent or outstanding. It is common to find planning permissions referring to this standard as a benchmark for a development.

7. BUSINESS OVERVIEW (Cont'd)

(ix) Code for Sustainable Homes

The Code for Sustainable Homes was introduced in 2007 and sets out sustainable buildings standards for residential properties against which all new homes in England must be rated. Ratings included Code Level 3, 4, 5 or 6. It is a voluntary code introduced as part of government's measures to help achieve the target for all new homes to be zero carbon by 2016. Its principal objective is to ensure that the building industry constructs new homes that use energy, water and materials more efficiently.

It was announced that the essential requirements for houses will be consolidated into the Building Regulations and their annexure entitled 'Approved Documents'. As a result, the Code has now been withdrawn but elements of it have been incorporated into the Building Regulations regime. The Building Research Establishment for example, will continue to use the Code's rating system.

(x) Part 2A of the Environmental Protection Act 1990 ("Part 2A")

The regime in relation to the development of land that may be contaminated due to prior use is governed through the statutory contaminated land regime which can be found in Part 2A. Part 2A was inserted into the Environmental Protection Act 1990 by Section 57 of the Environment Act 1995. Part 2A is supported by regulations (e.g. Contaminated Land (England) Regulations 2006, Contaminated Land (Wales) Regulations 2006, Radioactive Contaminated Land (Modification of Enactments) (England) Regulations 2006 and Radioactive Contaminated Land (Modification of Enactments) (Wales) Regulations 2006), statutory guidance and technical guidance.

Under Part 2A, liability for the remediation of contaminated land or water broadly falls according to the "polluter pays" principle. The "polluter" is the person (or persons) who "caused" or "knowingly permitted" contamination to remain on a site or to move (migrate) to other sites. A "knowing permitter" is someone who has knowledge of pollution on their land and who fails to take any action to remove or control it. The concept of knowingly permitting means subsequent owners of land can be held liable as well as the original polluter.

If no polluter or knowing permitter can be found after reasonable enquiry, then the owner or occupier of the site may be liable to pay the remediation costs. If more than one person is identified, then it may be possible to apply certain tests to exclude people from liability.

As noted above, Part 2A does not apply to all contamination - only the most serious forms, where:

- significant harm is being caused;
- there is a significant possibility of significant harm being caused; or
- pollution of controlled waters (such as rivers or groundwater) is being, or is likely to be, caused. This statutory regime is accompanied by a number of common law principles like nuisance, trespass or negligence resulting in the escape of hazardous substances.

(xi) Tax

A property developer in the United Kingdom will be subject to United Kingdom taxation, but the precise incidence of taxation will depend on its corporate and organisational structure and the scope of its development obligations.

7. BUSINESS OVERVIEW (Cont'd)

A company that is resident for the purposes of taxation in the United Kingdom is liable to United Kingdom corporation tax on its profits. The same applies to a company that is resident in another jurisdiction to the extent that it operates through a United Kingdom permanent establishment. The precise tax position of a company that is resident in another jurisdiction will depend on its corporate and organisational structure, the scope of its development obligations and the terms of any double taxation treaty that applies to it. For further details on principal taxes, please refer to Annexure D.

7.27.2 Australia

(i) The Corporations Act 2001

The Corporations Act 2001 is the principal legislation regulating the establishment and operation of corporations in Australia, as well as matters in respect of among others, securities issued by the corporation, duties of the corporation's officers (including directors), takeovers and fundraising activities involving the corporation. This legislation sets out also requirements pertaining statutory disclosures that are required to be made by corporations.

(ii) The Foreign Acquisitions and Takeovers Act 1975

The Foreign Acquisitions and Takeovers Act 1975 deals with foreign corporations carrying on operations in Australia. The acquisition of the West Village, Parramatta site was exempted from the provisions of the Foreign Acquisitions and Takeovers Act 1975 due to it being commercial property that had a purchase price below the relevant threshold (i.e. AUD254,000,000.00) and was acquired subject to leases.

(iii) Environmental Planning & Assessment Act 1975 and Regulations

The Environmental Planning & Assessment Act 1979 and Regulations collectively regulate matters pertaining to the property developments and land use activities in New South Wales. Under this legislation and the regulations, consents (including development consents) from the relevant local authority which outlines the conditions for development projects and uses to which the landed properties may be put, are required to be obtained by property developers. The consent granted by the local council may contain, amongst other things, conditions requiring a property developer to comply with other legislation relating to the property development and future use of that property. The Environmental Planning & Assessment Act 1979 and Regulations also deal with monitoring developments to ensure that conditions for consent are complied with and also deals with the payment of statutory levies for property developments in the state of New South Wales. Such other relevant legislation may include, for instance:

- (a) The Home Building Act 1989, which regulates insurances concerning development proposed on the property and also in relation to effecting appropriate insurance in accordance with its provisions. For property development which comprises a riser of not more than three storeys, the development is exempted from the provisions of Home Building Act 1989 and no such insurances have to be effected;
- (b) The Protection of Environment Operations Act 1997, which regulates matters concerning pollution or contamination that may be caused during activities or development on properties; and

7. BUSINESS OVERVIEW (Cont'd)

(c) The Roads Act 1993, concerning the use of public roads in the state of New South Wales, regulates access to the project site and transporting of construction materials to the project site during the property construction phases.

(iv) Local Government Act 1993

The Local Government Act 1993 deals with subdivisions, dedications, levying of rates and other matters relating to properties held in a local government area.

(v) Real Property Legislation

Australia operates a system of land registration known as the Torrens system. Under this system, title to or ownership of real properties is created by the registration in a central registry for each state or territory which deals with all property ownership and rights in properties. The register is the absolute determinant of legal rights. Broadly, on sale of a Torrens system real property, a buyer obtains the legal title to such real property upon the registration of the transfer of the title to a property. Upon registration, the title to the property would be indefeasible and would defeat any other unregistered claims (in the absence of fraud) or claims for long term adverse possession. The principal legislation governing real properties in the state of New South Wales includes the following:

(a) Real Property Act 1900

The Real Property Act 1900 governs the holding of title and creation of title interests with respect to real property in the state of New South Wales. This legislation also governs the creation of all interests such as easements, covenants, rights of way, restrictions as to user and positive covenants as contemplated by the development consent and as are necessary to effect the development of properties.

(b) Strata Schemes (Development) Act 2015

The Strata Schemes (Development) Act 2015 governs the creation of the strata subdivision to produce the individual lots following development of the properties and the conveying of titles in these lots to the individual purchasers of those lots.

This legislation replaced the Strata Scheme (Freehold Development Act 1973, and commenced on 30 November 2016. The new legislation contains about 90 changes to the previous legislation. The main objectives of the new legislation is to provide for:

- the subdivision of land, including buildings, into cubic spaces to create freehold and leasehold strata scheme;
- the way in which lots and common property in strata scheme may be dealt with;
- protocols for developers and owner corporations in relation to building defects in the building; and
- the variation, termination and renewal of strata schemes.

7. BUSINESS OVERVIEW (Cont'd)

(c) *Conveyancing Act 1919 and Regulations*

The Conveyancing Act 1919 and its Regulations deal with operational matters in respect of property ownership and transactions. It is particularly relevant in the following aspects with regards to the development of properties:

- (aa) The requirement to register a plan of consolidation of all of the titles into one lot as set out in the development consent granted to the corporation;
- (bb) The form of and annexures to, contracts for sale of units in the relevant development to be constructed on the property; and
- (cc) The terms and requirements of leases of commercial or retail premises to be constructed as part of the redevelopment of the property.

(d) *Retail Leases Act 1994*

The Retail Leases Act 1994 governs the leasing of retail premises in the State of New South Wales and is applicable to a property developer that leases any retail tenancies before selling the units with respect to those retail tenancies to third parties.

The requirements of the Retail Leases Act 1994 would mean that a disclosure statement has to be issued seven days before any retail lease is entered into giving certain statutorily prescribed information to the tenant. The Retail Leases Act 1994 also states that the lease cannot contain certain rights under leases which cannot be taken away from tenants and prescribes the manner in which rent reviews and payment of outgoings and any turnover rent can be implemented.

(e) *Land Tax Management Act 1956*

The Land Tax Management Act 1956 deals with tax on property ownership. The exemption for exempt residential property is not applicable to EW Sydney Development's ownership of its property.

(f) *Duties Act 1997*

The Duties Act 1997 governs the payment of stamp duties in state of New South Wales, including stamp duties payable with respect of all transactions relating to the acquisition of properties. However, the provisions of the Duties Act 1997 do not impose any further duties on property developers for the holding and development of properties. For further details on principal taxes, please refer to Annexure D.

(g) *Tax and Superannuation Laws Amendment (2015 Measures No 6) Act 2015*

This act introduces the requirement for a 10% non-final withholding tax to be retained by the purchaser from the sale proceeds raised from disposal of taxable Australian property if the vendor is a foreign person or company and a clearance certificate has not be provided by the vendor prior to settlement of the purchase price. The retained funds are remitted to the Australian Tax Officer by the purchaser. This legislation applies only to contracts for sale entered into after 1 July 2016 for a purchase price over AUD2,000,000.

8. INDUSTRY OVERVIEW



Savills (Malaysia) Sdn Bhd

Level 9 Menara Milenium
Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Malaysia

Date: 21 February 2017

The Board of Directors
ECO WORLD INTERNATIONAL BERHAD
Suites 3A.01, Level 3A,
The Gardens North Tower,
Mid Valley City, Lingkaran Syed Putra,
59200 Kuala Lumpur,
Malaysia

T: +603 2092 5955
F: +603 2092 5966
www.savills.com.my

Dear Sirs,

EXECUTIVE SUMMARY OF THE INDEPENDENT PROPERTY MARKET REPORT ON THE LONDON AND SYDNEY PROPERTY MARKET

Savills (Malaysia) Sdn Bhd ("Savills") was commissioned by Eco World International Bhd ("EWI") to provide an executive summary of the Independent Property Market Report ("Report") for the specific purpose of inclusion into EWI's Prospectus, in connection with EWI's proposed initial public offering and listing of EWI on the Main Market of Bursa Malaysia Securities Berhad. This executive summary of the Report is required for submission to the Securities Commission Malaysia ("SC") and/ or relevant parties, in accordance with the requirements of the Prospectus Guidelines issued by the SC.

It is understood that EWI presently has property development projects in London, United Kingdom ("UK") and Sydney, Australia ("Development Projects"). Accordingly, this executive summary of the Report aims to provide an overview of the real estate industry in London and Sydney. This will include a macroeconomic overview, regulatory overview, property market overview, property development sector overview and submarket analysis of the Development Projects.

In accordance with our normal practice, we would state that this executive summary of the Report has been prepared for general information purpose only and do not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and we accept no responsibility to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

We confirm that we are aware of our responsibilities under Section 215 of the Capital Markets and Services Act 2007 of Malaysia. We acknowledge that if we are aware of any significant changes affecting the contents of this executive summary of the Report between the date hereof and before the issue of the securities, we have an on-going obligation to either cause this executive summary of the Report to be updated for the changes and, where applicable, cause EWI to issue a supplementary prospectus, or withdraw our consent for the inclusion of this executive summary of the Report in EWI's Prospectus.

Savills has prepared this executive summary of the Report in an independent and objective manner and has taken reasonable care to ensure the accuracy and completeness of this executive summary of the Report. We believe that this executive summary of the Report presents a true and fair view of the industry based on our experience in the property market and information that we were able to collect from public and

Offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

Savills (Malaysia) Sdn Bhd (Company no. 333510-P)



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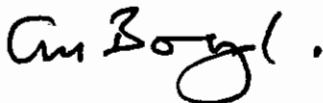


8. INDUSTRY OVERVIEW (Cont'd)

The logo for Savills, consisting of the word "savills" in a lowercase, sans-serif font.

private sources available to us at the time that this executive summary of the Report was prepared, however readers of this executive summary of the Report must be aware that the information obtained from such sources is subject to change and may prove to be incorrect. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals. We are not responsible for the decisions and/or actions of the readers of this executive summary of the Report. This executive summary of the Report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Yours sincerely,
SAVILLS (MALAYSIA) SDN BHD

A handwritten signature in black ink that reads "Chris Boyd".

Datuk Christopher Boyd
Executive Chairman

8. INDUSTRY OVERVIEW (Cont'd)

Independent Market Report: Executive Summary

Savills Research



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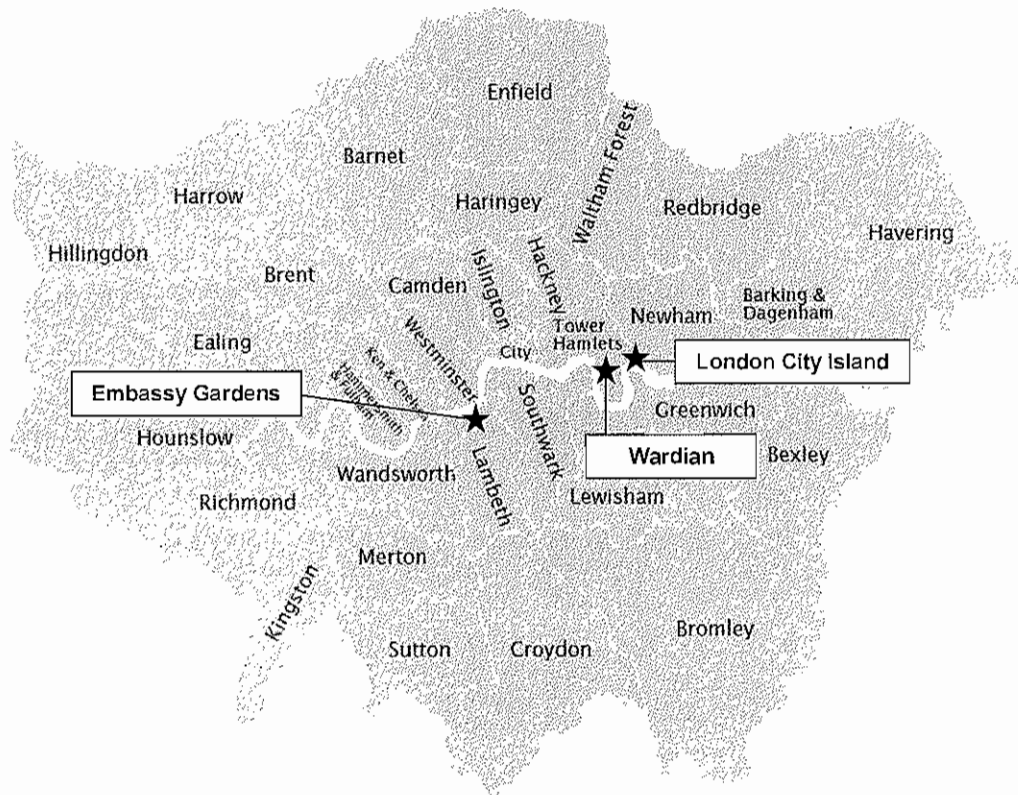
1. UK and London Macroeconomic Overview

This section provides a general economic overview of the UK and London both historic and projected.

1.1. Market Definition

Figure 1-1 below defines the geographical boundaries and boroughs of Greater London as referred to in this executive summary. There are 33 individual boroughs in Greater London.

Figure 1-1 – Greater London



Source: Savills Research

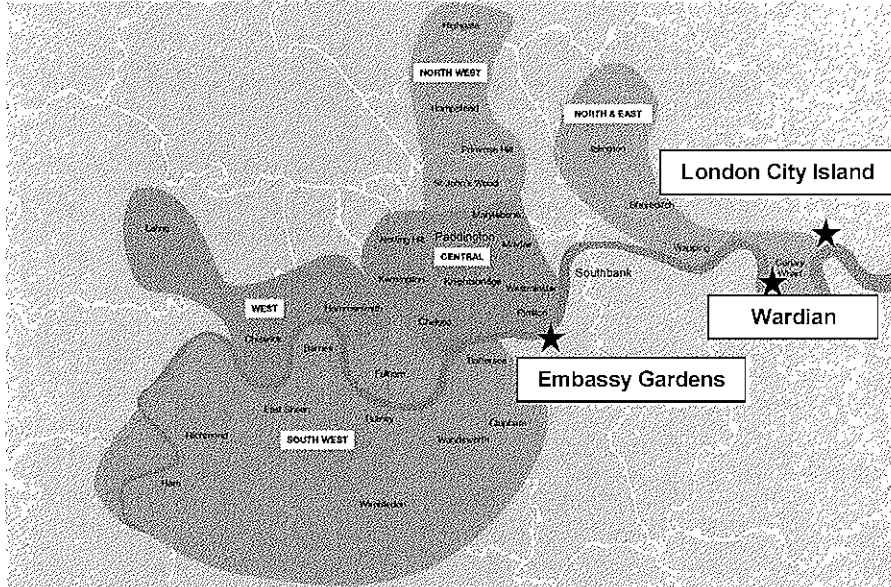
Figure 1-2 below defines the geographical boundary and submarkets of the Prime London residential market. Over time the boundaries of the Prime London residential market, as defined by both location and quality of stock, have expanded as demand for prime residential property has increased. Many areas on the fringes of the traditional prime locations are increasingly seeing supply of new prime property, priced at over Great Britain Pound (GBP)1,000 per square foot (psf). These new prime locations include areas such as Hammersmith, Canary Wharf, Battersea, Paddington and Southbank where there are currently large volumes of prime residential development underway.

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Figure 1-2 – Prime London Markets

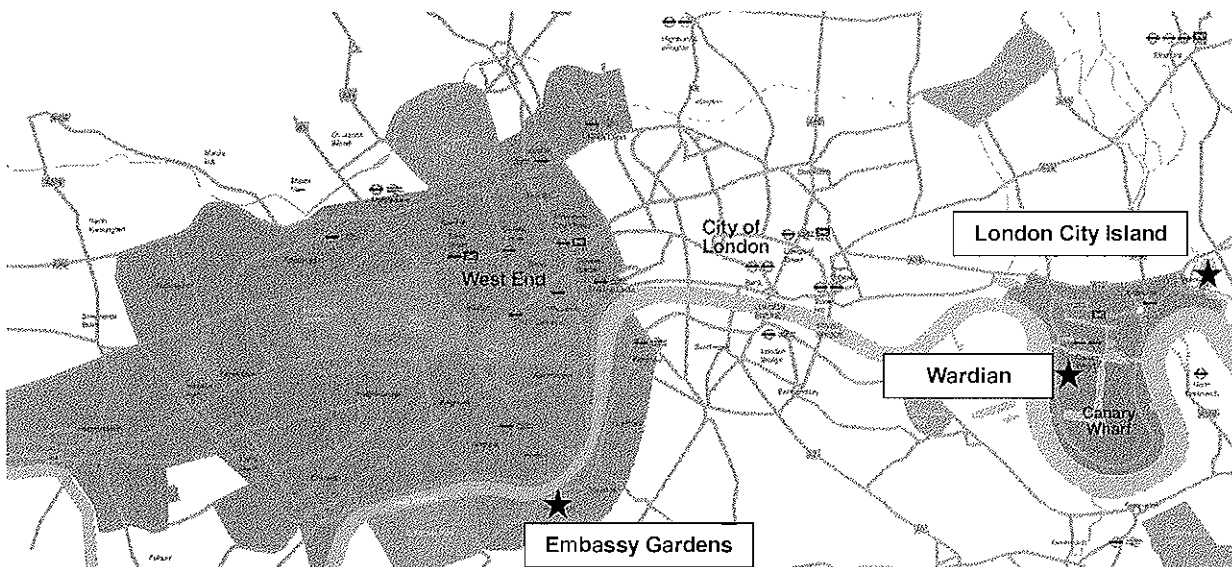


Note: The shaded areas indicate the boundaries of the respective zones, i.e. Central, West, South West, North West, North, and East.

Source: Savills Research

Our analysis of Central London commercial markets focuses on the areas shown in Figure 1-3. The London City Island site sits just outside the Canary Wharf submarket. However, with the development planned for this area we expect it to become incorporated into the submarket following development.

Figure 1-3 – Central London Commercial Markets



Note: The shaded areas indicate the boundaries of the respective zones, i.e. Central, West, South West, North West & North & East.

Source: Savills Research

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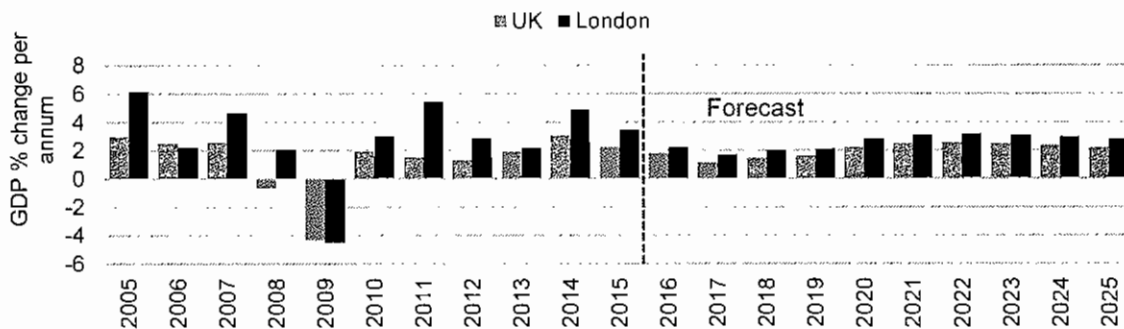


1.2. Economic Overview

Gross Domestic Product (GDP). Between 2014 and 2015, the GDP in the UK grew by 2.2%, signalling a slow-down in economic growth when compared to the growth rate between 2013 and 2014 (3.1%). In light of the UK's decision to leave the European Union (EU), Oxford Economics predicts that this downward trend will continue, with 1.1% growth in 2017. However, as the negotiations to leave the EU progress, GDP growth is set to pick up and increase gradually from 2018 onwards. The International Monetary Fund (IMF) also predicts for the UK economy to grow 1.5% in 2017.

More recently, the Office for National Statistics (ONS) recorded quarterly GDP growth of 0.6% in both Q3 2016 and Q4 2016, 0.3% and 0.1% above previous expectations for the respective quarter. This represents 16 quarters of consecutive positive growth and the continued expansion of the UK's economy acts as an important indicator for the economy's resilience. Full year GDP growth of 2.0% in 2016 is also above expectations.

Figure 1-4 – UK and London Nominal GDP

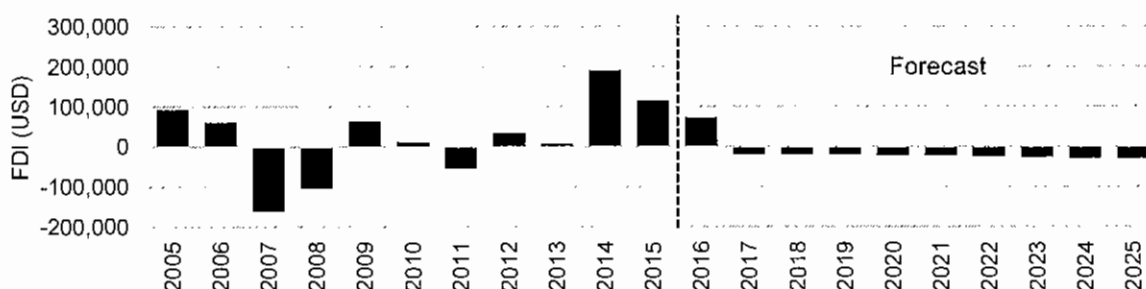


Source: Oxford Economics

GDP per capita. In terms of GDP per capita (based on working age population 15-64), London far outstrips the UK. GDP per capita in London is estimated to stand at GBP56,707 for 2015, compared to the UK average of GBP35,018. Growth in GDP per capita in London has also been stronger than the national average with average expansion per annum of 1.2% between 2005 and 2015. Growth averaged 0.7% per annum across the UK over the same period. Going forward, forecasts from Oxford Economics suggest that GDP per capita growth in London will outperform the 2005-2015 average of 1.2% with growth of 1.5% per annum through to the end of 2025.

Foreign Direct Investment (FDI). FDI into the UK has been gathering pace since 2012, in line with improving economic conditions. In 2014 net FDI reached an all-time high of USD190.7billion, and reduced to USD114.3billion. Forecasts suggest that net FDI will be in negative territory over the next nine years, (2017-2025), however it will be marginal. Due to the strengthening outlook for the UK economy, in particular the domestic economy, we do not expect this marginal decline to have any significant material impact on the economy.

Figure 1-5 – UK Net FDI



Source: Oxford Economics

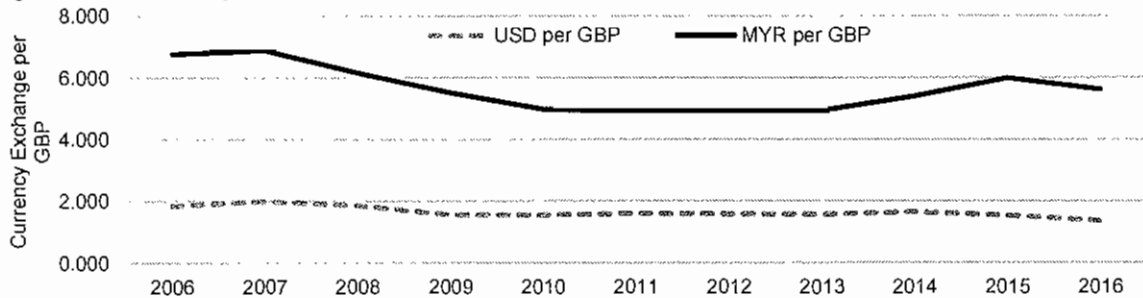
Currency Performance. As of the end of 2016, GBP was 17.0% down against the USD where it was in 2015. Since the EU Referendum, the GBP has experienced increased volatility and significant falls against other currencies, often driven by political announcements and updates on economic performance. The GBP's volatility is likely to continue throughout the two-year negotiation process to leave the EU, which is due to commence in March 2017. Although currency devaluation could slow household income growth and affect consumer sentiment, foreign investors will benefit from significant currency advantages.

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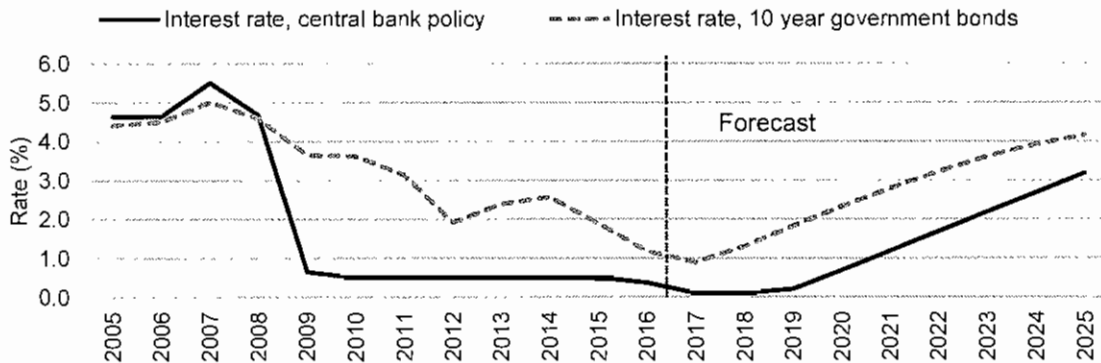
Figure 1-6– UK Currency Performance



Source: Bank of England

Interest Rates. Given the British electorate has decided to leave the EU, the Bank of England now faces significant economic uncertainty. To tackle any potential negative effects following Brexit, the Bank of England cut the Central Bank Rate to 0.25% in August 2016. Economists expected a further cut to 0.1% between Q4 2016 and Q1 2017 until the Office for National Statistics published new economic data on 27th October 2016, which indicates that the UK's economy expanded by 0.5% in Q3 2016, stronger than analysts' estimates of circa 0.3%. This unexpected growth in GDP is likely to delay further interest rate cuts. According to Oxford Economics, the interest rate is likely to be cut to 0.1% in 2017. The interest rate is likely to remain this level until 2018, after which it will gradually increase to 0.2% in 2019 and 0.7% in 2020.

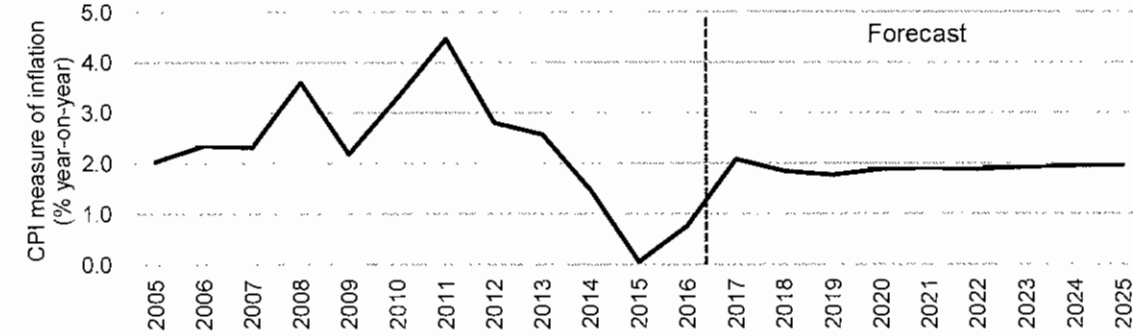
Figure 1-7 – UK Central Bank Rate and 10 year Government Bonds



Source: Oxford Economics

Inflation. The UK has entered a temporary bout of stagnant inflation (based on Consumer Price Index (CPI) measure) at around 0.1% year-on-year in 2015. In November 2016, inflation rose to 1.2%, up from 0.9% in October 2016. The GBP's continuous fall since the EU Referendum is likely to push inflation further. Economists expect inflation to rise above the Bank of England's 2% target throughout 2017.

Figure 1-8– UK Inflation



Source: Oxford Economics

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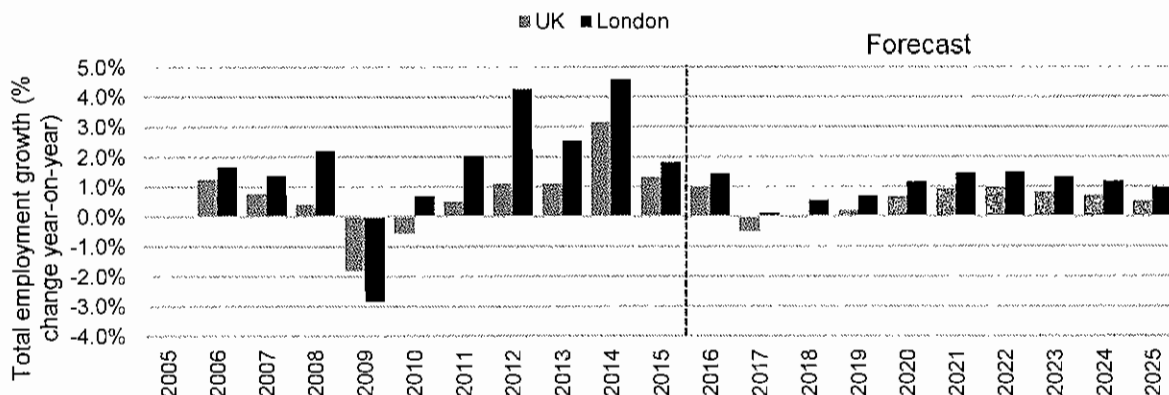
UK Trade. Since 1998, the UK has been running consistent current account deficits mainly due to an increase in demand for consumer goods, decline in manufacturing, appreciation of GBP against foreign currencies such as USD and the Euro and deterioration in oil and gas production. The forecast for 2016 suggests that the trade deficit will increase to a total of GBP104.4bn. Going forward, forecasts suggest the trade gap will narrow further over the upcoming years in response to GBP's devaluation and progressing Brexit negotiations with the EU.

UK and London Working Age Population Growth and Employment. London's working age population stands at circa 5.9m (as of end 2015) having seen an average increase per annum of 1.2% between 2010 and 2015, greater than the 0.2% reported across the UK as a whole. London's rapid population growth reflects its status as a world city which attracts both domestic and international migrants. The economic strength of London is reflected in its GDP per capita, which far exceeds the national average.

In terms of total employment growth, London is forecasted to see an average expansion of 1.0% per annum between 2016 and 2025, exceeding the UK average of 0.5%. The forecast employment expansion of the above mentioned sectors will have positive implications on occupational demand for office space in the city, as well as accommodation demand for residential. Likewise, the continued growth in total employment forecast for London between 2016 and 2025, and with it the forecasted fall in the London unemployment rate to 5.4%, will have positive implications on consumer confidence and in turn retail spend.

Despite the vote to leave the EU, London and the UK remain one of the most attractive centres of employment. In 2016, the technology and media sector accounted for 13% of office space take-up in City and 36% in West End, and was higher than the take-up of banking, insurance and financial services sector. High-profile investment announcements from GlaxoSmithKline plc and Softbank Group Corporation also reinforce the UK's and particularly London's resilience to economic and political shocks, and provide reassurance to both investors and employees.

Figure 1-9 – UK and London Total Employment Growth



Source: Oxford Economics

Income Levels and Disposable Income Levels. The occupational profile of Greater London as opposed to the wider UK is apparent in average income levels. The Greater London average in 2015 was circa GBP34,669 per annum, 12.3% higher than the UK average of circa GBP30,860 pointing to greater levels of affluence in London. This differential has been narrowed since the previous peak when the differential was 19% in 2007 as real wage growth has stagnated particularly in the higher earning occupations. Forecasts suggest that this differential will slowly widen with income growth in Greater London set to outpace the UK with average annual increases of 3.4% per annum through to the end of 2025 with 3.3% per annum forecast for the UK.

A similar pattern is observed when examining real disposable incomes, although the differential between Greater London and the UK is far more pronounced. For example, in 2015 the differential between Greater London and UK was 21.4% reflecting an increase from 2007. Going forward, this differential is expected to decrease to 18.1% by 2020, as regions outside London enhance their economic performance. Greater London's higher income and disposable income levels emphasise its generally higher affluence levels compared to the wider UK average.

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1.3. Major Infrastructure Projects in London

In the London Plan (the statutory spatial development strategy for the Greater London area that is written by the Mayor of London and published by the Greater London Authority (GLA)), the GLA identifies the key infrastructure projects in the pipeline. The key current project is Crossrail I, which is currently under construction and will open by 2018. Crossrail II, although not yet fully approved is very likely to come forward as a preferred route has been announced.

Crossrail I is Europe's largest infrastructure project and as such is likely to have the most significant impact on London's real estate landscape. In light of its scale we have summarised the key features of Crossrail I, Crossrail II and Northern Line Extension below:

1.3.1. Crossrail I (under construction)

- It will deliver the first direct connection from West to East, linking all London's main employment centres such as Heathrow with Paddington, the West End, the City and Canary Wharf.
- 40 stations will be connected, 10 of which will be new Crossrail stations.
- The central section of the line will operate 24 trains per hour during peak times.
- Each train will be able to carry 1,500 passengers with an estimated 200 million passengers travelling on Crossrail I each year.
- It will increase rail-based transport capacity by 10% and will reduce journey times, bringing an extra 1.5 million people within a 45 minutes journey time within Central London.
- The first stations will be opened in Q4 2018 and it will be fully operational by 2019.

1.3.2. Northern Line Extension

- Extension of the existing Northern line which currently runs from High Barnet or Edgware in North London, through Central London including key transport hubs such as Tottenham Court Road, Kings Cross and Bank, and onto Morden or Kennington in South London.
- According to Transport for London, the extension will help to regenerate the Vauxhall, Nine Elms and Battersea areas by supporting 24,000 new jobs and more than 18,000 new homes.
- Two new stations to be built at Battersea and Nine Elms will be opened by 2020.
- Journey times from Nine Elms or Battersea to the West End or the city will, in some cases, be less than 15 minutes.

1.3.3. Crossrail II (proposed)

- Crossrail II is proposed to run North to South across London and, like Crossrail I, will be a new high-frequency, high-capacity rail line.
- The scheme is still in the early stages in terms of developing the proposals but a preferred route has been announced.
- No station locations have been finalised, with no dates earmarked for construction. However, subject to the scheme getting the go-ahead, current estimates are that it could open to the public some time during the 2030s.
- Crossrail 2 is expected to unlock 200,000 additional homes across both the South East and London.

The London Plan also includes details of other transport infrastructure improvements that are needed, including improvements to roads, bridges and piers. In addition, there are major works that need to be undertaken to ensure the city's other needs continue to be met, including requirements for electricity, internet access, waste and sewage disposal. A major project that is expected to improve infrastructure access is the proposed Heathrow Airport expansion.

1.3.4. Heathrow Airport Expansion

- In Q3 2016, the UK Government approved a third runway at Heathrow Airport. The proposed 3.5km long runway is expected to cost approximately GBP17.6bn.
- A report by the Airports Commission shows that a new runway at Heathrow could add over GBP147bn to the UK economy over the next 60 years and create over 76,000 new jobs by the end of 2030.
- If the expansion progresses according to schedule, the new runway could be operational by 2026.

Transport infrastructure improvements are distinctly tied to housing. Plans for new transport infrastructure, including new train and tube lines, would not only increase transport capacity but also have the potential to open up new parts of the city for development and regeneration, and boost housing delivery.

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2. UK Regulatory Environment Overview

2.1. Property Development: Process and Key Regulatory Bodies

2.1.1. Regulation of Property Transactions

When a residential property is transacted, it is likely that at least three different advisory companies will be involved, i.e. those acting as sales agent(s), those acting as surveyor and those acting as solicitor. If mortgage finance is needed, a mortgage advisor/ broker/ provider may be involved.

Where a project involves property development or investment finance, the Prudential Regulatory Authority¹ (PRA), in addition to the Financial Conduct Authority² (FCA) may be responsible for regulating the financial organisation(s) involved.

Property finance, including the provision of debt for commercial and residential projects, is a specialised area of regulation. A range of new lenders have entered the property finance market since around 2009, employing a range of business models. These are not just banks, building societies and insurance companies, but also senior debt funds, peer to peer lenders and special opportunities funds. Each category is subject to its own particular regime of regulation.

2.1.2. The Property Development Process

It is likely that major works being undertaken on the interior or exterior of a building will need to comply with planning and building regulations. Planning regulations determine what you can build. Building regulations control how you must build it.

The construction of a new building requires planning permission. Alterations to an existing building may require planning permission or may be subject to 'prior approval' under 'permitted development rights'. All plans must be consistent with local planning regulations, which are regulated at a borough level by the boroughs' own Local Development Framework in the context of the London Plan. Strategic planning in London is the shared responsibility of the Mayor, the 32 London borough councils and the Corporation of the City of London. The Mayor must be consulted on planning applications that are of potential strategic importance to London.

Planning consents may be subject to planning obligations (including Section 106 (S106) affordable housing requirements, other S106 obligations and Section 278 highway agreements) and Community Infrastructure Levy (CIL). There may also be other conditions attached to the planning permission.

Plans for new housing should take into account the housing standards set out in the London Housing Design Guide.

Building regulations are implemented by the local building control office.

2.2. Ownership/ Title Restrictions and Holding Tenure

The principle tenures under which property is held in the UK are:

- Freehold – property is held in perpetuity; and
- Leasehold – property is held by a tenant for a defined period under the terms of a lease.

There are three types of freehold title:

- Absolute – granted where there is little or no room for debate on the ownership of the property;
- Possessory – granted where there is no documentary evidence of ownership. This can be upgraded to absolute title after 12 years under adverse possession provisions; and
- Qualified – granted where evidence of ownership is subject to a fundamental defect.

Recent property tax changes have sought to align the treatment of domestic, non-domiciled and non-natural persons in relation to the purchase, holding and sale of residential property. In July 2015, the Government announced changes to the taxation of foreign non-domiciled persons. These are subject to consultation.

2.3. Foreign Ownership

There are no restrictions on foreign ownership in the UK.

¹ The PRA is part of Bank of England that acts as regulatory and supervision body of banks, building societies, credit unions, insurers and major investment firms

² The FCA is tasked to maintain the integrity of the UK's financial markets and to regulate financial firms providing services to consumers.

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2.4. Specific Taxation Rules and Exemptions, Incentives and Policies

Focusing on the residential market, there are various taxes, rules and exemptions that apply.

2.4.1. Stamp Duty Land Tax (SDLT)

The Autumn Statement³ 2015 announced substantial reforms to Stamp Duty Land Tax (SDLT) and restricted tax relief on mortgage interest for buy-to-let (BTL) investors. A SDLT surcharge of 3% was announced which applies to the purchase of second-homes or buy-to-lets and became effective from 1st April 2016. Large scale investors are not exempt from the surcharge. Mixed used assets will not be affected by the surcharge as they are considered non-residential transactions.

Figure 2-1 – SDLT

Purchase Price	Sole Property Effective Rate
GBP125,000	0.0%
GBP250,000	1.0%
GBP500,000	3.0%
GBP1,000,000	4.4%
GBP2,000,000	7.7%
GBP5,000,000	10.3%

Source: HM Revenue & Customs

Non-natural persons (corporate structures) are required to pay Stamp Duty of 15% on any transaction above a value of GBP2,000,000.

2.4.2. Annual Tax on Enveloped Dwellings (ATED)

The ATED, introduced in April 2013 applies to non-natural persons (i.e. companies) who hold a property valued over a certain amount. ATED applies if the property is a dwelling located within the UK, and is valued at more than GBP500,000, GBP1,000,000 and GBP2,000,000 on 1 April 2012 or at acquisition, if later, for returns/filings from 2016, 2015 to 2016 and 2013 to 2014, respectively.

The amount of ATED due is calculated using a banding system based on the value of the property. The charges for the financial year April 2016 to March 2017 are outlined below.

Figure 2-2 – ATED Charges for 2016 to 2017

Property Value	ATED annual charge 2016 to 2017
GBP500,001 - 1,000,000	GBP3,500
GBP1,000,001 - 2,000,000	GBP7,000
GBP2,000,001 - 5,000,000	GBP23,350
GBP5,000,001 - 10,000,000	GBP54,450
GBP10,000,001 - 20,000,000	GBP109,050
Over GBP20,000,001	GBP218,200

Source: HM Revenue & Customs

The following list, which should not be considered exhaustive, highlights where exemptions may apply:

- The property is held by a property development company.
- The property is let out commercially to a third party.
- The property is owned by a company in its capacity as a trustee (the beneficiary of the trust may be liable).
- The property is owned by a charity and used for a charitable purpose.

2.4.3. Capital Gains Tax (CGT)

CGT is the tax paid on any profit made on a liable asset where the asset has increased in value when disposed of. It is only paid on the total gains above a tax free allowance (the Annual Exempt Amount). The tax free allowance is GBP11,100 for the tax year April 2016 - March 2017 (GBP5,550 for trusts). The following CGT rates apply as of 6th April 2016:

- 10% to 28% tax rates for individuals;
- 20% for companies;
- 20% to 28% for trustees or for personal representatives of someone who has died;
- 10% for gains qualifying for Entrepreneurs' Relief⁴;
- 28% for CGT on ATED - the Annual Exempt Amount is not applicable.

³ The Autumn Statement is a statement outlining changes to fiscal policy made by the Her Majesty's Treasury to the Parliament.

⁴ An individual can qualify for Entrepreneur's Relief if disposing of: 1) all or part of their business as a sole trader or business partner, 2) shares in a company where they have at least 5% of shares and voting rights, 3) assets they lent to their personal business or personal company.

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CGT applies to the sale of property where:

- The property is not the main residence of the owner including Buy-to-Let properties, business premises, land and inherited property.
- The property is the main residence of the owner but has been let out (excluding a single lodger).
- The property is the main residence of the owner but part of it has been used for business.
- The property is the main residence of the owner but is over 5,000 square metres (including all buildings and grounds).

CGT applies to gains made on residential property in the UK where the property meets the above criteria even if the property is owned by an individual non-resident for tax purposes. For a non-resident selling UK residential property, the CGT is only payable on the gain made since 5 April 2015.

2.4.4. Income Tax

Income tax is payable on the income generated by residential properties owned and let by an individual where the rental income is more than GBP2,500 per annum. The income generated by properties owned by a company is assessed in the same way as any other business income.

Figure 2-3 - Income Tax Rates

Tax rate	Taxable income above Personal Allowance (GBP10,600)
Basic rate 20%	GBP0 to GBP31,785 (People with the standard Personal Allowance start paying this rate on income over GBP10,600)
Higher rate 40%	GBP31,786 to GBP150,000 (People with the standard Personal Allowance start paying this rate on income over GBP42,385)
Additional rate 45%	Over GBP150,000

Source: <https://www.gov.uk>

2.4.5. Corporation Tax

Corporation Tax is payable on the profits generated by limited companies and most unincorporated associations. Taxable profits include trading profits, investments and profits made from selling assets. Companies not based in the UK, but with UK branches or offices only pay corporation tax on profits from UK activities. From 1 April 2016, the Corporation Tax for company profits is 20%. The corporation tax main rate will be reduced to 19% by 1 April 2017, and 17% by 1 April 2020.

2.4.6. Inheritance Tax

The rate of Inheritance Tax is 40% on anything above the GBP325,000 threshold, and may be reduced to 36% if 10% or more of the estate is left to charity.

In the summer 2015 Budget, the Inheritance Tax threshold was increased for home owners passing property to their descendants. In doing so they will effectively increase that threshold to GBP1 million for married couples and those in a civil partnership by 2020/2021, phasing in the additional relief from 2017/2018.

Inheritance Tax relief applies to businesses and working farms, as well as buildings, land and works of art which have historic or scientific interest and are made available to the public to view.

2.4.7. Value-added Tax (VAT)

The sale of a non-residential freehold or leasehold interest in UK land does not generally attract VAT unless the seller has "opted to tax". Where a property has been opted for VAT (usually apply at 20%) and is income producing, or is intended to be so, then the asset can be treated as an acquisition of a property rental business and termed a 'transfer of a going concern', in which case VAT is not chargeable. However, VAT is applicable for all freehold sale of a new, or partly completed, commercial building. A building is new for 3 years from the completion date.

2.4.8. Buy-to-Let Mortgage Interest Relief

In the summer 2015 Budget, a limit on mortgage interest relief for Buy-to-Let mortgages was announced, and is to be phased in between April 2017 and April 2020. Landlords will only be able to claim tax relief on their mortgage interest payments at the basic rate of 20%, rather than their marginal rate (higher rate of 40% or the additional rate of 45%).

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3. London Property Market Overview

3.1. Residential Property Market Overview

This section outlines the historic performance of the London residential market and the key drivers underpinning future supply and demand. It provides an outlook for London, including capital and rental growth forecasts. Also covered in this section are risks and projected future trends in terms of market performance as well as supply and demand dynamics.

3.1.1. Defining the Residential Market

Prime London as referred to in this executive summary relates to the upper segment of the residential markets in London, which is largely defined by properties priced above GBP1,000 psf. Within the second hand market, the Prime London market is as shown on the map. Although not strictly defined geographically, these markets represent the higher value residential markets of London. Savills Prime London indices is composed of properties in these areas. A new build development is defined as prime according to value rather than location. Savills Research defines the new build Prime London market as any scheme where values average above GBP1,000 psf.

This map shows the 33 boroughs that make up Greater London. The dark shaded area shows the area referred to as inner London in this executive summary. The white areas show outer London. The approximate boundaries of Prime London have been overlaid on top of the map in dotted lines. Please refer to Figure 1-2 for a zoom-in map of Prime London markets.

The mainstream new build market is defined as schemes priced below GBP1,000 psf. The terms 'Prime' and 'mainstream' refer to pricing threshold of GBP1,000 psf and do not refer to a specific property type - second hand and new build property can be defined as mainstream and/or prime.

Figure 3-1 - London Definitions



Source: Savills Research

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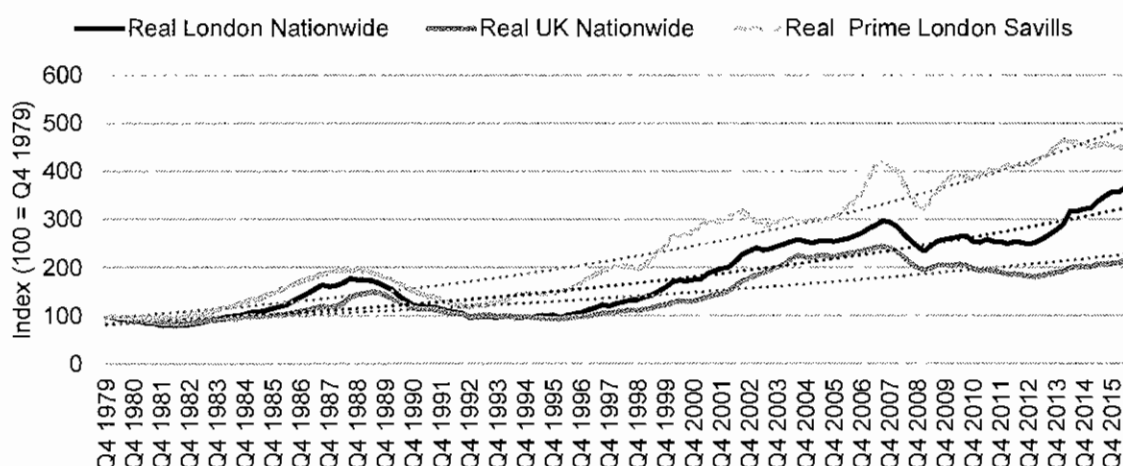


3.1.2. Long Term Price Performance

We have adjusted the Nationwide UK and Greater London House Price Index (HPI) and Savills Prime London Index for inflation by applying the Retail Price Index (RPI). Over the period from Q4 1979 to Q3 2016, the trend rate of real house price growth across Prime London was 4.1% per year. Real house price growth across Greater London has averaged 3.6% over the same period, compared to the UK 2.1%.

Historically, the price of Prime London property has risen substantially before a period of catch up by the rest of the UK. However, in the last two complete housing cycles from 1993 to 2009 the overall price gap between Prime London and the rest of the UK has widened.

Figure 3-2 – Real Capital Value Indices by Location



Source: Nationwide, Office for National Statistics, Savills Research

The outperformance of Greater London compared to the UK reflects the fact that Greater London is a high demand housing market that is physically limited in size, and by low levels of supply. The outperformance of Prime London reflects the different drivers of the market compared to mainstream markets in Greater London and the UK.

Despite an imbalance between supply and demand, mainstream London housing markets, like the rest of the UK, are largely dependent on the domestic economy, the availability of mortgage finance and household affordability constraints. The market is debt rather than equity driven. In contrast, Prime London has been driven by both domestic and international equity and is regarded as one of the premier world cities in which to both live and invest.

London's appeal as a premier world city is a result of the amenities, quality of life and facilities offered. In addition, London is renowned for its global standing in terms of business and trade, and stability in terms of tax and politics. Other drivers include its time zone, use of the English language, historical and global ties and access to the financial markets.

Strong international drivers in London's prime residential markets have generated stronger long term price growth in comparison to growth in the mainstream markets. However, the markets are also more sensitive to international economic and political events, as well as regulatory changes.

In light of the EU Referendum, London's prime residential market faces both challenges and opportunities. As we move forward prime London markets will continue to be shaped by pre-existing constraints. The changed tax environment means buyers will commit only when they are confident that a property is rare, exceptional or represents good value for money, particularly as the risk environment has increased. As a result the market remains exposed to fluctuations in buyer sentiment and general economic pressures resulting from the vote to leave the EU.

This points to a slow market over the remainder of 2016 as buyers wait to see how negotiations to leave the EU proceed and the precise economic impact becomes clearer. This brings with it the prospect of further price adjustments, as the market finds a level which brings buyers back to the table in greater numbers. This will present some opportunities for potential buyers who are prepared to take a long-term investment view and who have put themselves in a strong position to buy. The significant devaluation of the GBP offers potential buyers additional advantages when purchasing property in foreign currencies.

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3.1.3. Short Term Price Performance

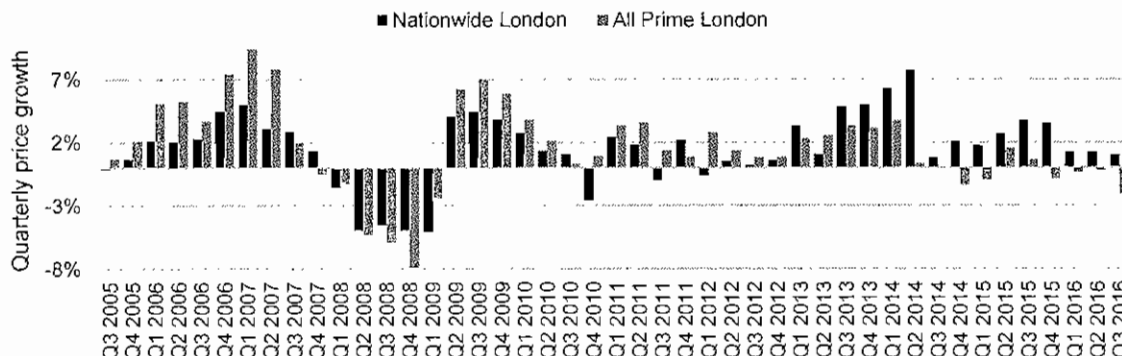
As stated, historically, the price of prime London property has risen substantially in the first half of a housing market cycle before a period of catch up by the rest of the UK. However, in the last two complete housing cycles, the overall gap between prime London and the rest of the UK has widened. Arguably, following the UK's outperformance of prime London between 2002 and 2005, a new housing market cycle began. Growth stalled at the end of 2004, but rather than prices falling, dramatic price increases occurred in prime Central London (PCL). This strong growth continued to 2014, despite the credit crunch which occurred between the end of 2007 and 2009.

However, the prime London housing markets entered a new phase in the middle of 2014. Following a period of strong growth, during which they absorbed a series of tax increases but were left looking fairly fully priced, values initially plateaued. They then adjusted in line with the further stamp duty rises introduced in December 2014. In the aftermath of these changes, and in the run up to the EU Referendum, the direction of travel differed between subsectors of the market. Lower value stock showed modest price growth, mid value property values broadly flatlined and values of high value stock gradually declined further. In this period taxation continued to shape the market. Though the additional stamp duty costs of 2014 were broadly factored into values, increased exposure to other capital taxes for non-UK owners also weighed upon the market. A further 3% stamp duty surcharge for second homes and investment stock caused a spike of activity in the run up to its introduction on 1 April 2016. Thereafter it combined with pre EU Referendum uncertainty to subdue the market.

As a consequence, prices in prime Central London were -10.6% below their 2014 peak at Q3 2016. Across the remainder of the prime London housing market they were 3.6% below the 2014 peak. Importantly, successive tax changes made the market less fluid and increasingly restricted activity to the most committed buyers and sellers.

Within the mainstream markets, prices have grown 1% between Q2 2016 and Q3 2016, indicating a slowdown compared to previous quarters. This credit driven market has benefitted from low interest rates and mortgage availability. Prices in the mainstream markets were slower to recover than Prime market following the crash in 2008. However, since June 2012, when mainstream London prices surpassed their previous peak, growth has accelerated. Despite the vote to leave the EU, annual growth remains positive and house prices in London are now 55% above the 2007/08 peak.

Figure 3-3 – Quarterly Price Growth, Q3 2016



Source: Nationwide, Savills Research

3.1.4. Rental Market Performance

In the five years prior to the EU Referendum, the prime London market has seen marginal rental growth of just 0.3%, with rents falling by -1.9% in the 12 months before the Brexit vote. The third quarter of 2016 saw average prime London rents fall -1.7%. This resulted in year on year falls of -3.5%, the largest annual fall since 2009.

The Central London rental market has experienced the largest price falls of all the London regions, with average quarterly values down -3.0%. This leaves the market -6.0% below its September 2014 peak before the stamp duty changes were introduced in December of that year.

The impacts of Brexit on the prime rental market will be dependent upon the economic consequences of Brexit, most importantly on financial and business services. Tenants in the financial sector currently account for approximately a third of the prime rental market in London, though this proportion has been steadily decreasing over the last 10 years as more diverse sectors such as Tech, Media & Telecommunications are attracted to London. Oxford Economics forecast a drop in the number of employees in the UK finance sector over the next few years, which may impinge on corporate relocation demand, especially in the mid-market.

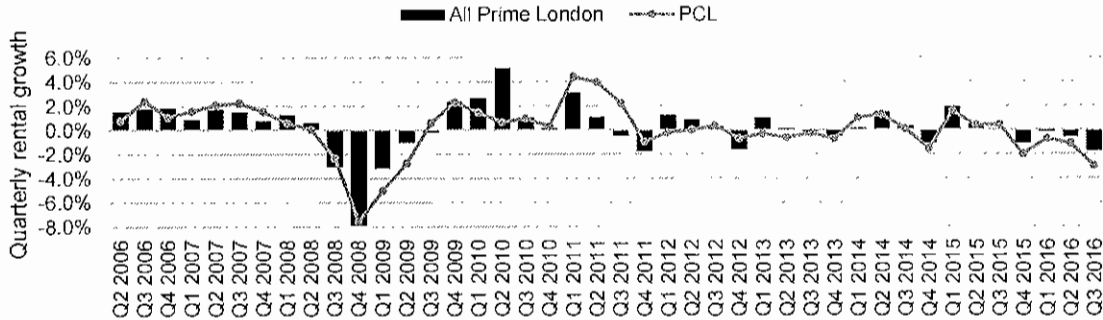
The underlying uncertainty is expected to temper rental growth prospects, with tenants more budget conscious. Those tenants are also likely to be offered more choice, particularly given the high development pipeline in London and the potential for some of the new build stock to be re-directed to large scale institutional investors as managed rental stock.

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Figure 3-4 – Savills Prime London Rental Index Growth

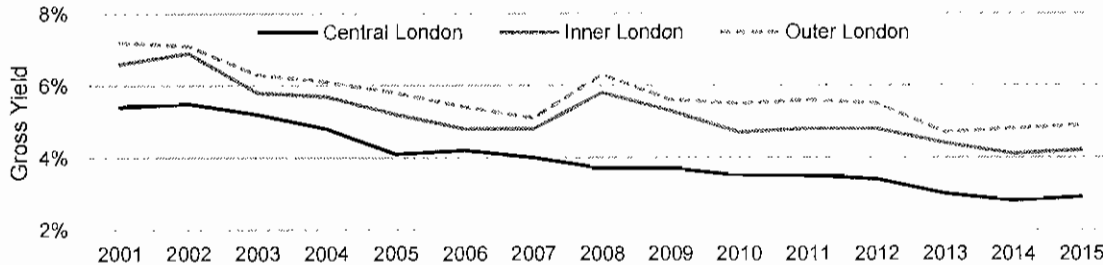


Source: Savills Research

3.1.5. Residential Yields & Value

The following graph shows residential yields according to the Investment Property Databank (IPD) index. Yields have compressed substantially across London over the last decade, with the lowest gross yields found in Central London. Factors of the compressing yield include the increase in London property prices compared to the incomes of renters.

Figure 3-5 – Gross Residential Yields in London



Source: IPD

Across London growth in residential yield has varied. Central more affluent boroughs recovered strongest since the crash in 2008, however in the last year growth has accelerated in the outer boroughs and slowed in these inner boroughs.

The average residential values across all boroughs in London are detailed as below:

Figure 3-6 – London Average Residential Values by Borough, August 2016

Area	Average value at 2007/08 peak	Average value August 2016	Price above 2007/08 peak	Annual growth (Aug 2015 - Aug 2016)	Quarterly growth
Barking and Dagenham	GBP194,731	GBP276,575	42%	17.7%	3.4%
Barnet	GBP344,856	GBP536,339	56%	13.1%	4.3%
Bexley	GBP219,448	GBP326,249	49%	18.9%	4.1%
Brent	GBP300,125	GBP496,404	65%	13.0%	2.2%
Bromley	GBP292,902	GBP439,602	50%	14.1%	3.9%
Camden	GBP520,769	GBP796,203	53%	0.2%	-6.2%
City of London	GBP468,253	GBP864,238	85%	12.0%	7.2%
City of Westminster	GBP559,119	GBP1,004,544	80%	6.8%	1.7%
Croydon	GBP247,553	GBP364,863	47%	19.1%	4.7%
Ealing	GBP309,471	GBP494,818	60%	12.8%	4.1%
Enfield	GBP256,425	GBP390,354	52%	16.2%	3.3%
Greenwich	GBP240,546	GBP381,377	59%	13.6%	4.5%
Hackney	GBP327,167	GBP541,294	65%	4.1%	-0.3%
Hammersmith and Fulham	GBP513,994	GBP775,291	51%	0.1%	1.1%
Haringey	GBP325,761	GBP553,894	70%	16.1%	4.9%
Harrow	GBP306,548	GBP456,599	49%	11.7%	1.7%
Havering	GBP244,142	GBP347,134	42%	19.6%	3.8%
Hillingdon	GBP265,698	GBP411,996	55%	17.5%	3.9%

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Area	Average value at 2007/08 peak	Average value August 2016	Price above 2007/08 peak	Annual growth (Aug 2015 - Aug 2016)	Quarterly growth
Hounslow	GBP273,176	GBP399,805	46%	12.9%	3.7%
Islington	GBP415,542	GBP667,400	61%	3.0%	2.4%
Kensington And Chelsea	GBP817,321	GBP1,279,266	57%	-2.5%	-1.0%
Kingston upon Thames	GBP324,881	GBP497,596	53%	13.6%	3.5%
Lambeth	GBP318,361	GBP527,464	66%	9.0%	2.6%
Lewisham	GBP242,356	GBP416,615	72%	17.1%	3.3%
Merton	GBP313,584	GBP522,061	66%	13.5%	4.1%
Newham	GBP236,101	GBP365,228	55%	22.8%	7.1%
Redbridge	GBP276,649	GBP406,599	47%	18.3%	3.8%
Richmond upon Thames	GBP431,198	GBP678,627	57%	9.8%	3.2%
Southwark	GBP304,713	GBP525,352	72%	10.6%	1.7%
Sutton	GBP257,941	GBP377,305	46%	17.0%	4.8%
Tower Hamlets	GBP319,135	GBP468,254	47%	10.1%	0.7%
Waltham Forest	GBP247,906	GBP428,035	73%	19.7%	3.7%
Wandsworth	GBP394,137	GBP617,237	57%	8.3%	2.7%

Source: HM Land Registry, Savills Research

3.1.6. Transaction Volumes

Unlike prices, transactions across London have failed to return to long term average pre-peak levels seen prior to 2007/2008.

Figure 3-7 - London Transactions By Borough, July 2016

	2007/08 Peak transactions	Pre-peak average (2005-2007)	Jul-2016	% pre-peak
Barking and Dagenham	437	294	153	52%
Barnet	706	543	265	49%
Bexley	555	399	251	63%
Brent	471	328	120	37%
Bromley	866	651	370	57%
Camden	437	321	97	30%
City of London	33	25	6	24%
Croydon	895	637	364	57%
Ealing	680	506	169	33%
Enfield	647	504	201	40%
Greenwich	581	431	205	48%
Hackney	383	273	112	41%
Hammersmith and Fulham	416	324	128	40%
Haringey	468	356	170	48%
Harrow	432	330	162	49%
Havering	544	406	289	71%
Hillingdon	581	433	226	52%
Hounslow	552	374	153	41%
Islington	467	311	144	46%
Kensington And Chelsea	406	327	87	27%
Kingston upon Thames	442	325	179	55%
Lambeth	700	520	249	48%
Lewisham	650	479	276	58%
Merton	497	373	167	45%
Newham	484	362	121	33%
Redbridge	595	455	221	49%
Richmond upon Thames	567	413	181	44%
Southwark	540	437	242	55%
Sutton	504	380	227	60%
Tower Hamlets	536	439	166	38%
Waltham Forest	528	406	218	54%
Wandsworth	945	731	305	42%
Westminster	588	481	106	22%

Source: Land Registry, Savills Research

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According to Land Registry data over 2015 the total value of all transactions in London was GBP58.3billion, of which more than 90% are attributed to transactions in the secondary market. Over the last 10 years, new build transactions have annually accounted for approximately 8% of the residential sales in London both by value and by volume.

3.1.7. Supply and Demand

The supply of new homes in London has fallen drastically short of demand since the early 2000s. Although supply levels have been steadily growing since their 2011 trough, in 2014/15 (the latest year for which data is available from the GLA) the total net housing supply in London of conventional completions was 27,819. This still leaves a significant shortfall of 14,000 homes when compared to the London Plan's revised minimum target of 42,000 homes per year from 2015 to 2025.

It is accepted that demand for housing is significantly in excess of the London Plan's minimum target. According to the 'Further Alterations to the London Plan' (published in March 2015), when the backlog (i.e. historic shortfall of delivery) is taken into account, the requirement for housing rises to 62,000 homes a year from 2015 to 2025.

High levels of demand for housing in London are driven by employment growth in excess of the UK average, an ongoing status as a global centre of finance and the expansion of a world class higher education sector. This leads to significant levels of in-migration and levels of income growth above the UK average.

Based on our analysis of residential development sites across London⁵, and assuming affordable housing delivery over the next five years continues at the average rate seen over the last five years, we are forecasting that total completions of homes will average 36,500 per annum during the five years 2016 to 2020.

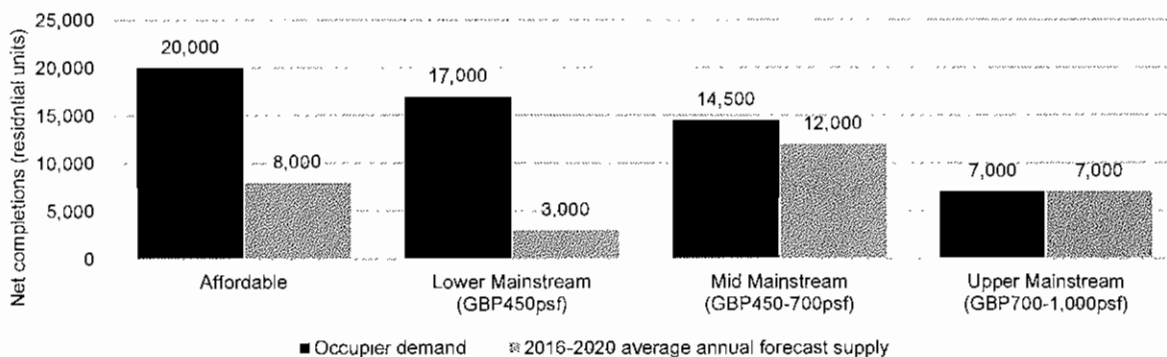
Our estimate of demand for new homes in London before the EU Referendum result was 64,000 per annum as at March 2016. This is based on analysis of projected growth in workplace employment, household projections by type and income distributions. It is estimated based on affordability of Londoners for both renting and owner occupation. This will leave a five year shortfall of just under 140,000 homes against the Savills Research estimate of 64,000 homes per annum. It is still too early to assess whether demand estimates will need to be revised downwards as a result of the EU Referendum, however, even if considerable curbs on EU migration are implemented, there will still be a supply/demand imbalance in London.

3.1.8. Supply and Demand by Market Segment

Our analysis of future supply against demand during the five years to 2020 indicates that the supply shortfall will continue in the mid and lower mainstream market segments below GBP700psf. Annual future supply has been estimated based on our knowledge of all schemes in planning as well as those pre planning where we believe some units will be delivered to market in the next five years. We have taken into account phasing of larger sites and made assumptions for smaller sites based on previous delivery levels. Savills Research calculates a minimum of 64,000 new homes are needed a year.

Recent analysis indicates that supply is increasing towards the top of the market (>GBP1,000 psf) where price growth has pushed property values upwards. The mainstream price brackets are still experiencing a large supply-demand imbalance. We estimate a shortfall of circa 16,500 homes per annum in the mainstream markets based on an annual demand for 38,500 homes in these market segments.

Figure 3-8 – Supply Shortfall By Price Band (Below GBP1,000 psf)



Source: Savills Research using MollorLondon, CACI Ltd and Oxford Economics

⁵ Considering almost 900 sites expected to deliver between 2016 and 2020, together with assumed delivery from smaller sites of less than 10 market units in Prime boroughs, less than 20 units in inner boroughs and less than 50 units in outer boroughs.

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3.1.9. Prime London New Build Supply

In the last two years development in the Prime London markets has increased and transaction levels have picked up. It is unclear whether the volume of prime supply expected to come forward in the next few years can continue to be met by demand, a risk which we will be monitoring going forward, however this is mainly an issue which will affect fringe prime areas and supply above circa GBP1,000 psf.

It is important to note that we could see a revision downwards of our 5 year prime supply estimates as a result of the EU Referendum in June 2016. Given that 25% of the prime supply pipeline is currently under construction, developers may choose to delay commencing construction depending on their funders' requirements.

We define the prime new build categories as follows:

Lower Prime: GBP1,000 - GBP1,500 psf, including South West Riverside, Fulham, City Fringe and Midtown

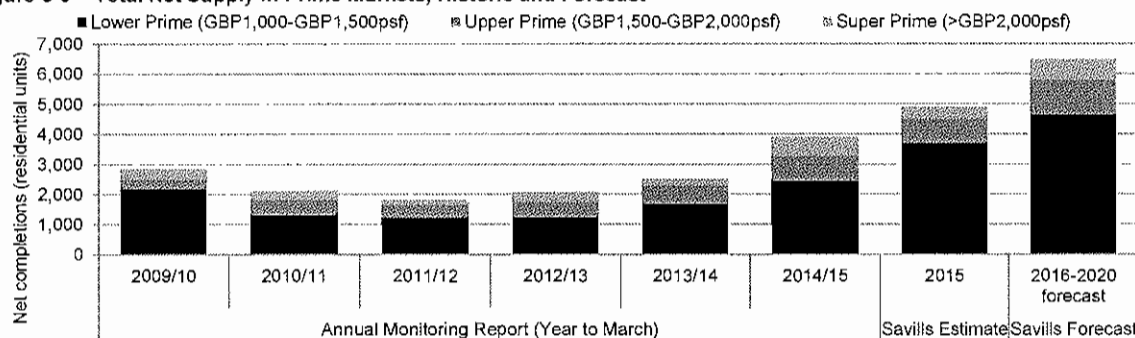
Upper Prime: GBP1,500 - GBP2,000 psf, including South Bank, Fitzrovia and Victoria

Super Prime: GBP2,000+ psf including Knightsbridge, Belgravia, Mayfair, Kensington and Chelsea

As shown in Figure 3-9, there are very high levels of forecast supply above GBP1,000 psf. However, as can be seen from Figure 3-8, 91% (58,500 of the 64,000 new homes needed as calculated by Savills Research) of annual occupier demand for housing in London is at price points below GBP1,000 psf. At these price points, particularly below GBP700 psf, there is a significant undersupply of new housing.

Demand for homes above GBP1,000 psf has not been included in Figure 3-8 as a significant proportion of demand at this level is discretionary and not reliant on a person's income (the measure we have used to calculate demand by price band). In addition at these levels a high proportion of demand is from overseas buyers. It is not possible to accurately calculate or forecast the extent to which this demand will increase in line with increasing supply, but currently new build prime sales are holding up. We expect an additional 7,000 prime units on average to be available for sale each year between 2016 and 2020.

Figure 3-9 – Total Net Supply in Prime Markets, Historic and Forecast



Source: Savills Research, Annual Monitoring Report, Molior (all prices at 2015 values)

3.1.10. Key Prime Drivers

Whereas the mainstream markets are driven by affordability and mortgage access, buyers in the Prime markets tend to have better access to equity. As such, international equity-rich buyers make up a greater proportion of purchasers in the Prime markets. Prime Central London in particular is a target for investment by Ultra High Net Worth individuals from across the globe.

The UK's vote to leave the EU and subsequent political and constitutional turmoil that followed generated a considerable degree of uncertainty in the market. Accordingly, the strength of the underlying economy, the prospects for the financial and business services sector and, in some cases, the cost and availability of mortgage debt presents unknowns. Discretionary buyers at the top end are more sentiment driven. The prospects for the City of London as an employer and wealth creator are critical. Uncertainty around this issue is likely to impact on buyer appetite in the short term at least.

It is still too early to gauge the impact of the EU Referendum on different international buyer groups as Article 50 of the Lisbon Treaty has not yet been invoked. For the domestic buyers, there will be a greater emphasis on value for money and for best in class products. Overall, those who are not needs-based buyers will most likely adopt a wait-and-see approach until there is more certainty in the market.

For international buyers, the weak GBP could present a buying opportunity and early anecdotal evidence suggests that there has been a recent uptick in enquiries from China and Pacific Asia buyers, particularly for development product.

The true strength of market demand is only likely to become clear over a period of months. In the meantime, committed sellers will need to be both realistic and flexible in their price expectations, responding to changes in market sentiment.

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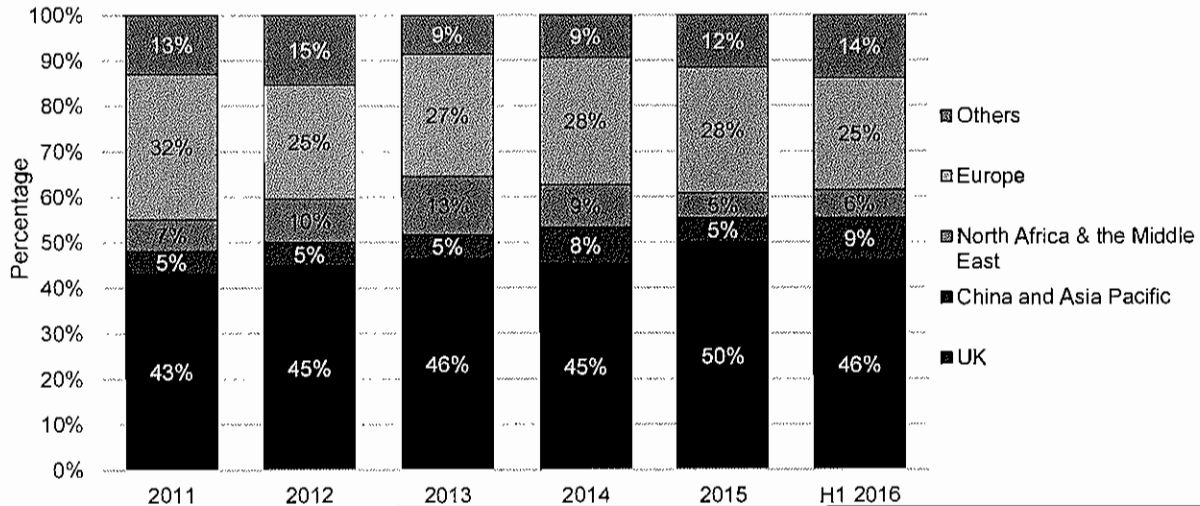
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3.1.11. Buyer Profiles in the Prime Second Hand Markets

British buyers are the dominant purchasing group in every prime London region and UK buyers have continued to have the greatest presence of any nationality in the Prime Central London market. Foreign buyers as a whole accounted for 54% of all buyers in H1 2016. Buyers from Western and Eastern Europe dominate the international market, across all price bands.

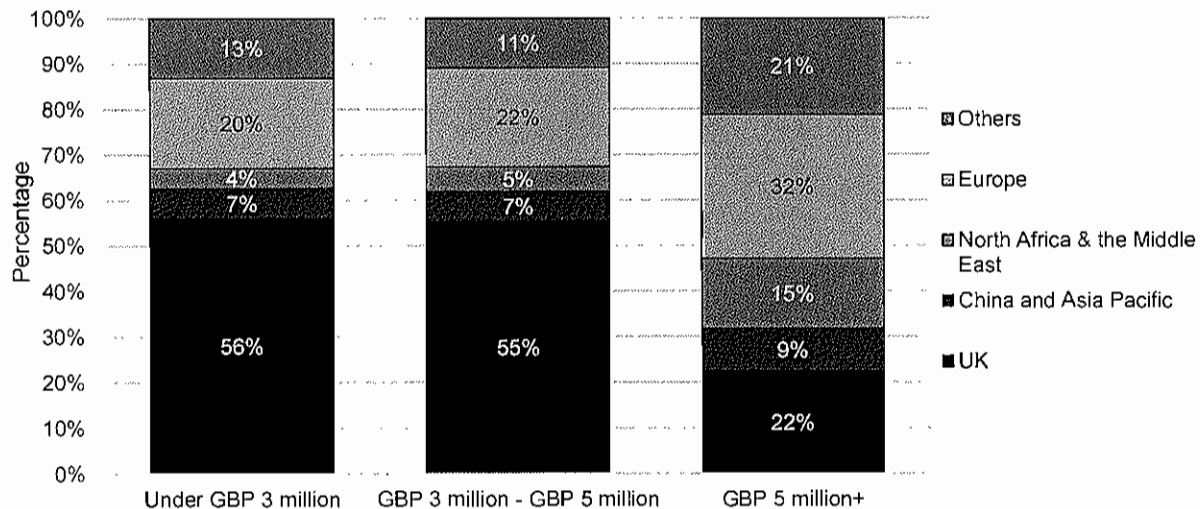
Figure 3-10 – Purchaser Nationality in Second Hand PCL Property



Source: Savills Research

As the value bands increased, international buyers are more prevalent at the top end of the market, accounting for 78% of buyers in the GBP5 million and above market between 2012 and H1 2016. After Western Europeans, purchasers from North Africa and the Middle East, Eastern Europe and the CIS and North America account for a significant proportion of buyers in second hand prime Central London property. This is a reflection of London's continued status as a safe haven and the fact that it draws wealth from a number of regions across the world.

Figure 3-11 – Importance of International Equity in Central London, Prime Central London, 2012 – H1 2016



Source: Savills Research

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London continues to be the preferred global destination for wealthy people to invest and live. Despite the vote to leave the EU, London remains a key centre due to its global standing, amenities, quality of life and facilities; buyers often have an existing network of business contacts, friends and family in London which also attracts them. Demand is from both first and second home owners, as well as investors. Growth in global wealth, especially in emerging economies, is aiding more and more foreign purchasers to invest in London.

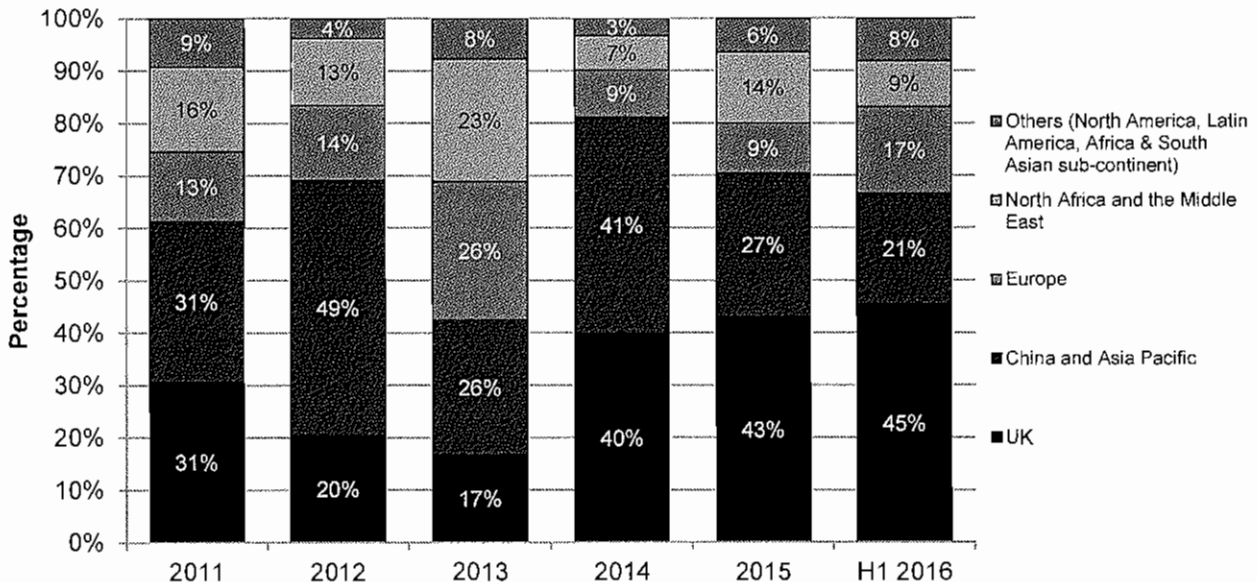
Overall, buyers in the second hand London market are consistently motivated by the prospect of buying a main residence, with 46% of purchasers buying property for this reason. Those buying PCL property as a second home or for an investment account for 28% and 26% of buyer respectively. The UK, US and Western European markets are more likely to be owner occupiers, living and working in London, while investors and second home owners are mostly from Africa, Eastern Europe, China and Pacific Asia, and the Middle East.

3.1.12. Buyer Profiles in the Prime New Build Markets

The proportion of UK buyers in the Prime London new build market has fluctuated over the past four years. In 2012 and 2013, UK buyers accounted for around 20% of prime new build purchasers. In 2014, 40% of new build Prime London sales were to UK purchasers and in 2015, this figure rose to 43%. The trend has continued into the first half of 2016 where 45% of purchasers were from the UK.

The increase in numbers of UK buyers in prime can partly be attributed to the Mayoral Concordat brought in during 2014 which stipulates to developers who sign up that new build schemes are to be launched in the UK before, or at least at the same time, as overseas. Part of Sadiq Kahn's manifesto is to build more stringently on this marketing strategy. Although the details have not yet been officially released, we could expect to see an even greater proportion of UK buyers in the new build market going forward.

Figure 3-12 – Prime New Build Purchaser Nationality (GBP1,000psf+)



Source: Savills Research

Nevertheless, the prime new build market is dominated by purchasers from China and Pacific Asia, reflecting concentrated marketing efforts in these regions, but also an appetite for investment and a willingness to commit to sales "off-plan" before scheme completion.

Buyers from China and Pacific Asia are particularly accustomed to investing in new build regeneration schemes at home and understand that they can benefit from long term capital growth in London. Good access to the financial district is a key factor motivating choice among both investors and owner-occupiers.

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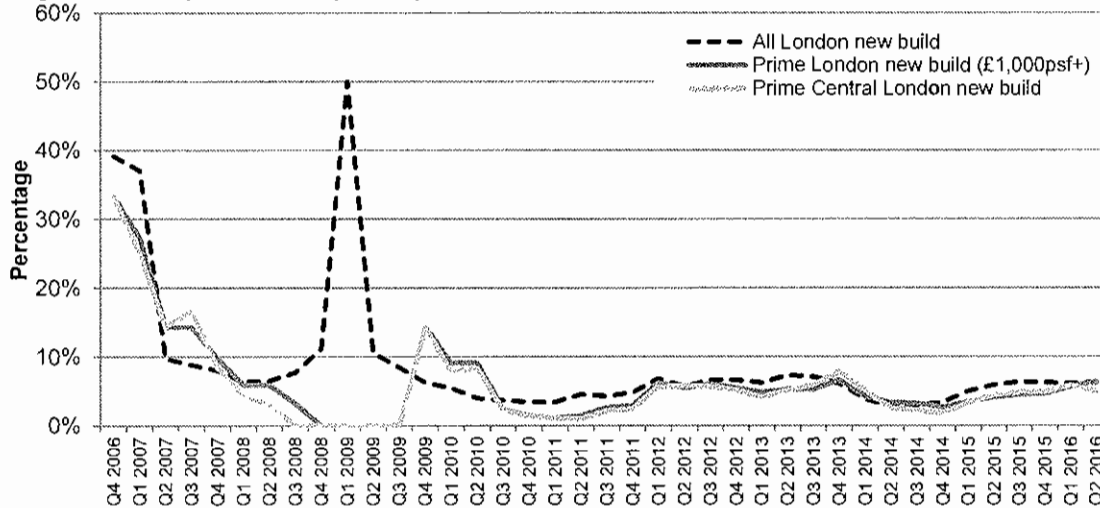


New build purchasers from China and Pacific Asia are dominant in the lower value bands within the Central London market. They account for 45-50% of all purchasers in value bands up to GBP1.5 million and above. Above those prices, purchasers from Eastern Europe and The CIS and North Africa and the Middle East replace China and Pacific Asia as the highest proportion of buyers.

During the first half of 2016 the overall proportion of buyers from China and Pacific Asia has reduced slightly, but the overall volume of buyers has increased compared to the same point in 2015.

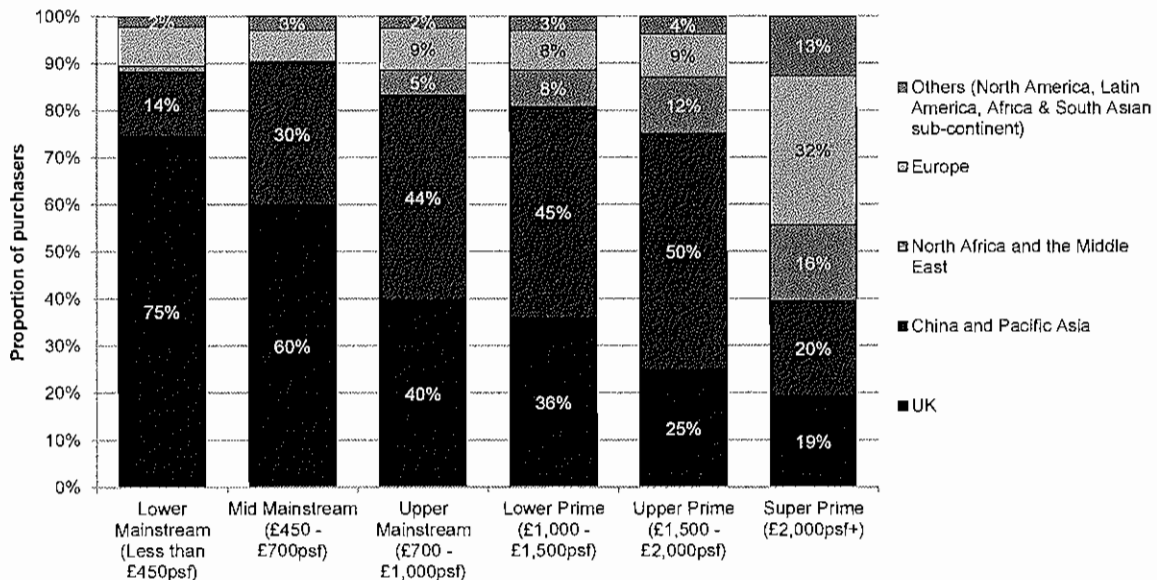
In light of the UK's vote to leave the EU, there remains a question mark over investment into prime property from Western Europeans. On average since 2009, buyers from Europe have only accounted for circa 6% of prime London new build sales. The current weakening of GBP against the Euro could present a buying opportunity for Western European buyers.

Figure 3-13 – Proportion of European Buyers of Prime London New Build Property



Source: Savills Research

Figure 3-14 – Nationality of Purchasers of New Build by GBPspsf, 2010 – H1 2016



Source: Savills Research

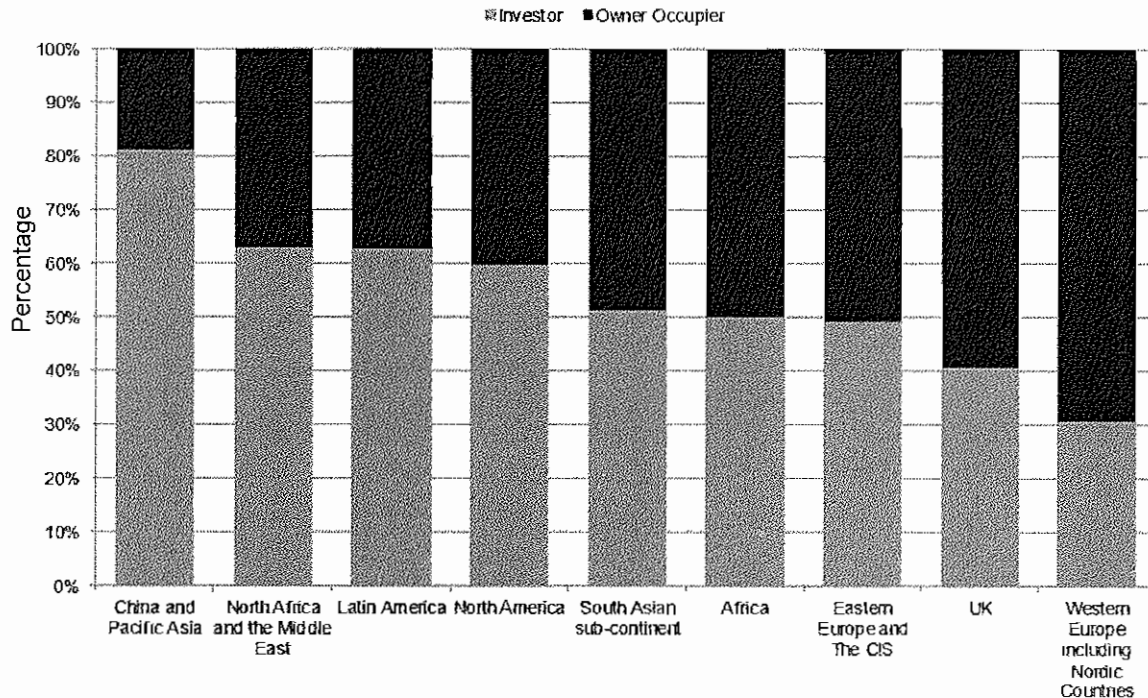
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Overall, buyers in the new build London market are equally motivated by the prospect of investment as well as their own use of the property. The UK and Western European markets are more likely to be owner occupiers, living and working in London, while investor buyers are mostly from China and Pacific Asia, North Africa and the Middle East and, although a much smaller proportion of the market, Latin America.

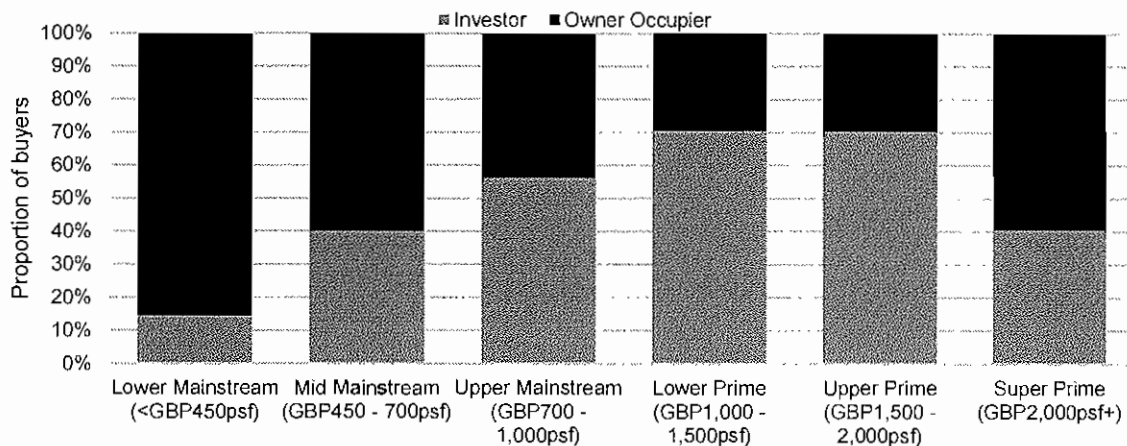
Figure 3-15 – Motivations of Nationalities Purchasing New Homes in Prime London, 2010 – H1 2016



Source: Savills Research

Participation of investors is strong in Upper Mainstream, Lower Prime and Upper Prime market. These investors are not only purchasing for rental income, but they are also investing in a second home, a property for their children to live in whilst studying in the UK and also as a way of preserving capital.

Figure 3-16 – Motivation to Purchase New Homes in Prime London, 2010- H1 2016



Source: Savills Research

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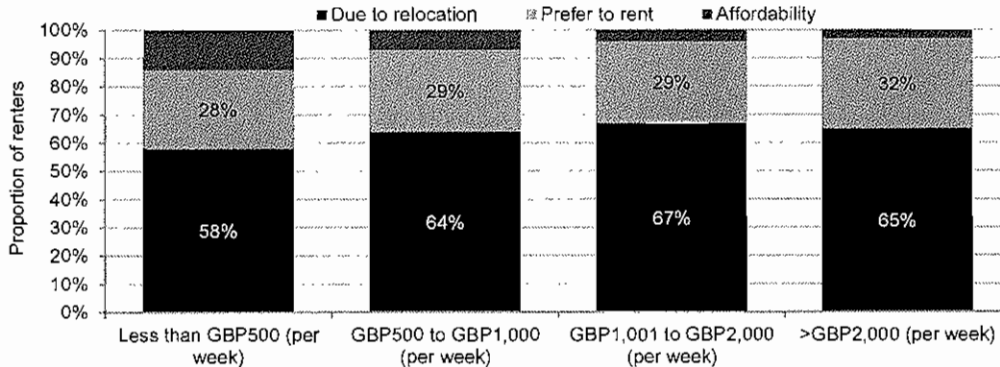
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3.1.13. Rental Demand

The prime market tenant profile consists mostly of renters who rent due to relocation and preference, rather than affordability or lack of access to mortgages.

Figure 3-17 – Tenant’s Reason to rent by Price in Prime London, 2010 – 2013

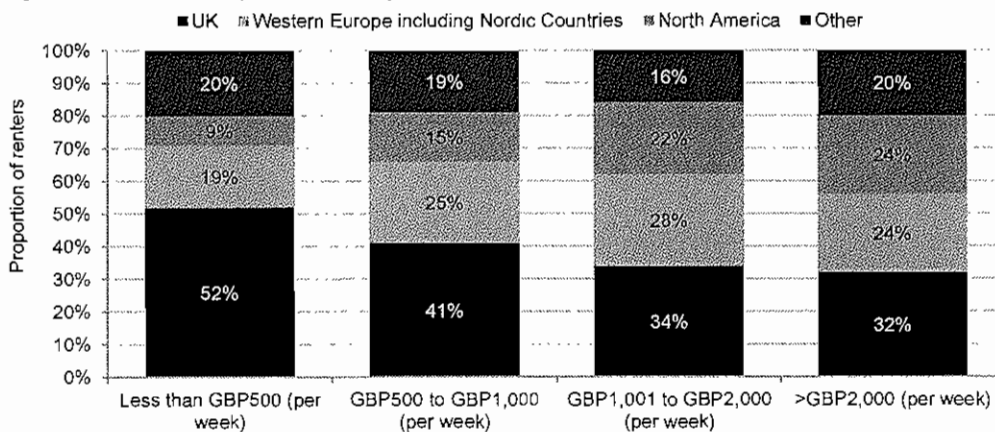


Source: Savills Research

The profile of tenants change as we move up through the price bands. In the higher price bands (i.e. moving up towards Ultra-Prime lettings) there are slightly fewer UK tenants and more European and North American tenants.

The reason for renting remains broadly unchanged through the price bands. Tenants moving 'due to relocation' can also include those who are seeking temporary accommodation for employment purposes as well as those seeking a lifestyle change.

Figure 3-18 – Nationality of Tenants by Price Band in Prime London, 2010 – 2013



Source: Savills Research

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3.2. Commercial Property Market Overview

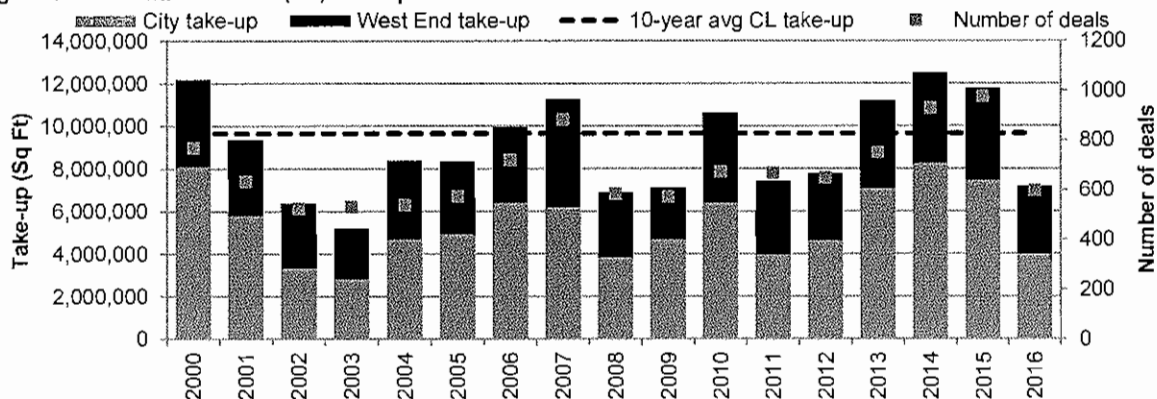
3.2.1. Take-up

In 2015, Central London take-up surpassed the long-term average for the third successive year, reaching 11,781,660 sq ft, with a further 1,056,957 sq ft of take-up recorded in the Docklands. Central London take-up at the end of Q3 2016 reached 7,159,020 sq ft, with an average transaction size of 11,951 sq ft. This is 21% below the 9,006,639 sq ft of take-up recorded at the end of Q3 2015.

Following on from 2015's total annual take-up of 7.4m sq ft, the City has seen take-up slow this year with 4m sq ft being transacted by the end of Q3 2016. This is 32% below the 5.8m sq ft of take-up recorded by this point last year. A fall in take-up compared with last year was always forecasted to happen, and inevitable when the three previous consecutive years had all surpassed 7m sq ft annually. However, the EU Referendum being held at the mid-year point also affected take-up, possibly causing delays for decision making. 54% of take-up recorded in 2016 so far has been in the City Core. Take-up for Q3 2016 picked up slightly with 1.3m sq ft being transacted compared with the 0.97m sq ft transacted in Q2 2016. The largest deal of Q3 2016 was Wells Fargo & Company buying and occupying 33 Central, EC4, which was the only deal above 100,000 sq ft at 227,689 sq ft. The next largest deal was Amazon.com Inc committing to their option space in Principal Place, E1 of 85,791 sq ft at a rent of circa GBP52.00/sq ft.

Similarly, take-up in the West End reached 4.3m sq ft in 2015, its second highest ever total. Take-up in the West End held stronger due to the traditional occupier base of the West End relying less on both the Banking and Insurance & Financial services sectors, who will have been the main sectors delaying decisions until post EU Referendum. The largest transaction to complete in the West End in Q3 2016 saw Apple Inc commit to 500,000 sq ft in Battersea Power Station.

Figure 3-19 – Central London (CL) take-up



Source: Savills Research

3.2.2. Commercial Supply

Three consecutive years of above average take-up have steadily eaten into Central London's supply pipeline with the Central London vacancy rate at the end of Q4 2015 standing at just 3.9%, its lowest ever level. The first half of 2016 saw a bit of a relief for what has been a constrained market, and we have seen this continue into Q3 2016. The City has seen supply rise by 17% since the start of the 2016 with the current vacancy rate at 5.5% (6.8m sq ft), the highest it has been since January 2015, yet still low in comparison with the 10-year average of 6.8%. Supply in the West End has also begun to slightly rise with 4m sq ft of available space, equating to a vacancy rate of 3.3%, which is also low in comparison to the 10-year average of 4.2%.

We anticipate the vacancy rate to continue to gently rise over the course of the next 12 months as take-up returns to average levels. However the true development pipeline for both markets does not signal impending oversupply to the levels seen post Global Financial Crisis.

3.2.3. Commercial Rents

The high levels of demand, combined with the falling vacancy rate, has resulted in substantial rental growth across Central London over the last few years and this has partly continued into 2016. The average Prime rent in the City in 2016 is GBP77.44 per sq ft, a 4.4% increase on 2015's average Prime rent of GBP74.15 per sq ft. Similarly, the Average Grade A rent for 2016 is GBP60.50 per sq ft, 10% above 2015's average Grade A rent of GBP54.94 per sq ft. Q3 2016 witnessed the highest rent ever achieved in the City at GBP107.00 per sq ft, with Kames Capital Management Ltd acquiring the 43rd floor at the Leadenhall Building, EC3.

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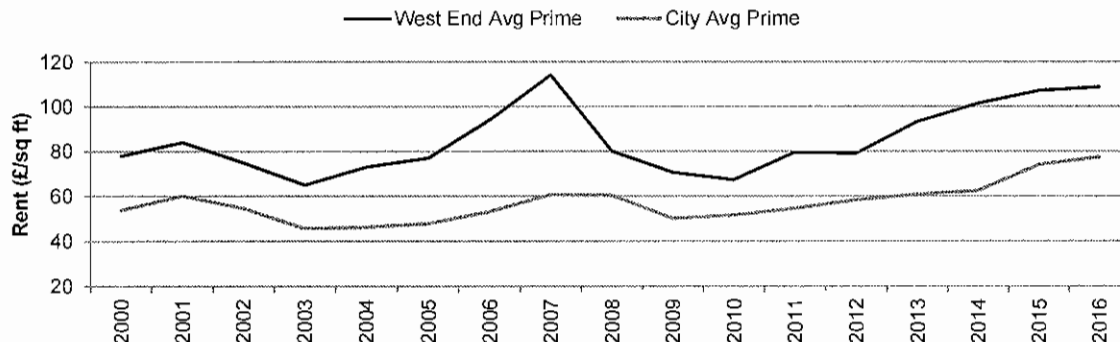
The West End has continued to see strong rental levels in 2016. The average prime rent at the end of Q3 2016 was GBP108.63 per sq ft, 2% above 2015's average prime rent of GBP106.98 per sq ft. Similarly, the average Grade A rent at the end of Q3 2016 stood at GBP77.13 per sq ft, 6% above 2015's average Grade A rent of GBP73.07 per sq ft. The average Grade B rent has also increased rising 7% from GBP53.64 per sq ft in 2015 to GBP57.26 per sq ft at the end of Q3 2016. The highest recorded rent in Q3 2016 outside of St James's was GBP105.00 per sq ft, the transaction saw Gemfields plc acquire the part 4th floor at 1 New Burlington Place totalling 11,700 sq ft on a 10 year lease.

Figure 3-20 – Rental Forecast

	2016	2017	2018	2019	2020	3-year avg	5-year avg
City Avg Grade A	1.8%	0.0%	-1.8%	0.0%	1.8%	0.0%	0.4%
City Avg Prime	2.0%	0.0%	-1.3%	1.0%	2.0%	0.2%	0.7%
West End Avg Grade A	2.8%	0.0%	2.5%	2.0%	1.5%	1.8%	1.8%
West End Avg Prime	4.1%	0.0%	2.0%	1.6%	1.6%	2.0%	1.9%

Source: Savills Research

Figure 3-21 – Central London Average Prime Rents



Source: Savills Research

3.2.4. Investment

Central London turnover reached GBP18.9bn in 2015. At the end of Q3 2016 there has been GBP10.9bn transacted, which is 16% down on the same point in 2015 but 8% up on the 10-year average total for the first three quarters.

In the City turnover at the end of Q3 2016 reached GBP5.4bn, 20% below the same point last year. However, the 12-month rolling turnover for the City is currently at GBP9.2bn, which is 24% up on the long-term average. To date in 2016 in the City, Asian purchasers have accounted for the highest level of turnover (44%), followed by UK purchasers (21%) and European (20%). The percentage share for US purchasers is still relatively low at 9%, while Middle Eastern purchasers have only accounted for 3% of City turnover.

Investment in the West End has remained robust, Q3 2016 witnessed GBP2.14bn of turnover, bringing total year-to-date turnover to GBP5.39bn, 12% below the GBP6.12bn of turnover recorded at the end of Q3 2015 but still 22% above the long-term average. Asian investors have been the most active so far in 2016 accounting for 27% of total turnover. They are closely followed by UK investors which have accounted for 26% of turnover with European investors accounting for 19%.

Following the UK's vote to leave the EU, sentiment surrounding London commercial property has dropped, and therefore we are not anticipating significant amounts of transactional activity for the remaining quarter. It is likely annual Central London turnover will finish 2016 at around the GBP14bn, as opposed to the GBP18.9bn achieved last year. However, as the GBP is now cheaper for foreign investors, London commercial property will be seen as a very attractive proposition to overseas buyers in particular.

Currently, the average prime Savills yield for the City is 4.25%, which moved out 25bps following the EU Referendum result. Meanwhile, the average prime Savills yield in the West End is 3.50%, which moved out 50bps. We are anticipating a gentle softening of yields over the next 12 months as uncertainty surrounding our trade deal with the EU continues. However, we feel some investors may be slightly too over optimistic regarding future discount, as landlords on average currently have a much lower loan-to-value ratio than they did following the Global Financial Crisis and will therefore not be in a similar distressed position. Furthermore, many landlords feel the currency depreciation has already granted foreign investors with any discount they already expected, and with non-domestic investment accounting for 75% of turnover so far this year, there is substantial demand from overseas to keep the yields at a relatively low figure.

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4. London Property Development Sector Overview

4.1. Activities and Segmentation of The Industry

4.1.1. Activities of the Industry

The property industry is generally classified into property development and property investment. EWI's core business in the UK is in property development. The property development industry in the UK is highly regulated and is governed by local authority and national government regulations as discussed in Section 2. The general activities or processes are:

1. Identification of site.
2. Due diligence in issues such as zoning, planning and environmental matters.
3. Application for approval of the development scheme, and appointment of a builder and a quantity surveyor to conduct and price the works as the approval is granted.
4. Commencement of project marketing.
5. Building would commence subject to agreed costs, finishes and completion timeframe.
6. Completion would occur within agreed costs and timeframes delivering agreed finishes.
7. Sales of all dwellings would conclude and the development handed over to new owners with full settlement taking place.

4.1.2. Segmentation of the Industry

The property development industry is generally segmented into five categories, i.e. residential, retail, office, industrial and hospitality. EWI is primarily involved in the development of residential properties.

4.2. Market Size/ Transaction Activity

Before the EU Referendum, 39,000 units of GBP1,000psf+ homes were expected to be delivered in total over the five years to the end of 2020. This would represent a 110% increase on the previous five years average. Much of that supply is concentrated in areas of major regeneration at price points between GBP1,000psf and GBP1,500psf.

By contrast at the very top end of the market, above GBP3,000psf, the supply of new homes is much more limited. Super prime supply that is typically located in the established parts of Central London, only accounts for 3% of the expected five year pipeline.

Though the gap has now closed as more completions have come on stream, sales outpaced construction completions by an average of more than 2 to 1 between 2011 and 2015, reflecting strong demand. As a consequence, up to 60% of schemes currently under construction are already sold which will serve to mitigate future delivery volumes. Furthermore purchases in the early phases of marketing will often have been at discounts to current values.

That level of domestic demand will be of some comfort to the development industry, while a cheaper GBP should support continued overseas investment activity. Despite the vote to leave the EU, London remains a key centre due to its global standing, amenities, quality of life and facilities. It continues to be the preferred global destination in which wealthy people invest and live. In 2015 alone, the prime London new build market saw overseas investment from over 50 different countries.

Savills expects the market to be more discerning in terms location and product offering and how pricing stands up to these fundamentals. Specifically the volume of prime completions will test rental demand and yield expectations and, if sales rates are to slow, lead to higher volumes of standing stock.

That is likely to mean developments will be pushed out and delivered over a longer period. Importantly, only 23% of the 39,000 unit five year pipeline is currently under construction, while 58% of the total pipeline is yet to start construction despite having full planning permission. Although there is cost involved in putting construction on hold, this substantially lessens the risk of oversupply.

4.3. Industry Players and Competition

The tables below highlight the top 20 players in the London development market in terms of market share, based on 3 measures: i) the total number of units forecast to be delivered this year (2016), ii) all known units under construction, and iii) the number of units Savills Research forecast to be delivered over the next five years. Units being constructed as part of a joint venture have been recorded under the specific joint venture, rather than being attributed to each individual company. Different branches of the same company have also been listed separately. As can be seen, the list includes a variety of companies including well known housebuilders, Housing Associations and international companies.

The top 20 players in London account for 55% of all private units under construction and 27% of all private units to be marketed between 2016 and 2020.

The joint-venture group between EWI and Ballymore Group has an approximate market share of 3% by number of private units under construction.

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Figure 4-1– Eco World-Ballymore Group's Market Share

Market Share by:	Approximate Market Share
Number of Private Units Under Construction	3%
Number of New Units to be Marketed in 5 Year Pipeline	-

Source: Savills Research using Molior

Figure 4-2 – Top 20 London Property Development Companies by Number of Private Units to be Delivered as at 2016

Company Name	Approximate Private Units Forecast for delivery in 2016	Approximate Market Share (Proportion of all private units forecast for 2016)
Galliard Homes	900	4%
Barratt London	653	3%
Berkeley Homes Urban Renaissance	549	2%
Telford Homes	438	2%
London Legacy DC /Olympic Park Legacy Company	434	2%
St George Central London Ltd	425	2%
Places for People Homes	406	2%
Sellar Design + Development	396	2%
Countryside	386	2%
St James	361	2%
Notting Hill Housing	300	1%
St William	285	1%
Qatari Diar Delancey	271	1%
Bellway Homes Thames Gateway	268	1%
London & Quadrant Housing Trust	267	1%
Berkeley Homes NE London	252	1%
Essential Living	247	1%
Higgins Homes	235	1%
Taylor Wimpey East London	233	1%
Greenland (UK) Investment	231	1%

Source: Savills Research using Molior

Figure 4-3 – Top 20 London Property Development Companies by Number of Private Units Under Construction

Company Name	All Private Units under construction	Approximate Market Share (Proportion of all private units under construction)
Berkeley Homes Urban Renaissance	3954	5%
Ballymore Group	3500	5%
Barratt London	3352	5%
St George Central London Ltd	3277	5%
Oxley Holdings / Ballymore	2809	4%
Berkeley Homes NE London	2505	3%
EW Ballymore Group	2465	3%
Bellway Homes Essex	1939	3%
Galliard Homes	1868	3%
Canary Wharf Group	1784	2%
Battersea Power Station Development Company	1461	2%
Countryside	1440	2%
Taylor Wimpey / Countryside	1397	2%
St Edward	1321	2%
Knight Dragon Developments	1170	2%
Persimmon / St Modwen	1123	2%
Telford Homes	1091	2%
St George West London Ltd	1088	1%
Lendlease	1067	1%
Notting Hill Housing	1065	1%

Source: Savills Research using Molior

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Figure 4-4 – Top 20 London Property Development Companies by Number of New Units to be Marketed in 5 Year Pipeline

Company Name	All Private Units Forecast (2016-2020)	Approximate Market Share (Proportion of private units forecast 2016-2020)
Berkeley Homes Urban Renaissance	2945	2%
Barratt London	2914	2%
Countryside	2556	2%
Galliard Homes	2347	2%
Ballymore Group	2082	2%
London Legacy DC/ Olympic Park Legacy Company	1996	2%
Telford Homes	1868	1%
London & Quadrant Housing Trust	1721	1%
St William	1607	1%
Meyer Bergman	1602	1%
Qatari Diar Delancey	1580	1%
Notting Hill Housing	1571	1%
Canary Wharf Group	1548	1%
St James	1412	1%
St George Central London Ltd	1289	1%
Land Securities Group PLC	1153	1%
Lovell	1150	1%
London Borough of Camden	1115	1%
Quintain Estates & Development	1086	1%
Peabody	1068	1%

Savills Research using Mollor

4.4. Substitute Products and Services

Although there are no practical substitutes for residential, commercial and leisure properties in the UK, there is a range of choices within each asset class which are not limited to the list below:

- Residential – price, property type (e.g. apartment, house, bungalow), tenure (e.g. private rent, social rent, owner occupation).
- Commercial – price, property type (e.g. retail park, office, business park, leisure).

4.5. Industry Reliance/ Vulnerability to Imports

According to the Department for Business, Energy & Industrial Strategy, imports of construction materials increased by GBP107 million in the second quarter of 2016 to GBP3.76bn compared to the previous quarter, an increase of 2.9%. Over the period from Q1 1984 to Q2 2016, construction materials imports have increased by an average of 3.5% per quarter. The top 5 import markets (China, Germany, Italy, Spain, and the Netherlands) comprised 49% of total construction materials imports in 2015. 18% of all imports were from China.

Rising inflation, currency devaluation, and uncertainty around the post-Brexit tariffs-regime are likely to increase the cost of importing various goods from EU member states, effectively increasing the cost of purchasing construction materials. To what extent costs could be inflated remains to be seen. However, any increase in construction material costs will inevitably inflate construction costs.

4.6. Barriers to Entry

The more prominent barriers related to property development industry in London are:

- Cost of capital where access to debt and equity vary dramatically between listed companies, unlisted companies, private development companies and smaller developers. Scale, track record and risk are all factors contributing to different costs of capital.
- Economies of scale have a bearing as larger developers are able to deploy capital and resources across a range of locations, projects and sectors as required.
- Absolute cost advantages where smaller developers have lower corporate overheads and lower profit requirements.
- Ownership of prime and favourable land.

4.7. Sector Outlook and Prospects

4.7.1. Prime London Capital Value Forecast

In the period of the past 24 months, the prime London housing market has faced a number of challenges as a result of a changing political and fiscal environment as well as tighter mortgage regulation. The reform of stamp duty in Q4 2014 and the subsequent 3% 'Additional Homes' surcharge has had a more identifiable impact on the prime London market than could have been anticipated. As such, the market will continue to be shaped by pre-existing constraints. The changed tax-environment means buyers will commit only when they are confident that a property is rare, exceptional or represents good value for money particularly as the risk environment has increased.

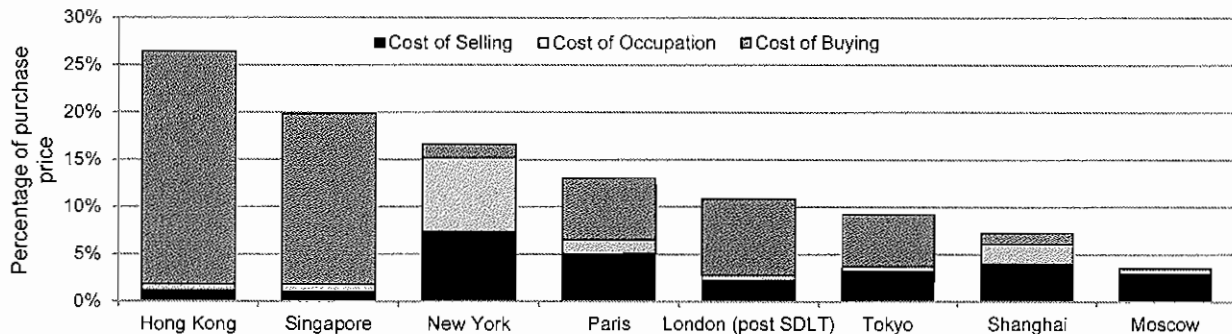
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Figure 4-5 - Comparison of Property Tax Regimes, (GBP2 million property)



As a result, the market remains exposed to fluctuations in buyer sentiment and general economic pressures resulting from the vote to leave the EU. This points to a slower market over the remainder of 2016 as buyers wait to see how negotiations to leave the EU proceed and the precise economic impact becomes clearer. This brings with it the prospect of further price adjustments, as the market finds a level which brings buyers back into the market. This will present some opportunities for those prepared to take a long-term investment view and who have put themselves in a strong position to buy. Opportunities could also arise for those buyers (both international and domestic) who are not denominated in GBP given the weakness of GBP. But against this context of potential opportunities for some buyers, sellers will need to be swift in responding to a market that is likely to distinguish between the best stock in the best locations, good quality prime housing and average properties.

From 2019 onwards, when there is likely to be more political and economic certainty, we would expect any pent up demand to return to the market, followed by a return to long-term historical trend rate of growth in 2020 and 2021, albeit accounting for a marginal slowdown in the run up to the General Election in 2020. As such, Savills forecast growth of 20.8% and 14.6% in PCL and prime London respectively between 2017 and 2021.

Figure 4-6 - Prime London 5 Year Capital Values Forecast

Capital values	Historic Annual			Forecast Annual					5 Year Forecast	
	2014	2015	2016	2017	2018	2019	2020	2021	2016-2020	2017-2021
Prime Central London	-0.4%	3.3%	-9.0%	0.0%	0.0%	8.0%	5.0%	6.5%	3.2%	20.8%
Other Prime London	3.3%	2.3%	-5.0%	-1.0%	0.0%	6.0%	4.0%	5.0%	3.7%	14.6%

Source: Savills Research

4.7.2. Mainstream London Capital Value Forecast

Brexit negotiations are expected to be concluded by early 2019, bringing to an end the two-year period of greatest uncertainty. As buyer confidence returns, low mortgage rates should mean there is capacity for a small bounce-back in house prices. It is anticipated that economic growth will return to trend from 2020, but this is likely to coincide with some gradual upward pressure on interest rates. Brightening economic prospects should lift consumer sentiment, but increasing interest rates will work as a brake on potential house price growth in this period.

Figure 4-7 – Mainstream Markets 5 Year Capital Values Forecast

	2016 (end of year)	2017	2018	2019	2020	2021	2017-2021 total
UK	5.0%	0.0%	2.0%	5.5%	3.0%	2.0%	13.1%
Mainstream London	7.0%	0.0%	3.0%	4.5%	2.0%	1.0%	10.9%

Source: Savills Research

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4.7.3. Mainstream London Rental Forecasts

The outlook for rents is stronger and more stable than for house prices over the next five years. Like the sales market, the rental market faces uncertainty. However, mainstream rental values are more closely linked with incomes than with measures that drive house price growth such as interest rates and mortgage availability. Rental growth will slow next year because of tightening affordability and the effects of Brexit. Greater uncertainty, higher inflation, and a weak pound will impact how much households can spend on rents. However, the barriers to home ownership remain high. Renting will remain the tenure of choice for younger households.

Figure 4-8 – Mainstream 5 Year Rental Forecasts

	2016 (end of year)	2017	2018	2019	2020	2021	2017-2021 total
UK	6.0%	2.5%	4.0%	5.0%	3.5%	3.0%	19.0%
Mainstream London	5.0%	3.0%	4.5%	5.5%	5.0%	4.5%	24.5%

Source: Savills Research

4.8. Factors Affecting the Forecasts

There are risks to our forecasts from the domestic and global economy, financial and fiscal regulations, and terrorism. The following sections address the key factors and risks that have informed our forecasts, focusing on PCL, and how these risks will affect the competitive environment in which the Prime London market sits globally.

4.8.1. Key Market Risks and Drivers

1) EU Referendum

The UK's vote to leave the EU will have an impact on the prime markets. Whilst it is still too early to fully anticipate what the effects will be as Article 50 has not yet been invoked, there are likely to be concerns around the impact on GBP and GBP assets, the competitiveness of London as a financial centre, the attractiveness of London as a European base for global companies, work permit and immigration restrictions for EU citizens, and the adjustment of trade regulations and tariffs, all affecting European companies and employees in London.

Longer term, the impact of Brexit on London's real estate markets will depend almost entirely on how it affects the UK and London economies. Central to this for the residential market is what happens to costs of borrowing, given how sensitive housing affordability in the capital is to interest rates after such a long period of wage-busting house price growth.

The other key factor is what Brexit would do to London's position as a global financial centre in terms of the employment it supports, the demands this puts on London's housing stock and the corresponding wealth generation that feeds through into house prices.

2) Property Taxation and Policy

Despite significant changes to property taxes in recent years, PCL has largely been resilient. Nevertheless, the Government has introduced a number of successive tax reforms since December 2014:

- a) Mortgage interest relief on buy to let properties reduced.
- b) Removal of long term non-domicile status (those who have been in the UK for more than 15 of the last 20 years).
- c) Charging of inheritance tax on residential property held in an offshore structure.
- d) 3% Stamp Duty surcharge on second homes and buy to let properties.

3) Sadiq Khan as London's Mayor

Housing is at the top of Sadiq Khan's policy agenda. During his campaign, Khan promised to provide more affordable homes, to increase investment, support housing associations, identify public land for development, and to introduce a "living rent" (1/3 of income). He also pledged to support local buyers rather than foreign investors ("first dibs for Londoners"). Whilst there is no concrete plan on how to achieve this, Khan suggested that developers might be obliged to market new properties in London for an initial period of six months before they can be marketed abroad.

With James Murray as the deputy mayor for housing, many observers expect a tough approach to private development. However, Murray already emphasised that he will be more practical and prepared to compromise. During his first weeks in office, he attended property events, gave speeches, and met with the industry's top representatives. Murray also stated that Khan's promise to ensure a 50% affordable housing level is a long term objective and will not be enforced in the immediate future (except for developments on public land).

Much of Khan's and Murray's official housing policy is still to be drafted and details of the policy will be made public in the next few months.

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4) Oversupply of Prime London Property

There is a large pipeline coming through and new build pricing premiums are high. There are large concentrated clusters where the level of future supply raises concern, and schemes may struggle to become differentiated from the competition. This is particularly the case for many riverside towers and large regeneration schemes pushing the GBP1,000psf boundary. As schemes approach practical completion, investors may find that they are not meeting their yield expectations due to oversupply in the rental market. There is a risk of oversupply if the prime supply pipeline increases further or if current levels of demand fall away. However, Brexit may act as a mitigating factor on the delivery of prime supply. Some developers who have not yet started on site may be able to delay construction until the market outlook is more certain.

5) Inflation

As outlined in section 1.6, rising inflation could have a significant impact on consumer confidence and sentiment, particularly when increasing prices of imported goods are passed on to the consumers. According to the Institute of Fiscal Studies, more than 11 million households will, on average, be GBP360 a year worse off if inflation rises to 2.8% in the next few years. Households with savings will also come under pressure, as they could lose money in real terms. Nonetheless, housings have been viewed as a natural hedge against inflation and demand will continue to persist.

4.8.2. London in Comparison

Like many world cities, the economic influence of London extends well beyond its administrative boundaries. London's metro area (the area within which most of its workforce lives), is the 5th biggest of the top 20 world cities, at nearly 15 million people. London's population has been growing over the past 10 years at the 8th fastest rate of the 20 world cities, faster than Tokyo and New York but slower than the recently emerged cities of Dubai, Beijing, Shanghai and Singapore. It is forecast to continue growing at the 7th fastest rate in the next ten years, although possible immigration restrictions post Brexit might curb this growth.

London stands out among European cities in terms of both size and rate of population growth. Only the Paris metro area has a similar size population (12.5m) while the average size of other European city metro areas is just 3.3 million people. Meanwhile, the number of people in the Paris metro area has been, and is forecast to continue, growing at just 5% in the next 10 years. Other European metro growth rates are slowing and populations are forecast to increase by just 4% on average in the next 10 years.

London is even more dominant on the world stage when it comes to the size of its economy. The London metro has an economy which ranks 3rd in the world against other city metros. Only New York and Tokyo have bigger economies. London's economy is forecast to grow faster than either of these cities in the next 10 years and will only be outstripped by the fast growing Asian cities and tech giant San Francisco over this time, according to Oxford Economics.

London's projected 10-year economic growth rate, at 34%, exceeds the other European city average of 24%. London is set to have the 7th fastest growing economy of the 20 world city metros measured here. The size and wealth of London matters greatly to its real estate markets as both factors create demand for buildings. The prospects for London in a global context also attract overseas investment for development and housebuilding.

4.8.3. World City Status and Savills World City Index

The Savills score, published in March 2016 before the EU Referendum, combines measures of global connectedness, performance & potential, power and competitiveness by a range of respected institutions to obtain an overall ranking of global city strength.

Although liveability and quality of life are included in some of the measures, this is by no means the determining factor in the demand for global real estate. The economic, cultural, educational and myriad other attractions of global cities appear to trump some of the inconveniences, such as congestion and pollution, of living in a large city metropolis. There is a noticeable difference between cities that do well in these respects versus those that score high for environment, lifestyle and living costs.

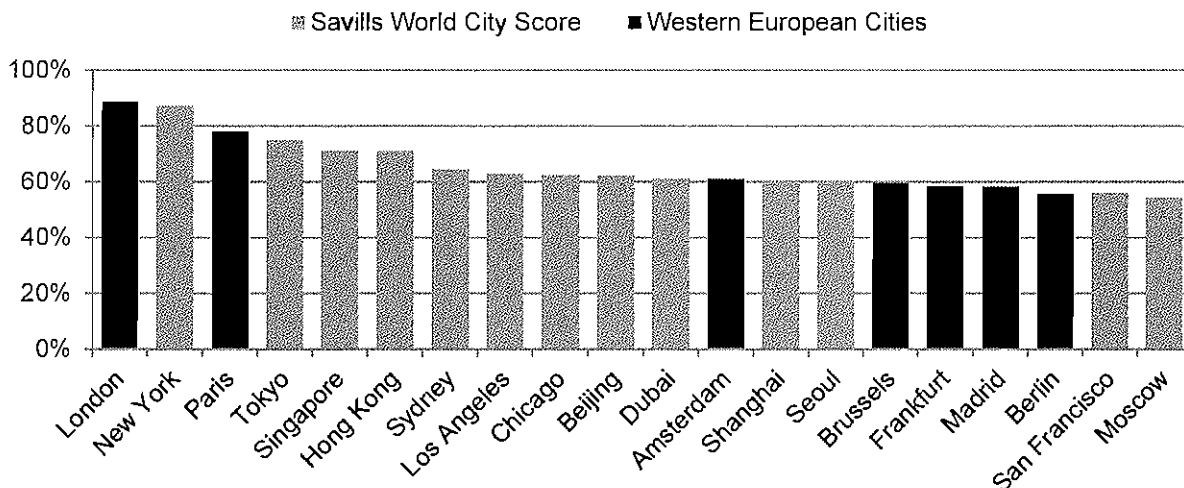
Fundamental global attractions of a city will always have a major impact on its real estate markets. In this regard, London scores very high on the world stage, just beating New York in Savills composite world city scoring system. Both these cities score significantly above the next rivals by this measure, Paris and Tokyo. The unique combination of London's social and environmental quality, as well as its size and economic prowess, means that the demand fundamentals for its real estate should remain strong through economic cycles and post-Brexit wobbles. Nonetheless, the decision to leave the EU has caused uncertainties to whether London can retain its pre-eminence as the top world city in Savills World City Score, and the clarity to this risk is expected to be seen along with the outcomes of the negotiation process. What remains clear is that no other European city has the infrastructure to match London as a financial centre, and the cost for relocation and labor law within other countries in the EU can be prohibitive.

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Figure 4-9 – Savills World City Score



Source: Savills Research using GaWC, Kearney, Mori, EIU

4.8.4. Private Wealth

The high values found in PCL reflect the desirability of private sector housing stock to high net worth individuals from a range of nationalities, set against the context of a restricted supply of property in these areas. Private wealth investment has focused on the top World Cities and inflating markets in particular, such as London. This has been increased as quantitative easing has increased asset prices, particularly in the World City markets in which investment has concentrated. As the tapering and eventual demise of quantitative easing takes effect, the global growth in asset prices will inevitably slow. In particular, less money will flow into Prime markets.

However, the number of global Ultra High Net Worth Individuals (UHNWI's) – those with assets of at least USD30m – reached an all-time high in 2014, exceeding 218,000 individuals, with a combined wealth of USD29.7 trillion. Their numbers are forecast to pass 250,000 by 2019, with a combined wealth of over USD40 trillion, according to New World Wealth. Russia, Africa and Asia are set to see the fastest growth in their wealthy populations over the next 10 years.

Table below shows the major locations around the world favoured by UHNW buyers of residential property. London stands out as a common denominator when it comes to overseas investment; it is a preferred location for UHNWI's from almost all regions of the globe. By contrast, North American UHNWI's tend to stay close to home when buying property, and are the only region where domestic cities account for all of the top ten.

Figure 4-10 – UHNWI's Residential Property Investment Location Preferences

Region of Origin	Top city preferences for residential property investment
Africa	London
Asia	London, Hong Kong, Singapore, Mumbai
Europe	London, New York, Moscow, Monaco
Latin America	Miami, New York, Los Angeles
Middle East	London, Dubai, Abu Dhabi.
North America	New York, Los Angeles, Miami, San Francisco
Oceania	London, Sydney

Source: Savills Research, Wealth X

In the next five years, as global private wealth increases we predict that it will progressively assume greater importance than the exchange rate advantage that has acted as a catalyst for Prime London market price growth.

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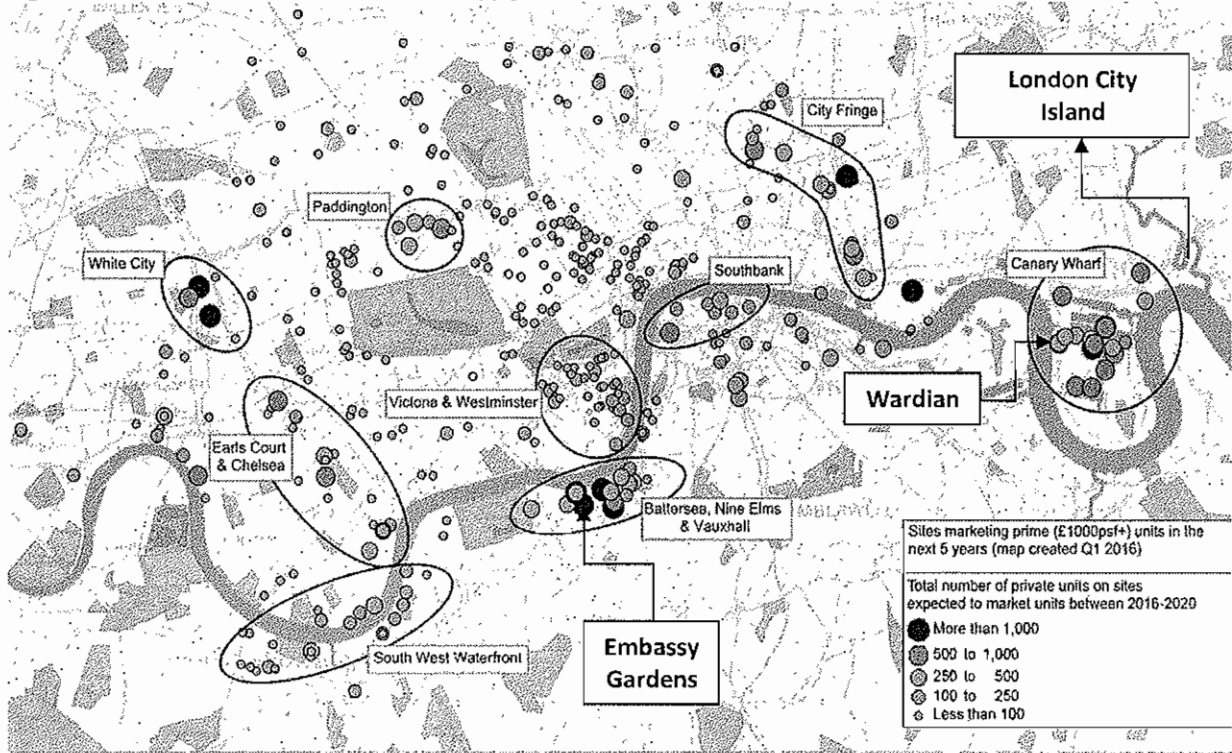
4.8.5. International Demand

As demonstrated using Savills dealbook, international buyers make up a significant proportion of the market in Prime London. We expect the proportion of international buyers in the Prime London markets to continue fluctuating between 25% and 40% according to market, currency and global conditions, although not necessarily always constituting the same international groups.

4.8.6. New Supply

Following the downturn, supply levels in the new build Prime markets have been increasing since 2010. The vast majority of schemes within new build Prime markets (circa GBP1,000 psf) are on the edge of established prime locations. These are the schemes most likely to be left exposed to the risks of oversupply as occupier demand has not been tested at these price points, and may impact upon pricing and rental yields in this market.

Figure 4-11 – Concentrations of New Build Supply



Source: Savills Research, Molior

For large-scale regeneration areas, it is crucial for the new developments to change the nature of its location so that it behaves more like higher value areas nearby. Where a scheme is large enough, economies of scale allow the volume of amenities and services provided as part of the scheme to transcend the individual development and feed into placemaking and regeneration of the wider area, for example, the provision of high quality public realm and connections with the wider neighbourhood. The added value of placemaking is only often fully realised at the end of the development process.

4.8.7. Infrastructure Improvements

As outlined earlier, improving London’s ageing infrastructure and increasing capacity is one of the key challenges if London is to maintain its World City status long term. In particular transport infrastructure improvements are distinctly tied to housing and hence the benefits of investment in large projects such as Crossrail I and II.

Ultimately, these two projects aim to increase the capacity of the system, which in some central areas is significantly stretched, as well as providing additional connectivity benefits. However, the time that it will take to introduce these changes is a risk to how effectively they can ease capacity, given that the population of London is increasing at a significant rate.

The largest risk to transport infrastructure is the level of funding that needs to be generated for all necessary projects to go ahead.

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5. London Submarket Analysis

5.1. Embassy Gardens Phase 2

5.1.1. Overview

Embassy Gardens Phase 2 is situated in the Nine Elms regeneration area that is currently undergoing a 15-year regeneration project to transform an industrial district of Central London. The Mayor published the planning framework for the Vauxhall Nine Elms Battersea Opportunity Area in March 2012 to see the redevelopment of 195 hectares of space that will provide 18,000 new homes, support 25,000 new jobs and deliver extensive transport improvements including a Northern line extension from Kensington to Battersea via Nine Elms. The US Embassy and the Embassy of the Netherlands are due to relocate from Central London to the Embassy Gardens development site on Nine Elms Lane by late 2016. The area falls under the jurisdiction of the London Borough of Wandsworth.

5.1.2. Travel Links

The travel links to and from the subject site are as below:

- Roads.** Embassy Gardens Phase 2 is located alongside the A3205, an arterial road which provides access by road to the rest of London.
- Rails.** The site is served by the London Railway Network with the Vauxhall stations being located approximately 0.4 miles to the north-east. Nine Elms' railway connections will be improved with the introduction of the Northern Line, which connects to the London West End (Oxford Circus) in 7 minutes and Canary Wharf in 25 minutes.
- Airports.** The property is located 9.4 miles to the west of London City Airport and approximately 15 miles to the east of London Heathrow Airport.

5.1.3. Local Supply Pipeline

Below is a list of all schemes that are currently marketing or in the planning pipeline within the Nine Elms area. Of the schemes shown, there are approximately 13,200 private units in the marketing pipeline with circa 2,900 unsold units expected to be marketed by 2020.

Figure 5-1 – Embassy Gardens Phase 2 Local Residential Supply (Ranking By Total Units)

Site name	Postcode	Construction status	Planning status	Total units	Private units	Approximate GBP psf	Developer
The Garden (New Covent Garden Market)	SW8 5NX	Active existing use	Permission - Full	3019	2573	GBP1000-1500	VSM Estates Limited
Nine Elms Parkside (South London Mail Centre)	SW8 5BB	Existing use inactive	Permission - Full	1870	1590	GBP1000-1500	Royal Mail Group PLC
Battersea Power Station - 3 - Prospect Place/ The Skyline	SW8 5BP	Cleared	Permission - Full	1310	1207	GBP1000-1500	Battersea Power Station Development Company
Embassy Gardens Phase 1	SW8 5AT	Completed	Permission - Full	639	541	GBP1000-1500	Ballymore Group
Embassy Gardens Phase 2	SW8 5AT	Under construction	Permission - Full	872	709	GBP1000-1500	Eco World-Ballymore Group
101 Prince of Wales Drive (Battersea Gas Holders)	SW8 4BL	Cleared	Permission - Full	839	839	GBP750-1000	St William
Nine Elms Point (Sainsbury's SW8)	SW8 2LF	Under construction	Permission - Full	737	593	GBP1000-1500	BDWZest Developments LLP
Vauxhall Square	SW8 1SF	Active existing use	Permission - Full	520	410	GBP1000-1500	CLS Holdings Plc
The Residence (Christie's Warehouse)	SW8 5BA	Under construction	Permission - Full	510	434	GBP1000-1500	Bellway Homes Thames Gateway
One Nine Elms (Market Towers)	SW8 5NQ	Under construction	Permission - Full	487	436	GBP1000-1500	Dalian Wanda Group
Vista (Marco Polo House)	SW8 4NQ	Under construction	Permission - Full	487	406	GBP1000-1500	Berkeley Homes Urban Renaissance
Aykon Nine Elms (Vauxhall Bondway)	SW8 1SQ	Existing use inactive	Permission - Full	450	360	GBP1500-2000	DAMAC Group
Keybridge House	SW8 1RG	Under construction	Permission - Full	415	396	GBP1000-1500	A2Dominion/ Mount Anvil
Vauxhall Cross Island Site	SW8 2LL	Cleared	Permission - Full	291	225	GBP1000-1500	Wendover Investments Ltd
Battersea Power Station - 2 - Power Station Building	SW8 5BP	Existing use inactive	Permission - Full	254	254	GBP1000-1500	Battersea Power Station Development Company
Grand South	SW8 2TG	Existing use inactive	Permission - Full	219	203	GBP1000-1500	Landstart/ Vinceni Goldstein
Embassy Gardens Phase 3	SW8 5AT	Cleared	Permission - Full	207	207	GBP1000-1500	Ballymore Group
St Agnes Place (Parkland Adj. Aspen House School)	SE11 4AN	Under construction	Permission - Full	58	35	GBP750-1000	London & Quadrant Housing Trust

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Site name	Postcode	Construction status	Planning status	Total units	Private units	Approximate GBP psf	Developer
Embassy Works (Park Place)	SW8 1UD	Under construction	Permission - Full	39	39	GBP1000-1500	Bmor Ltd
West Elms Studios	SW8 4UG	Under construction	Permission - Full	20	20	GBP450-750	Firmstone Developments

Source: Savills Research, Molior

5.2. Wardian

5.2.1. Overview

Wardian falls under the jurisdiction of the London Borough of Tower Hamlets. The site is situated approximately 3.8 miles to the east of the City (Bank Underground Station) and 5.5 miles to the east of the West End (Covent Garden). A pedestrian swing bridge provides access from South Quay to the main Canary Wharf estate.

5.2.2. Travel Links

The travel links to and from the subject site are as below:

- Roads.** The property is located 1 mile south of the A13 (East India Dock Road) that provides one of the principal routes into Central London, as well as 0.7 miles north of the A12 that provides access to the M11 and the M25 motorway.
- Rails.** South Quay Docklands Light Railway (DLR) station is situated 0.3 miles to the east of the property. This station provides immediate access to the Canary Wharf Estate and the City (Bank) which can be reached in 17 minutes. Canary Wharf Underground Station is 0.4 miles north of the site. The station is situated on the Jubilee Line which provides direct and frequent services to London Bridge (7 minutes), Waterloo (10 minutes), Stratford (11 minutes) and Bond Street (15 minutes).
- Airports.** The site is located 4 miles to the west of London City Airport and approximately 18 miles to the east of London Heathrow Airport.

5.2.3. Local Supply Pipeline

Savills Research is aware of 52 developments currently marketing and in the planning system that are likely to deliver units in the surrounding area (E14) over the next 5 years. In total these developments amount to 18,510 private units. Based on Savills Research, we expect circa 9,500 currently unsold private units to market in the 5 years to 2020. The table below details these developments.

Figure 5-2 – Wardian Local Residential Supply (Ranking By Total Units)

Site name	Postcode	Construction status	Planning status	Total units	Private units	Approximate GBP psf	Developer
Millharbour Village (Great Eastern Enterprise Centre)	E14 9XP	Cleared	Permission - S106 not yet signed	1500	1175	GBP1,150	Galliard Homes
London City Island Phase 2 - (Leamouth Peninsula North)	E14 0JU	Under construction	Permission - Full	1145	1130	GBP800	Eco World-Ballymore Group
Wood Wharf - Master Consent	E14 9SF	Cleared	Permission - Full	3107	1073	GBP1,350	Canary Wharf Group
Baltimore Wharf (The London Arena)	E14 9TH	Under construction	Permission - Full	1111	816	GBP1,050	Galliard / Ballymore
Wood Wharf - RM03 - E1/E2/E3/E4	E14 9SF	Under construction	Application	797	797	GBP1,000	Canary Wharf Group
Landmark North (City Pride)	E14 8JH	Cleared	Permission - Full	822	752	GBP1,200	Chalegrove Properties Ltd
Leamouth Peninsula South - Hercules/Castle/Union Wharf	E14 0JW	Cleared	Application	834	727	GBP950	Ballymore Group
Hertsmere House (Columbus Tower)	E14 4AB	Existing use inactive	Application	869	709	GBP1,400	Greenland (UK) Investment
South Quay Plaza 1-3+	E14 9SH	Active existing use	Permission - Full	888	700	GBP1,250	Berkeley Homes SE London
Blackwall Reach - Master Consent	E14 0EW	Active existing use	Permission - Full	1575	677	GBP750	Countryside
Westferry Printworks	E14 8NX	Existing use inactive	Application	737	667	GBP1,050	London & Regional Properties Ltd
Asda - Crossharbour District Centre	E14 3BT	Active existing use	Permission - Full	850	626	GBP950	RER
Wardian London (Arrowhead Quay / Waterside House)	E14 9NN	Cleared	Permission - Full	764	626	GBP1,200	Eco World-Ballymore Group
Harbour Central (Enterprise Business Park)	E14 9NG	Under construction	Permission - Full	901	624	GBP1,000	Galliard Homes
Skylines Village	E14 9TS	Active existing use	Refused >9m	766	536	GBP1,100	Zog Group
Blackwall Yard / Reuters site	E14 2BG	Cleared	Permission - Full	708	531	GBP1,050	Reuters Group plc

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Site name	Postcode	Construction status	Planning status	Total units	Private units	Approximate GBP psf	Developer
Wood Wharf - RM05 - A2/A3 - 10 Park Drive	E14 9SF	Under construction	Permission - Full	519	519	GBP1,300	Canary Wharf Group
Wood Wharf - RM01 - A1/A4/B3/D1 - Quay House	E14 9SF	Under construction	Permission - Full	468	468	GBP1,350	Canary Wharf Group
Infinity Towers (Helix)	E14 9XG	Active existing use	Refused >9m	498	414	GBP1,150	Investin
Cuba Street Site	E14 5SP	Under construction - Stalled Part Built	Permission - Full	395	395	GBP1,000	Essential Living
New Providence Wharf - C - Providence Tower	E14 8GD	Cleared	Application	448	394	GBP1,150	Ballymore Group
Poplar Business Park - Manhattan Plaza	E14 9PJ	Under construction	Permission - Full	484	368	GBP1,050	Ballymore Group
South Quay Plaza 4	E14 9RL	Under construction	Permission - Full	392	321	GBP850	Telford Homes
The Madison (Meridian Gate)	E14 9RU	Cleared	Application	396	320	GBP1,350	Berkeley Homes SE London
30 Marsh Wall	E14 9YT	Cleared	Permission - Full	423	319	GBP1,050	LBS Properties
Chrisp Street Market	E14 9TB	Active existing use	Application	410	310	GBP1,150	MW30
Blackwall Reach - 1B	E14 6AH	Active existing use	Pre Planning	403	242	GBP750	United House/Poplar Harca JV
160-166 Chrisp Street	E14 0EW	Existing use inactive	Permission - Full	242	200	GBP750	Swan Housing Association
Aberfeldy New Village - Phase 2	E14 6NL	Existing use inactive	Permission - Full	273	196	GBP750	Bellway Homes Thames Gateway
Phoenix Works	E14 0GP	Under construction	Permission - Full	219	194	GBP600	Poplar HARCA
New Union Wharf Estate	E14 6BX	Existing use inactive	Application	162	162	GBP850	Fairview New Homes
136-156 Chrisp Street	E14 3HL	Under construction - Private On Hold	Permission - Full	399	157	GBP850	East Thames Group
Balfour Tower	E14 6NL	Cleared	Permission - Full	206	150	GBP750	Ballymore Group
Bromley Mills Wharf (Barratt Industrial Estate)	E14 0QR	Active existing use	Permission - Full	146	146	GBP800	Telford Homes
Horizons (Gallions Quay/Prestons Road Car Park)	E14 6RH	Active existing use	Application	204	143	GBP750	Peabody
Dollar Bay (Dollar Bay Court)	E14 9RJ	Under construction	Permission - Full	190	131	GBP950	Telford Homes
Leven Wharf (Glaucus Works)	E14 9YJ	Under construction	Permission - Full	121	111	GBP1,100	Mount Anvil
7 Limeharbour	E14 0LP	Existing use inactive	Permission - Full	126	96	GBP700	Vision Homes Limited
Royal Quay (Limehouse Court)	E14 9RH	Cleared	Permission - Full	134	93	GBP900	Telford Homes
The Docklands Hotel	E14 7EQ	Under construction	Permission - Full	91	91	GBP800	Regal Homes
Royal Charlie PH	E14 8BE	Cleared	Permission - Full	120	87	GBP950	Key Homes Fund
Dockside (1-3 Turnberry Quay)	E14 6NL	Existing use inactive	Application	71	71	GBP750	Sherrygreen Homes
25-28 Dalgleish Street	E14 9RD	Under construction	Permission - Full	89	63	GBP1,000	Bellway Homes Thames Gateway
Victory House	E14 7PP	Cleared	Permission - Full	80	43	GBP750	Greenland (UK) Investment
Our Ladys Primary School	E14 9GL	Active existing use	Permission - Full	32	32	GBP950	Tradex Insurance Company Ltd
St Saviours Church	E14 7DA	Existing use inactive	Permission - S106 not yet signed	45	31	GBP800	Bellway Homes Thames Gateway
Calders Wharf (Community Centre)	E14 6LF	Existing use inactive	Permission - Full	27	27	GBP850	Thornsett
3-5 Selsdon Way	E14 3EA	Active existing use	Appeal - Lodged	26	26	GBP850	Telford Homes
	E14 9GL	Active existing use	Permission - Full	24	24	GBP1,000	Tradex Insurance Company Ltd

Source: Savills Research, Molior

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5.3. London City Island Phase 2

5.3.1. Overview

London City Island Phase 2 is situated on Leamouth Peninsula in the East London District of Canning Town, and falls under the jurisdiction of the London Borough of Tower Hamlets.

5.3.2. Travel Links

The travel links to and from the subject site are as below:

- Roads.** The site is directly south of the A13 (East India Dock Road), and 0.9 miles west of A12.
- Rails.** Canning Town Underground and DLR Station is situated opposite the site, providing access to the Canary Wharf Estate in 4 minutes, London Bridge in 10 minutes and the City (Bank) in 15 minutes. The DLR line also provides access to Canary Wharf and the City in addition to Stratford, Woolwich and Lewisham. The area is also set to benefit from a new Crossrail 1 link which is currently under construction.
- Airports.** The site is located 2.4 miles to the west of London City Airport and approximately 20 miles to the east of London Heathrow Airport.

5.3.3. Local Supply Pipeline

Owing to its position at the north eastern most tip of the Isle of Dogs, London City Island Phase 2 competes with a number of schemes both on the Isle of Dogs and the Royal Docks. Below is a list of schemes currently marketing or in planning in the local area. Of the approximate total of circa 14,042 private units across the sites listed below, Savills Research expects circa 4,000 currently unsold private units to be marketing by 2020.

Figure 5-3 – London City Island Local Residential Supply

Site Name	Postcode	Construction Status	Planning Status	Total units	Private Units	Approximate GBP psf	Developer
London City Island Phase 2 (Leamouth Peninsula North)	E14 0JU	Under construction	Permission - Full	1145	1130	GBP750-1000	Eco World-Ballymore Group
Wardian London (Arrowhead Quay / Waterside House)	E14 9NN	Cleared	Permission - Full	764	626	GBP1000-1300	Eco World-Ballymore Group
Silvertown Quays	E16 1UR	Cleared	Permission - S106 not yet signed	3033	2426	GBP450-750	Silvertown Partnership - Chelsfield / First Base / Macquarie Oxley Holdings / Ballymore
Royal Wharf (Minoco Wharf)	E16 2BG	Under construction	Permission - Full	3385	2809	GBP450-750	Oxley Holdings / Ballymore
East City (Kier Hardie / Canning Town Area 3)	E16 1PZ	Under construction	Permission - Full	649	422	GBP750-1000	Countryside
Canning Town - Area 8	E16 1EY	Cleared	Scoping opinion	620	430	GBP450-750	Greater London Authority
Limmo Site & Thames Wharf	E16 1DQ	Cleared	Pre Planning	1688	1182	GBP450-750	Transport for London
Royal Albert Dock / Asian Business Port	E16 2QU	Cleared	Permission - Full	845	845	GBP450-750	Strawberry Star Developments
Royal Albert Wharf (Great Eastern Quays / Ivax Site)	E16 2QJ	Under construction	Permission - Full	819	561	GBP450-750	Notling Hill Housing
Waterside Park - 5/A - Kingfisher Heights	E16 2BG	Under construction	Permission - Full	193	179	GBP450-750	Taylor Wimpey / Barratt
Royal Gateway (Caxton Works / Goswell Bakeries)	E16 1JN	Under construction	Permission - Full	336	336	GBP450-750	Galliard Homes
Floating Village	E16 1AF	Active existing use	Pre Planning	500	350	GBP450-750	Greater London Authority
Gallions Quarter - Gallions 1A/2A/2B + Armada South	E16 2QJ	Cleared	Permission - S106 not yet signed	748	483	GBP450-750	Telford Homes
Rathbone Market - Phase 3 - Lumire	E16 1EH	Under construction	Permission - Full	216	162	GBP450-750	Muse Developments
St Luke's Square - Ground Floor Conversion	E16 1HU	Existing use inactive	Permission - Full	22	22	GBP450-750	Mizen Homes Properties Ltd
Hallsville Quarter - Master Consent	E16 1EN	Cleared	Permission - Full	1130	295	GBP450-750	Bouygues Development
Timesco House	E16 2AT	Existing use inactive	Application	76	60	GBP450-750	Hollybrook Homes
Royal Mail Site, Cody Road, Manor Road	E16 4SA	Existing use inactive	Pre Planning	3500	1724	GBP450-750	Berkeley

Source: Savills Research

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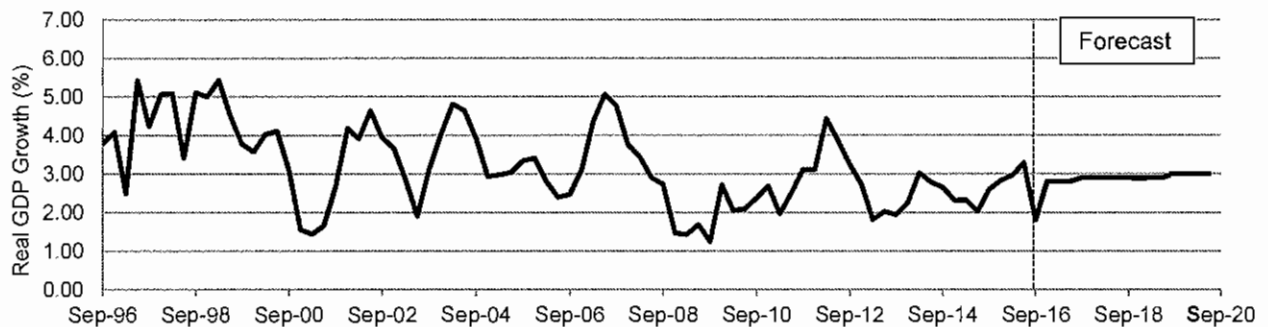
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6. Australia Macroeconomic Overview

6.1. Australia Overview

GDP. Australia's real GDP per capita has grown by an average 1.8% per annum since 1981 to 2016. Since 2007, GDP per capita growth has averaged 0.9% which is impacted by lower commodity prices, the aftermath of the Global Financial Crisis (GFC) and impacts on export demand, and fluctuations in currency markets. According to the consensus forecasts of Focus Economics, growth in Australian real GDP is expected to remain in a range of 2.8% to 3.0% by 2020.

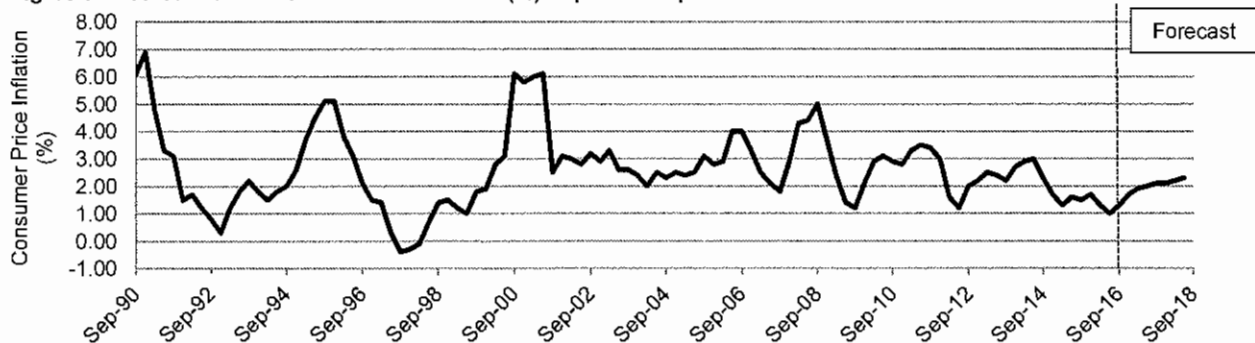
Figure 6-1 - Australia Real GDP Growth (%) Sep-96 to Sep-20



Source: Australia Bureau of Statistics (ABS), Focus Economics, Savills Research

Inflation. Inflation outcomes are broadly as expected and inflationary pressures remain contained. Inflation remains contained at 1.0% as at September 2016 primarily due to lower food and fuel prices. The lower Australian Dollar (AUD) is expected to result in higher prices of imported goods through 2017 keeping inflation buoyant but within the Reserve Bank of Australia (RBA) target range of 2% to 3%.

Figure 6-2 - Australian Consumer Price Inflation (%) Sep-90 to Sep-18



Source: ABS, RBA, Savills Research

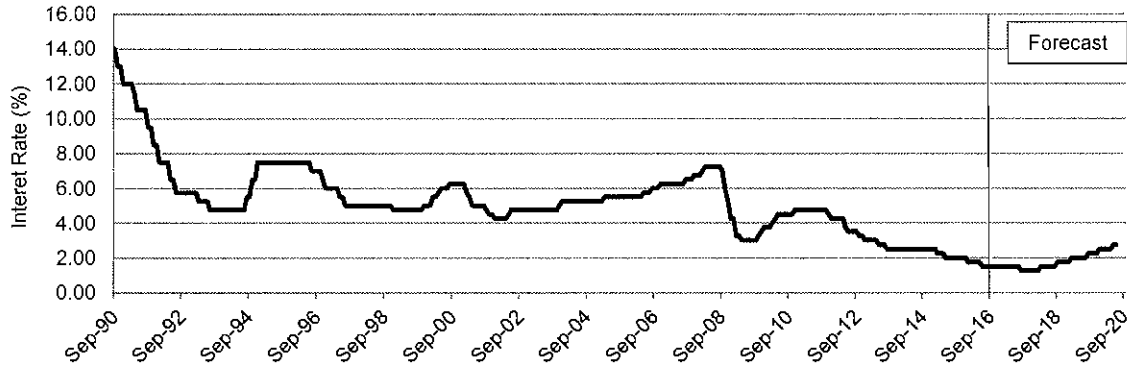
Interest Rate. The RBA reduced the official interest rate to a record low of 1.5% in August 2016. Interest rates of lending institutions generally followed suit. However, lending to residential investors is being curbed by higher interest rates for that category of lending. The rate of increase varies amongst lenders but are between 0.27% and 0.47% higher in November 2016. Consensus forecasts compiled by Focus Economics expect official interest rates to fall further in 2017 before increasing from 2018 and rising by 125 basis points by mid-2020.

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Figure 6-3 - Australia Official Interest Rates (%) Sep-90 to Sep-20

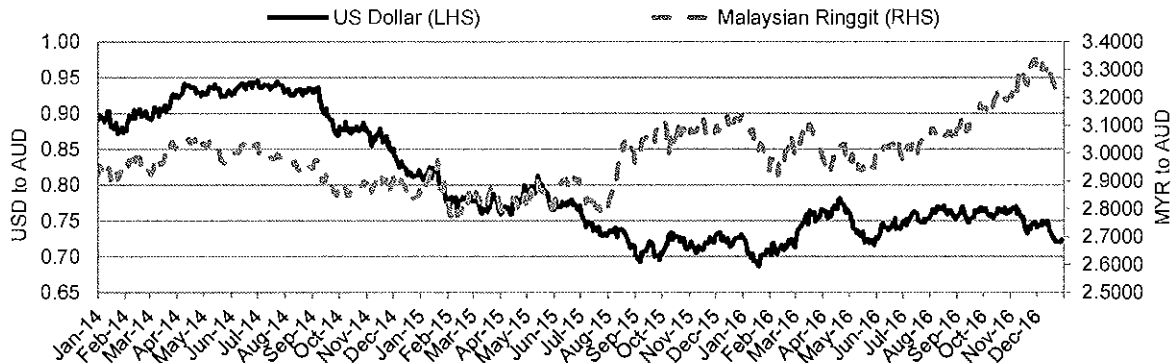


Source: RBA, Focus Economics, Savills Research

Currency Exchange. Over the past two years the AUD has depreciated substantially against the USD as a decrease in investment for mining expansion and lower commodity prices have translated into a lower AUD. The prospect of higher interest rates in the US as well as a general economic recovery have added strength to the USD. Over the past year the AUD has depreciated by approximately 15% on a trade-weighted basis against the USD. Whilst it is notoriously difficult to forecast currency movements, it is generally expected amongst economists that the AUD will trade slightly lower against the USD and over the next two years before rising towards 0.78 cents by mid-2019.

As for the RM it has shown weakness against the AUD as have many currencies in South East Asia. Reasons for this are largely attributed to the substantial fall in the oil price over 2015, lower GDP growth in the region and currency depreciation by China. The RM reached a peak of RM2.80 to the AUD in early 2015 and by October 2015 the rate had surpassed RM3.10, before consolidating to RM3.00 in early 2016. Recent weakness has seen the rate move to RM3.30 at the end of 2016.

Figure 6-4 - AUD-USD-RM Exchange Rate Jan-14 to Dec-16



Source: RBA, Savills Research

Population. The Australian population is one of the most urbanised in the world with close to 90% of the population living in urban environments. The three largest cities, which are Sydney, Melbourne and Brisbane contain approximately half the entire population of Australia. Australia's current population is forecasted by the Government to grow to over 35 million people by 2050. A combination of natural increase and acceleration in immigration is expected to lead to this increase. Melbourne and Sydney are forecasted to absorb a large part of the increase in population.

Figure 6-5 - Major City Populations and Growth Forecasts 2015 to 2025

City	2015	2020	2025
Brisbane, Queensland	2,345,000	2,607,000	2,872,000
Sydney, New South Wales (NSW)	4,904,000	5,317,000	5,725,000
Canberra, Australia Capital Territory	398,000	437,000	475,000
Melbourne, Victoria	4,514,000	4,978,000	5,439,000
Adelaide, South Australia	1,324,000	1,404,000	1,480,000
Perth, Western Australia	2,112,000	2,461,000	2,817,000

Source: ABS, Savills Research

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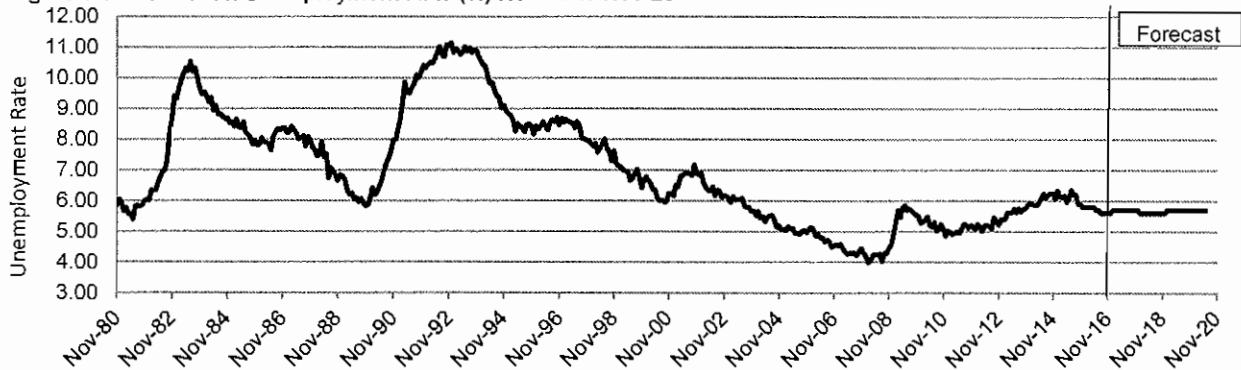
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The current phase of population growth is being generated by a natural increase of some 150,000 per annum and supplemented by approximately 200,000 immigrants a year through a targeted skilled migration program. In 2016, Australia's working age population (15 to 64 years old) is approximately 15.9 million people or 65% of the population. This is expected to reach 17.5 million people, or 64% of the population in 2025. Australia, like many countries in the world (China, US, Japan and Euro Area) has an ageing population. In 2016, the population over the age of 65 years old accounts for approximately 3.67million people or 15% of the population. This is expected to grow to 4.8 million people or to 17.6% of the population by 2025.

Unemployment. The balance of economic growth in the Australian economy has shifted dramatically from mining to non-mining based growth since the beginning of 2014. Official interest rates have also fallen dramatically to assist the transition of growth in the Australian economy from mining to non-mining industries. This transition continues with strong population growth into the non-mining states, with economic growth improving slowly in NSW and Victoria, but severely constrained in Western Australia, South Australia and Queensland. Nevertheless, unemployment remains at a cyclical high of around 6%. Consensus forecasts prepared by Focus Economics predict the unemployment rate to remain steady for the next three years.

Figure 6-6 - Australian Unemployment Rate (%) Nov-80 to Nov-20



Source: ABS, Focus Economics, Savills Research

Household Income and Debt. Real household disposable income growth averaged 3.0% per annum over the 35 years from 1982 to 2016. The GFC had a substantial negative impact post 2007 when growth fell from 7.4% in 2007 to 1.2% in 2015. Recent growth has averaged 1.6% over the 5 years from 2012 to 2016. Indebtedness has increased substantially in Australia from September 1992 when lending to housing and credit cards totalled AUD92 billion to stand at AUD1,493 billion as at September 2016. Total lending to housing is estimated to be AUD1,494 billion as at September 2016 whilst lending on credit cards is estimated to be AUD51 billion as at September 2016.

Domestic and Private Consumption Expenditure. Growth of household consumption is expected to be supported by very low interest rates, however, changes to lending practices in Australia in 2015 (explained in section 7) suggest that the amount of purchasing activity of housing for investment is likely to fall. Rising household expenditure and the response of net exports to the exchange rate depreciation are expected, in time, to support a rise in non-mining business investment. Real consumption growth has been of the order of 3.2% per annum over the 35 years from 1982 to 2016. The GFC had a substantial negative impact in 2009. Consumption expenditure growth has averaged 2.4% over the 5 years from 2011 to 2016 with the 2016 figure showing an improvement to 2.6%.

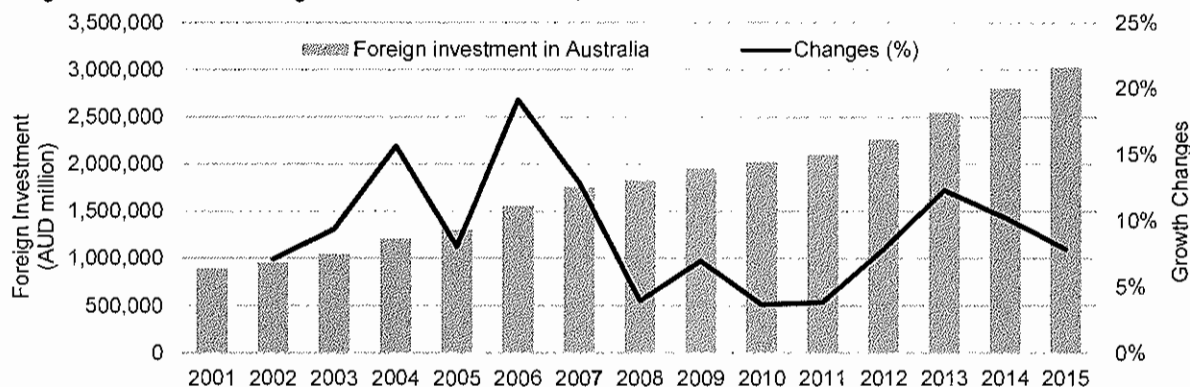
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Foreign Investments. Based on the latest data released annually in May 2016, shows the stock of foreign investments in Australia stood at AUD3,024 billion in 2015, representing 8% growth over the preceding year. The main sources of foreign investment as at 2015 is led by US (AUD860.3 billion), United Kingdom (AUD499.9 billion), Belgium (AUD238.5 billion), Japan (AUD199.6 billion), Singapore (AUD98.6 billion) and Hong Kong (AUD85.4 billion).

Figure 6-7 – Stock of Foreign Investments in Australia, 2001 to 2015



Source: ABS, Savills Research

6.2. NSW Overview

NSW Economy. NSW is the largest state economy in Australia accounting for almost one third of Australia's GDP at almost AUD500 billion per annum. Average growth from 1994 to 2016 was in the order of 2.7% annually and the forecast by most economists shows that the growth rate is likely to improve beyond that level. Services account for 86% of the value of NSW's industry output, highlighting the strength of the state's knowledge-based business services and creative industries. Government policy settings such as interest rates, population growth and infrastructure investment as well as a lower exchange rate add significantly to a positive outlook for NSW where economists forecast an increasing economy growth of closer to 3.0% over the years 2017 and 2018.

NSW Population. With a population close to one third of the entire Australian population, NSW has a large and growing domestic market size. NSW welcomes approximately 60,000 immigrants to Sydney every year which is adding to demand for housing, food and infrastructure.

Sydney's Population. Sydney, the capital of NSW, is Australia's most densely populated city with an estimated resident population of 4.9 million in 2015, generating a density of 390 persons per square kilometre. The density is not equal across the entire city. Areas of lower density on the outskirts of the city are countered with much higher density in the inner city areas. Densities of 10,000 persons per square kilometre up to and exceeding 20,000 persons per square kilometre are prevalent in the inner city suburbs.

Unemployment. NSW's unemployment rate of 5.0% as at 2016 has moved from above the national average between 2005 and 2010, to now be below the national average of 5.6%. Jobs are being created in most of the service industries such as financial services, property and business services as well as housing construction. Strong population growth in NSW is being driven in part by strong jobs growth which is also forecast to lead to lower unemployment and lower numbers of unfilled job vacancies over 2017 and 2018.

Investment. A combination of low interest rates, large amounts of investment capital and lower AUD are contributing to strong investment deal flow in Sydney. As Sydney is one of the region's financial capitals, this has a positive effect on employment numbers. The weaker AUD against major currencies such as the USD is also assisting areas such as increased tourist numbers, stronger international student numbers and the export of manufactured goods and agricultural products from Sydney and NSW.

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7. Australia Regulatory Environment Overview

7.1. Types of Property Ownership

Most Australian land is held under the Torrens title system, through land registries established in each state and territory. Under the Torrens title system, the relevant state or territory (subject to fraud) guarantees title to the person who is recorded in the register as the owner of the land.

The most commonly recognised interests in Australian land are i) freehold estate in fee simple, ii) leasehold interest, iii) other interests (mortgage interests, options to acquire land, easements, restrictive), iv) non-Torrens title land, and v) native titles.

7.2. Overseas Ownership Restrictions

7.2.1. Overview

Investment proposals by overseas interests are regulated by the Foreign Acquisitions and Takeovers Act 1975 (FATA), which is administered by the Treasurer, who is assisted by the Foreign Investment Review Board (FIRB), a division of the Commonwealth Government Treasury. The Commonwealth government publishes policy guidelines for the administration of FATA.

Under the Australian rules and restrictions on the acquisition and ownership of property by foreign interests, foreign persons are normally given approval to:

- Buy vacant land for development, including house and land packages where construction has not commenced; and
- Buy new dwellings such as house and land packages, home units and townhouses purchased 'off-the-plan' that is under construction or newly constructed but never occupied or previously sold.

Certain categories of foreign nationals, who hold a visa that permits them to reside in Australia continuously for at least the next 12 months (such as students), may be given approval to purchase established residential real estate (that is, second hand dwellings) for use as their principal place of residence (that is, not for rental purposes) while in Australia.

From 1 December 2015, applicants will pay a fee before their foreign investment purchase application is processed. For a residential property valued under AUD1 million, a fee of AUD5,000 is payable. For residential properties valued over AUD1 million, a fee of AUD10,000 is payable then AUD10,000 incremental fee increase per additional AUD1 million in property value. Advanced off-the-plan certificates require a fee of AUD25,000 upfront.

Property developers can apply for an advanced off-the-plan certificate to sell new dwellings in a development of 100 or more residences to foreign investors. The Government will tighten the rules around the use of advanced off-the-plan certificates by limiting the value of all apartments that can be bought by a single foreign investor to AUD3 million in the one development. If foreign investors want to purchase apartments above this value, they will have to seek individual approval from FATA.

Property developers can apply for an advanced off-the-plan certificate to sell new dwellings in a development of 100 or more residences to foreign investors.

7.2.2. Meaning of Foreign Interests

The expression 'foreign interest' has a very technical meaning under FATA. There are complex tracing provisions, which have a broad reach. However, in general terms, a foreign interest is:

- a natural person who is not ordinarily resident in Australia;
- an overseas government or its agencies;
- any corporation, business or trust in which there is a 'substantial interest' held by an overseas person or corporation.

7.2.3. Proposals Relating to Urban Land

Overseas entities wanting to acquire urban land (including interests that arise via leases, financing and profit-sharing arrangements) must make a proposal to FATA. Proposals must be made in regard to developed non-residential commercial real estate valued at AUD5 million or more, developed non-residential commercial real estate valued at AUD55 million or more, accommodation facilities valued at AUD55 million or more, vacant real estate, and residential real estate shares or units in Australian urban land corporations or trust estates.

7.3. Tax Legislation

In Australia, power to levy tax exists at both commonwealth (ie, federal) and state levels. The federal government levies taxes such as income tax, and goods and services tax (GST). Taxes levied by state governments include stamp duty, land tax and payroll tax as well as transaction duty, fees and charges on certain kinds of business transactions.

At the federal level, taxation is administered by the Australian Taxation Office (ATO). At the state and territory level, the relevant taxation authority is the State Revenue Office of the applicable state or territory.

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7.3.1. Stamp Duty

Stamp duty is a tax imposed at the state/territory level, and is generally charged at an incremental rate, based on the higher of the market value of the property transferred and the GST-inclusive consideration. Certain exemptions and concessions may be available. Stamp duty on land acquisitions in NSW is currently charged at a rate of between 1.25% and 7.0%. The transfer of title to land cannot be registered until stamp duty has been paid. The State of South Australia is progressively abolishing stamp duty on commercial property transfers. The rate will reduce from 1 July 2016, half that rate again from 1 July 2017 and be zero from July 1 2018. As at November 2016, foreign buyers of residential property shall be liable for additional duty at the rate of 4.00% in New South Wales, 7.00% in Victoria and 3.00% in Queensland.

7.3.2. Land Tax

Land tax is also imposed at the state/territory level. As a result, the rate of land tax, the threshold at which it becomes payable and the date on which it is assessed and paid will depend on where the land is situated. The current maximum marginal rates of land tax in NSW are shown below.

Figure 7-1- Marginal Rates of Land Tax in NSW*

Type	Threshold (AUD)	Rate	Department
Commercial	2,641,000	AUD35,444 + 2% of land value above AUD2,641,000	Office of State Revenue
Residential	432,000	AUD100 plus 1.6% up to AUD2,641,000 then AUD35,444 + 2% of land value above AUD2,641,000	Office of State Revenue

*Information as of 31 December 2016. Note that different marginal rates apply, depending on property value. Please refer to the applicable State or Territory revenue office website for up-to-date information.

Source: State Revenue Offices, Savills Research

7.3.3. Corporation Tax

The tax rate for public and private companies, resident and non-resident, is currently 30%. However, from 1 July 2015 companies with a turnover of less than AUD2,000,000 will be eligible for a company tax rate of 28.5%.

7.3.4. Income Tax

Individuals, trustees, superannuation funds and companies deriving income from an Australian source must apply to the Australian Taxation Office (ATO) for an Australian tax file number and must lodge an annual tax return with the ATO. Entities which carry on an enterprise in Australia also require an Australian business number.

Income tax is payable by individuals, trustees (in certain circumstances), superannuation funds and companies. Australian income tax is imposed on a single measurement of taxable income, which is calculated as the sum of assessable income derived by the taxpayer during the relevant year of income less 'allowable deductions', ie: Taxable Income = Assessable Income – Allowable Deductions.

Australian tax residents are generally liable to pay income tax in respect of their worldwide assessable income, whereas non-Australian tax residents only pay tax on that part of their income which is derived from sources in Australia. However, this principle may be subject to the application of double taxation agreements (DTAs) which Australia has entered into with a number of other countries.

Taxation rates for individuals differ, depending on whether the individual is an Australian tax resident or not. The marginal rates of taxation applicable for Australian tax residents for the financial year from 1 July 2016 to 30 June 2017 are shown below.

Figure 7-2 – Income Tax Rates for Australian Residents

Taxation income (AUD)	Marginal tax rate (%)	Tax on this income
0–18,200	0	Nil
18,201–37,000	19	19¢ for each AUD1 over AUD18,200
37,001–87,000	32.5	AUD3,572 + 32.5¢ for each AUD1 over AUD37,000
87,001–180,000	37	AUD19,822 + 37¢ for each AUD1 over AUD80,000
180,001 +	45	AUD54,232 + 45¢ for each AUD1 over AUD180,000

Source: ATO, Savills Research

In addition, individual Australian tax residents must pay a Medicare Levy of 1.2% of taxable income, subject to low-income thresholds, phase-in limits and surcharges for individuals without private health insurance. This levy is 2% for taxpayers on AUD180,000+ to fund the Temporary Budget Repair Levy from 1 July 2014.

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The marginal rates of taxation applicable for non-Australian tax residents for the financial year from 1 July 2016 to 30 June 2017 are shown below.

Figure 7-3 – Income Tax Rates for Non-Australian Residents

Taxation income (AUD)	Marginal tax rate (%)	Tax on this income
0–87,000	32.5	32.5¢ for each AUD1
87,001–180,000	37	AUD28,275 + 37¢ for each AUD1 over AUD87,000
180,001 +	45	AUD62,685 + 45¢ for each AUD1 over AUD180,000

Source: ATO, Savills Research

Non-Australian tax residents are not required to pay a Medicare Levy of 2% of taxable income. However, a levy of 2% for non-Australian taxpayers on AUD180,000+ to fund the Temporary Budget Repair Levy is payable from 1 July 2014.

7.3.5. GST

The transfer of real estate located in Australia is generally subject to GST, which is calculated as 10% of the GST-exclusive selling price of the real estate and is payable by the seller. However, in the purchase of non-residential property, the GST liability is generally passed to the buyer as they can claim the GST as an input tax credit, subject to satisfying certain requirements.

The sale of farm land, commercial real estate subject to lease and grants of vacant land by the federal government may all be GST-free supplies, subject to satisfying a number of requirements.

7.3.6. CGT

CGT applies if the gain occurs within 12 months of purchase. If the event occurs after more than 12 months, a discount applies according to the tax rate of the entity holding and disposing of the asset.

7.4. Relevant Laws and Regulations Governing the Industry

There are a number of critical legal issues associated with Australian property development which developers must be aware of. The legislative regimes differ depending on the particular jurisdiction, however, each legislative regime has wide reaching effects on development projects which should be taken into account before proceeding.

7.4.1. Security of Payment Legislation

Security of payment legislation will generally apply to contracts for the performance of construction work or related goods and services – concepts which are likely to capture a broad range of activities associated with a development project.

The relevant piece of legislation in NSW is the Building and Construction Industry Security of Payment Act 1999 (NSW).

7.4.2. Residential Building Legislations

In NSW, key provisions of the Home Building Act 1989 (NSW) could impose significant and ongoing liabilities of a developer to subsequent purchasers of residential dwellings.

Other Acts and regulations pertaining to property and property development in NSW include:

- Environmental Planning and Assessment Act 1979
- Environmental Planning and Assessment Regulation 2000
- Work Health and Safety Act 2011
- Building Professionals Act 2005
- Building Professionals Amendment Act 2008
- Crown Lands Act 1989
- Dividing Fences Act 1991
- Historic Houses Act 1980
- Housing Act 2001
- Industrial Relations Act 1996
- Land Acquisition (Just Terms Compensation) Act 1991
- Land Development Contribution Act 1970
- Land Sales Act 1964
- Land Tax Management Act 1956
- Landlord and Tenant Act 1899
- Landlord and Tenant (Amendment) Act 1948
- Native Title (NSW) Act 1994
- Native Vegetation Act 2003
- Parking Space Levy Act 2009
- Property, Stock and Business Agents Act 2002
- Real Property Act 1900
- Residential Tenancies Act 2010
- Retail Leases Act 1994
- Retail Trading Act 2008
- Strata Schemes Management Act 1996
- Strata Schemes (Freehold Development) Act 1973
- Strata Schemes (Leasehold Development) Act 1986
- Swimming Pools Act 1992
- Valuation of Land Act 1916
- Valuers Act 2003

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8. Sydney Property Market Overview

8.1. Residential Property Market Overview

8.1.1. Residential Property

For the purposes of this executive summary, "houses" refer to attached and semi-detached housing on land generally found in suburban settings. "Units" refer to strata-titled, multiple dwelling units and apartments.

Sydney has a resident population of some 4.9 million people housed in approximately 2.2 million dwellings in 2015. Approximately 44% of all dwellings in Sydney are units/ apartments.

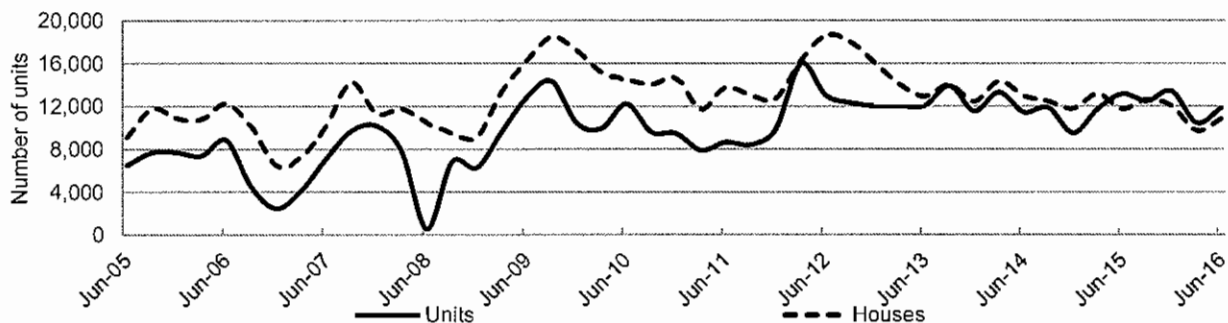
Sydney is recognised as a global city, and the largest capital city in Australia. Sydney is projected to grow to a population of 5.86 million people by 2031, while NSW is projected to grow to a population of 9.23 million according to State Government forecasts. Housing affordability and housing supply remain issues for Sydney which has the highest median house price for any capital city in Australia. Sydney has four of the five wealthiest regions in Australia, and has an internationally recognised 'luxury residential market'.

For the purposes of this executive summary, Savills Research utilises data provided by the Real Estate Institute of NSW (REINSW). REINSW uses the Local Government Areas included in Inner, Middle and Outer Sydney as per the Sydney Statistical Division according to Australian Standard Geographic Classification of the ABS. These areas are broadly broken down as:

- Inner – 0-10km from the Central Business District (CBD);
- Middle – 10-25km from the CBD;
- Outer – >25km from the CBD.

8.1.2. Sydney House and Unit Transaction Volumes

Figure 8-1 - Sydney Quarterly Dwelling Sales by Type (Number of Units) Jun-05 to Jun-16



Source: APM, REINSW, Savills Research

According to the ABS, the number of houses and units traded every three months in Sydney ranges around 8,000 to 17,000 of each type since 2006. The transfer of houses has recently peaked at levels of between 12,000 and 17,000 a quarter in the period December 2013 to December 2015. In 2016 approximately 10,000 per quarter have traded. Units have been selling in the band of 9,000 to 13,000 a quarter consistently from 2010 to 2015. In 2016 approximately 11,000 per quarter have traded.

Australia primarily conducts residential property sales by either of two methods. Private treaty, off-the-plan and negotiation are standard procedures for purchasing residential property and are the most common methods of sale for newly built residential property. Second hand residential property can also be sold by private treaty however some vendors choose to sell their residential property by way of public auction. A public auction sales campaign will typically be held over a four to six weeks period and culminate in an auction where interested parties compete with each other at the same time to successfully purchase. The highest successful bidder will generally unconditionally purchase the residential property at the close of bidding.

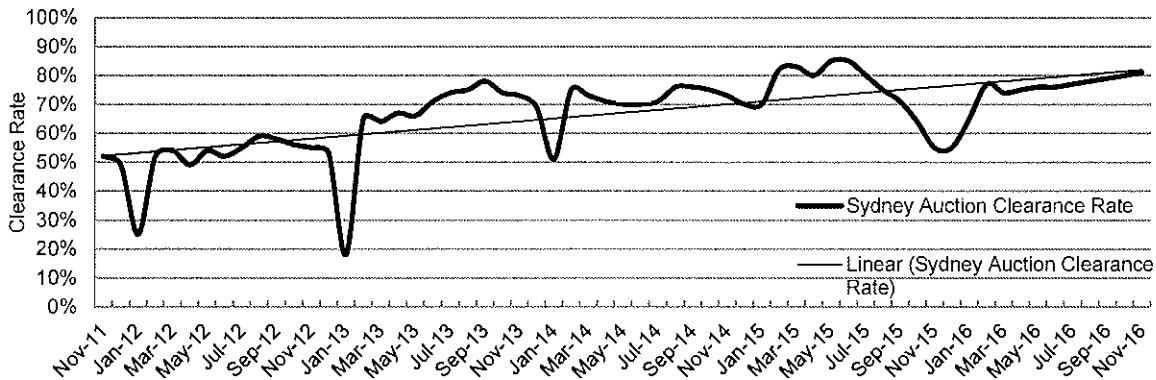
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According to the latest auction clearance rates released by Australian Property Monitors (APM), the Sydney clearance rate has risen to 81% in November 2016 due in part to low interest rates, low unemployment and ongoing price growth and the amount of property for sale. The clearance rate is approximately 14% higher than the three year average of 73%. Many dwellings in Sydney are sold using the auction method however this is not a universally accepted method of sale. The clearance rate is only one indicator of the health of the transaction market.

Figure 8-2 - Sydney Residential Auction Clearance Rates Nov-11 to Nov-16



Source: APM, REINSW, Savills Research

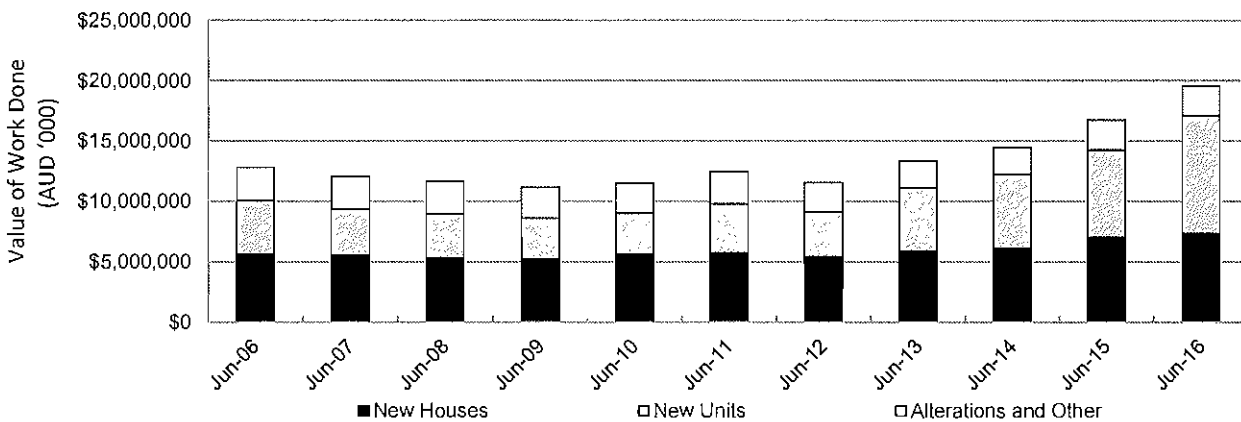
8.1.3. Residential Supply

Sydney is restricted by land availability through geographical limitations, zoning restrictions and limited land release. The cost to develop suitable and sustainable infrastructure to service developable land in the outer rim of Sydney is an invariable battle. Government wants and often demands more infrastructure be paid for by developers who are then forced to pass the charges through to buyers, thereby pushing house prices up.

As Sydney leads the nation with the most expensive residential land, the overall cost and time to develop is a deterrent for unestablished developers.

According to the latest ABS figures, the value of residential work completed in NSW is as follows:

Figure 8-3 - Value of NSW Residential Construction Work Done (AUD '000) by Type Jun-06 to Jun-16



Source: ABS, Savills Research

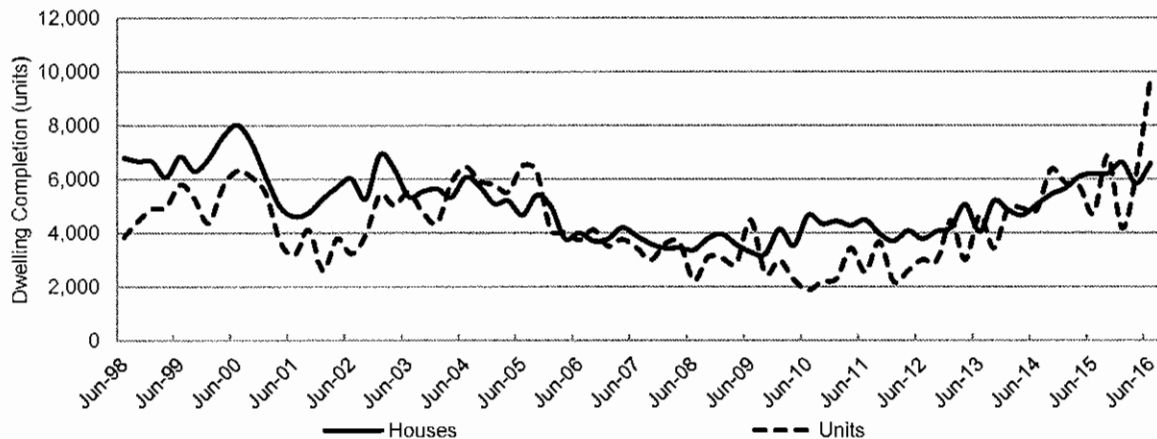
The value of construction work done has increased by over 4% for 'New Houses' in 2016 when compared to the previous year. The value of construction work done for 'New Units' has increased by 35% over the last 12 months. According to the ABS, total dwelling units approved in NSW declined in September 2016 by 13% (seasonally adjusted) to 6,314 dwellings, from 7,285 dwellings in the previous month. In the last 12 months, total annual dwelling approvals for NSW have increased approximately 11% (seasonally adjusted) from 68,194 dwellings to 75,484 dwellings.

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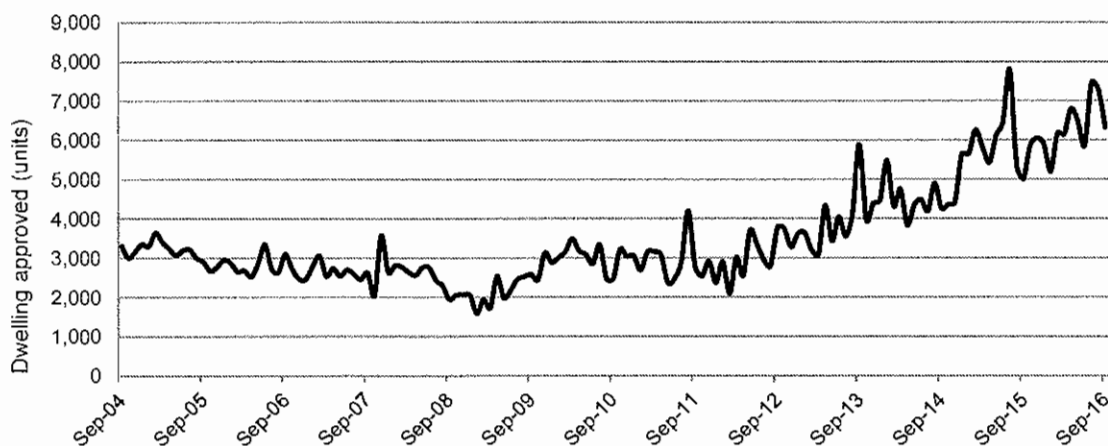
Figure 8-4 - NSW Quarterly Dwelling Completions by Type (Number of Units) Jun-98 to Jun-16



Source: ABS, Savills Research

For 18 years the number of units and houses completed in NSW have been roughly equal in number with houses slightly more favoured. Since June 2014, approximately 11,000 dwellings are being completed a quarter, or almost 45,000 dwellings a year. The average dwellings since June 1998 is 36,600 dwellings per annum. The peak period from 1998 to 2006 saw an average of 43,000 dwellings per annum completed. The GFC period between 2006 and 2012 saw an average of 27,500 dwellings per annum completed. More recently, with interest rates falling, completions have averaged 45,000 dwellings per annum in the three years to June 2016. Given the outlook for interest rates to remain low and demand from owner occupiers to remain strong, Savills Research believes completions of between 35,000 and 45,000 dwellings per annum in 2017 and 2018 appear reasonable. The mix of completions historically has been 55% houses and 45% units and Savills Research has no reason to believe this mix of types will change in the next two years. If this proves to be correct then approximately 16,000 to 20,000 and 19,000 to 24,000 houses will be completed in both 2017 and 2018 in NSW.

Figure 8-5: NSW Dwellings Units Approved for Construction Sep-04 to Sep-16



Source: ABS, Savills Research

The latest ABS release on building work done shows an increase in dwelling approvals. A recent record number of approvals were granted in 2016 following the recent introduction of macro-prudential controls to dampen growth in investor lending. The Australian Prudential Regulation Authority (APRA) has a supervisory and regulatory role over the Australian banking system. Working in consultation with the RBA, APRA has moved to put measures in place (macro-prudential controls) to ensure lending practices to the housing market are sound. These controls include increasing the amount of capital required to be retained by the banks (equity) against the loans they underwrite (debt). This control generally means banks must charge higher interest in order to maintain their return on equity. Other measures include changes to loan to valuation ratios, interest rate stress testing and changes to lending practices that distorted cash flows such as including the tax advantages in the loan repayment calculations.

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There are currently a number of multi-tenant dwellings under construction in and around the Sydney CBD and a large number of these developments are at Development Approval (DA) stage. Most unit developments target a mixture of overseas and domestic buyers and a mixture of owner occupiers and investors.

Figure 8-6 - Selected Current Sydney Inner City High Rise Residential Development Activity

Project	Address	No. Units	Completion	Status
Harold Park – Precinct 3	10 Maxwell Rd, Forest Lodge	345	2016	Construction
York&George	383 George St, Sydney	199	2016	DA Approved
Barangaroo South Buildings R8 & R9	Lots 5 & 6 Hicksons Rd, Millers Point	159	2016	DA Submitted
Darling Square	Darling Harbour	1,400	2017	Early Planning
Sydney Greenland Centre	115 Bathurst St, Sydney	490	2017	DA Submitted
Harold Park – Precinct 4 & 6	10 Maxwell Rd, Forest Lodge	242	2017	DA Submitted
Sydney by Crown	161 Castlereagh St, Sydney	220	2017	DA Approved
Harold Park – Precinct 5	10 Maxwell Rd, Forest Lodge	241	2018	Early Planning

Source: Cordell Reed Construction Data, Savills Research

8.1.4. Residential Vacancy

At the time of this executive summary, the latest available data from REINSW relates to September 2016. According to the latest figures released by REINSW, over the 12 months to September 2016, total vacancy is unchanged compared to the previous year.

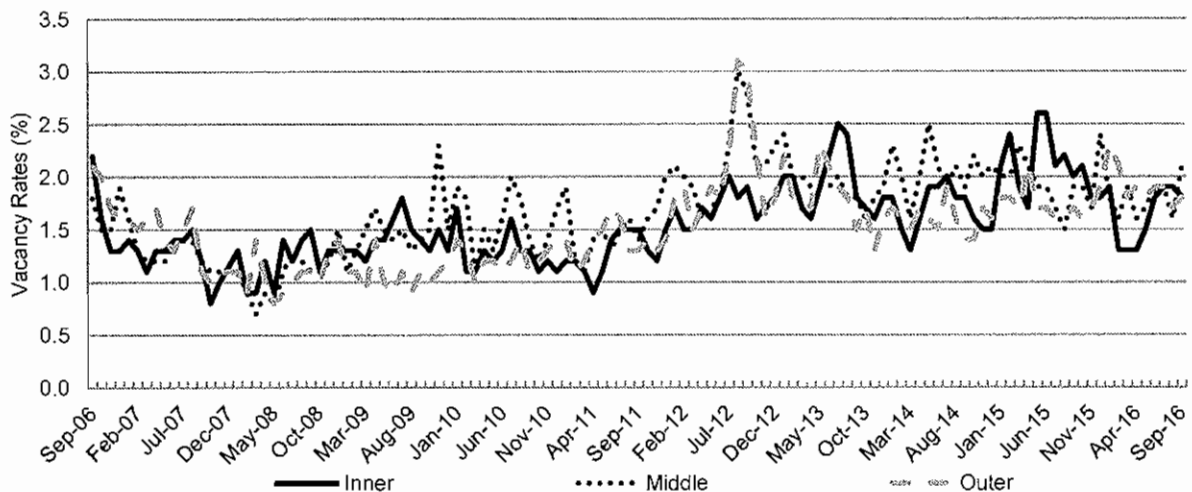
Figure 8-7 - Metropolitan Sydney Vacancy Rates – September 2016

	Inner (%)	Middle (%)	Outer (%)	Total Vacancy (%)
Sep-15	2.0	1.9	1.7	1.9
Sep-16	1.8	2.1	1.8	1.9
Change (%)	-0.2	-0.2	0.1	0.0

Source: REINSW, Savills Research

It is expected these vacancy levels will remain relatively low due to the continued disparity between the supply and demand of residential accommodation. More recently rental growth has stalled, placing downward pressure on rental yields for investors as values increase.

Figure 8-8 - Sydney Vacancy Rates by Location (%) Sep-06 to Sep16



Source: REINSW, Savills Research

Residential vacancy rates across the entire Metropolitan Sydney⁶ have been low for a considerable period of time. As more supply has been delivered to the market the vacancy rate has moved from a cyclical low of 1% in 2008 to be 1.9% in September 2016 and is still widely regarded as low. A combination of population growth and immigration continues to put pressure on the supply of housing such that vacancy rates can generally be expected to remain low for some time.

⁶ Metropolitan Sydney is classified as Greater Sydney (Greater Capital City Statistical Area) by the ABS, which accounts for about 64% of NSW's population and is home to over 4.9 million people

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8.1.5. Supply Outlook

The supply of dwellings to the Sydney residential market is responding to two factors, which are demand and pricing. It is now (in certain circumstances) cheaper to build a dwelling for the end-users than it is to purchase an existing dwelling almost entirely due to stamp duty savings. Investors, population growth and immigration have been fuelling demand. The supply side has responded to the demand side by increasing the number of dwellings approved for construction to now be at cyclical highs.

It is important to note that an approval does not necessarily lead to construction and completion. An approval is an intention to construct. In a multi-unit development, a required number of presales is normally required before construction commences. If the project is not well received by the marketplace, construction will not commence because the requisite number of pre-sales has not been achieved.

This market factor manages to keep supply generally in line with demand. This lack of speculative activity generally means the market is kept relatively balanced. Oversupply can occur when there are regulatory or economic "shocks". When the economy enters recession and unemployment rises, supply of residential property increases as investment properties are sold and renters leave the market creating higher vacancy rates. Given Australian investors have tax incentives to purchase dwellings, any changes to those arrangements can positively or negatively affect the supply of dwellings to the market.

Whilst the risk of policy changes are ever present and impossible to forecast, most economists are in agreement that a recession of the magnitude required to substantially increase the supply of second hand dwellings to the market is not on the forecast horizon.

8.1.6. Bank Lending

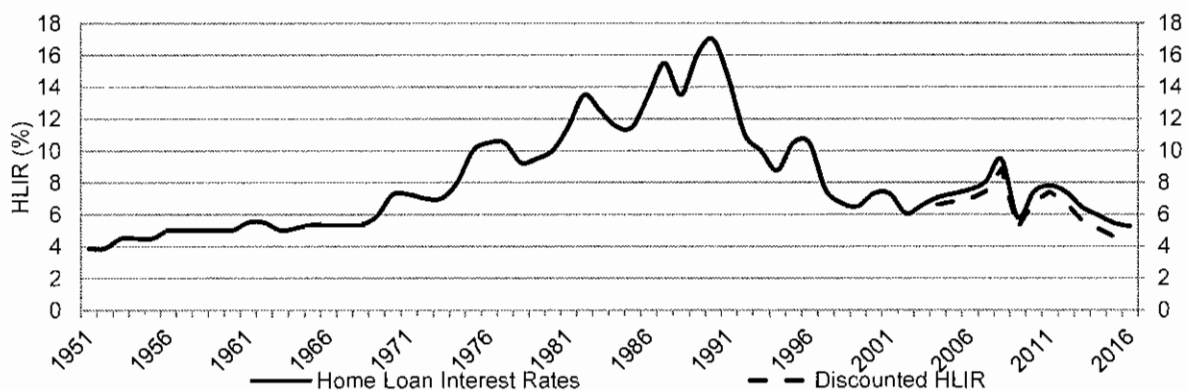
In absence of official statistics on segmentation of the market by investors and owner-occupier, the banking lending data is used as a proxy to illustrate this segmentation.

a) Variable Home Loan Interest Rate (HLIR)

The variable HLIR is undoubtedly one of the biggest factors affecting residential property capital values. It is one of the major indicators of housing affordability along with average weekly earnings and median house prices. The variable HLIR fell from a cap of 17% in the 1990 to a cyclical low of 6.05% in 2005. HLIR then started to rise as house price momentum gathered, and speculation increased. The onset of the GFC, an economic slowdown and lower demand for credit, has seen HLIR break their cyclical lows to be 5.25% in October 2016. As more competition entered the home lending market in the early 2000's many lending institutions offered discounted loans. These discounted loans were generally offered at a discount of between 40 basis points to as much as 85 basis points to the standard variable rate.

Reflecting the increase in housing investment, APRA has ordered an increase in the average risk weight on Australian residential mortgage exposures from 16% to 25% in internal risk modelling for big banks. The implication of this is that the major banks, who use their own risk modelling to determine the amount of capital they hold, must adopt this weighting and hold billions more in reserves to safeguard the financial system. This will be enforced from 1 July 2016. In October 2015, the major banks in Australia have raised the standard variable rate in response this, passing this financing cost onto the investors who take out loans. The current discounted HLIR ranges from 4.20% to 4.85% subject to lending terms and conditions.

Figure 8-9 - Australian Residential –Variable HLIR (%) 1951 to 2016



Source: RBA, Savills Research

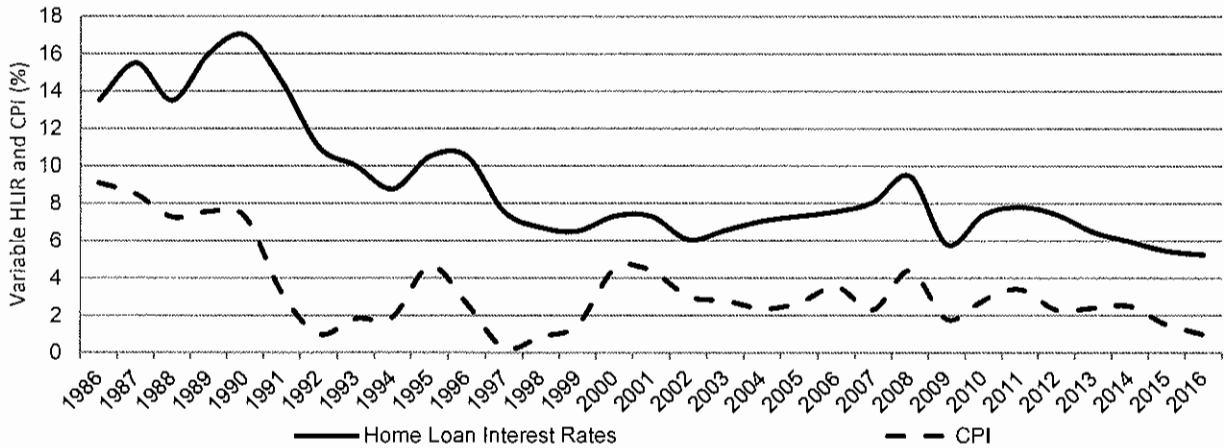
A large influence on the variable home loan rate is inflation. A low inflationary environment produces a correspondingly low home loan rate environment. Inflation is forecasted to remain subdued into the foreseeable future and can be expected to translate into commensurately low HLIR.

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Figure 8-10 - Australian Residential –Variable HLIR (%) vs CPI (%) 1986 to 2016



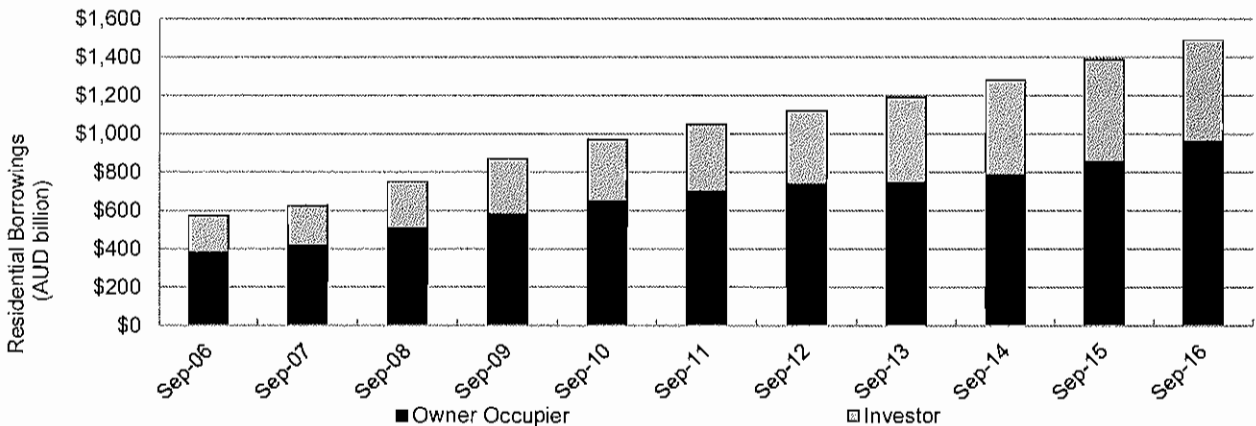
Source: ABS, RBA, Savills Research

Most economists forecast inflation to remain within the RBA's target band of 2% to 3% in the forecast period 2015 to 2020 resulting in variable HLIR moving into a band of 5.5% to 6.0% in the same forecast period.

b) Total Household Debt

The total value of residential loan commitments in Australia has grown at an average of 10% per annum, from approximately AUD572 billion in September 2006 to AUD1,494 billion in September 2016. Loans to owner occupiers have grown from AUD381 billion to AUD963 billion whilst loans to investors have grown from AUD191 billion to AUD530 billion.

Figure 8-11 - Australia National Residential Borrowing Commitments (AUD billion) by Type Sep-06 to Sep-16



Source: RBA, Savills Research

Total household indebtedness as a percentage of household income has risen from around 60% in the late 1980's to 100% in 1997 to a current peak of 186% in 2015. This measure takes into account all debt which a household may have including credit cards, investment gearing and personal loans. The level of indebtedness of owner occupiers is somewhat more modest. Rising from a low of 30% in 1990 to nearly 60% in 2002 to a peak of 90% in 2010 where it has climbed a little since to be 96% in 2016.

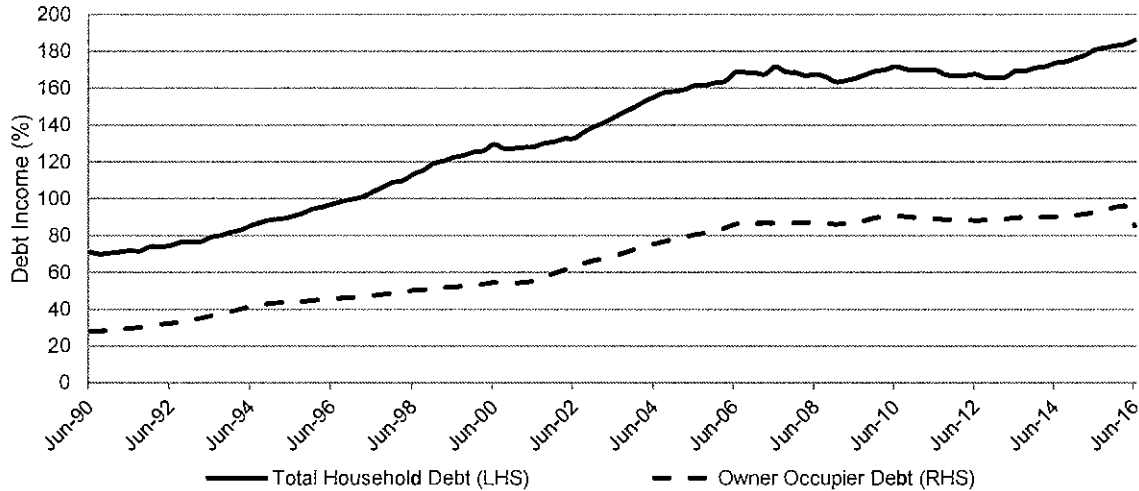
This level of indebtedness leaves people feeling vulnerable in times of economic uncertainty and increasing unemployment. This is reflected in consumer sentiment surveys and also in savings rates and expenditure patterns.

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Figure 8-12 - Australian Residential –Total Household Debt and Owner Occupier Debt to Income (%) 1990 to 2016



Source: RBA, Savills Research

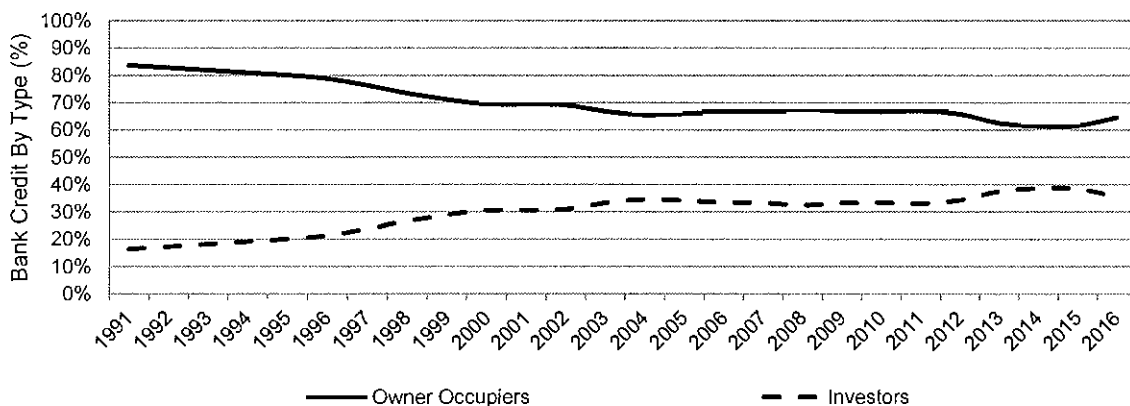
c) Lending to Owner Occupiers and Investors

Of course not all lending is for owner occupied housing. Lending for investment in the property market also forms a substantial part of the lending market. In the early 1990's some 80% of all lending was for owner occupiers. This fell substantially over the 1990's to around 70% in 1999. Over the past 15 years this level fell again to sit at a ratio of 55/45. The RBA has expressed concerns about the amount of lending to investors and has worked with banking authorities to make changes to the capital requirement of banks that lend to property investors.

Not all buyers of residential property use debt nor do all overseas buyers either use debt or source debt from Australian financial institutions. Lending to housing is one of the only indicators of demand strength available in the market but it is imperfect as it does not capture 100% of buying activity.

Figure 8-13 shows the change in mix of total outstanding bank lending for housing by type of borrowing.

Figure 8-13: Australian Residential –Total Outstanding Bank Lending by Type (% of total) 1991 to 2016



Source: RBA, Savills Research

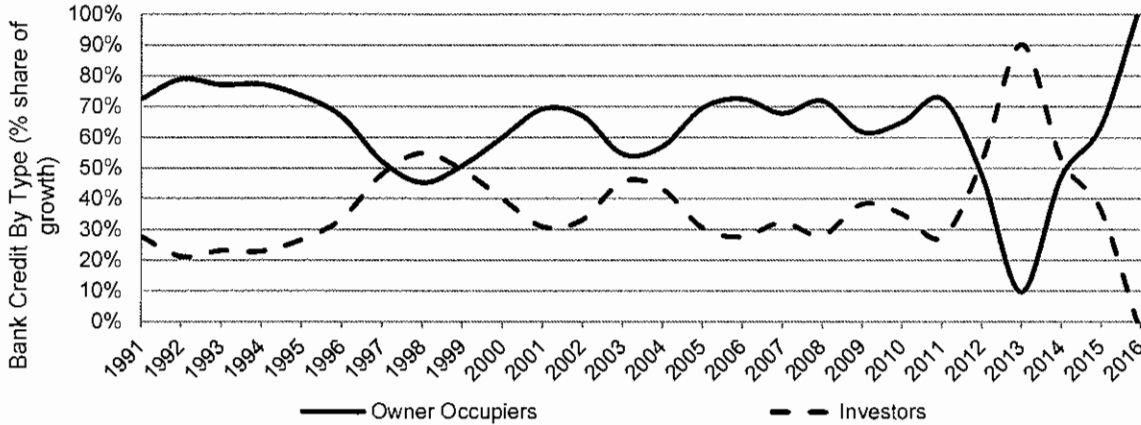
There have been periods where new lending to property investors has exceeded new loans to owner occupiers. The period 1998 is of particular note. That period caused a great deal of consternation with policy makers and politicians and resulted in a tightening of credit and of interest rates. From 2012 to 2015, new lending to investors fluctuated at the extreme of 20% to 90% of all lending. There are a number of factors at work here including limits placed on superannuation contributions. Also of interest has been the introduction of macro-prudential lending controls introduced by the banks in concert with APRA and the RBA. This is expected to lead to a fall in lending to investors and thereby reducing demand for investment properties in the coming years.

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Figure 8-14 - Australian Residential –Total New Bank Lending by Type (% of total) 1991 to 2016



Source: RBA, Savills Research

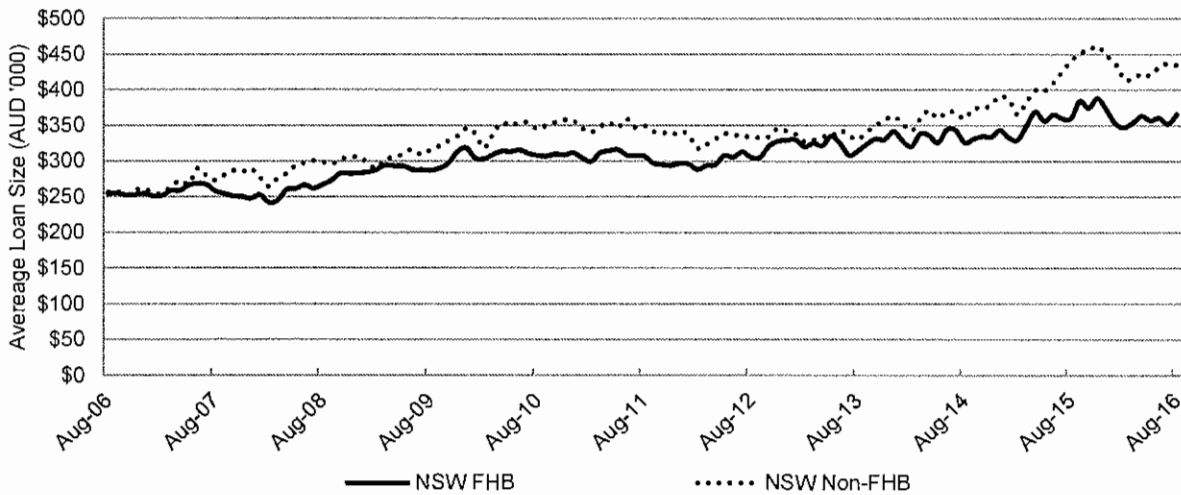
d) First Home Buyer (FHB)

On 1st October 2012, the First Home Owner Grant Scheme was replaced by the First Home Owner Grant (New Home) Scheme. The previous scheme made the grant available to the purchase of new and existing dwellings whilst the new scheme applies only to new dwellings. The grant was established to assist eligible first home owners to purchase a new home or build their home by offering an AUD15,000 grant. The value of the property must not exceed the First Home Owner Grant Cap of AUD835,000 for contracts dated on or after 1st January 2016. The Scheme reduced the grant to AUD10,000 on 1st January 2016.

Demand from FHB softened following changes to the First Home Owner Grant Scheme. In an attempt to assist in boosting consumer confidence, the RBA has been cutting the official cash rate, by 275 basis points from 4.75% in November 2010 to 1.50% in August 2016. At the latest meeting in November 2016, the RBA decided to once again maintain the official cash rate at 1.50%.

In the latest figures released by the ABS, FHB activity in NSW has risen by 1.8% in the 12 months to August 2016.

Figure 8-15: NSW Average Loan Size by Type (AUD'000) Aug-06 to Aug-16



Source: ABS, Savills Research

The average loan size for NSW FHB increased by 2% to AUD365,900, whilst the average loan for non-FHB decreased by 1% to AUD434,100 over the 12 months to August 2016.

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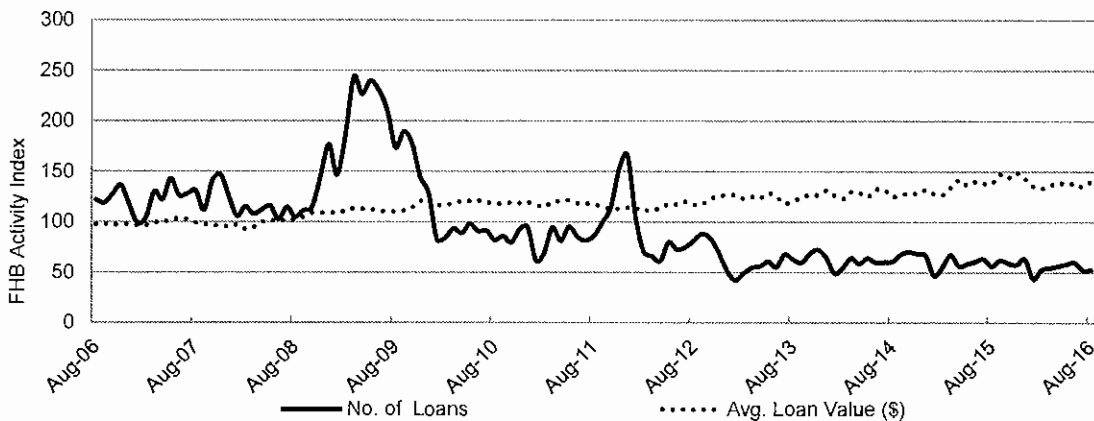
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FHB activity, indexed to August 2006, indicates two distinct trends over the last 10 years. The number of loans spiked in 2009 driven in part by federal government fiscal stimulus. In response to the GFC, the Australian Federal Government delivered an AUD42 billion stimulus package including one-off payments of AUD950 to an estimated 8.7 million Australian workers. However, demand fell as some development schemes were wound back until the announcement of changes to the current scheme caused another spike in late 2011. Since then, FHB loan volumes have fallen and are currently 23% lower the average over the last decade.

Over this same period, the average loan value for FHB has increased by 44% since August 2006, indicating strong growth in the price of 'off the plan' and newly built dwellings.

Figure 8-16 - NSW FHB Activity (Indexed) Aug-06 to Aug-16



Source: ABS, Savills Research

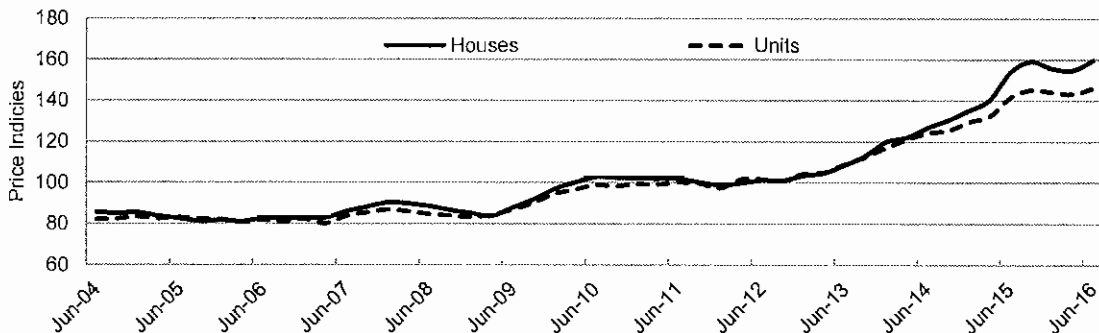
8.1.7. Sydney Residential Median Price

The pricing of residential property is not just dictated to by an imbalance between demand and supply but other factors such as employment, interest rates, wages growth, debt, equity, taxation, incentives, bank lending practices, construction costs and future expectations of earnings.

According to the latest data from Domain House Price Report of September 2015, median house prices in the Metropolitan Sydney increased in the 12 months leading up to September 2016. Growth of 2.1% was recorded across Sydney, with the median price now AUD1,068,303 up from AUD1,046,300 12 months earlier.

The ABS provides dwelling price indices for houses and semi-detached dwellings (units). The numbers, produced since 2003 using 2010 as a base year, show the growth in prices of both types of dwellings. There is little difference in the price performance of both types of property. Most recently, the price index for houses has increased sharply beyond that for units. A large part of the price growth has occurred in the last 4 years leading market commentators to suggest market pricing cannot continue to grow at these rates. Prudential controls have been introduced to the banking system to influence the amount and terms of lending for the purpose of residential investment. This is tipped to lead to a slowing in demand for investment property and a consolidation of dwelling prices with the likelihood of a retracement of some recent price growth.

Figure 8-17 - NSW Dwelling Price Indices by Type (Number of Units) Jun-04 to Jun-16



Source: ABS, Savills Research

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8.1.8. Sydney Luxury Market

In Australia the word "luxury", in reference to housing, normally refers to superior internal finishes. Finishes to kitchen, bathroom, carpet, walkways and all internal finishes are generally regarded to be of the highest quality and craftsmanship.

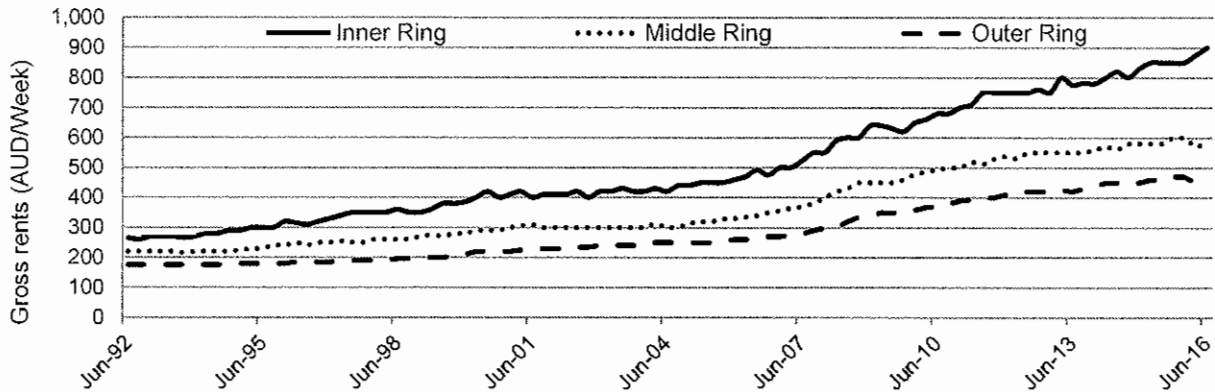
'Off the plan' (sell-then-build) luxury apartment transactions have significantly increased over the last 12 to 18 months. Transaction activity has mostly occurred in the one and two bedroom market, with three bedroom apartments taking longer to transact.

Asking rents for one and two bedroom luxury apartments have increased indicating that demand is strengthening. Even though the financial services and insurance sector has rebounded somewhat, demand for luxury rental property hasn't translated into solid growth.

An increase in household saving is a result of post-GFC caution and continued global economic uncertainty. As such, attitudes towards debt and financial vulnerability are weighing on the market. Average resale prices of luxury two and three bedroom apartments have remained stable in the last 12 months. Whilst the Australian economy has performed relatively well since the economic downturn, the demand for luxury accommodation still remains relatively subdued.

8.1.9. Residential Rentals

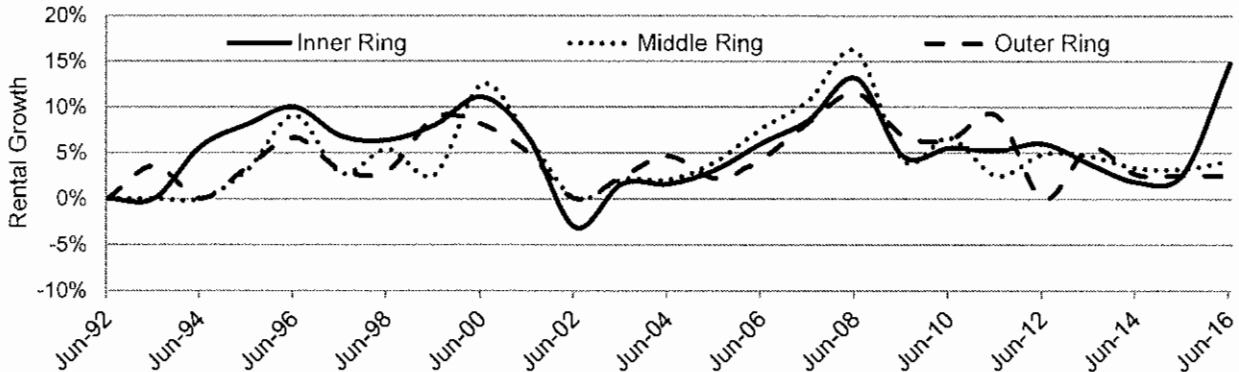
Figure 8-18: NSW Unit Gross Rents by Location (AUD/week) Jun-92 to Jun-16



Source: Housing NSW, Savills Research

Rents for units in the Metropolitan Sydney have been rising for 25 years since 1990. A significant period of low rental growth occurred in the period 2001 to 2007. In the period since 2007, gross rents have almost doubled in every part of the market. This is reflective of demand exceeding supply over this period, a general economic recovery post GFC in Sydney and the desire for an increased return from residential property from investors as capital values increased. Gross weekly rents as at June 2016 for units on average in Sydney are estimated to be AUD660 in the inner ring suburbs, AUD500 in the middle ring suburbs and AUD410 in the outer ring suburbs. Tenants in Australia generally pay outgoings such as gas, electricity and water in addition to their weekly rent.

Figure 8-19: NSW Unit Annual Gross Rental Growth by Location (%) Jun-92 to Jun-16



Source: Housing NSW, Savills Research

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Average annual gross rental growth in the inner ring suburbs has been 5.53% since 1992, compared to 4.74% in the middle ring suburbs and 4.44% in the outer ring suburbs. Over the last decade, the inner ring suburbs have delivered average annual gross rental growth of 6.63%, the middle ring suburbs have delivered 6.04% whilst the outer ring suburbs have generated an average of 5.56%. Parramatta is also observed to record higher 10-year rental growth of 6.2% to 6.3%, compared to 5.2% to 5.5% for Sydney.

Figure 8-20: Sydney & Parramatta Rental Growth

	1 bed unit	2 bed unit
Parramatta	\$410	\$445
Sydney	\$490	\$520
10-year Parramatta Average Rental Growth	6.3%	6.2%
10-year Sydney Average Rental Growth	5.2%	5.5%
Parramatta Yield	4.2%	
Sydney Yield	3.8%	

Source: Housing NSW, APM

8.1.10. Residential Demand Generators

a) Population Growth

Population growth has a large effect on both demand and pricing of residential property. As mentioned earlier, since 2002, Australia has been enjoying above average levels of population growth. Resulting from Federal Government policy to deal with the ageing of the population, Australia is undergoing the largest population growth of any country in the world and the largest in the history of the country. This trend has been underway since 2002 and continues today. On top of the additional 150,000 (net) natural increase in population, Australia has embarked on a strong drive to encourage skilled migration. These numbers reached a peak of just over 300,000 in 2008 and slowed down substantially with the onset of the GFC. As economic conditions improved, overseas migration increased to reach a post-GFC peak of nearly 250,000 in 2012-2014. As the mining investment boom has ended, demand for labour in the mining states has softened substantially resulting in a fall in immigration numbers to those areas. The latest numbers (end of 2015) suggest net overseas migration in 2015 was 168,000 with Melbourne and Sydney receiving the majority of arrivals.

Figure 8-21 - Average Annual Net Population Growth by Country (%)

Country	2010-2015 Population Growth Rate (%)
WORLD	1.08
Australia	1.57
Canada	1.04
China	0.52
France	0.45
Germany	0.06
Indonesia	1.28
Malaysia	1.51
UK	0.63
US	0.75

Source: United Nations, Savills Research

b) Immigrants Demand

Whilst the natural increase in the population can generally be accommodated in the existing housing stock, overseas migrants generally require a new dwelling. If we divide the number of immigrants by 2.77 persons per household (generally considered as Australia's household formation rate in 2016) then we can get an estimation of demand for housing.

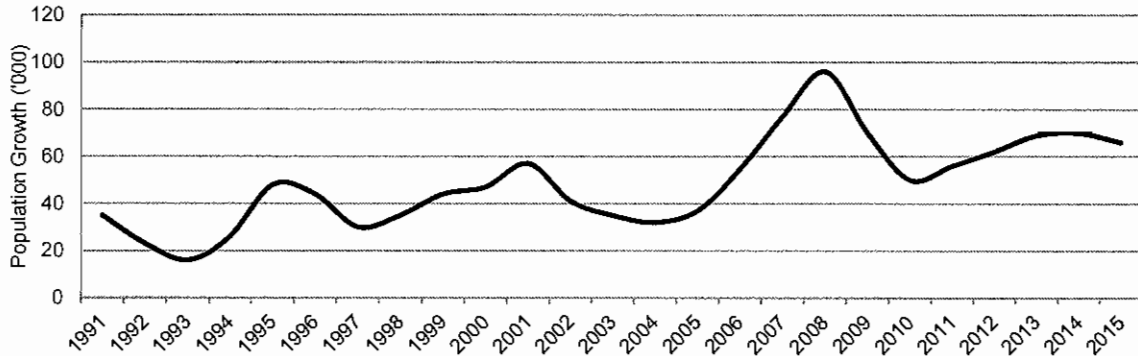
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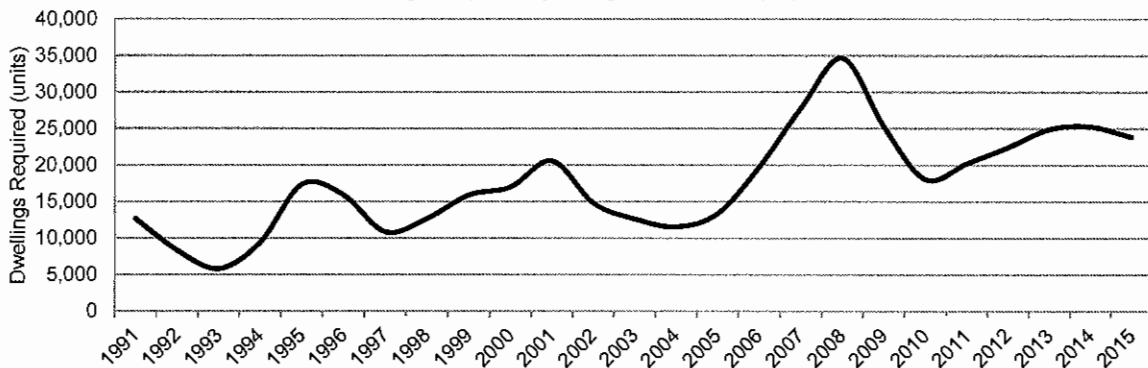


Figure 8-22 - NSW Net Overseas Population Growth (000's) 1991 to 2015



Source: ABS, Savills Research

Figure 8-23 - Sydney Residential –Dwellings Required by Immigrants in NSW* (No) 1991 to 2015



*Formation rate 2.77

Source: ABS, Savills Research

Over the last decade, immigrants to Australia have generated enough demand for a total of 750,000 new dwellings, of which about 230,000 dwellings are attributed to NSW. This is approximately 50% of all new housing stock built in that period. It is unsurprising that construction has struggled to keep up with demand and that a combination of property investor and owner occupied solutions to supply have been required.

In Australia, it is extremely difficult to identify the source of change in the Sydney and Melbourne housing markets. Anecdotal reports exist of foreign investment driving up property values. These factors may or may not be the cause of the current boom.

For example, the Australian government's FIRB monitors foreign investment in housing. In November 2014, the government conducted an inquiry into the FIRB to see how foreign investment impacted property values. It is found that the FIRB had not kept record of the citizenship status of property purchasers, or taken action against foreign investors since 2006. Without detailed information on who is buying property, and how they are doing it, Savills Research cannot confidently or academically attribute foreign investment to increased property values.

8.1.11. Residential Market Outlook and Forecasts

Low interest rates and ongoing population growth are expected to continue to support growth in demand for dwellings, and this has had some positive effect on consumer confidence and led to an increase in buyer activity in the last 12 months. That said the relatively high unemployment rate in Australia weighs on the residential market in some cities. It remains to be seen which of these factors will have the greatest influence over the next 12 months.

According to the latest Bankwest First Time Buyer Deposit Report, first time buyers are being forced to save for a longer period as the median value of houses outpaces salary growth. On average, Australian first time buyers will now take 4.1 years to save a 20% deposit for a house, up from 3.9 years in 2013.

In Australia, property investors are able to claim interest payments on loans to acquire assets against their income tax. Investors are also able to claim depreciation of buildings and fixtures and fittings as well as maintenance costs against the income from the

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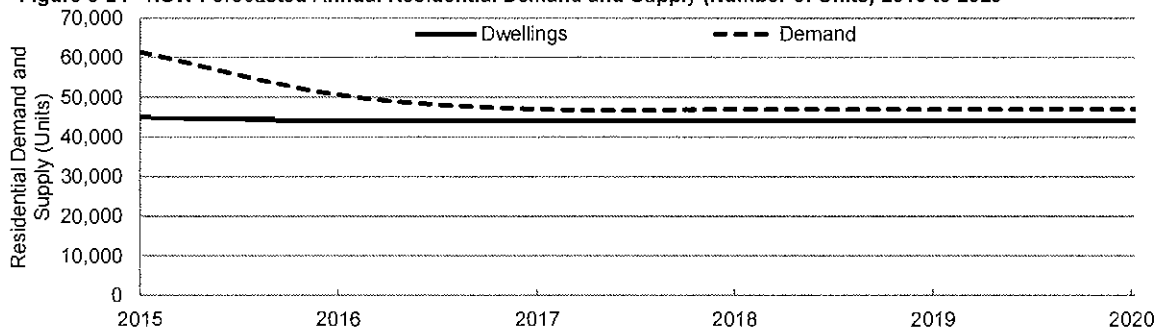


asset. The ability to claim interest payments against personal income is known as "negative gearing". Investors are taking advantage of negative gearing which is helping drive property prices higher and is clearly contributing to the crowding out of FHB. However, negative gearing also creates demand for housing and helps to fuel construction activity, as well as ease rental vacancy rates. There is much rhetoric in the media surrounding negative gearing, its effect on the housing market, and the banning or limiting of negative gearing. For the time being there will be no changes to the current tax system and negative gearing will remain available for property investors. Negative gearing is obviously not alone in creating housing market distortions but it is a key reason why investor activity continues to rise.

Australia's ageing population is set to reach unprecedented levels and many of them are thinking about downsizing. This cohort of occupiers are now seen as an influential part of the property market. Among their main motivations for selling the family home for smaller dwellings are convenience, maintenance and amenity.

If we extrapolate the recent trends in construction and the mix of buyer types we can arrive at the balance between demand and supply. To re-iterate the trends identified in the previous sections, construction of approximately 16,000 to 20,000 units per annum and 19,000 to 25,000 houses in both 2017 and 2018 in NSW is possible. Given that supply is not speculative in nature but rather meets demand we can view this supply as sustainable. Demand is generated by domestic buyers from within the existing market and those arriving from intra and interstate for job opportunities. Demand is also driven by recently arrived migrants. Both these numbers are assumed to remain constant over the next five years. The other demand variable is investors. Investors have made up 50% of all lending for housing investment. This has caused an imbalance between supply and demand. New controls have been put in place to temper this source of demand. We have assumed that this demand reverts to historical levels of 30% of demand. Underlying demand for dwellings in Sydney at a household formation rate of 2.77 generates demand for approximately 47,000 dwellings per annum. This means demand and supply are expected to be finely balanced over the next five years.

Figure 8-24 - NSW Forecasted Annual Residential Demand and Supply (Number of Units) 2015 to 2020



Source: Savills Research

8.2. Office Property Market Overview

8.2.1. Australia (National) - Office Market Overview

Commonly, each capital city in Australia has a strong representation of government, which are federal, state and local. Also in common, law courts are located in the CBD's leading to a high representation of legal and support services. Melbourne and Sydney both have high levels of company headquarters due to the larger size of their worker populations. However, there are corporate headquarters found in the other capital cities. Education is Australia's fourth largest export earner and each capital city has education facilities in or near to its CBD, which occupy office space.

The Australian office markets have not only grown in size since the onset of the GFC in 2007 but have seen a substantial increase in occupancy of well over one million square metres. This is quite an accomplishment given the severity of the GFC and is testament to the resilience of the Australian economy and the prudent financial regulations put in place in Australia following the recession of 1992.

8.2.2. Australia (National) - Supply

With regards to development activity in office markets, Australia's CBD office markets have weathered the twin effects of the GFC and the decline in mining investment boom over the nine years from 2007 to 2016 to register over a million square metres of net absorption. This has occurred in an environment where business confidence has been subdued and consumers have been reluctant to spend.

The fact that Australian office markets (Perth, Brisbane and Canberra in particular) have added over two million square metres of space to Australian CBD office markets in the same nine-year period indicates a number of things:

- Rents have been at a level where construction can occur, they cannot, by definition, grow much beyond that. In other words, as supply is added to the market, rental levels are capped at the level it costs to build a new building;

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- Businesses are in a position to commit to a new building, and are confident, forward looking, and manage their business affairs well. This is an important point. Both government and corporations have used the last eight years as an opportunity to upgrade, consolidate and reconfigure their office space, and more is expected over the next six years;
- Banks, developers and funds are ready and available to ensure buildings are constructed with prudent levels of pre-commitment and very little speculative development. Debt and equity markets and an appetite for risk are all working in harmony.

These are the signs of a very healthy office market as the office markets are behaving in an orderly manner.

Also of note is the ongoing levels of withdrawals. Whilst construction is closely monitored for the effect on vacancy levels, attention should also be given to the withdrawal of redundant space. One of the most popular alternative uses of redundant office buildings is the conversion to residential use. Higher house prices in Australia's capital cities means that in some instances it is cheaper to build than to buy existing property. Higher density living is also gaining traction and commercial property land sites are large enough to accommodate such developments. A total of 2,971,747 square metres has been monitored as being withdrawn from office markets in Australia over the last decade. This is 12% of the total size of the market and is greater than the total amount of existing vacancy. This is an important dynamic to understanding the behaviour of office markets.

8.2.3. Australia (National) - Demand

Tenant demand for office space is gathering momentum in both Melbourne and Sydney where substantial growth in net absorption is being delivered, whilst Brisbane and Canberra continue to soften, reporting lower occupancy levels. North Ryde (Sydney suburb) remains strong whilst activity in Adelaide and Parramatta is somewhat subdued due to the lack of available quality vacant office space. Both the Parramatta and Adelaide office markets are supply constrained. The lack of good quality office space either under construction or existing leaves tenants in secondary space with little alternative other than renewing their occupancy until a new project is commenced.

8.2.4. Australia (National) - Office Vacancy

The Property Council of Australia (PCA) Office Market Report, released in early August 2016, revealed national CBD office vacancy to be largely unchanged at 10.7% in August 2016. Demand for office space rose in Melbourne, Sydney, Perth and Brisbane.

Figure 8-25 - Key Market Indicators (as at September 2016)

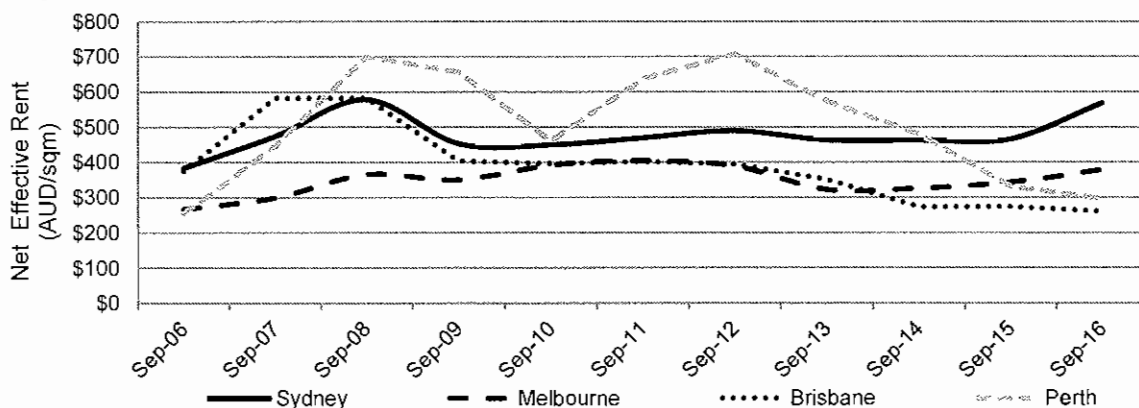
CBD Markets (Premium Avg)	Net Face Rental (AUD/sq m)	Premium Net Incentive (%)	Net Effective Rental (AUD/sq m)	Market Yield (%)	Internal Rate of Return (%)	Total Stock (sq m)	Premium Vacancy (%)	A Grade Vacancy (%)	Total Vacancy (%)	Net Absorption (sq m)
Sydney	1058	38%	661	5.00%	7.13%	5,082,215	11.3%	4.0%	5.6%	147,245
Melbourne	590	28%	428	5.38%	7.00%	4,437,824	8.4%	6.1%	7.0%	367,026
Brisbane	653	43%	375	6.00%	7.75%	2,261,878	22.1%	13.9%	16.9%	41,419
Perth	663	48%	348	6.75%	7.88%	1,768,137	16.7%	19.9%	21.8%	18,206

Source: PCA, Savills Research

8.2.5. Australia (National) - Rents

Net effective rents of A Grade offices are stable in Sydney. Rents grew quite strongly prior to the onset of the GFC in 2008 and have subsequently retreated and stabilised at current levels with a lower absorption post-GFC.

Figure 8-26 - Australian Office –Average A Grade Net Effective Rent (AUD/sqm) by Capital City Sep-06 to Sep-16



Source: Savills Research

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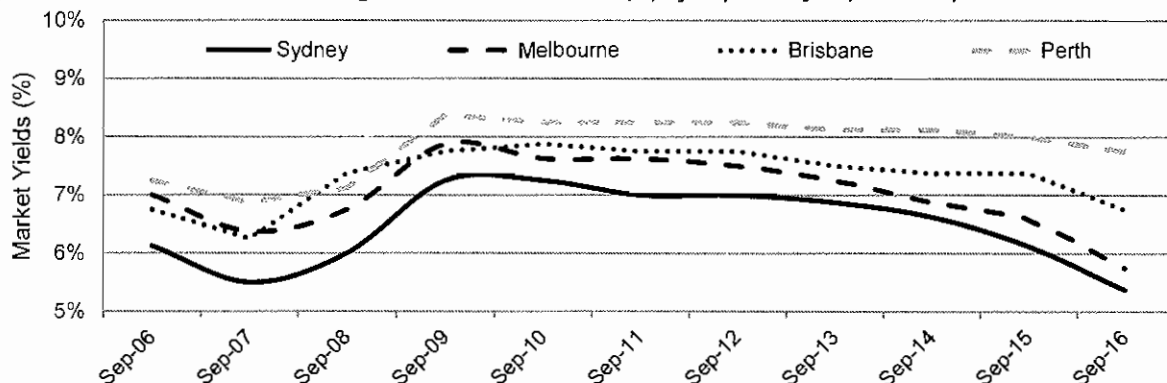
8.2.6. Australia (National) - Transactions

The commercial property markets in Australia continue to enjoy elevated levels of transaction volumes as both domestic and international capital compete for prime assets. Approximately AUD33 billion of commercial real estate has transacted from September 2015 to September 2016, official and market interest rates have firmed and the combination has served to see market yields firm on investment grade assets, particularly prime CBD office towers. Comments have persisted about the disconnect between a soft leasing market and a strong investment market but quality assets are regarded as unlikely to carry much vacancy for a long period and even with some vacancy, the returns have usually proven superior and more stable than other investment categories. A recent trend worth noting is the movement of investment capital from CBD to non-CBD office markets. Savills Research notes sales turnover in non-CBD office markets has grown from AUD2.3 billion in 2010 to AUD5.8 billion in 2015 with institutional investors increasing their activity from AUD1 billion in 2010 to AUD2.5 billion in 2015. Investment capital appears to be attracted to the yield differential between CBD and non-CBD markets which Savills Research currently estimates to be in a range of 25 basis points to over 100 basis points. On average, non-CBD investment yields have averaged between 50 and 75 basis points higher than CBD office investment yields. Market yields in office markets globally typically range between 2% and 7%. Gateway cities such as New York, London and Hong Kong currently offer investment yields in the order of 3% to 4%. In this context, investment yields in Australian office markets look particularly attractive.

8.2.7. Australia (National) - Office Yield

Investment yields continue to fall in Melbourne and Sydney. Yields in both cities firmed quite strongly prior to the onset of the GFC in 2008 and subsequently retreated before firming again as bond yields fell locally and around the world.

Figure 8-27 - Australian Office –Average A Grade Market Yields (%) by Capital City Sep-06 to Sep-16



Source: Savills Research

8.2.8. Sydney – Office Supply

According to the latest PCA figures, a total of 126,474 square metres of new and refurbished stock was added to the Sydney CBD market in the year to July 2016. However, during the same period, a total of 110,731 square metres of stock was withdrawn from the market, resulting in total net supply of 102,281 square metres.

There is currently just over 240,000 square metres of new and refurbished stock in the supply pipeline under construction and due to complete by the end of 2016, 53% of which is already committed. More than three quarters of this supply is new space, with construction underway at 333 George Street (12,500 square metres), and International Towers T3 (79,000 square metres) and T1 (102,000 square metres) as well as a number of smaller projects.

Gross supply over the next five years is expected to total approximately 657,000 square metres; however, during the same period almost 486,000 square metres of stock could be withdrawn from the market. This would result in 171,000 square metres of net additions in the Sydney CBD, and on a per annum basis this is significantly below the long-term average.

8.2.9. Sydney - Vacancy & Leasing Activity

The latest PCA Office Market Report indicates that the overall vacancy rate in the Sydney CBD decreased to 5.6% in the 12 months to July 2016, having also fallen in the prior twelve months to 6.3% in July 2015. The A Grade vacancy rate in July 2016 has decreased by 6.2% since June 2013. This has mainly been driven by a fall in direct vacancy from 172,758 square metres two years ago to 72,647 square metres in July 2016, according to the Property Council. The reduction in vacancy is also reflected in the Net Absorption figures which are reflective of tenants upgrading and consolidating into better quality office space.

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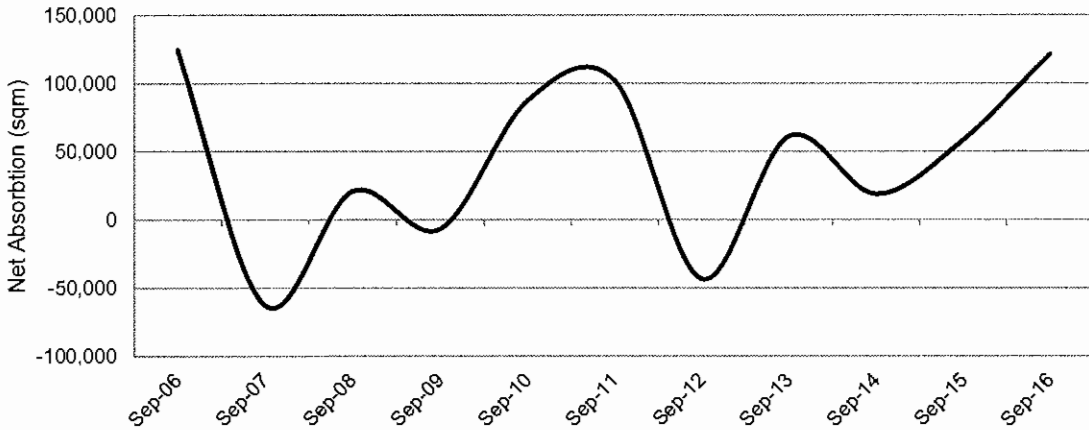
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In the 12 months to December 2015, Savills identified 225,966 square metres of leasing activity in the Sydney CBD. This is down 38% on the 12 months prior, and down on the five year average (306,554 square metres). The majority of these leases (approximately 72% of space) occurred in the Core precinct.

Of the 225,966 square metres leased in Sydney CBD in the last 12 months, the Government and Community sector was the dominant sector, leasing 27% of the space, or 71,987 square metres.

Figure 8-28 - Sydney Office –CBD Net Absorption (sqm) Sep-06 to Sep-16



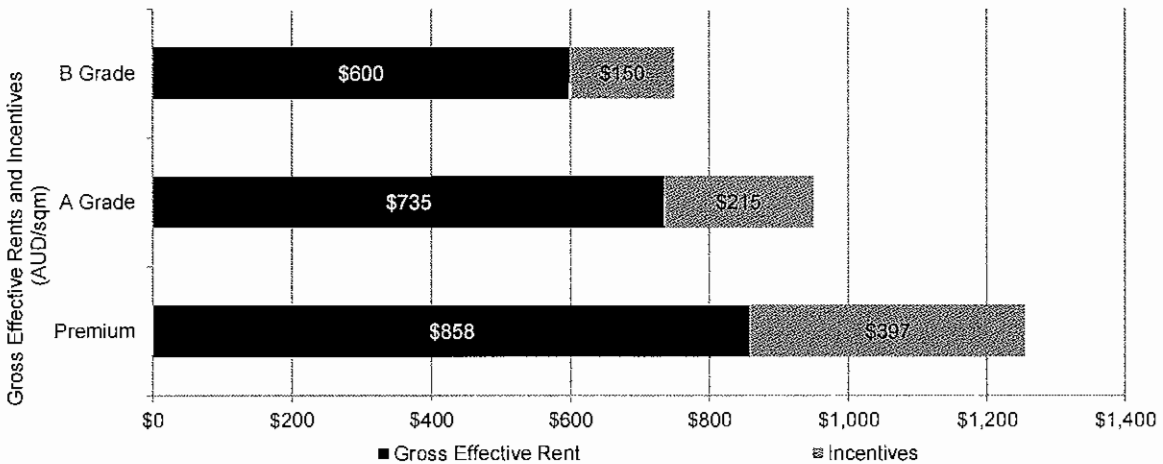
Source: PCA / Savills Research

8.2.10. Sydney - Rent

Following aggressive growth in market incentives such as rent free periods and fit out contributions (more than doubling from 15% to 38%) over the eight years from 2008 to 2016, a period in which the average Premium Grade net incentives were as low as 14.5% in December 2007, there has been a stabilisation of incentives and minimal growth in gross effective rents recorded over the last two years. Given the current increasing level of tenant demand in the market, the recent drop in vacancy rates and the low level of net supply, it is expected the current level of Premium Grade net incentives at 38% will come under downward pressure over the medium-term.

Australian CBD office property is classified into quality grades, which are Premium, A, B, C and D Grade, based on a range of factors including age, size, technical specifications and quality of workmanship.

Figure 8-29 - Sydney Office –CBD Gross Effective Rents and Incentives (AUD/sqm) Sep-16



Source: Savills Research

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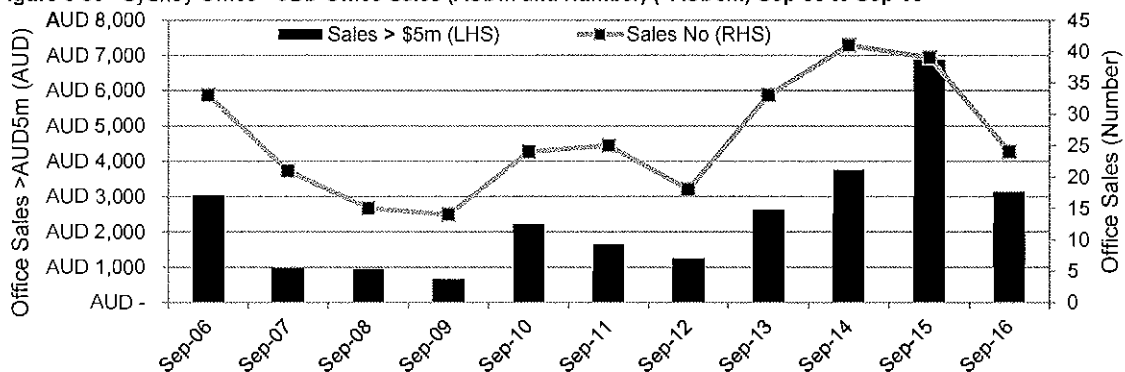
8.2.11. Sydney - Office Property Capital Transactions

Savills Research has recorded approximately AUD3.1 billion of office transactions in the 12 months to September 2016 in the Sydney CBD. This is down 55% from AUD6.9 billion in the previous 12 months, and down on the five year average of AUD3.6 billion. During the same period, 24 properties were sold, down on the previous 12 months of 39 properties, and down on the five year average of 31 properties.

Approximately AUD1.4 billion of investment has been made by foreign investors throughout the Sydney CBD in the last 12 months. This interest has also been repeated outside the Sydney CBD market as a result of the continued interest by foreign investors seeking higher yield along with their appetite for residential conversion opportunities.

Market yields in the Sydney CBD as at September 2016 are estimated to range between 5.00% and 5.75% for A Grade buildings, and between 5.50% and 6.75% for secondary grade buildings. The average yield for A Grade office buildings in the quarter to September 2016 is 5.38%, a 113 basis point firming over the last 12 months.

Figure 8-30 - Sydney Office –CBD Office Sales (AUDm and Number) (>AUD5m) Sep-06 to Sep-16



Source: Savills Research

8.2.12. Australia (National) – Office Property Market Outlook

Australia's office markets, on the whole, are enjoying greater levels of demand. This is not equal across all office markets and some office markets are experiencing a decline in occupancy, particularly those with exposure to the mining sector. Those office markets most exposed to non-mining industries are experiencing a lower vacancy due to higher levels of demand. The office markets with higher levels of vacancy can expect to enter the next phase of the office cycle as older, obsolete or redundant office space is recycled – either refurbished, turned to an alternative use or demolished. In any case, the office vacancy rate is expected to decline. Metropolitan office markets are attractive to tenants for a range of reasons including proximity to home, lower commuting times, high level of suburban amenities as well as lower occupancy costs of rent, outgoings and car parking. The metropolitan office markets do not suffer the supply shocks of major CBD office markets with smaller buildings in disparate locations more the norm (as opposed to a 100,000 square metre tower). Redundant, vacant office space is less likely to remain idle in metropolitan markets as conversion to alternative use is readily achieved.

Australia has recently enjoyed a decade of substantial investment to increase the output from mining. As this investment winds down, the RBA has progressively lowered the level of official interest rates to 50-year lows to stimulate demand in the non-mining sectors of the economy. Whilst this can be expected to bolster demand in all office markets, the non-mining office markets of Melbourne, Sydney, Canberra and Adelaide may be expected to see stronger levels of demand leading to stronger rental growth over the next five to seven years. Brisbane too can expect to benefit from growth in non-mining demand and a recovery in demand from government. White collar employment growth over the next decade, is finally forecast to be higher than the last decade and is expected to result in improving levels of demand to occupy office spaces.

The next 12 months may see private investors and syndicates finding it difficult to compete with the larger local funds and foreign investors for well positioned assets as tightening yields may price many out of the market. Investment capital locally is being accumulated in superannuation and in private and institutional funds both listed and unlisted. Private syndicates, high net worth investors, owner occupiers and developers are actively seeking opportunities. The fall in the AUD against the USD from AUD1.10 to AUD0.76 has substantially enhanced the return profile of Australian commercial property in the eyes of foreign investors. Over AUD100 billion is currently available from offshore investors should suitable investment become available in Australian office markets. This weight of capital is attracted to the current yield spread between five year bonds (at approximately 2.3%) and commercial property (at between 250 and 500 basis points higher). Metropolitan office markets are popular with investment capital due to many factors that often mitigate risk in commercial property investment. The size of the investment (typically under AUD100 million) makes metropolitan office markets more liquid for investors, the higher yields and higher emphasis on income returns, the diversity of tenants, the size of tenants and the difficulty in supplying more space alters the risk profile. Also, worth noting is the ready acceptance of conversion of redundant space to alternative uses maintaining vacancy at lower levels.

8. INDUSTRY OVERVIEW (Cont'd)

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8.3. Retail Property Market Overview

In times of economic uncertainty retail property is largely regarded as a defensive investment due to the large percentage of non-discretionary spending supporting income streams, such as food.

Australia has one of the most sophisticated and highly developed retail sectors in the world. The food retailing sector is dominated by two national companies, which are Woolworths and Coles. Discretionary retail is provided by a range of national and international retailers. Some domestic retailers are listed on the stock exchange however many are private companies.

The types of retail property range from street shops in neighbourhood and CBD locations, supermarkets, showrooms and shopping centres. Shopping centres are further divided into neighbourhood, sub-regional and regional shopping centres with industry definitions of these types of centre generally agreed. Beyond the shopping centres there are large format retail (bulky and household goods), outlet centres, markets and themed retail in tourist locations. The CBD provides for multi-level retailing.

Over the 26 years from 1990, shopping centres have been increasingly acquired by institutional owners who could actively manage, develop and maintain these centres. The GFC severely curtailed the purchasing power of institutions and allowed other buyers to enter the market.

Clearly, a number of important factors impact the performance of a shopping centre. The performance of the supermarket has a very strong bearing on the returns of the shopping centre. The supermarket can be impacted by the range on offer, the price point, the ratio of car parking and opening hours. This, in turn, can impact the performance of the adjoining specialty stores.

The catchment area also impacts the performance of the shopping centre. The road system, the points of access and competition are important factors. Critically, the size and age of the population as well as capacity for growth in population over the long term can have a material impact on centre performance. Increasingly, ethnic factors are playing a role as centres need to deal with strong levels of immigration. The planning regime differs from State to State and between local government areas and can have a profound impact on the performance of retail property.

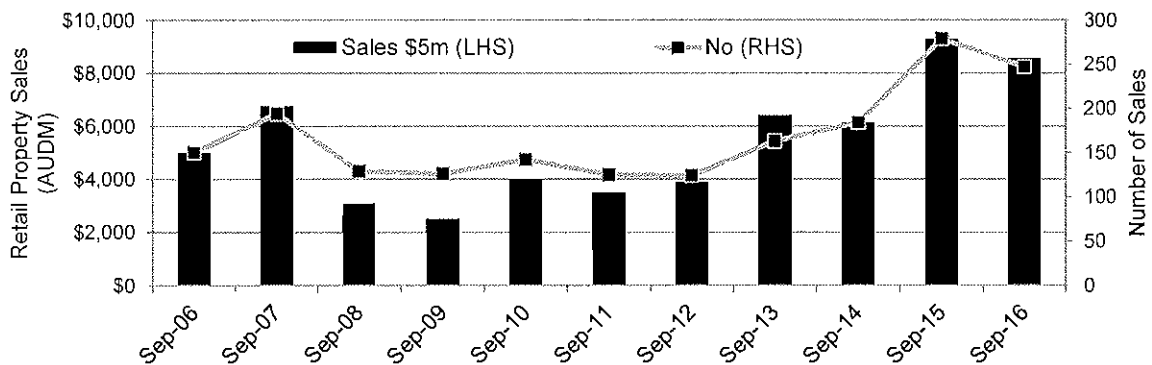
Changes in consumer spending patterns since 2007 appear to have had an adverse effect on department store, apparel and discretionary retailing turnover generally. This has impacted tenants in Regional and some Sub-Regional shopping centres. Neighbourhood shopping centres have been largely immune from this. Supermarkets have been enjoying strong turnover growth as have their associated liquor stores. Associated specialty stores such as a chemist, a take away food store, a bakery, a newsagent and other local service providers such as a dry cleaner may be found in the tenancy mix.

The structural issues facing retail are more formidable but not insurmountable. Savills Research expects the retail sector to evolve to take advantage of the structural issues rather than be over-run by them. The ageing of the population will continue to create challenges for retailers as they jockey for the dollars of retirees. Retirees can be expected to prefer services over goods and will not necessarily continue to dwell in their traditional catchment areas. Internet retailing has already changed the face of retailing for certain categories of goods and will no doubt continue to evolve and challenge more categories over time. New business models are establishing themselves. This can be seen in the turnover figures for newspapers and books which continue to face strong competition from the internet.

8.3.1. Australia (National) - Retail Property Capital Transactions

Savills monitored AUD8.6 billion of retail property transactions nationally in the 12 months to September 2016, down from AUD9.3 billion in the previous year but up on the five-year average of AUD6.9 billion. In the year September 2016, 247 properties were reported sold against 279 the previous year and is up on the five year average of 199 sales per annum.

Figure 8-31 - Australian Retail –Retail Property Sales >AUD5m (AUDm and Number) Sep-06 to Sep-16



Source: Savills Research

8. INDUSTRY OVERVIEW (Cont'd)

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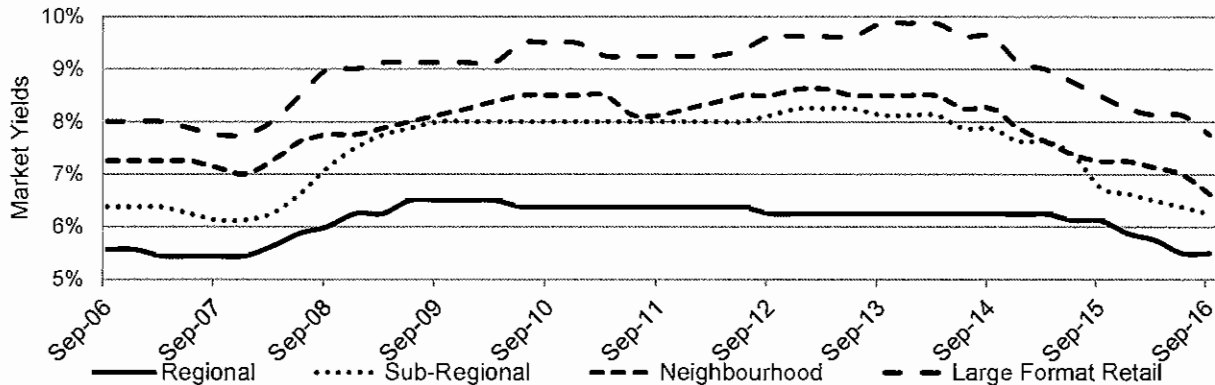
Clearly, both buyers and sellers were unwilling to transact retail property in 2009. The uncertainty surrounding the GFC left buyers and sellers being inactive. In 2010, a thaw in conditions meant both buyers and sellers could transact with greater confidence. This is reflected in the ongoing increase of sales volumes of centres culminating in a record year of turnover. Institutions (Funds, Trusts and Syndicates) have been starved of investment product in regional and sub-regional categories continue to scour neighbourhood shopping centres with strong fundamentals to add to their portfolios.

Institutional investors remained active in the investment market for the 12 months ended September 2016, purchasing 45% of all retail property sold. Private investors continue to pursue shopping centres but are now being outpriced by institutions. Also of particular note is the emergence of foreign investors purchasing 30% of retail property sold. Conditions for Australian institutions have continued to improve and so private and foreign investors are increasingly finding themselves unable to compete.

8.3.2. Australia (National) - Retail Property Yields

Nationally, shopping centre investment yields have started to firm post-GFC, as highlighted in the chart below. Shopping centres continue to transact across a broad range of yields in line with the characteristics of the individual properties.

Figure 8-32 - Australian Retail –Market Yields by Shopping Centre Type (%) Sep-06 to Sep-16



Source: Savills Research

8.3.3. Australia (National) - Retail Property Outlook

Australia has been enjoying strong population growth for over a decade and this policy of immigration retains bi-partisan support at Federal Government level. In the recent budget, immigration of 250,000 a year for the next four years makes up part of the outlook. This is on top of the net natural population growth of 150,000 people a year. Australia is now enjoying the strongest population growth in its history and amongst the strongest in the world.

The history of wealth (and real estate wealth in particular) is the history of immigration. Australia and Australian cities in particular are forecast to enjoy the fruits of strong immigration.

Retail property can be expected to be a beneficiary of strong population growth. Clearly, some catchment areas will do better than others and this will continue to present the greatest challenge and greatest opportunity for investors.

Catchment areas that can grow their populations through new land release or infill development or pro-active planning policies, should show dramatic increases in turnover especially if the ability to increase retail floor space is limited. Conversely, the catchment areas that cannot grow their populations due to limited available new land supply, draconian or archaic residential planning systems and the capacity for expanded retail competition, should deliver below average increases in turnover.

Savills Research is of the view that interest rates will be lower for longer and, combined with a weight of investment capital, should continue to see assets keenly sought after and strong yields achieved given prevailing catchment area fundamentals.

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9. Sydney Property Development Sector Overview

9.1. Activities and Segmentation of the Industry

9.1.1. Activities of the Industry

The property industry is generally classified into property development and property investment. EWI's core business in Australia is in property development. The property development process in Australia is highly regulated and is governed by local, state and federal government regulations. The general processes are:

1. Identification of site.
2. Due diligence in issues such as zoning, planning and environmental matters.
3. Application for approval of the development scheme, and appointment of a builder and a quantity surveyor to conduct and price the works as the approval is granted.
4. Commencement of project marketing to reach a threshold number (usually 70%) of contracted pre-sales before applications to banks for construction finance (if required) can be submitted.
5. Building would commence subject to agreed costs, finishes and completion timeframe.
6. Completion would occur within agreed costs and timeframes delivering agreed finishes.
7. Sales of all dwellings would conclude and the development handed over to new owners with full settlement taking place.

a) Environmental Issues

The contamination of land from previous uses such as industrial or petrol station is an important consideration. Developers should make themselves completely aware of the suitability of land for any intended purpose. State Government approval authorities require the property to be decontaminated to an approved standard. Where the intended use is residential, authorities may require a Certificate of Environmental Audit to be issued by the Environment Protection Authority. The costs of clean up or decontamination can be considerable and must be properly factored into the project feasibility.

b) Planning Issues

Proposed acquisition sites are generally limited to two types:

- the site already has an issued planning permit
- the site has no issued planning permit

The planning and design process in the Australian development market is heavily regulated and can be the subject of time delays in proving up a design and a feasibility so as to comply with all regulatory requirements. This can often be as long as two years.

The relevant planning authorities, which include State Government and local councils, have very restrictive guidelines on height, density, setback, overshadowing and communal design, so as to limit the impact of the design of the proposed development on the community.

There are however certain designated areas, such as activity centres, under which the design guidelines have been less stringent to promote higher density including greater height of projects, as distinct from medium to low rise infill developments. The Government encourages higher density projects in these nominated activity centres, whereas there are very strict prohibitions against excessive height or excessively bulky developments in non-activity centres. Intending developers must bear the zoning aspects in mind as there will be substantial delays incurred in obtaining development approval.

9.1.2. Segmentation of the Industry

The property development industry is generally segmented into five categories, i.e. residential, retail, office, industrial, and hospitality. EWI is primarily involved in the development of residential properties.

9.2. Market Size - Sydney and Australia

The size of the Australian property market is estimated at approximately AUD6.1 trillion by CoreLogic RP Data, comprising AUD5.6 trillion of residential properties and AUD500 billion of commercial (office, retail, industrial and leisure) properties. In addition to residential and commercial properties, Australia has vast tracts of agricultural and mining land.

The size of the Sydney property market is estimated at approximately AUD2 trillion by CoreLogic RP Data, comprising AUD1.85 trillion of residential properties and AUD150 billion of commercial (office, retail, industrial and leisure) properties. In addition to residential and commercial properties, NSW has vast tracts of agricultural and mining land as well as rural residential and commercial properties.

8. INDUSTRY OVERVIEW (Cont'd)

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9.3. Industry Players and Competition

The Australian residential development landscape comprises large national developers with substantial land holdings at various stages of production. These developers generally specialise in house and land packages on master-planned estates.

Some developers specialise in medium density housing in suburban in-fill⁷ or brownfield⁸ development sites. These sites may have had a former use such as light industrial.

Some developers specialise in high rise and medium density apartment development. These developments, due to their height, are usually confined to existing commercial business areas such as the CBD and surrounds. These style of developments can also be found in popular holiday destinations such as the Gold Coast in Queensland.

Some of these developers are listed on the Australian Stock Exchange, while some others are private companies. Recently, there have been increasing numbers of overseas developers in this market segment.

Figure 9-1 - Major Residential Developers in NSW

Developer	Type	Master planned	Infill	High Rise
Australian Developers				
Mirvac	Australian listed	Yes	Yes	Yes
Lend Lease	Australian listed	Yes	Yes	Yes
Cedar Woods	Australian listed	Yes	Yes	No
Finbar Group	Australian listed	No	Yes	Yes
Peet and Co	Australian listed	Yes	Yes	No
Central Equity	Australian listed	No	Yes	Yes
Folkestone Ltd	Australian listed	Yes	Yes	Yes
Metroland Australia	Australian listed	No	Yes	Yes
Payce Consolidated	Australian listed	No	Yes	Yes
Sunland Group	Australian listed	No	Yes	Yes
Aspen Living	Australian listed	No	Yes	No
Stockland	Australian listed	Yes	Yes	Yes
Austcorp	Australian listed	Yes	Yes	Yes
AV Jennings	Australian listed	Yes	Yes	No
Investa Property Group	Private company	Yes	Yes	No
Walker Corporation	Private company	Yes	Yes	Yes
Meriton	Private company	No	Yes	Yes
Billbergia	Private company	No	Yes	Yes
Grocon	Private company	No	Yes	Yes
Toplace Group	Private company	No	Yes	Yes
Cbus	Private company	No	No	Yes
ISPT	Private company	Yes	Yes	Yes
Oakstand	Private company	No	Yes	Yes
Toga Group	Private company	No	No	Yes
St Hilliers	Private company	No	Yes	Yes
Ceeroose	Private company	No	Yes	Yes
EDG Capital	Private company	No	Yes	Yes
Lindsay Bennelong	Private company	No	Yes	Yes
Rose Corp	Private company	Yes	Yes	Yes
Crown Group	Private company	No	Yes	Yes
Overseas Developers				
Aqualand	Overseas	No	Yes	Yes
Bright Ruby	Overseas	No	No	Yes
Dalian Wanda	Overseas	No	No	Yes
Vision Investment Group	Overseas	No	No	Yes
Country Garden	Overseas listed	No	Yes	Yes
Frasers Property Group	Overseas listed	Yes	Yes	Yes
Greenland	Overseas listed	No	No	Yes
SP Setia Berhad	Overseas listed	No	No	Yes
Fosun	Overseas listed	No	No	Yes
Starryland	Overseas listed	No	No	Yes
EWI	Overseas listed	No	No	Yes
Roxy Pacific	Overseas listed	No	Yes	Yes
Stamford Land Corp	Overseas listed	No	No	Yes

Source: Savills Research

⁷ Vacant or under-used parcels within existing urban areas that are already largely developed.

⁸ Land previously used for industrial or commercial purposes.

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9.4. Substitute Products

There are no practical substitutes for residential or commercial properties.

- **Residential:** Although there are no practical substitutes for residential properties, there is a choice of different types of properties such as low-cost housing, flats, apartments, bungalows, town houses, semi-detached houses and stand-alone houses. In certain locations, commercial premises can be converted to residential use.
- **Commercial:** Although there are no practical substitutes for commercial properties, there is a choice of different types of properties such as purpose built offices, shops, showrooms, factories, warehouses and shopping centres. In certain locations, residential properties can be converted to commercial use.

9.5. Vulnerability to Imports

As building materials are the main inputs for the construction of buildings, structures and infrastructure, the supply of these materials will affect property developers. Generally, major building materials used in property development such as concrete and steel are widely available locally and overseas.

Most of the bulky and basic building materials such as steel and concrete, sand, earth, bricks, tiles, timber and cement are available locally. As such, developers are normally not vulnerable to imports as most common materials are available locally, and if not, there are many alternative sources of supply overseas.

9.6. Barriers to Entry

The more prominent barriers related to property development industry in Australia are:

- Cost of capital where access to debt and equity vary dramatically between listed, unlisted companies, private development companies and smaller developers. Scale, track record and risk are all factors contributing to different costs of capital.
- Economies of scale have a bearing as larger developers are able to deploy capital and resources across a range of locations, projects and sectors as required.
- Absolute cost advantages where smaller developers have lower corporate overheads and lower profit requirements.
- Ownership of prime and favourable land.

Diversification by incumbents creates the ability of many participants to switch costs and profits to and from different divisions. Many property development companies in Australia develop commercial and residential property, operate a civic works division and operate a large funds management division.

Government regulation can impose different requirements from developers depending on their size, and their domicile (overseas or domestic). Government regulation can change without notice. Governments can control the supply of land through the zoning process.

Pre-emptive and retaliatory pricing could possibly occur but has not been seen to date.

Exclusive controls over other strategic resources where developers control materials such as concrete, steel, cabling, machinery is possible but appears highly unlikely as there are multiple suppliers of materials in Australia.

9.7. Industry Outlook and Prospects

9.7.1. Capital and Rental Growth

In Sydney price appreciation is at record levels both in percentage and dollar terms and is a function of several factors:

- A long period of static price movement where prices remained at AUD800,000 for three years between June 2010 and June 2013;
- Historically low interest rates with official rates at 1.5% and HLIR below 4%;
- A pick-up in employment growth enticing more confidence from buyers;
- An increase in migration with approximately 60,000 new arrivals into the Metropolitan Sydney in the last twelve months; and
- A lack of supply.

The rate of growth is generally regarded as unsustainable and most market participants are looking for the market to cool and consolidate for some time. New government regulations essentially increase the cost of borrowing for investment and this may make it less attractive thereby tempering demand from investors.

In response to the recent price increases the market has responded by increasing the levels of supply, increasing choice, competition and stifling future price appreciation. This has been accelerated by the fact that in certain locations, it is cheaper to buy new property than existing property due to the cost of stamp duty on existing properties.

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9.7.2. Future Supply and Absorption

NSW dwelling approvals are currently printing at an annualised rate of 75,000 units. This is above the long term average but will go some way to satisfying future demand and existing pent up demand. The lack of supply in particular price points and locations has contributed significantly to the pent up demand. Specifically, population growth of 2.7% per annum in the City of Parramatta from 2006 to 2016 was higher than Sydney's average of 1.8%. The population is expected to grow further by 2.6% annually from 2017 to 2036, higher than the forecasted growth of 1.6% for Australia. This population growth will be supported by employment growth forecast of 1.8% per annum until 2036 (76,384 jobs) in Parramatta CBD, which is also home to government agencies such as NSW Police, Sydney Water Corporation and multinational companies such as KPMG and Deloitte.

Whilst future supply is above average, Savills Research believes the amount of pent up demand is significant such that excess supply can be absorbed comfortably for a number of years subject to pricing and locational considerations.

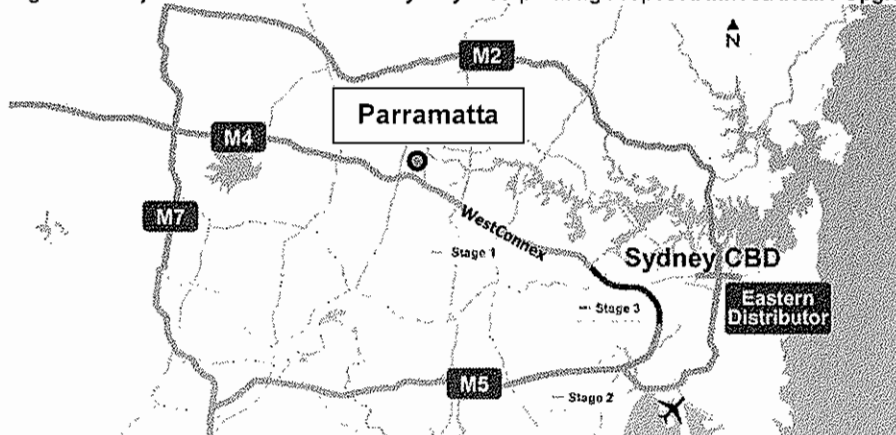
9.7.3. Infrastructure Development

In recent years significant ongoing improvements have been made to Sydney's metropolitan transport infrastructure, including the M2 Hills Motorway and M5 South Western Motorway motorways which are currently being widened to accommodate increasing traffic volumes during peak periods.

Sydney's next key infrastructure project announced by the NSW Government will be Australia's largest integrated transport and urban development known as WestConnex. The 33 kilometre project will bring together a number of Sydney's freeways which together will form a vital link to the Orbital Network.

In Parramatta, Parramatta Light Rail track is currently under planning and will connect Greater Parramatta to areas across the region via a 20-kilometre corridor. The AUD1 billion project is expected to complete by 2023.

Figure 9-2 Major Road Infrastructure in Sydney Incorporating Proposed Infrastructure Upgrades



Source: Transport for NSW, Savills Research

Infrastructure NSW has made 30 investment recommendations to Government on the next round of critical infrastructure for NSW, set out in the 'State Infrastructure Strategy Update 2014'. The recommendations set out in the strategy are for infrastructure projects and programs valued at AUD18.9 billion—priorities that will reduce congestion, support population growth and stimulate productivity across Sydney and regional NSW. This is to be funded by the privatisation of electricity assets, which has passed Parliament in the middle of 2015. The privatisation of electricity assets in NSW are expected to generate AUD20 billion.

According to the Infrastructure NSW: "Independent modelling by Deloitte Access Economics has found that if implemented effectively the recommendations would increase the Gross State Product by around AUD30.9 billion and add 122,000 more jobs. Infrastructure NSW's report targets three areas: Global Sydney's competitiveness; supporting population and economic growth in Greater Sydney⁹, including Parramatta and Western Sydney; and ensuring productive regional industries and connected regional communities."

The focus for infrastructure is expected to be urban public transport, urban roads, international gateways (ports and airports), regional transport, water, education, health, culture and energy. For instance, the new Parramatta City Campus for Western Sydney University has capacity for 10,000 students, and this will add into the infrastructure requirement of the city. Western Sydney University is one of the fastest growing universities in Australia with 45,383 students as at December 2014.

⁹ Greater Sydney is all of the Metropolitan Sydney, which accounts for some 64% of NSW's population and is home to over 4.9 million people.

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10. Sydney Submarket Analysis

10.1. Overview - West Village, Parramatta

Parramatta is a considerable commercial centre containing 690,000 square metres of office space and has substantial retail amenity with the nearby Westfield Parramatta Regional Shopping Mall. Parramatta is a major transport interchange with substantial road, rail and bus infrastructure in place.

Parramatta's West Village was launched in June 2015. Designed by Woods Bagot, West Village comprises one bedroom apartments (some featuring a study), two bedroom apartments and three bedroom apartments, sub-penthouses and penthouses. The project was approved with 398 apartment units across 39-storey tower. The project is expected to include a residents' sky terrace at the highest floor with views of Sydney's CBD and the Blue Mountains. Additionally, it is expected to have rooftop charcoal grille dining areas, a city view lounge deck area and an open lawn for residents. An additional podium roof garden on the sixth storey with private enclaves and barbecue facilities is also expected to be made available for the exclusive use of the residents. Other common spaces are expected to include a central ground floor courtyard, a lobby, a ground floor retail precinct with cafés and international cuisine options. West Village, Parramatta is also expected to feature an indoor nine to 18-hole virtual golf driving range and a fully sound-proofed private music room with a baby grand piano for private performances.

10.2. Competitive Positioning and Target Market

The West Village project was launched in an overseas marketing campaign and domestic marketing campaign in mid-2015. The project is anticipated to commence construction in 2017 with completion scheduled in 2020.

Figure 10-1 - Targeted Sales Prices of Residential Units

Development	Low	High	Average Rate Per Square Metre
West Village	AUD530,000	AUD1,350,000	AUD11,500

Source: Savills Research

The increased residential supply in Parramatta combined with substantial local and state government investment in infrastructure have increased awareness of Parramatta as an emerging second CBD within the Metropolitan Sydney. Significant transportation linkages (WestConnex) and ongoing commercial development (both retail and office) results in more jobs created in the area and a resultant increase in demand for residential property. Whilst many buyers may be expected to be local to the Western suburbs of Sydney, the increasing awareness of Parramatta as a significant and emerging CBD is expected to broaden the range of interest and appeal to a larger catchment area to other parts of NSW.

Apartment projects in Australia have proven very popular with investors over the past 20 years. Predominantly, investors purchase approximately 70% of developments with the other 30% purchased by owner occupiers. The buyer mix of West Village is of 55% investor and 45% owner occupiers, which the latter includes 13% of FHB.

Over recent years, Australia has become a popular residential property investment destination for overseas buyers. The West Village initial sales campaign was launched in Malaysia, Singapore, Hong Kong, Indonesia, China and Australia and has resulted in a buyer mix of 51% overseas and 49% local buyer.

10.3. Competition and Market Share

The Parramatta Local Government Area has an estimated value in proposed residential developments of over AUD2.0 billion in construction and approximately AUD7 billion in gross realisation value across 25 developments (including West Village) comprising 8,299 units. A list of developments in Parramatta is tabled below:

Figure 10-2: Proposed and Actual High Rise Residential Developments in Parramatta

Development	Address	Developer	Number of units	Completion	Status	Sold/Active
V by Crown	134-140 Marsden St	Crown	367	2016	UC	Active
Rise	29 Hunter St	Toplace Group	133	2016	UC	Active
Altitude	330 Church St	Meriton	378	2016	UC	Active
Promenade Stage 1	2 Morton St	Starryland	277	2016	UC	Sold
Mode	6 Sorrell St	Better Buildings	26	2016	UC	Active
Amos	2-4 Amos St	Universal Property Group	56	2016	UC	Sold
10 O'Connell St	10 O'Connell St	JKN Para	108	2016	UC	Sold
Riviera	8 River Rd West	Toplace Group	287	2017	UC	Active
Macquarie Towers	189 Macquarie St	Toplace	425	2019	UC	Active
Riverside	333 Church St	Lidis/Dockside	413	2018	DA	Active
River Vistas	1A Morton St	JQZ	355	2018	UC	Sold
The Rose	18 Hope St	Bookrill	70	2015	UC	Sold
Aspire	160-182 Church St	Parramatta Council	700	2020	DA	Active
West Village (approved plan)	76-100 Church St	Eco World Sydney Development Pty Ltd	398	2020	DA	Active
Westpoint	7 Aird St	ConstructCorp	41	2018	UC	Active

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Development	Address	Developer	Number of units	Completion	Status	Sold/Active
Veron Garden	63-67 Veron St	Romanous	52	2016	UC	Active
Promenade Stage 2	2 Morton St	Starryland	198	2018	UC	Active
Promenade Stage 3	2 Morton St	Starryland	307	2020	DA	Active
The Galleria	23-29 Hassall St	Nu Corp	140	2019	UC	Active
Merrylands	464 Church St	Dyldam	106	2017	UC	Active
Horizons	9 Hassall St	Macland	184	2018	DA	Active
Skyrise	11 Hassall St	Sonenco	216	2020	DA	Active
Gateway South	57-83 Church St	Dyldam	779	2020	DA	Active
"Lone Star"	7 Parkes St	Dyldam	174	2019	EP	Active
Greenway	230 Church St	Leighton Properties	416	2020	EP	Active
Riverbank Stages 1 & 2	Phillip St	City of Parramatta Council	1,361	2021	EP	Active
The Peak	20 Parkes St	Chiwayland	366	2021	EP	Active

Source: Cordells, Savills Research
 UC = Under Construction, DA = Development Approval, EP = Early Planning

West Village's development size is at 398 units under the approved plan, and is estimated to account for 4.8% market share in the Parramatta residential developments market based on the 8,333 proposed units.

Figure 10-3: EWI's Market Share (By Units) in Parramatta Residential Developments Market

EWI's Development	Development Size	Market Size	Market Share
West Village	398 units	8,333 units	4.8%

Source: Cordells, Savills Research

10.4. Pricing Analysis

Adopted pricing for West Village of between AUD530,000 and AUD1,350,000 is in keeping with recent price achievement in the Parramatta new apartment market. Savills Research has had referenced to currently active developments and to recently sold developments that are similar in location and quality with West Village project. Proposed rates per square metre translate from AUD11,000 to AUD14,000 which are higher than the rates per square metre parameters achieved in the 2012 to 2014 period.

High rise developments are consistently commanding higher price per square metre rates than low rise with price differentials consistently in the range of a premium of 23 to 26%. This is often attributed to a number of factors including extended views, especially in Parramatta where views of the Sydney CBD are possible.

10.5. Outlook

The Parramatta CBD has seen a surge of residential and commercial development in recent years. This should contribute to strong population growth for the region and an increase of much needed supply of both commercial and residential properties. If the potential development pipeline is realised, the Parramatta landscape is expected to go through a significant transformation over the next decade. Savills Research expects the broader property market in Parramatta to continue to generate strong investment returns.

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES

I. LONDON CITY ISLAND PHASE 2



Jones Lang LaSalle Ltd
30 Warwick Street London W1B 5NH
+44 (0)20 7493 4933

jll.co.uk

Eco World International Berhad
Suite 3A.01, Level 3A
The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

Direct line +44 (0)207 087 5581
jonathan.smith@eu.jll.com

14th September 2016

Dear Sirs

Valuation Certificate of Phase 2 London City Island, Orchard Place, London, E14, United Kingdom ("Subject Property")

Jones Lang LaSalle Limited ("JLL") has been instructed by Eco World International Berhad ("EWI") to provide a Valuation Certificate for the Subject Property and details of the valuation are contained within our full Valuation Report dated 14th September 2016 ("Report"). This valuation certificate is prepared for the specific purpose of inclusion in the prospectus in connection with the initial public offering ("IPO") and listing of EWI on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

The valuation has been prepared in accordance with the Asset Valuation Guidelines issued by Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers, and Estate Agents ("Malaysian Valuation Standards"). Given the location of the Subject Property is within the United Kingdom ("UK"), our valuation is also prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards UK ("Red Book") January 2014 (Revised April 2015) published by the RICS.

The Subject Property has been valued on the basis of "Market Value" as defined in the Malaysian Valuation Standards and RICS Red Book, being *'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'*.

Save as for the purpose of inclusion in the prospectus detailed above, neither the whole nor any part of this valuation certificate nor any reference thereto may be included in any document, circular, or statement without our written approval and a description of the form or context in which it appears.

This valuation certificate is a summary of the Report that we have prepared and it does not contain all the information and assumptions that are included in the Report. For further details, reference may be made to the Report, copies of which have been provided to EWI.

The valuation contained in the Report is based on information obtained from reliable and reputable agencies and sources, EWI and other related parties. Whilst JLL has endeavoured to ensure the accuracy of the factual information, we have not independently verified all the information provided by EWI or other reliable and reputable parties.

In preparing the Report, we have relied to a considerable extent on information provided by EWI, particularly in respect of such matters, but not limited to floor areas, build cost, existing sales at the subject scheme and the terms of the letting to the English National Ballet ("ENB") and the proposed letting to the London International Film School ("LFS").

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)

Valuation Certificate Project Ulltron

September 2016

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit. Since that date we have monitored market transactions and market sentiment in arriving at our opinion of Market Value.

There is still a shortage of comparable evidence of arm's length transactions since the Referendum. We have had, therefore, to exercise a greater degree of judgement than would be applied under more liquid market conditions. We would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to effect a disposal.

We are of the opinion that the Market Value of the predominantly freehold and part leasehold interest in the Subject Property as it exists, and on the basis of the agreement for lease to the ENB and LFS and vacant possession of the remainder of the Subject Property, as at the date of valuation, is **£156,800,000** (equivalent to **RM 853,540,800** based on an exchange rate of RM5.4435:£1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00pm as at 14th September 2016, (i.e. the Valuation Date).

Yours faithfully



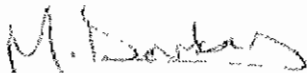
Jonathan Smith MRICS
Registration Number: 1225916
Director
Registered Valuer
For and on behalf of
Jones Lang LaSalle Limited

Yours faithfully



Matthew Green MRICS
Registration Number: 1102775
Director
Registered Valuer
For and on behalf of
Jones Lang LaSalle Limited

Yours faithfully



Mark Darby MRICS
Registration Number: 1202457
Associate Director
For and on behalf of
Jones Lang LaSalle Limited
Date: 14th September 2016

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Valuation Certificate

Identification of Subject Property

Property Address: Phase 2, London City Island, Orchard Place, London, E14, United Kingdom.

Title Numbers: EGL442847 (Freehold) and EGL489449 (Leasehold).

Interest Valued and Tenure: Phase 2 measures 2.41 hectares (5.95 acres) of which 2.36 hectares (5.82 acres) relates to the freehold title and 0.05 hectares (0.13 acres) relates to the leasehold titles.

The majority of the Phase 2 land is held freehold and registered with title absolute under title EGL442847 which relates to "land at middle wharf and Baldwins Upper Wharf and Crown Wharf, Orchard Place".

A small parcel of the Phase 2 land on the west side of Orchard Place is held leasehold with title absolute under title EGL489449. This small area of the site is within the freehold ownership of a third party, Joyce Vera Lorkin Rogers and others ("the Rogers") and the Developer, as defined below, is effectively the tenant benefitting from a long leasehold interest of 125 years from 10 March 2005, expiring in March 2130. The rent passing is £16,185.65 per annum subject to a capped five year review in line with the Retail Price Index (RPI) but capped at £28,000 pa for 25 years and £56,000 pa for 25 years thereafter.

The leasehold land will accommodate Building I of Phase 2. Whilst the lease allows the tenant (the Developer) to construct on the premises, the permitted use is restricted to commercial use, including use as a multi-storey car park. Building I is currently designed to accommodate non-residential use including car parking, office space and a small amount of leisure space.

Registered Owner: The Subject Property is held by Eco World – Ballymore London City Island Company Limited ("Developer").

Location: The Subject Property is situated on Leamouth Peninsula in the East London District of Canning Town within the UK. The area falls under the jurisdiction of the London Borough of Tower Hamlets.

The Subject Property is situated 1.5 miles east of Canary Wharf, 0.6 miles north of Greenwich Peninsula (O2 Arena), 2.9 miles south of Stratford and 0.8 miles west of Royal Victoria Docks.

General Description of Subject Property

Property Description: The Subject Property comprises a brownfield 'virtual' island development site that is currently being redeveloped and is bounded almost entirely by the River Lea, with Orchard Place forming the Subject Property's southernmost boundary.

Phase 1 (residential-led mixed use development) of the development is under construction with the first completions having begun in mid 2016. Phase 2 of the development, which forms the subject of this valuation, predominantly comprises the northern half of the

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Peninsula together with a smaller parcel of land in the south western corner of the masterplan which is surrounded by Phase 1 development.

The current proposals for Phase 2 involve the development of a residential-led mixed use scheme comprising 1,145 residential apartments (15 units of which will be affordable) across six buildings of between 12 and 27 storeys (Building A, B, C, D, E and M) with ancillary retail accommodation and creative industries (e.g. advertising, architecture, art, crafts, design, fashion, film, music, performing arts, publishing etc.) space at ground floor level. A further three buildings (Building F, N and I) will provide non-residential space for retail, office, education, leisure, arts window, community centre and energy centre uses.

Parking will be provided in Building I and Building E for a total of 560 vehicles of which 145 car parking spaces have been reserved for purchasers of apartments within Phase 1. This leaves a balance of 415 car parking spaces for Phase 2 purchasers.

The Subject Property was acquired by the Developer on 15 May 2015 for £65,466,667 albeit that the price was agreed in Q4 2014.

Proposed Built Area:

We summarise below the Net Saleable Area ('NSA', effectively a Gross Internal Area excluding common areas) and the Gross Internal Area (including common areas) of the residential accommodation (to include the 15 affordable housing units which will be delivered in Building E) alongside the unit mix as detailed in the unit schedules provided to us:-

Unit Type	A	B	C	D	E	M	Total
Suite	44	45	48	40	7	39	223
1 Bed	92	115	96	80	34	98	515
2 Bed	57	66	48	60	21	53	305
3 Bed	6	2	24	20	5	27	84
4 / 5 Bed	1	0	1	10	6	0	18
Total	200	228	217	210	73	217	1,145
NSA (sq ft)	128,457	144,552	143,490	150,921	52,781	143,149	763,350
NSA / UNIT	642	634	661	719	723	660	667
GIA (sq ft)	158,629	180,468	174,245	182,449	64,240	176,638	936,669

The mix of the affordable housing units in Building E will be determined as and when reserved matters planning permission is obtained. However, it is currently anticipated that the mix will comprise 5 x 1 bedroom units and 10 x 2 bedroom units, all of intermediate tenure.

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We summarise below the proposed commercial accommodation:-

Building	Proposed Use	GEA (sq ft)	GIA (sq ft)	NIA (sq ft)
Building A - Unit A1	Creative Industries	1,330	1,192	1,182
Building A - Unit A2	Creative Industries	3,100	2,707	2,674
Building B - Unit B1	Retail	1,403	1,247	1,247
Building B - Unit B2	Retail	4,380	4,121	4,038
Building C - Unit C1	Retail	3,604	3,349	3,328
Building D - Unit D1	Retail	3,326	2,705	2,672
Building F - Unit F1 (open market)	Retail	1,008	938	931
Building F - Unit F2 (open market)	Retail	1,248	1,138	1,130
Building F - Unit F3 (ENB)	Retail	552	493	489
Building F - Unit F4 (ENB)	Education	89,237	81,381	58,793
Building I	Office	47,932	45,508	35,513
Building I (LFS)	Office	3,945	3,689	3,635
Building I	Management Office	1,480	1,371	1,367
Building M - Unit M1	Retail	903	745	745
Building M - Unit M2	Retail	1,075	990	971
Building M - Unit M3	Creative Industries	777	698	691
Building N (LFS)	Community	20,585	19,168	15,745
Building N	Energy Centre	8,263	7,598	6,915
Total		194,148	179,037	142,065

We have relied upon the areas provided as being true and accurate. Whilst substantial changes to the overall quantum of NSA is not expected, it is likely that floor areas will be subject to change as detailed design proposal are worked up and Reserved Matters permissions are obtained for individual buildings.

Existing Use:

Part built and undeveloped residential-led mixed use development land.

Planning:

The Phase 2 site is subject to three significant planning applications, a hybrid part outline/part detailed application relating to the redevelopment of the entire site, which was approved on the 10 March 2011, a detailed planning application relating to the erection of Building N which was approved on the 11 April 2008 and a Reserved Matters application relating to the detail of Buildings A and M, which was approved on 8 December 2014. The reserved matters consent was further amended by an application which was approved on 29th March 2016. Building I also benefits from a detailed planning permission.

Buildings B, C, D, E and F of Phase 2 benefit from an outline rather than a detailed planning permission, and the Local Planning Authority are currently considering a planning application seeking Reserved Matters consent (PA/16/02139). A decision is due in Q4 2016.

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**Information Specific
to the Subject
Property:**

The Subject Property comprises an ongoing property development. We understand that construction began in October 2015 and the Developer anticipates practical completion of the development to occur in March 2019.

Buildings A, B, M and D were released off plan to the sales market in 2015 and Buildings E and C in 2016. We summarise reservations/exchanges to date as follows:-

SALES						
Building	Units	Net Saleable (Sq Ft)	Reserved/Exc hanged	MV £psf	ASP	Average Unit (Sq Ft)
A	186	115,976	£93,153,230	£803	£500,824	624
B	157	92,272	£79,061,478	£857	£503,576	588
C	58	34,126	£29,028,158	£851	£500,485	588
M	181	109,017	£88,972,075	£816	£491,558	602
D	132	77,814	£66,111,277	£850	£500,843	589
E	32	20,076	£16,490,738	£821	£515,336	627
Total	746	449,281	£372,816,956	£830	£499,755	602

In addition 99 parking spaces have been reserved / exchanged for a total of £2,730,000 reflecting an average agreed price of £27,576 per space.

Market Value

Market Value GBP: £156,800,000.

Market Value MYR: RM 853,540,800.

Exchange Rate at Date of Valuation: RM5.4435:GBP1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00pm as at 14th September 2016.

Date of Valuation: 14th September 2016.

Valuation Methods: For the purpose of this valuation we have adopted the Income Capitalisation Approach (the Residual Method), cross checking the results of this analysis with the Comparison Approach/Method. With regard to the Comparison Method, it should be considered as a cross-check only and not a reliable basis of valuation in isolation given (but not limited to) the uniqueness of the site, its location, planning permission, density, height, provision of affordable housing and the limited availability of directly comparable or relevant land transactions at or around the date of valuation.

It is our opinion that a prospective purchaser would rely heavily upon the Residual Cash Flow Analysis as this method reflects the expectations of a purchaser in relation to costs, selling prices, profit margins, etc. In this instance the comparable method of valuation should only be seen as a cross check to the residual valuation on account of planning policy, planning status, unit density, height, affordable housing, Section 106/Community Infrastructure Levy liabilities and site status varying substantially from site to site. The lack of commonality in these factors (particularly with regard to high density residential led mixed use development sites in central London) makes the comparison of land values difficult and at times misleading. The development parameters of each site will often be

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materially different, rendering the comparable method of valuation inappropriate in establishing our opinion of the site's Market Value. In summary we have utilised one valuation approach to ascertain our opinion of the Subject Property's Market Value.

**Any other matters
that affect the value
/ marketability:**

Building F is subject to an agreement for lease to the ENB. This agreement is conditional on reserved matters approval being obtained for a revised building design. On handover, a lease of 199 years will be granted to the ENB on a peppercorn rent (£1 per annum) but subject to a lease premium of £5,000,000 payable on handover. A peppercorn rent is a nominal ground rent which is used to maintain a formal landlord-tenant relationship between the two parties.

We would note that the proposed letting to the ENB is conditional upon the Developer obtaining the relevant amendments to redistribute some of the non-residential use floor space within the approved outline scheme to enable Building F to better suit the ENB's requirements. A Reserved Matters Planning Application has been submitted for Buildings B, C, D, E and F which crystallises these changes and a decision from the Local Planning Authority is expected in Q4 2016. We would consider the level of associated planning risk to be minimal in this instance and therefore have had regard to the current proposals in preparing our valuation.

Community and office accommodation within Buildings N and I are pre-let to the London International Film School (LFS) for use as a Cinema and flexible office space. Again, LFS is considered a reputable tenant with the potential to attract other high-quality commercial occupiers. This agreement for a lease is conditional upon the approval of a non-material amendment / variation of conditions application which has been submitted to the Local Planning Authority but as at the date of the valuation remains undecided.

There is a restrictive covenant in favour of; 1) The Commission for New Homes (now defunct, and now Greater London Authority); 2) Transport for London, 3) The London Borough of Tower Hamlets and 4) The London Borough of Newham, which limits the use of accommodation within Building N to a community use. The Developer is not seeking to get the Restrictive Covenant removed or struck from the Property's Title. We understand that the Developer has entered into positive discussions with the beneficiaries of the Restrictive Covenant with a view to confirming with them that the LFS' occupation of Building N falls under the category of a community / education use. We believe that a third party purchaser of the property would attribute value to this accommodation when undertaking an appraisal, considering the advanced nature of negotiations with the LFS as a good indicator of the respective accommodation's rental value. Our opinion of value for this accommodation assuming a letting to the LFS represents 0.43% of our overall opinion of Gross Development Value.

With regard to the provision of affordable housing within Phase 2, the Section 106 Agreement states that the proportion of rented to intermediate stock should be 87% / 13% across Phase 1 and Phase 2, and on the understanding that a total of 104 rented units are being delivered in Phase 1 this would imply an intermediate provision of 15 units (i.e. 15 units being 13% of 119) will be required in Phase 2. This is however, not explicit within the Section 106 Agreement and we would therefore recommend that the Developer seeks to

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crystallise and confirm a provision of 15 units within the Local Planning Authority as quickly as possible and in this regard we understand that the Developer has submitted a letter to the Local Planning Authority in line with the Section 106 Agreement to confirm the provision of 15 affordable units. We understand an agreement with the Local Planning Authority documenting and agreeing the provision of 15 affordable units is close to being agreed. In the event that a higher provision of affordable housing is required, we would reserve the right to amend our valuation accordingly.

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit. Since that date we have monitored market transactions and market sentiment in arriving at our opinion of Market Value.

There is still a shortage of comparable evidence of arm's length transactions since the Referendum. We have had, therefore, to exercise a greater degree of judgement than would be applied under more liquid market conditions.

We would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to effect a disposal.

Valuation – Residual Method

Residual Method: The Residual Method determines the price that could be paid for the site given the expected "as if complete" value of the proposed development (the Gross Development Value) and the total cost of the proposed development, allowing for market level profit margins and having due regard to the known characteristics of the Subject Property and the inherent risk involved in its development. It is our opinion that a prospective purchaser of the Subject Property would rely heavily upon the Residual Method as this method reflects the expectations of a purchaser in relation to costs, selling prices, profit margins, etc.

A summary of the parameters adopted is provided below.

Gross Development Value (GDV): Please note that identifying the 'as if complete' value of the proposed development is an integral part of the Residual Method of valuation. **Accordingly, in arriving at our opinion of GDV, we have made the Special Assumption that the proposed scheme has already been constructed.**

Private Residential

We have valued the proposed individual private units within the proposed scheme using the Direct Comparison method. We have utilised the following comparable evidence:-

Description of development	Location	Area (sq ft)	Price per sq ft
Phase 1 – London City Island, E14. Four predominantly residential buildings comprising 561 residential units.	Adjacent to	• Studios: 390 - 593 sq ft	£569 - £835 per sq ft
	Subject	• 1 Bed: 489 – 653 sq ft	
	Property	• 2 Beds 751 – 926 sq ft	
	(Phase 1).	• 3 Beds 952 -1,305 sq ft	

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Manhattan Plaza, Poplar Business Park, E14. A mixed use development providing 120 units and commercial accommodation by Telford Homes.	0.6 miles west of Subject Property.	<ul style="list-style-type: none"> ✦ 1 Bed: 553 - 655 sq ft ✦ 2 Beds: 767 - 1,043 sq ft ✦ 3 Beds: 947 - 1,010 sq ft ✦ TH: 1,400 sq ft 	Flats - £810 TH - £640 per sq ft on average.
Providence Tower, New Providence Wharf, E14. A residential led tower (1,050 residential units) rising to 43 storeys with commercial and a hotel by Ballymore.	0.6 miles to the south west of the Subject Property.	<ul style="list-style-type: none"> ✦ Studios: 337 - 396 sq ft ✦ 1 Bed: 397 - 749 sq ft ✦ 2 Beds: 583 - 1,885 sq ft ✦ 3 Beds: 1,652 sq ft 	£805 per sq ft (average resale rate)
Horizons Tower, Yabsley Street, E14. A 26 storey development comprising 190 residential units (including 59 intermediate units) by Telford Homes.	0.8 miles south west of the Subject Property.	<ul style="list-style-type: none"> ✦ 1 Bed: 540 sq ft ✦ 2 Beds: 757 - 766 sq ft ✦ 3 Beds: 924 - 2,300 sq ft 	£748 per sq ft
Royal Wharf, North Woolwich Road, E16. 3,300 residential led masterplan by Ballymore and Oxley Holdings and comprises three phases.	1.6 miles south east of the Subject Property.	<ul style="list-style-type: none"> ✦ Suites: 474 - 495 sq ft ✦ 1 Bed: 560 - 645 sq ft ✦ 2 Beds: 758 - 878 sq ft ✦ 3 Bed: 1,190 sq ft ✦ TH: 1,774 - 3,465 sq ft 	Ph1 - £650 Ph2 - £642 Ph3 - £710 TH - £515 Per sq ft on average
Royal Gateway, Silvertown Way, Canning Town, E16. A 336 apartment development across five blocks by Galliard Homes.	1 mile east of the Subject Property.	<ul style="list-style-type: none"> ✦ Studios: 441 - 463 sq ft ✦ 1 Bed: 538 sq ft ✦ 2 Beds: 775 - 818 sq ft 	£568 sq ft
Hoola, Tidal Basin, Road, London, E16. A development by HUB Residential comprising of 360 one, two and three bedroom apartments across two 25 storey towers.	0.6 miles east of Subject Property.	<ul style="list-style-type: none"> ✦ 1 Bed: 604 - 612 sq ft ✦ 2 Beds: 757 - 915 sq ft 	£768 per sq ft
Waterside Park, Royal Docks, London, E16. A Barratt Homes development situated in the Royal Docks adjacent to Thames Barrier Park. Will provide for 780 new homes.	0.8 miles east of the Subject Property.	<ul style="list-style-type: none"> ✦ 1 Bed: 490 - 500 sq ft ✦ 2 Beds: 690 - 780 sq ft ✦ 3 Beds: 900 - 1,070 sq ft 	£650 per sq ft.
The Liberty Building, Limeharbour, London, E14. A Telford Homes development located on the Isle of Dogs comprising 134 apartments over a 25 storey tower.	1.5 miles south west of the Subject Property	<ul style="list-style-type: none"> ✦ 1 Bed: 539 - 622 sq ft ✦ 2 Beds: 790 - 921 sq ft ✦ 3 Bed: 1,121 sq ft 	£865 per sq ft
The Madison, Marsh Wall, London, E14. A 53 storey residential tower scheme by LBS Properties providing for 423 apartments.	1.3 miles south west of the Subject Property.	<ul style="list-style-type: none"> ✦ Suites: 429 sq ft ✦ 1 Bed: 575 - 601 sq ft ✦ 2 Beds: 813 - 862 sq ft ✦ 3 Beds: 1,330 sq ft 	£1,070 per sq ft

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Royal Victoria Residence, Tidal Basin Road, London, E16. City & Docklands development providing for 161 residential apartments over single 23 storey tower.	0.8 miles east of the Subject Property	<ul style="list-style-type: none"> ✦ 1 Bed: 643 – 659 sq ft ✦ 2 Beds: 921 sq ft 	£680 per sq ft
Turnberry Quay, London, E14. Lower rise dockside development by Bellway Homes providing for 89 apartments in 13 storey block.	1.6 miles south west of the Subject Property	<ul style="list-style-type: none"> ✦ 1 Bed: 400 – 580 sq ft ✦ 2 Beds: 780 – 950 sq ft ✦ 3 Beds: 920 – 1,170 sq ft 	£925 per sqft
Townhouses: Marine Wharf, Mary Rose Square, London, SE16. Berkeley Homes development comprising 182 apartments and 9 townhouses recently completed and experiencing resales.	3.1 miles south west of the Subject Property	✦ 4 Bed TH: 1,394 – 1,453 sq ft	£671 per sq ft
Townhouses: Goodhart Place, Limehouse, London, E14. Dockside property of 1990's construction.	2 miles west of the Subject Property	✦ 3 Bed TH: 1,500 sq ft	£702 per sq ft
Townhouses: Greenland Quay, London, SE16. Modern townhouse development of 1990's construction with Canary Wharf views.	3.1 miles south west of the Subject Property	✦ 4 Bed TH: 969 sq ft	£877 per sq ft
Townhouses: Mariners Mew, Isle of Dogs, E14. Modern townhouse development with riverside position.	2.2 miles south of the Subject Property	✦ 5 Bed TH: 1,715 sq ft	£522 per sq ft
Townhouses: Brunswick Quay, Canada Water, SE16. Dockside property of 1990's construction.	3.3 miles to the south west of the Subject Property	✦ 4 Bed TH: 1,481 sq ft	£652 per sq ft
Townhouses: Brightlingsea Place, Limehouse, E14	2.3 miles to the west of the Subject Property	✦ 4 Bed TH: 1,944 sq ft	£643 per sq ft

In respect of all buildings, we have valued the units within them on an individual basis using the detailed unit accommodation schedules provided, taking into consideration the respective unit's position in the development, its height / floor and aspect, having regard to comparable evidence and with due consideration to the 746 sales achieved across all buildings since May 2015.

We have valued units within the scheme on an aggregate basis assuming that they are marketed and sold individually (and on a phased release basis) over a reasonable period

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of time. We have assumed that marketing would take place during the construction of each building.

In conclusion, we are of the opinion that the private apartments have an aggregate Market Value with vacant possession on completion of construction of **£625,521,956** reflecting a blended sales rate of **£832 per sq ft**. Please note this includes the 746 pre-sold units referred to earlier in this certificate.

Car Parking

Car parking is currently sold at a price of £27,500 per space (exact price shown below) with 99 spaces reserved in this phase already, reflecting an aggregate value of £2,730,000. Given the large number of remaining spaces and the level of take up thus far, we have assumed that of the remaining 316 units, 50% will transact at £27,500 and the balance at a discounted price of £13,750 per space, equating to an average of £20,625 per space on the unsold spaces and £22,283 per space overall including the reserved spaces. We are therefore of the opinion that the 415 parking spaces have an aggregate value of **£9,247,500** which we have valued in line with comparable evidence.

Freehold Ground Rent Investment

We have assumed that on completion the 1,130 individual private units will be sold on long leases (999 years) subject to ground rent of £400 per annum for studios / suites, £500 per annum for one bedroom units, £750 per annum for two bedroom units and £1,000 per annum for three bedroom units or penthouses. These are the actual amounts that will be levied by the landlord (the Developer) on the tenant (the purchaser) and which will be set out within the individual long leases drawn up for each purchase, however, we have also benchmarked the proposed annual ground rent for each unit type against other schemes within the vicinity to ensure that they are of an appropriate level.

Having regard to the ground rent assumptions detailed above the unit mix generates a Ground Rent Income of £667,450 per annum.

We understand car parking spaces will also be subject to a ground rent of £50 per space per annum. Having regard to the 415 parking spaces proposed in Phase 2 this equates to additional Ground Rent Income of £20,750.

We have capitalised into perpetuity the aggregate annual ground rent by a yield of 2.75% to arrive at a gross capital value of approximately **£25,025,453** or circa **£23,333,732** after the deduction of purchaser's costs at 6.76% (Stamp Duty, Agents and Legal Costs). The adopted yield is market driven and reflects other transactions within the market place. Many of these transactions are confidential however we have access to key market intelligence through our Residential Investment team.

Affordable Housing

Our specialist Affordable Housing valuation team have valued the affordable housing within the scheme. The value of the affordable housing is driven by a number of factors that are specific to the property, the Local Planning Authority and the relevant Section 106 Agreement for that property. An example of the factors impacting on the value of the

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affordable housing includes specific terms set out in a Section 106 Agreement, the tenure mix (the proportion of social, affordable rent, and intermediate etc.), and the affordability criteria as dictated by the Section 106 Agreement itself, local planning policy or in the Greater London Authority London Plan.

The Phase 2 development proposals include 15 affordable housing units, all of which are allocated as intermediate tenure. These properties are to be located within Building E, which also accommodates private tenure units.

It is assumed the building will be constructed by the Developer, and on practical completion the completed intermediate units will be transferred to a Registered Provider of affordable housing ('RP') for a "package price" as detailed below.

The site benefits from a Section 106 Agreement. The valuation of the units has been considered in accordance with the required provisions set out within this document.

We have formed our opinion of Market Value based on the values associated with the private units and have made appropriate adjustments for being situated on the lower floors at the building and for specification. To determine the GDV of the units assuming intermediate tenure, we have assumed that an average of 25% equity will be sold; and that the average rent charged in respect of the unsold equity will equate to 2.5% in order to comply with the affordability levels stipulated within the Section 106. This states the units should comply with the affordability criteria set out within the current GLA London Plan, or as updated accordingly. To be eligible for a one or two bedroom intermediate unit, the London Plan Annual Monitoring Report 12 (dated March 2016) states that, as at today, the purchaser(s) household income cannot exceed £90,000 per annum.

Based on the methodology set out above, the indicative "package price" that a RP would pay for the completed units, as at the date of valuation is **£5,329,688 (£473 per sq ft)**.

Commercial Accommodation

In arriving at our opinion of value of the completed commercial accommodation we have utilised the investment method of valuation. We have adopted market rents as follows: -

Use	Market Rent £ per sq m (£ per sq ft)	NIA (sq ft)	Aggregate Market Rent (per annum)
Creative Industries	£188.37 per sq m (£17.50 per sq ft)	4,547	£79,573
Retail (excluding ENB)	£215.28 per sq m (£20.00 per sq ft)	15,062	£301,238
Offices (LFS)	£430.56 per sq m (£40.00 per sq ft)	3,635	£145,400
Offices (excluding LFS)	£349.83 per sq m (£32.50 per sq ft)	35,513	£1,154,173
Community Care (LFS)	£40.80 per sq m (£3.79 per sq ft) overall	15,745	£59,600
Total		74,502	£1,739,984

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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+44 (0)20 7493 4933

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We have not rentalised the Energy Centre for the purpose of this valuation.

With regard to the commercial comparable evidence, transactions of anticipated similar secondary retail and office accommodation across East London and Docklands demonstrate yields in the 4.6% - 6% range for superior locations and covenants, with poorer locations and short term income investment at nearly 7%. We consider that yields for secondary occupiers in this location would sit at the upper middle end of this range and we have therefore adopted an exit yield of 6.5% across the Creative Industries and Retail accommodation and 6.35% for the offices (Building I) and the Community Use Building (the Developer is to let this to the London Film School as discussed above).

We have capitalised our opinion of Market Rent at a yield of 6.35 – 6.5% whilst also incorporating a combined rent free and void allowance of 2 years to reflect current market conditions to arrive at gross capital value of **£24,463,884**, or circa **£22,810,126** after the deduction of purchaser's costs at 6.76% (5.26% Stamp Duty, 1% Agents, 0.5% Legal fees and Value Added Tax (VAT) at 20% on top of the agent and legal fees).

ENB Lease Premium

As explained in this certificate Building F is subject to an agreement for lease to the ENB. On handover, a lease of 199 years will be granted to the ENB on a peppercorn rent (£1 per annum) but subject to a lease premium of £5,000,000 payable on handover. We have included the £5,000,000 receipt within our valuation. The peppercorn rent is immaterial in valuation terms.

GDV Summary

Component	GDV
Private Residential	£625,521,956
Car Parking Spaces	£9,247,500
Affordable Housing (intermediate)	£5,329,688
Ground Rent Value	£25,025,453
Commercial Accommodation	£24,463,884
ENB Lease Premium	£5,000,000
GDV	£694,588,481
Purchaser's Costs	£3,345,479
Say	£691,250,000

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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Development Costs:

Build Costs

The assessment of build cost in respect of a scheme of this scale and complexity is beyond the scope of a valuation and as such, as agreed with you we have wholly relied on the cost plan dated 12 July 2016 prepared by Gardiner and Theobald in preparing this valuation. The cost plan coincides with the detailed design of Buildings A, M, I and N (Stage D / Developed Design) and conceptual design for Buildings B, C, D, E and F (Stage C / Conceptual Design). The report confirms the total estimated construction cost base dated to Q2 2015 is **£295,993,665**. Gardiner and Theobald have estimated inflation of £9,300,000 to Q3 2016.

We would summarise the Gardiner and Theobald cost plan (July 2016) provided and upon which we have relied as follows:-

Cost Line	Sq ft	G&T Build Cost Q2 2015	Current Budget Q2 2015	G&T Inflation to Q3 2016	Costs with Inflation	Inflated Costs with Site Wide Costs	£ per sq ft
Building A	167,348	£36,471,444	£38,067,906	£1,177,556	£39,245,462	£42,242,749	£252
Building B	191,467	£48,239,569	£41,713,916	£1,290,338	£43,004,254	£46,288,610	£252
Building C	182,360	£46,420,006	£4,122,793	£127,531	£4,250,324	£4,574,933	£149
Building D	190,105	£43,985,747	£18,254,855	£564,678	£18,819,533	£20,256,834	£148
Building E	140,667	£22,217,763	£49,044,496	£1,517,095	£50,561,591	£54,423,123	£284
Building F	94,583	£15,325,138	£46,716,851	£1,445,094	£48,161,945	£51,840,209	£284
Building I	136,671	£18,612,353	£46,068,967	£1,425,053	£47,494,020	£51,121,273	£269
Building M	183,376	£41,488,088	£21,360,082	£660,732	£22,020,814	£23,702,606	£169
Building N	30,699	£6,429,262	£13,967,322	£432,052	£14,399,374	£16,499,095	£164
Sub-Total	1,317,296	£279,189,370	£279,317,188	£8,640,129	£287,957,317	£309,949,430	£235
Site Wide Infrastructure		£16,804,295	£21,332,243	£559,871	£21,992,114	Included above	
Grand Total	1,317,296	£295,993,665	£300,649,431	£9,300,000	£309,949,431	£309,949,430	£235

In light of the above information we have adopted an inflated base build cost of **£309,949,430** which we have apportioned across the nine buildings and incorporated within our valuation, adjusting the costs to go figure to **£277,530,839** to reflect construction costs spent to date of **£32,418,591**. We would emphasise that we have utilised a cost plan dated 12 July 2016 and would therefore reserve the right to amend our valuation on receipt of an updated report from your cost consultant. In the event that the costs adopted prove to be an underestimate there would be a corresponding decrease in our opinion of the site's current value.

The build costs we have adopted should be considered as being entirely indicative and for valuation purposes only.

Other Residual Valuation Cost Assumptions

In addition to the above construction costs and within our valuation, we have made the following allowances:

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Appraisal Input	Comment
Other Construction Costs	In addition to build costs to go of £277,530,839 (reflecting construction costs spent to date of £32,418,591) which we have incorporated into our appraisal, we have also adopted office fit out costs of £35 per sq ft (NIA) in respect of Building I which we have assumed will be the basic business standard including air conditioning, but appropriate to the location and the low rental levels likely to be achievable.
Contingency	We have adopted a contingency allowance of 5% of the construction costs and the office fit out costs as detailed above, or £13,941,082.
Professional Fees	The construction costs are inclusive of a 4% allowance for design development; however we have assumed additional fees of 7.0% (£21,696,460) would be incurred in delivering the scheme. The Developer has informed us that £7,966,484 has been spent to date. Accordingly we have deducted this amount off the fees provision to arrive at an appraisal input of £13,729,976.
Project Management Fee	We have adopted a Project Management Fee to go of £7,753,061 (after deducting the fees spent to date of £6,746,939 from a total fee of £14,500,000 as confirmed by the Developer).
Planning Fees	We understand that your planning fee budget of £1,000,000 is to be used to fund the pursuit of reserved matters in respect of Phase 2. We consider this to be a reasonable sum.
NHBC Costs	NHBC related costs have been reflected at £1,397.38 per unit equating to an aggregate sum of £1,600,000, and we have deducted the costs spent to date from this figure (£1,542,819).
Section 106 Contribution	We have relied upon the outstanding Section 106 cost budget for Phase 2 as supplied by the Developer which amounts to £23,982,687 inclusive of indexation pursuant to the Section 106 Agreement.
Marketing, Agent & Legal Fees	With regard to the private residential accommodation, we have assumed marketing costs, sales agent and sales legal costs of 1.5% (reflecting marketing costs spent to date of £6,639,109 as confirmed by the Developer), 2% (assuming agents have yet to be paid in respect of existing exchanges/reservations) and 0.5% respectively. We have provided for a sum of £1,000,000 to enable a re-fit of the existing marketing suite and adopted 0.5% for legal fees in respect of the affordable housing units. We have assumed a commercial marketing budget in the order of £587,569 (i.e. £10 per sq ft). We would note that percentage inputs adopted here are market practice rates.
Commercial letting agent, legal fees and purchaser's costs	We have adopted Letting and Legal fees of 10% and 5% respectively (market rates) in relation to the commercial accommodation. In addition to the above we have adopted Commercial Sales Agent and Legal fees of 1% and 0.5% respectively (market rates). We have deducted purchaser costs of 6.76% from the gross value of the commercial and ground rent portfolio.
Finance Costs	We have adopted an overall cost of finance based on 5.0% applied to 100% of all development and land costs to reflect the opportunity cost to the Developer as well as appropriate transaction fees.
Site Stamp Duty, Agents and Legal Fees	We have incorporated an allowance of 4.99% stamp duty, 1% for agent's fee and 0.5% for legal fees (fees are inclusive of VAT).

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Other Cost Assumptions	<p>Within our appraisal we have allowed for the following minor costs:</p> <p>We have adopted office fit out costs of £35 per sq ft (N/A) in respect of Building I which we have assumed will be the basic business standard including air conditioning, but appropriate to the location and the rental levels likely to be achievable.</p> <p>London Borough of Newham Cost and Port of London Authority Cost of £122,600 – the Developer has advised us that these relate to outstanding Licence fees of £122,600 and £12,000 respectively.</p> <p>River wall realignment related cost of £70,000 as advised by the Developer.</p> <p>The 'Rogers Rent' – we understand that a passing rent of £16,185.65 per annum (subject to a capped five year review in line with the Retail Price Index (RPI) and an outstanding rent review of March 2015) is payable in respect of the long leasehold part of the site. We understand that Mullins & Peake Solicitors, acting on behalf of the Rogers, wrote to Norton Rose Fulbright LLP on 04.08.15 in respect of the rent review - the accompanying letter outlined their understanding that the revised rent would be £18,954.64 per annum. Accordingly, within our cash flow we have provided for a new quarterly rent of £4,739 up until the date at which the development has been constructed and sold (£94,773 over this period). At this stage we have assumed that this cost will continue to be incurred and have therefore capitalised the cost into perpetuity at an appropriate yield (5%) to arrive at a capital cost to the development of circa £380,000.</p>
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9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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Profit Assumptions / Hurdle Rate

Taking into account the scale and cost of the project, the need to obtain reserved matters approval for a number of the buildings within the phase, and the potential therefore for costs to change in line with design amendments, we have adopted profit on cost of 22.5% reflecting a gross margin of circa 22.9%. We consider this to be an appropriate return in the current market for a site such as this in this location given our experience of working with developers in this sector of the market.

Development Timescales

We have assumed a 59 month development programme including a one-month allowance for site purchase and a three-month pre-construction period to prepare the site for redevelopment, undertake surveys, and manage the outstanding reserved matters applications for the scheme, and appoint contractors. Thereafter we have assumed a phased construction programme over a total period of just under 2.5 years with each residential Building taking between 17 and 31 months to construct.

The adopted construction periods are broadly consistent with the Developer's proposals and other schemes of which we are aware. In addition to the above, we have consulted our in house Building Consultancy and Project Management Team who have confirmed that the assumed development programme is achievable.

Our opinion of sales / absorption rates is informed by the performance of earlier phase at the scheme (i.e. Phase 1 and the existing Phase 2 buildings which have been marketed). Our opinion on sales rates (6 per month across the site after pre-sale events) is informed by the performance of nearby schemes in Canary Wharf (E14), and developments in Poplar and the wider E16 postcodes taking into consideration the current market, which has seen a significant slowdown in transaction volumes since the turn of the year. We have also considered the likely assumptions an incoming purchaser of the site would assume if acquiring the site as the date of valuation.

Residual Valuation Summary:

Appraisal Component	Amount (£)
GDV	£694,588,481
Purchaser's Costs	£3,345,479
Aggregate GDV	£691,243,002
Gross Development Costs	£410,458,033
Profit on Cost – 22.5%	£123,977,480
Balance for Land, Say	£156,800,000

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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+44 (0)20 7493 4933

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**Sensitivity
Analysis:**

We are of the opinion that the site has a residual value of approximately **£156,800,000 (£26,352,941 per acre)**.

You should however, be advised that the residual method of valuation takes into account a large number of subjective variables, the variation of which can have a significant impact on the development project being considered. Variations in sales prices, construction costs and periods, and the cost of finance can also have a marked affect.

We have carried out a residual calculation that is sensitive to fluctuations in input values, we provide below a sensitivity analysis, to demonstrate how the changes in input data affect values.

In the analysis it is shown that by stepped increases and decreases by 5% in the remaining unsold private residential unit and car parking sales prices and 5% in build cost, the residual land value can fluctuate from approximately **£114.6m** to as high as **£199.0m**.

Remaining Unsold Private Residential and Car Parking					
Build Cost	-10.00%	-5.00%	0.00%	5.00%	10.00%
-10.00%	£165,490,110	£173,875,769	£182,261,425	£190,647,078	£199,032,727
-5.00%	£152,763,139	£161,148,801	£169,534,461	£177,920,120	£186,305,778
0.00%	£140,036,002	£148,421,827	£156,800,000	£165,193,152	£173,578,813
5.00%	£127,309,106	£135,694,735	£144,080,353	£152,466,177	£160,851,840
10.00%	£114,582,166	£122,967,813	£131,353,452	£139,739,081	£148,124,703

Cross Check to Market Value – Land Comparables

**Cross Check
Method:**

In the course of considering the Market Value we have also considered the following land sales:

Site	Date	Price	Planning Status	Size (acres)	Price / Acre
160 - 166 Chrisp Street, E14	Sep-14	£24m	Unconditional - No Planning	1.7	£14.1m
7 Limeharbour, E14	Feb-15	£18.5m	Unconditional - No Planning	0.7	£26.4m
Leven Wharf, Leven Road, E14	Jun-15	£12.5m	Planning	1.1	£11.4m
Helix Tower, Canary Wharf, E14	Oct-15	£14m	Planning	0.99	£14.1m
Dollar Bay, Canary Wharf, E14	Oct-13	£14m	Planning	0.65	£21.5m
Subject Property, E14	Sept- 16	£156.8m	Planning	5.95	£26.4m

The above demonstrates land sales in the region of £11.4m - £26.4m per acre, with the Subject Property demonstrating a land value of £26.4 million per acre which sits at the upper end of the above range. We would note that a number of the transactions occurred in 2013, and whilst there is an argument that sentiment in the residential land market has deteriorated over the last three months since 'Brexit', it should be noted that Phase 2 is work in progress, accordingly significant

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



development costs have been incurred as at the date of valuation which in hinders a like for like comparison to the above transactions.

The Subject Property was acquired by the Developer on 15 May 2015 for £65,466,667 in accordance with the terms of the LCI Contract albeit that the price was agreed in Q4 2014. Our valuation in September 2016 of £156,800,000 should therefore be considered within the context of the fact that between the date that the price was agreed for the purchase and the date of valuation:-

- The Developer has spent £55,346,866 on the property. N.B. this amount does not include a overage payment of £5,955,072, which was discharged by the Developer when they purchased the property.
- Sales values in the location and specifically those achievable at the scheme itself have risen substantially as demonstrated by actual sales at the scheme.
- The Developer has achieved a substantial number of private sales (746 or 66% of the total within the scheme) thus improving the risk profile of the asset.
- Over the period of May 2015 – September 2016 the Developer has been able to demonstrate increasing sales values.

Therefore, we are of the opinion that the Market Value of the predominantly freehold and part leasehold interest in the Subject Property as it exists, as described herein, and on the basis of the agreement for lease to the ENB and LFS and vacant possession of the remainder of the Subject Property, as at the date of valuation is **£156,800,000** (equivalent to **RM 853,540,800** based on an exchange rate of RM5.4435:£1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00pm as at 14th September 2016, (i.e. the Valuation Date).

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



Jonathan Smith
Director
30 Warwick Street
London
W1B 5NH
+ 44 (0)207 087 5546
jonathan.smith@eu.jll.com

Matthew Green
Director
30 Warwick Street
London
W1B 5NH
+ 44 (0)207 087 5546
matthew.green@eu.jll.com

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The information contained in this publication has been obtained from sources generally regarded to be reliable. However, no representation is made, or warranty given, in respect of the accuracy of this information. We would like to be informed of any inaccuracies so that we may correct them.

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)

II. EMBASSY GARDENS PHASE 2



Eco World International Berhad
Suite 3A.01, Level 3A
The Gardens North Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

14 September 2016

Dear Sirs

Jones Lang LaSalle Ltd
30 Warwick Street London W1B 5NH
+44 (0)20 7493 4933

jll.co.uk

Direct line +44 (0)20 7087 5546

Matthew.Green@eu.jll.com

Valuation Certificate of Phase 2 Embassy Gardens, Nine Elms Lane, London, SW8 5BL, United Kingdom ("Subject Property")

Jones Lang LaSalle Limited ("JLL") has been instructed by Eco World International Berhad ("EWI") to provide a Valuation Certificate for the Subject Property and details of the valuation are contained within our full Valuation Report dated 14th September 2016 ("Report"). This Valuation Certificate is prepared for the specific purpose of inclusion in the prospectus in connection with the Initial Public Offering ("IPO") and listing of EWI on the Main Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

The valuation has been prepared in accordance with the Asset Valuation Guidelines issued by Securities Commission Malaysia and the Malaysian Valuation Standards issued by the Board of Valuers, Appraisers, and Estate Agents ("Malaysian Valuation Standards"). Given the location of the Subject Property is within the United Kingdom ("UK"), our valuation is also prepared in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards UK ("Red Book") January 2014 (Revised April 2015) published by the RICS.

The Subject Property has been valued on the basis of "Market Value" as defined in the Malaysian Valuation Standards and RICS Red Book, being *'the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion'*.

Save as for the purpose of inclusion in the prospectus detailed above, neither the whole nor any part of this valuation certificate nor any reference thereto may be included in any document, circular, or statement without our written approval and a description of the form or context in which it appears.

This valuation certificate is a summary of the Report that we have prepared and it does not contain all the information and assumptions that are included in the Report. For further details, reference may be made to the Report, copies of which have been provided to EWI.

The valuation contained in the Report is based on information obtained from reliable and reputable agencies and sources, EWI and other related parties. Whilst JLL has endeavoured to ensure the accuracy of the factual information, we have not independently verified all the information provided by EWI or other reliable and reputable parties.

In preparing the Report, we have relied to a considerable extent on information provided by EWI, particularly in respect of such matters, but not limited to a schedule of accommodation to include the floor areas, build costs, Section 106 costs and existing sales at the subject scheme.

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit. Since that date we have monitored market transactions and market sentiment in arriving at our opinion of Market Value.

There is still a shortage of comparable evidence of arm's length transactions since the Referendum. We have had, therefore, to exercise a greater degree of judgement than would be applied under more liquid market conditions.

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)

We would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to effect a disposal.

We are of the opinion that the Market Value of the freehold interest in the Subject Property as it exists, and on the basis of the existing tenancies and partial vacant possession, with the remainder of the Subject Property available from 20 June 2016, as at the date of valuation, is **£314,000,000 (equivalent to RM 1,709,259,000** based on an exchange rate of RM5.4435:£1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00 p.m., as at 14th September 2016, i.e. the Valuation Date).

Yours faithfully



Stuart Springham MRICS
Registration Number: 1219642
Associate Director
Registered Valuer
For and on behalf of
Jones Lang LaSalle Limited



Matthew Green MRICS
Registration Number: 1102775
Director
Registered Valuer
For and on behalf of
Jones Lang LaSalle Limited

Yours faithfully



Jonathan Smith MRICS
Registration Number: 1225916
Director
Registered Valuer
For and on behalf of
Jones Lang LaSalle Limited

Date: 14th September 2016

9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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Valuation Certificate

Identification of Subject Property

Property Address:	Phase 2, Embassy Gardens, Nine Elms Lane, London, SW8 5BL, United Kingdom.
Title Number:	TGL423144.
Interest Valued and Tenure:	<p>The Subject Property is held freehold and is registered with Title Absolute under Title: TGL423144 (the entire property extends to circa 5.714 acres / 2.31 hectares).</p> <p>The land is subject to various covenants in favour of British Railways Board, whereby Eco World-Ballymore Embassy Gardens Company Limited ("Developer") is to seek their consent as part of any proposed development. We have assumed that these covenants will be complied with as part of the development of Phase 2.</p>
Tenancies:	<p>An agreement to lease has been granted to Thames Water whereby upon completion of the new pumping station and new pumping station control room, new leases will be granted and Thames Water will surrender their lease of the existing pumping station. This lease is dated 19 April 2016 and expires 18 April 2166 at a peppercorn rent. This agreement also defines a settlement sum of £250,000 payable to Thames Water, which we understand has been paid in full as at the date of valuation.</p>
Registered Owner:	The Subject Property is held by Eco World – Ballymore Embassy Gardens Company Limited.
Location:	<p>The Subject Property is situated within The Nine Elms regeneration area, located on the south side of the River Thames. Nine Elms is located in the London Borough of Wandsworth, which is bordered by the River Thames to the north, Lambeth to the east, Battersea Park to the west and Brixton to the south.</p> <p>The Subject Property is situated 5.5 miles to the West of Canary Wharf and 2.8 miles to the south of the West End (Oxford Circus).</p>

General Description of Subject Property

Property Description:	<p>The overall Masterplan site comprises a 'brownfield' site of circa 6 hectares with planning consent for circa 2,000 residential units around a new United States of America Embassy Building and an Embassy Building for the Kingdom of the Netherlands. Phase 1 of the Masterplan scheme (building plots A08, A09, A10) is completed and occupied.</p> <p>Phase 2 of the wider Masterplan scheme extends to 10 acres of land wrapped around the US Embassy site and includes land parcels known as A01, A02, A03, A04, A05 and A07. Parcels A01 and A02 will be constructed as part of a later phase of development known as Development Phase 3 whilst A07 has been sold to the Netherlands for the construction of the Dutch Embassy.</p> <p>In terms of the Subject Property, the proposed development relates to the remaining land parcels with the wider planning Phase 2 Masterplan, comprising; A03, A04 and A05. The land holding is known as Embassy Gardens Phase 2.</p>
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9. VALUATION CERTIFICATES FOR OUR GROUP'S PROPERTIES (Cont'd)



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More specifically the proposed scheme for the Subject Property involve the construction of three residential-led blocks (A03, A04 and A05) to include 709 private residential apartments, and 163 shared ownership and affordable rent residential units, 1,870 sq m of retail space and 864 sq m of business space. The scheme will also provide 258 car park spaces.

The Subject Property was acquired by the Developer in April 2015 for £278,800,000, albeit the price was agreed in January 2015.

Proposed Built Area:

We summarise below the Net Saleable Area ('NSA', excluding common areas) of the residential accommodation (to include the 163 shared ownership and affordable rent residential units) alongside the proposed unit mix, as follows:-

Unit Type	A03	A04	A05	Total
Suite	11	3	20	34
1 Bed	27	54	58	139
2 Bed	213	174	180	567
2 Bed duplex	0	0	4	4
3 Bed	26	23	53	102
3 Bed duplex	0	0	1	1
4 Bed	0	4	17	21
Penthouses	2	1	1	4
Total	279	259	334	872
NSA (sq ft)	239,237	211,600	287,692	738,529
NSA / UNIT	857	817	861	847

We summarise below the proposed commercial accommodation as follows:-

Building	Retail (sq ft)	Business Space (Sq ft)	Total
A03	6,889	3,218	10,107
A04	5,468	1,561	7,029
A05	7,772	4,521	12,292
TOTAL	20,128	9,300	29,429

We summarise below the proposed amenity space as follows:-

Building	Private (sq ft)	Affordable (Sq ft)	Total
A03	19,607	0	19,607
A04	24,082	4,305	28,387
A05	24,714	4,262	28,976
TOTAL	68,403	8,567	76,970

We have relied upon the areas provided as being true and accurate.

Existing Use:

Development site. Development works had commenced as at the date of valuation.

Planning:

For the purpose of this valuation, we have valued the relevant phase of the scheme relating to the approved planning permission, which will deliver 872 residential units in

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total. The planning consent was subject to 61 conditions, none of which in our opinion were onerous given the nature and scale of the proposed development.

Subsequently blocks A03, A04 and A05 gained planning permission consent of the reserved matters on 12th September 2014, with various amendments also secured on the same date (12th September 2014). Submission for approval of revised Reserved Matters was made on 26th August 2015, with permission still pending. We confirm that we have valued on this basis.

Information Specific to the Subject Property:

The Developer launched the Subject Property in September 2015 (in respect of Block A04) and September 2016 (in respect of Block A05), securing sales of 133 residential units by the valuation date and generating £165,617,400, (£1,517 per sq ft). In addition to unit sales 56 out of 258 car parking spaces have been sold at £50,000 per space, £2,800,000 in aggregate.

The construction works has been commenced in October 2015 and the Developer is anticipating practical completion of A03 in H2 2021, A04 in H1 2018 and A05 in H1 2019.

Market Value

Market Value GBP:	£314,000,000
Market Value MYR:	RM 1,709,259,000
Exchange Rate at Date of Valuation:	RM5.4435:£1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00 p.m. as at 14 th September 2016.
Date of Valuation:	14 th September 2016.
Valuation Methods:	For the purpose of this valuation we have adopted the Income Capitalisation Approach (the Residual Method), cross checking the results of this analysis with the Comparison Approach/Method. With regard to the Comparison Method, it should be considered as a cross-check only and not a reliable basis of valuation given (but not limited to) the uniqueness of the site, its location, planning permission, density, height, provision of affordable housing and the limited availability of directly comparable or relevant land transactions at or around the date of valuation.

It is our opinion that a prospective purchaser would rely heavily upon the Residual Cash Flow Analysis as this method reflects the expectations of a purchaser in relation to costs, selling prices, profit margins etc. In this instance, the comparable method of valuation should only be seen as a cross check to the residual valuation on account of planning policy, planning status, unit density, height, affordable housing, Section 106/Community Infrastructure Levy liabilities and site status varying substantially from site to site. The lack of commonality in these factors (particularly with regard to high density residential led mixed use development sites in central London) makes the comparison of land values difficult and at times misleading.

The development parameters of each site will often be materially different, rendering the comparable method of valuation inappropriate in establishing our opinion of the

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Any other matters that affect the value / marketability:

site's Market Value. In summary we have utilised one valuation approach to ascertain our opinion of the Subject Property's Market Value.

As detailed within the Section 106 Agreement, we understand that the Development Infrastructure Funding Study ("DIFS") payments due are determined by the date of construction commencement of each block.

We have therefore calculated the DIFS due in line with the following:

Land Use	2010 - 2015	2016 - 2031
Residential (per unit)	£20,000	£30,000
Mixed Use Retail (per GIA sq m)	£150	£150
Retail (per GIA sq m)	£150	£250
Hotel and Other (per GIA sq m)	£40	£40
Office (per GIA sq m)	£160	£160

The above contributions are subject to indexation in line with the Building Cost Information Service ("BCIS") All in Tender Price Index.

Further to our inspection, we noted that works have already commenced on the part of the site designated for Blocks A03 and A04. As such, we have applied the 2010 - 2015 DIFS contributions to Blocks A03 and A04.

We have assumed that construction of Block A05 will commence in April 2017, and have therefore applied the 2016 - 2031 DIFS contributions to Block A05.

There is a large supply of new build stock coming to the market and currently under development within the Nine Elms regeneration area. Going forward, should any development schemes not be marketed, priced or phased appropriately, this may have an impact on their achievable values, depending on other schemes being launched at a particular time.

Following the Referendum held on 23 June 2016 concerning the UK's membership of the EU, a decision was taken to exit. Since that date we have monitored market transactions and market sentiment in arriving at our opinion of Market Value.

There is still a shortage of comparable evidence of arm's length transactions since the Referendum. We have had, therefore, to exercise a greater degree of judgement than would be applied under more liquid market conditions.

We would, therefore, recommend that the valuation is kept under regular review and that specific market advice is obtained should you wish to effect a disposal.

Valuation – Residual Method

Residual Method:

The Residual Method determines the price that could be paid for the site given the expected "as if complete" value of the proposed development (the Gross Development Value) and the total cost of the proposed development, allowing for market level profit margins and having due regard to the known characteristics of the Subject Property and the inherent risk involved in its development. It is our opinion that a prospective purchaser of this Subject Property would rely heavily upon the Residual Method as this method reflects the expectations of a purchaser in relation to costs, selling prices, profit margins, etc.

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A summary of the parameters adopted is provided below.

Gross Development Value ("GDV"):

Please note that identifying the 'as if complete' value of the proposed development is an integral part of the Residual Method of valuation. **ACCORDINGLY, IN ARRIVING AT OUR OPINION OF GDV, WE HAVE MADE THE SPECIAL ASSUMPTION THAT THE PROPOSED SCHEME HAS ALREADY BEEN CONSTRUCTED.**

Private Residential

We have valued the proposed individual private units within the proposed scheme using the Direct Comparison method, which we have utilised the following selected comparable evidence (i.e. which are the most relevant to the Subject Property and have recently launched) for the purpose of this valuation certificate:-

Description of development	Location	Areas	Price per sq ft
Embassy Gardens (Phase 2) – Subject Scheme	Subject Scheme	◦ Studios – 380 -460 sq ft.	Current sales range between £602,500 - £4,450,000, reflecting and average net sales rate of £1,517 per sq ft. 56 car park spaces have sold at £50,000 per space.
		◦ 1 Beds – 538 – 741 sq ft.	
		◦ 2 Beds – 785 981 sq ft.	
		◦ 3 beds –1,189 -1,351 sq ft.	
		◦ PH – 1,767 – 2,077 sq ft.	
Embassy Gardens (Phase 1) – this phase of the subject Masterplan launched in Q2 2013, where 541 units were sold off plan.	0.2 miles north west of the subject scheme within the Masterplan.	◦ Initial Launch - 414 sq ft - 989 sq ft. ◦ Re-sales - 543 sq ft – 999 sq ft.	The achieved prices at the initial launch in Q2 2013 ranged from £800-£1,800 per sq ft equating to an average of £970 per sq ft. Resales are trading at an average rate of approximately £1,167 per sq ft.
Battersea Power Station (Phase 1) - this phase within the Power Station development comprises 866 units and was launched in Q3 2013 and was sold out (with the exception of 5 penthouses) by April 2014..	0.6 miles to the west of the Subject Property.	◦ Re-sales - 431 sq ft - 1,011 sq ft	We understand that there have been a number of resales within this scheme since October 2015 at an average of £1,091 per sq ft.
Battersea Power Station (Phase 2) - this phase within the Power Station development comprises 255 units and was launched in Q1 2014. The most comparable blocks within this development are the "Switch House" blocks, which contain 224 units within Switch House East and Switch House West.	0.6 miles to the west of Subject Property.	◦ Average size - Switch House East - 1,042 sq ft ◦ Average size - Switch House West - 997 sq ft	£2,158 per sq ft average (inclusive of all blocks).
Battersea Power Station (Phase 3) - this phase within the Power Station development comprises 1,305 units and was launched in Q4 2014. This phase will include the new Battersea Underground Station (Zone 1). There are two buildings within this phase, named after their respective architect's the Gehry building and the Foster building	0.6 miles to the west of the Subject Property.	◦ Average size of sold units - Gehry Building – 1,000 sq ft ◦ Average size of sold units - Foster Building – 832 sq ft	We understand that circa 60% of the flats have been sold off plan at an average of £1,810 per sq ft in the Gehry building and £1,538 per sq ft in the Foster building.

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We have valued the units within the scheme using the detailed unit accommodation schedules provided on an aggregate basis assuming that they are individually marketed and sold (and on a phased release basis) over a reasonable period of time. We have adopted the net sales prices of the 101 pre-sale units in A04, reflecting an aggregate Market Value of £128,989,850 as well as £36,627,550 generated by 32 pre-sales units in A05. We have assumed that marketing would take place during the construction of each block. We have assumed that the development will be completed to the specification stated in the Report and will benefit from National Housebuilders Council (NHBC) warranties (warranties in the works completed by the Developer, usually lasting 10 years and transferred to the purchaser on completion of the development) or similar. Sales prices will be affected without such warranties as purchasers will struggle to secure mortgages to complete on such properties.

In conclusion, we are of the opinion that the private apartments have an aggregate Market Value with vacant possession on completion of construction of approximately **£849,502,400** reflecting a blended sales rate of **£1,411 per sq ft**.

Car Parking

We have also valued the 258 car park spaces for open market sale at a price of **£50,000** per space (**£12,900,000**) in line with comparable evidence (we take note that 56 of the 258 car park spaces have been sold at £50,000 per space).

Freehold Ground Rent Investment

We have assumed that the 709 individual private units of the amended scheme will be sold on long leases of 999 years generating an aggregate Ground Rent Income of **£508,600** per annum, at an average of £717 per unit. We understand that these are the actual amounts that will be levied by the landlord (the Developer) on the tenant (the Purchaser) and which will be set out within the individual long leases drawn up for each purchase, however, we have also benchmarked the proposed ground rent for each unit type against other schemes within the vicinity to ensure that they are of an appropriate level.

We understand that the 258 car parking spaces will be subject to a ground rent of £50 per space, per annum, equating to an additional annual Ground Rent income of **£12,900**.

We have capitalised the aggregate annual ground rent into perpetuity by a yield of 2.75% to arrive at a gross capital value of **£18,963,636** (£17,706,149 after the deduction of purchaser's costs reflecting Stamp Duty at the revised bandings, 1% sales agent and 0.8% legal fees). The adopted yield is market driven and reflects other transactions within the market place. Many of these transactions are confidential however we have access to key market intelligence through our Residential Investment team.

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Affordable Housing

The value of the affordable housing is driven by a number of factors that are specific to the property, the Local Planning Authority and the relevant Section 106 Agreement for that property. An example of the factors impacting on the value of the affordable housing includes specific terms set out in a Section 106 Agreement, the tenure mix (the proportion of social, affordable rent, and intermediate etc.), and the affordability criteria as dictated by the Section 106 Agreement itself, local planning policy or in the Greater London Authority London Plan.

The development proposals include 163 shared ownership and affordable rent residential units comprising a mix of both rented and intermediate tenure, and are situated within Blocks A04 and A05 at Embassy Gardens Phase 2.

The unit mix was provided by the Developer. This mix also accords with the percentage mix set out within the Second Deed of Variation pursuant to the Section 106 Agreement (dated 12 September 2014).

It is assumed Blocks A04 and A05 will be constructed by the Developer and on practical completion, the completed affordable housing units will be transferred to a Registered Provider of affordable housing ("RP") for a "package price". The affordable units being delivered within other phases of the overall Masterplan scheme have not been considered for the purpose of this valuation. The value reported herein is solely concerned with the affordable housing provision accommodated within Phase 2 of the development.

We have been advised by the Developer that they have exchanged contracts on the affordable housing element of the scheme with Viridian Housing for a total price of £31,594,281. As instructed, we have adopted the exchanged purchase price within our valuation.

Commercial Accommodation

We consider that the proposed flexible commercial units will let for £45 per sq ft (i.e. our opinion of Market Rent) across standard Full Repair and Insurance ("FRI") lease terms (where incoming tenant is responsible for repairs and insuring retail or office unit) over 10 year terms, subject to 9 months' rent free and a 9 month void period.

We summarise below our opinion of the individual unit's rental value:-

Block	GIA (sq ft)	Rent per sq ft	Rent Per Annum
A03 Retail	6,889	£45	£310,005
A03 Office	3,218	£45	£144,810
A04 Retail	5,468	£45	£246,060
A04 Office	1,561	£45	£70,245
A05 Retail	7,772	£45	£349,740
A05 Office	4,521	£45	£203,445
Total	29,429	£45	£1,324,305

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We believe investors would bid to levels equating to 5.5% (Office) and 5.5% (Retail) Net Initial Yield ("NIY") and factor such lease structures within their calculations in line with the current market. Any marketing period, excluding any rent free period, in advance of letting is likely to be limited and we would factor 9 months in this regard. Associated costs within this timeframe are likely to be limited and indeed, we would presume any purchaser would be sheltered from empty rate liability while the units exist in shell condition. We have reflected these assumptions within our valuation and would value the commercial accommodation at **£22,220,133** or £20,771,971 after purchaser's costs have been deducted (Stamp Duty at the revised bandings, 1% sales agent and 0.8% legal fees)

GDV Summary

Component	GDV (£)
Private Residential Sales	£683,885,000
Private Residential Pre-sales	£165,617,400
Car Park Spaces	£10,100,000
Car Park Spaces Pre-sales	£2,800,000
Affordable Housing	£31,594,281
Commercial Accommodation	£22,220,133
Freehold (Ground Rents)	£18,963,636
GDV, Say	£935,180,450
Purchaser's Costs	£2,705,649
GDV, Say	£932,500,000

Build Costs

We have wholly relied on the cost plan dated 12 July 2016 prepared by Bruce Shaw, who is the Developer's appointed Cost Consultant in preparing this valuation. Accordingly, and in order to determine appropriate build costs for the purpose of our valuation we have had regard to build cost inflation between the date of the cost report and the date of this valuation. We have adopted indexation, as provided by Bruce Shaw, from Q2 2015 up to the date of valuation, which equates to a total of £9,720,000 (we have applied this to each building on a 'pro-rata' basis).

Thus the original and inflated total construction costs (excluding site clearance/demolition) upon which we have relied are summarised as follows:-

Building	Type of Costs	Total Amount £ Q2 2015	Indexation	Adjusted Costs as at Valuation Date
A03	Construction costs	£91,379,000	£3,225,317	£94,604,317
A04	Construction costs	£83,813,000	£2,958,267	£86,771,267
A05	Construction costs	£100,193,000	£3,536,416	£103,729,416
Total		£275,385,000	£9,720,000	£285,105,000

Build costs spent to 14th September 2016 of £25,285,427 (net amount of £259,819,573 to include inflation).

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Other Residual Valuation Cost Assumptions

In addition to the above construction costs and within our valuation, we have made the following allowances:

Appraisal input	Comment
Site Clearance / Demolition Costs	£1,050,000 as provided by Bruce Shaw and the Developer less £448,730 spent to date.
Contingency	We have adopted a contingency allowance of 5% of construction costs and site clearance / demolition costs, or £13,021,042.
Professional Fees	We have adopted additional professional/design fees of 7.5% of construction costs, being £14,593,352, after taking into account costs of £6,868,273 spent to date.
Project Management Fee	We have adopted a Project Management Fee of £9,816,949, after netting off £6,183,051 spent to date as confirmed by the Developer from a total fee of £16,000,000.
NHBC Costs	NHBC related costs equating to £1,995,136. We have adopted remaining costs of £526,577 netting off £1,468,559 spent to date.
Section 106 Contributions and Affordable Housing Overage	We have made an allowance for the outstanding Section 106 contributions and affordable housing overage costs of £30,674,785.
Residential Marketing, Agents & Legal fees	We have assumed sales agent and sales legal fees of 2% and 0.25% of the Private Residential GDV only. The Developer has confirmed that £7,747,102 marketing fees have been spent to date of total fees of £21,087,171 (net amount £13,340,069).
Commercial letting, agent and legal fees and purchaser's costs	We have adopted Letting and Legal fees of 10% and 5% (market rates) respectively in relation to the commercial accommodation (applied to the rent attributed to the commercial accommodation). In addition to the above we have adopted Commercial Sales Agent and Legal fees of 1% and 0.25% respectively (applied to opinion of commercial accommodation's Market Value). We have deducted purchaser costs from the value of the commercial and ground rent portfolio.
Finance Costs	We have adopted an overall cost of finance based on 5.0% applied to 100% of the development costs (including the Land Cost) to reflect the opportunity cost to the Developer as well as appropriate transaction fees.
Site Stamp Duty, Agents and Legal Fees	We have incorporated an allowance for stamp duty in line with the latest residential and commercial SDLT bandings, 0.5% for agent's fee and 0.25% for legal fees (fees are inclusive of VAT).

The build costs we have adopted should be considered as being entirely indicative and for valuation purposes only. Should they prove to be an under estimate there would be a negative impact on the land value.

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Profit Assumptions / Hurdle Rate

Reflecting demand and the quality of the site within its location by comparison to other Nine Elms sites, we have adopted a profit on cost of 25% reflecting a gross margin of circa 25.53%. We consider this to be an appropriate return in the current market for a site such as this in this location given our experience of working with developers in this sector of the market.

Development Timescales:

We have assumed a 79 month development programme and we set out our key assumptions concerning timescales below:

Further to conversations with the developer, we understand that construction of block A03 will put on hold and that they will commence construction of A05 further to launching and achieving sales within that block.

The phasing of the development will therefore be as follows;

A03

- A 25 month pre-construction period from October 2016 to October 2018;
- A 22 month construction period from November 2018 to August 2020;
- 50% off plan sales with 3 months for completions from July 2020 to September 2020;
- 30 months post practical completion sales period for the remaining sales from September 2020 to March 2023 (33 month sales period in total).

A04

- A 3 month pre-construction period from October 2016 to December 2016;
- A 19 month construction period from January 2017 to July 2018;
- 100% off plan sales with 3 months for completion in June 2018 to August 2018.

A05

- A 6 month pre-construction period from October 2016 to March 2017;
- A 23 month construction period from April 2017 to February 2019;
- 50% off plan sales with 3 months for completions from January 2019 to March 2019;
- 32 months post practical completion sales period for the remaining sales from March 2019 to November 2021 (35 month sales period in total).

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For all Blocks

- We have phased the sale of the ground rent portfolios for each block to occur on completion of sales within that respective block.
- We have assumed sale of the commercial accommodation in Blocks A03, A04 and A05 at the completion of sales within that respective block.
- We have consulted our in house Building Consultancy and Project Management Team who have confirmed that the assumed development programme is achievable.

We expect car park spaces are sold throughout the same period as the residential units within each block. We believe that this rate of absorption is achievable in line with current market conditions and what has been achieved in comparable schemes in the vicinity. This assumes that the scheme is appropriately priced and marketed.

Residual Valuation Summary:

Components	£
GDV	£935,180,450
Purchaser's Costs	£2,705,649
Aggregate GDV	£932,474,801
Gross Development Costs	£435,926,422
Profit on Cost – 25%	£182,580,988
Balance for Land, Say	£314,000,000

Sensitivity Analysis:

We are of the opinion that the site has a residual value of approximately **£314,000,000 (£55,100,000 per acre)**.

You should however, be advised that the residual method of valuation takes into account a large number of subjective variables, of which can have a significant impact on the development project being considered. Variations in sales prices, construction costs and periods, and the cost of finance can also have a marked affect.

We have carried out a residual calculation that is sensitive to fluctuations in input values, we provide below a sensitivity analysis, to demonstrate how the changes in input data affect values.

In the analysis it is shown that by stepped increases and decreases by 5% in the remaining unsold private residential and car parking sales prices and 5% in build cost, the residual land value can fluctuate from approximately **£246.6 million** to as high as **£381.3 million**.

Constr. Cost	Unsold Private Residential and Car Parking Sales				
	-10.0%	-5.0%	0.0%	+5.0%	+10.0%
-10.0%	£293,309,531	£315,320,648	£337,331,758	£359,337,561	£381,343,235
-5.0%	£281,627,154	£303,638,460	£325,649,577	£347,655,384	£369,661,067
0.0%	£269,945,029	£291,956,068	£314,000,000	£335,973,199	£357,978,890
+5.0%	£258,262,869	£280,273,935	£302,285,198	£324,291,010	£346,296,705
+10.0%	£246,580,701	£268,591,782	£290,602,839	£312,608,607	£334,614,515

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+44 (0)20 7493 4933

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Cross Check to Market Value – Land Comparables

Cross
Check
Method:

In the course of considering the Market Value we have also considered the following land sales:

Site	Date	Price	Planning Status	Size (acres)	Price / £ per Acre
Keybridge House, SW8	Sep-14	£92.5m	Planning	3.4	£27.2m
Vauxhall Bondway, SW8	Mar-15	£100m	Planning	0.7	£142.9m
Grand South, 12-20 Wyvil Road, SW8	Oct-15	£36m	Planning	0.86	£41.8m
Subject Property	Sep 16	£314m	Planning	5.7	£55.1m

The above demonstrates land sales in the region of £27.2m - £142.9m an acre, with the Subject Property demonstrating a land value of £55.1m per acre which sits within the above range. Accordingly, land sales in the area can vary quite significantly on a £ per acre basis, depending on the size and scheme proposals. We believe that the Subject Property has a relatively high £ per acre value due to its high profile, prime location and low affordable housing provision.

Therefore, we are of the opinion that the Market Value of the Freehold Interest in the Subject Property as it exists, as described herein, as at the date of valuation is **£314,000,000** (equivalent to **RM 1,709,259,000** based on an exchange rate of RM5.4435:£1.00, being the middle rate as published/made available by Bank Negara Malaysia at 5.00 p.m. as at 14th September 2016, i.e. the Valuation Date).

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Stuart Springham	Jonathan Smith	Matthew Green
Associate Director	Director	Director
30 Warwick Street	30 Warwick Street	30 Warwick Street
London	London	London
W1B 5NH	W1B 5NH	W1B 5NH
+ 44 (0)207 087 5625	+ 44 (0)207 087 5581	+44 (0)207 087 5546
stuart.springham@eu.jll.com	Jonathan.Smith@eu.jll.com	Matthew.green@eu.jll.com

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