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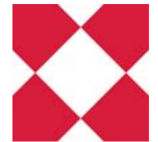


APRIL 2011

SYDNEY CBD OFFICE

Market Overview

Knight Frank

HIGHLIGHTS

- Many landlords took the opportunity to complete refurbishment programs on vacant buildings over 2010 in an effort to reposition the asset and boost market appeal. In contrast the majority of space coming online in 2011 and 2012 are new developments which have been underpinned by major tenant commitments and equity injections. Recent confidence about future take-up has also led to many developers/owners reigniting development pipelines in an effort to continue to grow their prime portfolios into the future.
- Face rents in the CBD have stabilised, with some modest growth recorded in select assets over the past six months. Incentives have begun to contract, in particular for Premium assets and should retract sharply once tenant demand gains momentum and the excess vacant space is absorbed. Average prime gross effective rents are projected to grow by 10% per annum over the next three years, returning to their peak (mid 2008) levels by mid 2013.
- Investor interest increased from late 2009 and continued throughout 2010 with $1.9 billion worth of transactions transpiring over the year to January 2011. The increased appetite from off-shore groups in 2009 and H1 2010 was followed by the return of the domestic players (including super funds, unlisted funds and private equity funds). This culminated in twelve major sales (above $10 mill) transacting since July 2010, with a total value of $1.05 billion.

Table 1
Sydney CBD Office Market Indicators as at January 2011

Grade	Total Stock (m²) ^	Vacancy Rate (%) ^	Annual Net Absorption (m²) ^	Annual Net Additions (m²) ^	Average Gross Face Rent ($/m²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	2,368,687	7.7	73,034	98,025	650 - 950 (851 Avg)	26.5	6.50 - 7.50 (6.90 Avg)
Secondary	2,475,853	8.8	32,359	18,540	450 - 560 (509 Avg)	29.0	7.75 - 8.75 (8.28 Avg)
Total	**4,844,540**	**8.2**	**105,392**	**116,565**			

Source: Knight Frank/PCA ^PCA OMR data as at January 2011 NB. Average data is on a weighted basis

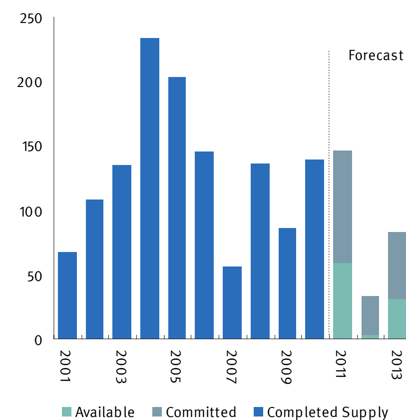
SUPPLY & DEVELOPMENT ACTIVITY

The Sydney CBD will add circa 150,000m² of new supply (new and refurbished) in calendar year 2011, which will be followed by two years of well below average supply additions in 2012 and 2013 (see Figure 1). The next three years will add on average around 85,000m² per annum to gross supply, which compares favourably with the long term average of 165,000m² per annum. Consequently, the market is well placed for a recovery in vacancy rates and rentals, as the demand environment continues to gain momentum.

With the exception of State Street's new headquarters at 420 George Street, the majority of supply that came online over the past year have been refurbishments. These included 175 Pitt Street, 260 Elizabeth Street, 39 Hunter Street, 39 Martin Place and the 100 Market Street retro-fit. In addition to this, the Mirvac/ING owned 10 Bond Street refurbishment was recently completed which will be followed up by the refurbished 20 Bond Street which will reinstate 30,000m² of A-grade stock in Q2 2011.

The major new developments under construction and due for completion this calendar year are the Dexus/Cbus owned 1 Bligh Street and the Lend Lease/ADIA owned Darling Quarter development. 1 Bligh will be a Premium grade building and currently has a 55% commitment from law firm Clayton Utz, due for completion in June 2011. Darling Qtr is fully committed and being purpose built for CBA due for completion in May 2011. Premium tenants have become more active over the past six months and with some new enquiry

Figure 1
Sydney CBD Forecast Supply
('000 m²) Major New & Refurbished Gross Supply



Source: PCA/Knight Frank

entering the market recently and growth from sitting tenants, this bodes well for the three Premium towers with vacancy, namely 1 Bligh Street, Chifley Tower and Aurora Place.

Beyond the buildings slated for completion in 2011, the two major precommitted buildings under construction are 85 Castlereagh Street (Westfield) and 161 Castlereagh Street/242 Pitt Street (Grocon/GWOF/La Salle). Due for completion in Q1 2012, 85 Castlereagh is 90% committed to JP Morgan, Allen & Overy and Westfield, while the 161 Castlereagh Street development is also 90% committed to both ANZ and Freehills with practical completion expected by around mid 2013. ANZ will occupy the lower levels and retail banking off Pitt Street, while Freehills will occupy the high rise with the Castlereagh Street address.

Backfill Space

Following recent and pending tenant relocations into newly completed and refurbished stock there is a corresponding increase in backfill space currently available and coming on stream over the next two years. Uncommitted space of approximately 140,000m² is coming online in 2011, which needs to be absorbed before the vacancy rate is likely to peak. Refurbishment programs were undertaken on many buildings in an effort to reposition the asset and boost market appeal, such as 20 Bond Street which is nearing completion after undergoing a substantial refurbishment. This will continue as various well located lower A-grade and secondary assets become vacant on the back of these pending tenant relocations.

Looking forward to 2012 and 2013, the largest backfill opportunities for tenants are a result of the consolidation amongst financial services, banking and legal tenants such as CBA (various sites including 363 George St, 48 Martin Place, 52 Martin Place and the DA approved site at 5 Martin Place), ANZ (20 Martin Place), JP Morgan (259 George St and Grosvenor Place), Freehills (MLC) and Clayton Utz (1 O'Connell St). State Street will also fully take up their headquarters in the recently completed 420 George Street, upon which AMP will make good their tenancy at 338 Pitt Street, with circa 10,000m² available in the Midtown precinct from late 2011/early 2012.

With demand picking up and strong enquiry for recently refurbished and new buildings, the market should absorb this stock be is poised for the anticipated recovery.

MAJOR OFFICE SUPPLY

1. 420 George St - 37,900m² (State Street/AECOM)
   Fortius/APPF - completed Sept 2010 - 75% committed.
2. 39 Martin Place # - 12,500m² - 40% committed.
   Colonial GAM [DPIF] - Q4 2010
3. 10-20 Bond St # - 35,000m² (Trust)
   ING/Mirvac - Q2 2011 - 33% committed [includes HoA*].
4. Darling Quarter - 56,000m² (CBA) - 100% committed.
   APPF [Lend Lease]/ADIA - from May 2011
5. 1 Bligh St - 41,936m² (Clayton Utz)
   DEXUS/Cbus - June 2011 - 55% committed.
6. 85 Castlereagh St - 32,837m² (JP Morgan/Allen & Overy)
   Westfield - Q1 2012 - 90% committed.
7. 161 Castlereagh St [242 Pitt St] - 54,350 m² (ANZ/Freehills)
   Grocon/GWOF/La Salle - mid 2013 - 90% committed.
8. 1 O'Connell St # - ~20,000m²
   APPF [Lend Lease]/ADIA - mid 2013
9. 52 Martin Place # - ~17,000m²
   QIC/Stockland - 2012/13
10. 8 Chifley Square - 19,000m²
    Mirvac - mid 2013
11. 5 Martin Place [120 Pitt St] - 33,700m²
    Colonial [CPA] - mid 2014
12. 48 Martin Place - ~20,000m²
    Commonwealth Bank - 2012+
13. 383 George St [38 York St] - 15,081m²
    Fife Capital - 2014+
14. 161-165 Clarence St - 15,902m²
    Brookfield - 2014+ [likely resi conversion]
15. Barangaroo - ~up to 300,000m²
    Lend Lease/SHFA - commencing from 2014+
16. Central Park [CUB site] - up to ~70,000m²
    Frasers - 2014+
17. cnr Bathurst & Pitt Sts - 35,893m² [likely resi conversion]
    Brookfield [Syd.Water site] - 2016+
18. 301 George St [City One] - ~65,000m²+
    Thakral - 2016+
19. 33 Bligh St - 22,000m²
    Energy Aust./Investa - 2016+
20. 190-200 George St - ~40,151m²
    Mirvac - 2016+
21. George, Dalley & Pitt Sts - 35,000m²+
    GE Real Estate - 2016+
22. 19-31 Pitt St - ~10,000m²
    Cambooya - 2016+
23. Loftus & Young Sts - 35,000m²
    AMP - 2016+

Under Construction/Complete (blue)

DA Approved / Confirmed / Site Works (green)

Mooted / Early Feasibility (red)

NB. Dates are Knight Frank Research estimates
Major tenant precommitment in brackets
Major refurbishment
* HoA Heads of Agreement
Office NLA quoted

Source of Map: PCA

TENANT DEMAND & RENTS

Due to the heavy weighting towards the finance & insurance (F&I) and property & business services (PBS) sectors, the Sydney CBD incurred the biggest demand shock of all the capital cities during the GFC, which led to an increase in sub-lease space and direct vacancies. The predominately demand led slowdown pushed the vacancy rate across the Sydney CBD from 3.7% to 8.2% in the three years to January 2011.

However the reverse will be true over the next few years, as it is anticipated that the F&I sector will lead the growth in white collar employment, with Sydney being a direct beneficiary of this demand. Following the peak in late 2007, F&I sector employment has fallen by over 11% in the Sydney CBD, however is forecast to grow at 5% per annum over the next three years and returning to its pre-GFC employment base by early 2013.

Table 2
Sydney CBD Total Vacancy Rates
January 2010 to January 2011

Grade	Jan 2010 %	July 2010 %	**Jan 2011 %**
Premium	7.5	4.8	**3.1**
A Grade	6.6	8.8	**9.4**
B Grade	8.9	9.0	**8.0**
C & D Grade	10.4	10.2	**10.1**
Total	**8.2**	**8.5**	**8.2**

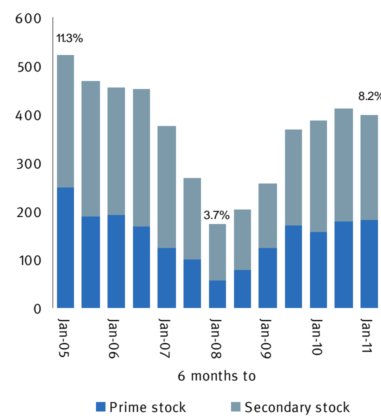
Source: PCA/Knight Frank

The sublease market is no longer a major drag on rentals, with the active marketing of sub-lease space peaking in late 2009. Since then businesses have withdrawn this space as they began to look to the future growth phase rather than contracting. The sub-lease vacancy rate has fallen from 1.4% (66,850m²) to 0.5% (23,500m²) over the past 12 months.

Net Absorption

Following cumulative negative net absorption of -191,033m² over the 18 months between July 2008 and January 2010, demand rebounded in the 2010 calendar year, with net absorption of 105,392m² recorded. This was predominately driven by the reduction in available sub-lease space, which fell by 65% over the past year, but also on the back of expansion from select banking and financial services tenants such as Westpac, Bendigo, Macquarie, Employers Mutual and FM Global.

Figure 2
Sydney CBD Vacant Stock
('000m²) By Quality Grade



Source: PCA/Knight Frank

Recent labour market data highlights that the Australian economy hit a soft patch in the last quarter of 2010, which has extended to 2011 (mainly due to the floods). The annual growth in hours worked slowed to 2.3% from a peak of 4.3% last August and employers shed 2,200 jobs over the three months to February, however, with over 300,000 jobs added over the past year and an unemployment rate remaining tight at 5.0% (NSW 4.8%), the data reflects a stable labour market.

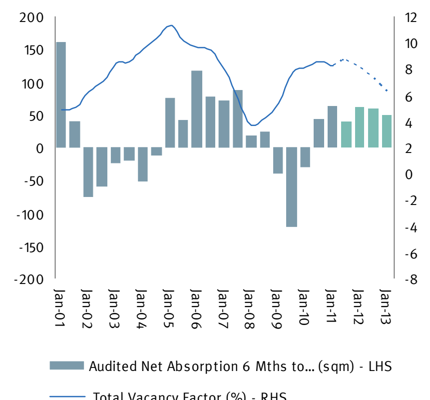
Net absorption is expected to remain relatively robust over 2011, notwithstanding the uncertainty and volatility in global capital markets and the geo-political issues in the Middle East. As we expect the F&I and PBS sectors to expand their employment base substantially over the next 2-3 years, this will lead to a strong rebound in net absorption from mid 2011 through to 2013, with double the historical net absorption (~53,000m²) projected over the next three calendar years.

Enquiry levels have picked up substantially when compared with 2009 levels, which is a precursor for increased transaction levels. With the strength of the Sydney CBD market being determined by the major trends across the better grade buildings, optimism has returned as a result of recent and continuing steady progress with the leasing of the major A-grade vacancies. Most of the recent multiple floor activity has occurred in the new and refurbished A-grade stock eg. 175 Pitt Street, 420 George and 20 Bond Street (see Table 3 overleaf), however the Premium tenants have also become active in recent times with most Premium towers being near to full (current Premium vacancy is 3.1%). New enquiry has entered the market which is a good sign, such as L.E.K. Consulting and Port Jackson Partners each seeking 1,200m².

Anticipated Vacancy Levels

The Sydney CBD vacancy rate increased from 3.7% in January 2008 to 8.2% as at January 2011, which was a slight improvement on the July 2010 figure of 8.5%. Notwithstanding the pick up in enquiry, demand remains somewhat patchy and with 140,000m² of uncommitted space (new and backfill) still to come on line this calendar year, 2011 will be a consolidation year, returning to a landlord's market in 2012. With 1 Bligh Street and 20 Bond Street reaching practical completion in H1 2011, the vacancy rate is likely to rise in the near term, peaking at 8.8% in mid 2011 and improving sharply thereafter (down to 6.2% by January 2013).

Figure 3
Vacancy & Net Absorption
('000 m²) Sydney CBD - per 6 month period



Source: PCA/Knight Frank

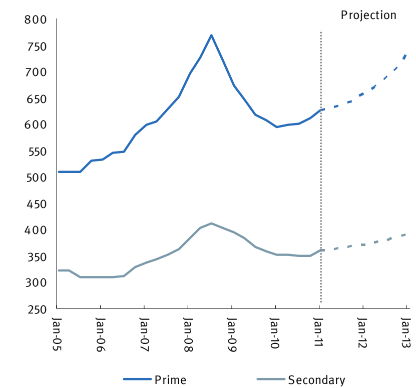
Demand & Rental Levels

Medium to longer term tenant demand is beginning to look promising for the Sydney CBD as banking, insurance and business services tenants have commenced their expansion phase once again. Major tenant relocations will largely be due to upgrading (location, grade & green) driven by expiry, however there have been recent examples of expansion taking place, particularly in the banking and insurance sectors.

Effective rental rates across both the prime and secondary markets have stabilised or begun to show some growth once again, as incentives have started to reduce. Prime gross effective rents are still 19% below their peak in mid 2008 and as at January 2011 average $625/m² gross ($851/m² face @ 26.5% incentives). Face rents are likely to remain relatively flat over the remainder of 2011, albeit there have been tentative signs of modest growth returning in some of the better quality grades over the past quarter, as select landlords with fully occupied buildings begin to gain the upper hand in negotiations. As demand picks up and incentive levels return to longer term averages and levels which correlate more appropriately to the vacancy rate (historically an 8% vacancy correlates to a circa 15%-17% incentive), the prime market will register strong effective growth. With the feasibility of further developments linked to the market's ability to achieve economic rentals, prime market rents will rise strongly, triggering new development commencing from late 2013.

Rental growth in the secondary market will lag the prime segment with a majority of the available backfill space within secondary buildings. From a market peak of $412/m² gross effective in July 2008, the current gross effective rent of $360/m² represents a 13% drop as at January 2011. Average effective rents for lower quality assets are expected to remain relatively flat over the next 6-12 months before recovering slowly thereafter, lagging the growth in the prime segment.

Figure 4
Sydney CBD Rents
$/m² p.a average gross effective rent



Source: Knight Frank

Table 3
Recent Leasing Activity (New Leases over 750m² & Significant Renewals over 1,250m²) Sydney CBD

Address	Precinct	Area (sqm)	Term (yrs)	Lease Type	Tenant	Start Date
Royal Naval House Building	Core	4,156	10	New lease	McCann World Group	Sep-11
Gateway - 1 Macq. Place	Core	2,293	8	New lease	FM Global Insurance	Sep-11
Gateway - 1 Macq. Place	Core	1,198	7	New lease	Spencer Stuart	Sep-11
175 Pitt Street	Core	4,142	10	New lease	Human Rights Commission	Jul-11
345 George Street	Core	1,358	5	Renewal	Travelforce P/L	Jul-11
20 Bond Street	Core	3,400	10	New lease	Trust Company	Jun-11
201 Elizabeth Street	Midtown	2,167	8	New lease	Harper Collins	Apr-11
Gateway - 1 Macq. Place	Core	2,311	10	New lease	University of Wollongong	Mar-11
201 Elizabeth Street	Midtown	2,180	5	Renewal	Xchanging	Mar-11
GPT - 1 Farrer Place	Core	1,425	5	Renewal	Heidrick & Struggles	Mar-11
400 George Street	Midtown	1,403	8+5	New lease	DP World	Mar-11
Gateway - 1 Macq. Place	Core	1,146	10	New lease	Caledonia Investments	Feb-11
83 Clarence Street	Western	2,181	8+4+4	Renewal	State Super	Feb-11
2 Chifley Square	Core	1,297	8	New lease	Susquana	Feb-11
55 Clarence Street	Western	868	5+5	New lease	State Water Corp.	Feb-11
1 Martin Place	Core	5,300	6	New lease	Macquarie Bank	Jan-11
175 Pitt Street	Core	2,579	6	New lease	Employers Mutual	Jan-11
175 Pitt Street	Core	2,453	5	New lease	Bendigo/Adelaide Bank	Jan-11
400 George Street	Midtown	1,297	4	Renewal	SG Australia Ltd	Jan-11
1 Market Street	Western	1,131	5	New lease	Nokia	Jan-11
2 Market Street	Western	1,340	7	New lease	Gateway Credit Union	Nov-10
30 The Bond	Western	2,011	6+4	New lease	Alphapharm	Oct-10
2 Chifley Square	Core	1,299	8	New lease	Sumitomo Australia	Oct-10
135 King Street	Midtown	3,696	10	New lease	Russell Investments	Sep-10
383 Kent Street	Western	1,577	5.4	Sub-lease	Genesys	Sep-10

Source: Knight Frank

INVESTMENT ACTIVITY & YIELDS

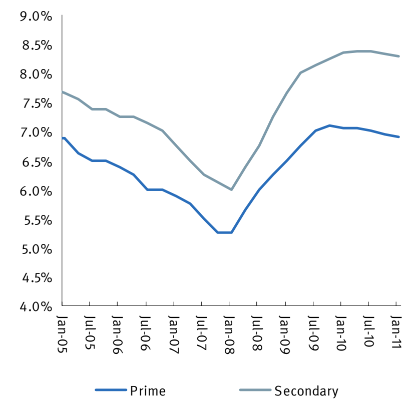
A noticeable increase in investor interest from late 2009, continued throughout 2010 with $1.9 billion worth of transactions completed over the year to January 2011. The increase in investor appetite from off-shore groups in 2009 and H1 2010 was followed by the return of the domestic players (including super funds, unlisted funds and local private equity funds), culminating in six sales transacting in July/August alone, with a total value of $537 million. In addition, there were four major assets which exchanged in late December and settled in January (totalling $430 mill), which was a good benchmark for the market and purchaser profile.

Prime core market yields currently average 6.90% across a band of 6.50% - 7.50%. Premium buildings have held their values relatively well, with some modest tightening occurring in the quality assets. Lower A-grade or secondary assets, particularly those with current or upcoming vacancy exposure, have remained on the soft side, trading in an average yield range of 7.75% - 8.75%.

Prime yields firmed modestly in the first half of 2010 relative to some book values which may have extended too far on the downside and were based only upon “notional” yields due to the absence of sales at the time. If anything yields levelled off somewhat in H2 2010 as the persistently high $A turned some off-shore investors away and benchmarks set by off-shore investors in late 2009 through to mid 2010 remain unlikely to be tested in the near term on a like for like basis. The return of the domestic buyer bodes well for the market, however generally speaking the current cost of capital for most local funds suggests that they alone will not be bidding yields down further in the short to medium term.

The market remains distinctly tiered between asset grades (prime v. secondary), location (CBD v. suburban), and cash flow profile (passive long term WALEs v. active shorter WALEs). The market is also complicated by differences in purchaser profiles, with offshore purchasers dominating the market for "prime" assets, although not active for "secondary" stock, which may continue to contribute to some inconsistency in yields in the short term. As greater competitive pressures emerge in the market as liquidity improves, debt refinancing margins narrow and domestic funds return to acquisition mode, a firming bias will continue for quality assets. However, secondary and suburban asset yields have the potential to remain soft as purchasers price in the relevant risk.

Figure 5
Sydney CBD Average Yields
Prime & Secondary Core Market Yields



Source: Knight Frank

As shown in Figure 5, the gap between prime and secondary yields has returned to longer term average levels after being abnormally thin. The 20 year average yield gap between prime and secondary for the Sydney CBD is 123 basis points, however between 2007 and 2008 it was only circa 75 basis points. As at January 2011 this had returned above the long term average to 138 basis points, highlighting a lower risk appetite recently. This has and

Table 4
Recent Sales Activity Sydney CBD

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
320 Pitt Street	191.75	7.30	29,159	6,576	9.4	Investa (IPG & IDOF)	AIMS (Macarthur Cook)	Jan-11
4 & 14 Martin Place ~	153.50~	7.50	19,538	7,856	2.6	Private Investor	Abacus & Kirsh Group~	Jan-11
55 Clarence Street	83.00	8.40	14,958	5,549	3.6	Allianz	Eureka (ARIA)	Jan-11
17-19 Bridge Street	24.00	6.25^	2,712	8,850	2.2	FKP	Bridge Lane Holdings	Dec-10
171 Clarence Street	29.50*	8.30	6,519	4,525	1.4	Private	Abacus	Dec-10
350 George Street	28.00	6.10‡	3,849	7,275	2.1	Kador	Abacus/W Property	Nov-10
343 George Street	78.00	7.30	10,001	7,799	6.3	Abacus	Sydney City Council	Aug-10
77 King Street	120.00#	7.00	13,680	8,772	5.8	Kingvest P/L	K-REIT (Asian)	Jul-10
233 Castlereagh St	103.50#	8.50	19,898	5,207	3.1	Orchard	GDI Property Grp	Jul-10
35 Clarence Street	99.25	7.70	15,224	6,519	1.6	Orchard	AMP (Sunsuper)	Jul-10
179 Elizabeth Street	95.00	7.50	14,927	6,364	3.5	GPT	LaSalle (LIM)	Jul-10
333 Kent Street	41.50	7.90	8,938	4,643	6.6	Stockland	Private Investor	Jul-10

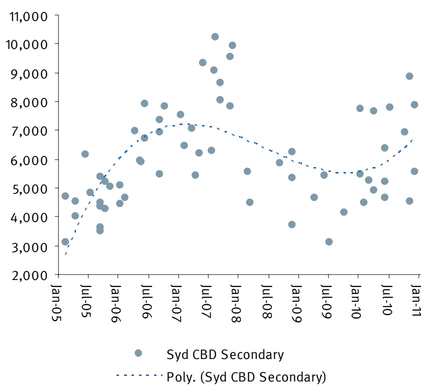
Source: Knight Frank ^fully leased initial yield ‡reported initial yield #includes rental guarantees *reportedly includes income support ~ The sale is analysed in one-line - reported apportionment is $95 mill for 14 Martin Place (bought by Abacus/Kirsh Group JV) and $58.5 mill for 4 Martin Place (bought by Kirsh Group).

will continue to present opportunistic acquisitions as purchasers move up the risk curve and the value add and core plus funds become active again. Figure 6 highlights the improved rate/m² of NLA for secondary asset sales over the past six years. Following the peak in late 2007, there was a significant correction during 2008 and 2009, which led to some investors and owner occupiers capitalising on the sentiment, albeit pricing remains very inconsistent depending upon grade, location and value add/development opportunity.

Figure 6

Sydney CBD Improved Rates

Secondary transactions ($/m²) - 2005 to 2011



Source: Knight Frank

The most recent sales to conclude (see Table 4), were exchanged in the last weeks of 2010, settling in early 2011, including 320 Pitt St, 4 & 14 Martin Place and 55 Clarence St. 320 Pitt Street was the largest of these transactions, acquired by AIMS Financial on behalf of US property fund manager RMR, transacting for $191.75 million on a core market yield of 7.30%. The building is fully occupied by Telstra Corporation with three 10 year leases which commenced in June 2010. The 4 & 14 Martin Place sale comprised of two adjoining office buildings fronting Martin Place with a combined NLA of 19,537m², predominately comprising of smaller office suites and with a strong retail component (26% of passing income). In one line, the total consideration was $153.50 million with a core market yield of 7.50% and an improved rate of $7,856/m², however the reported apportionment was $95 million for 14 Martin Place (bought by Kirsh Group) and $58.5 million for 4 Martin Place (bought by Abacus and Kirsh Group).

OUTLOOK

As Sydney is home to more than half of Australia's finance sector jobs, the slump in finance sector demand, particularly in 2008 and 2009, impacted Sydney CBD office take-up significantly. Over the past six months, demand for office space has picked up courtesy of an improvement in business services sector employment and once the F&I sector unwinds the significant job losses of recent years (which is already underway), we expect white-collar growth to recover quickly and the finance sector to be the main driver of growth once again. Notwithstanding this, there is still some level of uncertainty in the economy due to the global debt issues, the instability in the geo-political landscape, the strong $A, recent natural disasters and continued volatility in the share-market.

Net absorption in the Sydney CBD picked up substantially in 2010 when compared with the previous two years, albeit a major driver of this turnaround was due to large amounts of sub-lease space being taken off the market, driven by the improvement in business sentiment. From mid-2011 the demand for office space is expected to accelerate and in 2012, we anticipate net absorption to be twice the annual long term average of circa 50,000m² per annum. Despite this, the vacancy is still expected to rise modestly over the next six months, peaking at 8.8% in mid 2011 as more refurbished and new supply enters the market. The vacancy rate is then projected to fall steadily thereafter.

Landlords have begun pulling back tenant incentives and face rents have stabilised and in select assets have begun to show modest growth once again. In the Premium segment, gross incentives have already come back to circa 18%-25%, with the average prime gross incentive now 26.5% down from 30% a year ago. With demand rebounding, this should translate into a return to face growth from mid 2011 and as incentives are pared back, strong effective rental growth will occur between 2012 & 2014.

In contrast to the previous couple of years, where refurbished buildings have dominated supply additions, the majority of the 180,000m² of supply coming online over the next two years comprises new developments. These include 1 Bligh Street (Dexus), the Darling Quarter development (Lend Lease), 85 Castlereagh Street (Westfield) and the 161 Castlereagh Street/242 Pitt Street project being developed by Grocon. The average pre-commitment in these developments is strong at over 85%. With recent confidence about future take-up and strong effective rental growth expected in the coming years, many developers/owners have reignited development pipelines hence the next major supply cycle is likely to commence from 2014.

The level of sales transactions across the Sydney CBD picked up in the second half of 2010, with twelve major sales (above $10 mill) transacting since July, with a total value of $1.05 billion. This has predominately been driven by local unlisted and super funds, which had a window of opportunity as many offshore investors regrouped following the sharp rise in the $A in the latter half of 2010. The return of the domestic buyer bodes well for the market, however the current cost of capital for most local funds suggests that they alone will not be bidding yields down further in the short to medium term.

Yields will remain relatively stable over the next year, with a firming bias for well leased, quality grade assets. The divergence between prime and secondary yields seems unlikely to diminish in the short term as relocations from B and C grade stock creates a vacuum on the secondary market impacting passing incomes and vacancy levels.

As yields take into account the expectations of future rental growth, with the vacancy rate expected to peak in mid 2011 and strong effective growth anticipated from 2012 through to 2014, we expect prime yields will firm from late 2011. However we don't expect yields to test similar benchmarks to the last peak where excess liquidity, loose credit and various off shore and local wholesale funds were building their portfolios at a rapid clip. If effective rental growth is even stronger than we anticipate and if other capital markets influences surprise on the positive side (eg. interest rates do not rise as expected, debt markets continue to improve ahead of expectations etc), there is the potential for greater firming.

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