RESEARCH

SEPTEMBER 2013

SYDNEY CBD OFFICE

Market Overview

HIGHLIGHTS

- Softening leasing momentum at the back end of 2012 has crystallised in 2013 with the first half of the year recording net absorption of negative 26,984m². The resulting rise in the vacancy rate to 8.9% (vs 7.2% in January) has been most pronounced for prime grade assets following a supply driven vacancy rise to 9.6%.
- For incoming tenants or major renewals, incentive levels amongst property grades have now converged to a level close to 30%. This is expected to favour a continuation of tenant migration to higher quality premises. Although tenant demand has slowed across all grades during the last quarter, lower A-grade and refurbished secondary options have benefited from improved demand from smaller tenants seeking affordable leasing options.
- The impact of rising incentives has seen prime gross effective rents decline 3.35% in the year to July 2013. Affordability has supported rents in secondary assets, particularly refurbished upper B-grade buildings, with some modest sub CPI rental growth recorded.
- Although partly boosted by several portfolio sales, year to date sales of $1.7 billion have now exceeded the 2012 total. However despite firm competition amongst buyer groups, the majority of prime CBD assets remain tightly held. This has resulted in further cap rate compression, particularly for premium 'trophy' assets, which now sees prime yields below their 10 year average. Yield compression has been less pronounced in the broader A-grade and upper secondary market with assets continuing to trade within a wide band.

SYDNEY CBD OVERVIEW

Table 1
Sydney CBD Office Market Indicators as at July 2013

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	2,590,113	9.6	30,940	91,201	685 - 1,025	29.2	6.00 - 7.25
Secondary	2,327,831	8.1	-50,024	-68,815	520 - 645	29.1	7.75 - 8.75
Total	**4,917,944**	**8.9**	**-19,083**	**22,386**			

Source: Knight Frank/PCA NB. Average data is on a weighted basis

SUPPLY & DEVELOPMENT ACTIVITY

Following the negative net supply recorded in 2012, the Sydney CBD received 61,552m² of net supply during the first half of 2013. This level of supply is equivalent to 1.25% of stock, a rate in excess of the long term average of 0.75% per half year period. In gross terms, new supply stemmed from the completion of 161 Castlereagh St (57,200m², GPT (GWOF)/ LaSalle/ ISPT) with the balance comprising 33,643m² of refurbishments.

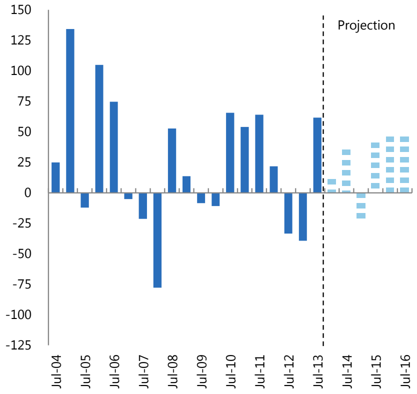
Forthcoming supply over the next two years is set to be more moderate. During FY14 and FY15, total net supply is forecast to measure 66,775m², which equates to slightly less than half of the long term average rate of new supply (based on % of stock). Major projects included in the two year outlook include the imminent 8 Chifley development (Mirvac/ Keppel REIT Asia 19,300m², 70% committed), Deco at 155 Clarence St (St Hilliers 12,000), 20 Martin Place (Pembroke ~16,000m²) and 5 Martin Place (CPA/Cbus 31,280m², 44% committed). One Wharf Lane (GC Investment Co 4,800m²), as part of the development expansion of Four Points by Sheraton, has also received development approval and has a scheduled completion date of early 2015.

In gross terms, new supply is forecast to pick up materially from the end of 2015 and into 2016 (refer FY16 gross supply, Table 2). The immediate impact on the vacancy rate is forecast to be lagged by six months while several large backfill amounts are refurbished. However their re-entry will boost the net supply from late 2016. In FY16, major project completions are set to include the first two towers at Barangaroo (T3; 77,800m² and T2; 88,200m²) along with 200 George St (38,000m², Mirvac/AMP). The precise timing of the final Barangaroo Tower (T1; 101,050m²) is still uncertain, but potential completion is from late 2016.

There remains keen interest for residential conversion opportunities. Projects such as 383 George St (2,189m²*) and 115 Bathurst St (25,080m²*) have already been withdrawn from the stock count. However in the next three years further withdrawals are forecast to include 131 Macquarie Street (7,000m²*), 71 Macquarie St (9,447m²*), 161 Clarence St (3,322m²*) and potentially 227 Elizabeth St (17,052m²*).

Major imminent backfill space over the second half of 2013 includes the State Government, who are set to vacate 20,500m² at GMT prior to relocating to 52 Martin Place and Corrs Chambers Westgarth, who will vacate 7,300m² at GPT, 1 Farrer Place when they relocate to 8 Chifley. However beyond this, backfill space is expected to be more of an issue from 2015 when the major new supply starts to come online. Barangaroo will result in several large tenancies coming to the market including; KPMG (10 Shelley Street, 27,500m²), Lend Lease (30 The Bond, 17,000m²), Gilbert + Tobin (2 Park St, 9,280m²) and Westpac (multiple tenancies, approximately 60,000m²). In addition EY will vacate 29,912m² at 680 George St and Macquarie from 1 Martin Place.

Figure 1
Sydney CBD Net Supply
Per six month period (000's m²)



Source: PCA/Knight Frank

Table 2
Sydney CBD Future Supply Three year outlook
FY 2014 to FY 2016

	Gross New Supply (m²)	Gross Refurbs (m²)	Pre-comm (m²)	Pre-comm (%)	Backfill (m²)
FY 2014	33,106	57,730	19,740	22%	8,124
FY 2015	70,275	23,803	41,272	44%	42,100
FY 2016	245,000	55,280	145,176	48%	157,276
Total	**348,381**	**136,813**	**206,188**	**42%**	**207,500**

Source: Knight Frank

* Refers NLA of office area to be withdrawn

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MAJOR OFFICE SUPPLY

1. 161 Castlereagh St (242 Pitt St) - 54,450 m^2 [ANZ/Freehills]
   GPT (GWOF)/La Salle/ISPT - Q2 2013 - 97% committed
2. 8 Chifley Square - 19,300m^2 [Corrs/QBE/Quantium]
   Mirvac/Keppel REIT Asia - Q3 2013 - 70% committed
3. 175 Liverpool Street[#] - 10,790m^2
   GIC - H2 2013
4. 180 Thomas St - ~14,000m^2 [Transgrid]
   Transgrid - Q1 2014 - 35% committed
5. Deco, 155 Clarence St - ~12,000m^2
   St Hilliers - Q3 2014
6. 50 Martin Place[#] - 21,443m^2 [Macquarie as owner occupier]
   Macquarie Group - end 2014/early 2015 - 100% committed
7. 5 Martin Place - 31,280m^2 [Ashurst]
   Colonial (CPA)/Cbus - Q1 2015 - 44% committed
8. 20 Martin Pl[#] - 15,920m^2
   Pembroke Real Estate - Q1 2015
9. Barangaroo T2 & T3 - 88,200m^2 + 77,800m^2 [Westpac/KPMG]
   Lend Lease* - 2015/16 - 70% committed
10. 200 George St - 38,000m^2 [Ernst & Young]
    Mirvac/AMP - H1 2016 - 74% committed
11. 1 Martin Place[#] (ex Macquarie) - ~40,000m^2 [DLA Piper]
    Charter Hall Office Trust - 2015 - ~20% committed
12. Grosvenor Place, 225 George St[#] (ex Ashurst) - 10,000m^2
    DEXUS/CPA/Investa/CSC - 2015
13. Central Park - ~45,000m^2
    Frasers - 2015+
14. One Wharf Lane, 161 Sussex St - 4,800m^2
    GC InvestmentCo - Q1 2016
15. Barangaroo T1 - 101,500m^2
    Lend Lease - 2016+
16. 333 George St - ~14,000m^2
    Charter Hall Core Plus Office Fund - 2016+
17. 10 Shelley St[#] (ex KPMG) - 27,500m^2
    CPA/Brookfield - 2017
18. 30 The Bond, 30 Hickson Rd[#] (ex Lend Lease)- 16,000m^2
    DEXUS - 2017
19. 55 Market St[#] (ex WBC) - 15,776m^2
    Investa - 2017
20. 19-31 Pitt St- ~7,000m^2
    Cambooya - 2017+ (Stage 1 DA Approved)
21. 33 Bligh St - 26,000m^2
    Energy Aust./Investa - 2018
22. 151 Clarence St - 21,000m^2
    Investa - 2018 (Stage 1 DA Approved)
23. The Ribbon, 1 Wheat Road - 38,000m^2
    Markham/Grocon/SHFA - 2016+
24. 430-450 Pitt St (Belmore Park) - 22,500m^2
    Energy Australia - 2016+
25. SICEEP The Haymarket - 22,000m^2
    Lend Lease - 2016+
26. 182 George & 33 Pitt - ~40,000m^2
    Lend Lease - 2017+
27. George, Underwood & Pitt Sts - 40,000m^2+
    Mirvac - 2017+
28. 289-307 George St (City One) - 65,000m^2
    Brookfield - 2018+
29. AMP Circular Quay Master Plan[»] - ~40,000m^2
    AMP - 2018+
30. 60 Martin Place - ~32,000m^2 (full redevelopment likely)
    Investa/Private Investor - 2018+

Under Construction/Complete

DA Approved / Confirmed / Site Works

Mooted / Early Feasibility

NB. Dates are Knight Frank Research estimates
Includes select CBD major office supply (NLA quoted)
Major tenant precommitment in [brackets] next to NLA
Major refurbishment

* in conjunction with co-capital partners CPPIB, APPF Commercial, First State Super and Telstra Super

» Proposal involves amalgamation of 33 Alfred St, 50 Bridge St and various buildings in Young and Loftus Streets into one precinct. Permissable NLA to be transferred between sites with net NLA increase totalling circa 40,000m^2.

Source of Map: Knight Frank

TENANT DEMAND & RENTS

The July 2013 office market report recorded a rise in the CBD vacancy rate from 7.2% to 8.9% during the first half of 2013. While the result was partly attributable to net supply, the key driver of the vacancy increase was the decline in tenant demand. Net absorption in the six months to July measured negative 26,984m², which was the first contraction since the second half of 2009. The vacancy rise was more pronounced in the prime market where the rate increased from 7.0% to 9.6% (the rise was from 7.4% to 8.1% for secondary). However it is noted that the prime market outperformed secondary with regards to net absorption (8,547m² for prime vs negative 35,531m² for secondary). This apparent contradiction was the net result of supply with prime stock increasing by 83,641m² over the past six months compared to a 21,989m² decline in secondary stock. This is the first time since July 2002 that the prime vacancy rate has been in excess of the secondary rate.

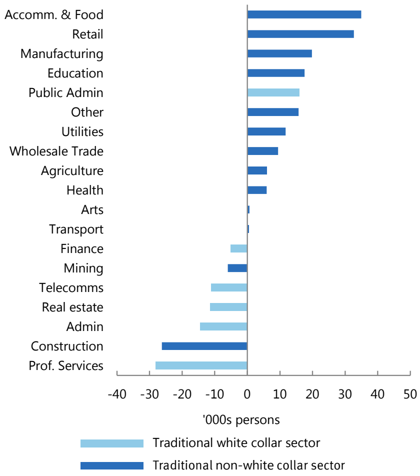
Table 3
Sydney CBD Total Vacancy Rates
July 2012 to July 2013

Grade	July 2012 %	Jan 2013 %	July 2013 %
Premium	7.8	6.0	8.3
A Grade	7.5	7.4	10.2
B Grade	7.8	7.2	8.0
C & D Grade	10.6	7.9	8.3
Total	**8.1**	**7.2**	**8.9**

Source: PCA

Although on a relative basis the NSW jobs market has been outperforming other states in 2013, data from the detailed labour figures are indicative of the slow down in CBD tenant demand. This data for the year to May 2013 show that employment growth in traditional white collar sectors has solely stemmed from public administration with the other five sectors that traditionally drive white collar employment recording an annual decline in job figures (refer Figure 2).

Figure 2
Employment growth by sector - NSW
Twelve months to May 2013



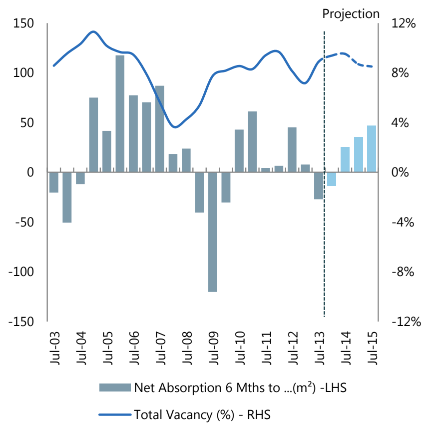
Source: ABS

This dynamic is partly being played out in sub-lease vacancy rates. Sydney CBD sub-lease vacancy approximately doubled from a relatively low base to 32,142m² over the past six months and now equates to 0.7%. Although this figure is reasonably in line with the 10 year average of 0.8%, Knight Frank data shows approximately 20,000m² of additional sub-lease space being actively marketed, but not yet physically vacant.

Although the relatively stronger net absorption for prime assets shows that tenants are still looking to take advantage of elevated incentives and upgrade their premises, there now appears to be new tiers within tenant demand. Specifically, recent demand for premium grade assets (excluding the material boost in recent net absorption by the occupation of pre-leases executed circa two years ago) has lost some momentum with recent deals comprising smaller tenants moving from A-grade stock into premium low rise premises. As a result the incentive differential between premium and A-grade assets has narrowed over the last six months.

For lower A-grade buildings, particularly with recent refurbishments, demand is stronger and some positive outcomes have been achieved on the back of improving demand from sub 500m² tenants. Demand from smaller tenants is being reflected in the average deal size of sub 5,000m² leases in 2013 being 773m², a 25% decrease on the 2012 average of 1,037m². The majority of these tenants are seeking fitted out space, therefore choosing to take their incentive in the form of rental abatement. This development is vital for occupancy growth in Sydney given many large institutional size companies have signed pre-commitments to anchor the majority of forthcoming or recent supply (eg. ANZ, Ernst & Young, Westpac and KPMG amongst others). An improvement in leasing demand is therefore dependent on a pick-up in demand from second tier sized firms.

Figure 3
Sydney CBD Net Absorption & Vacancy
per six month period (000's m², %)



Source: PCA/Knight Frank

Anticipated Vacancy Levels

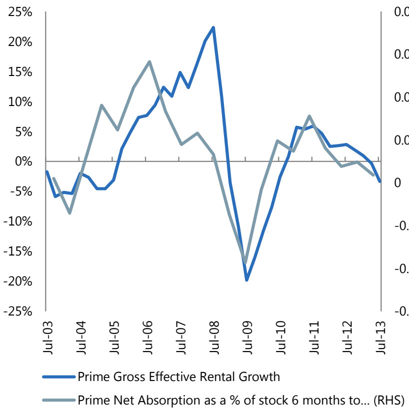
Although forecast net supply is relatively modest over the coming two years, the vacancy rate is not expected to demonstrate any material improvement for the next 12 months given persisting soft demand conditions. From mid 2014 it is anticipated that demand conditions should start to improve as the benefits of lower interest rates and a depreciated exchange rate have had time to gain traction with the broader economy. This is forecast to underpin a moderation in the vacancy rate to a cyclical trough of between 7.5% and 8.0% by the end of 2015. The vacancy rate is likely to rise from 2016 when the market will need to absorb a heightened level of backfill space. Offsetting this to an extent is that demand conditions are anticipated to be stronger than those currently being experienced. Nevertheless, a vacancy rate of circa 10% by 2017 appears likely at this stage.

Rental Levels

The subdued level of tenant demand is being reflected in current levels of rental growth. Prime face rents have recorded relatively no change over the past year, however with average incentives for incoming or major renewing tenants increasing to almost 30%, gross effective rents have declined 3.35%. The majority of this decline has been experienced in the last six months. Current prime gross face rents as at July measure $892/m² ($740/m² net) with gross incentives at 29.2% (vs 26.7% Jul 12). The spread between prime incentives for lease renewals and new leases is relatively tight with renewal incentives averaging between 26% and 28%.

Although somewhat inconsistent, average rental growth in the secondary market has remained moderately positive. While this partly reflects improved demand from smaller tenants, it is also a reflection of the affordability of upper secondary assets. Average secondary gross face rents as at July measure $582/m² ($459/m² net) with gross incentives at 29.1% (vs 28.8% Jul 12). These average rental levels reflect a full floor lease, however it is noted that smaller, sub-divided spaces will generally lease at a premium to these rates. Some inherent growth on the back of sitting tenant renewals has also been evident.

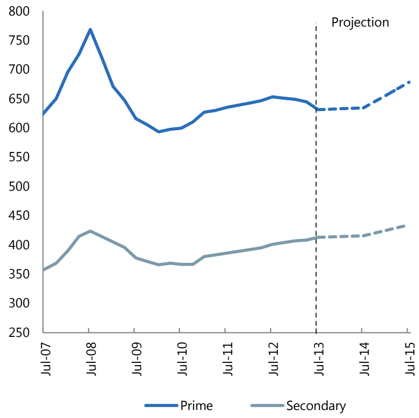
Figure 4
Rental Growth and Tenant Demand
Prime Effective Rental Growth (%yoy) vs Sydney CBD Prime Net Absorption (%)



Source: PCA/Knight Frank

Until we see a sustained pick up in fulltime jobs, a factor that will require an improvement in business confidence, tenants are expected to continue exercising constraint when making premises decisions. Coupled with the increase in sub-lease vacancy, this is expected to see stagnant face rental growth over the next 12 months with incentives remaining at levels close to 30%. Further ahead, the expectation of improved demand from 2014 is forecast to stimulate a supply induced pick up in prime face rental growth of 4.0% over FY2015, when incentives are expected to ease to 26% by mid 2015.

Figure 5
Average Gross Effective Rents
Sydney CBD ($/m²)



Source: Knight Frank

Table 4
Major Leasing Activity Sydney CBD

Address	Precinct	Area (m²)	Term (yrs)	Lease Type	Tenant	Start Date
Barangaroo T3	Western	9,500	U/D	Pre-lease	Gilbert + Tobin	2016
1 Martin Place	Core	6,000	10	New	DLA Piper	Jun-14
123 Pitt Street	Core	1,655	7	Renewal	Holman Webb	Jan-14
1 Macquarie Place	Core	1,243	10	New	Servcorp	Jan-14
77 King Street	Midtown	1,406	5	Renewal	CapGemini	Dec-13
8 Chifley	Core	2,594	7	Pre-lease	Quantium	Aug-13
151 Clarence Street	Western	4,498	2.5	Renewal	Westpac	Jul-13
151 Clarence Street	Western	3,088	2.7	New	Telstra	Jul-13
1 Market Street	Western	1,705	10	New	Nexia Court	Jul-13
19-29 Martin Place	Core	1,299	10	New	Jack Shand Chambers	Jul-13
123 Pitt Street	Core	3,365	10	New	Maddocks	Jun-13
201 Elizabeth Street	Midtown	2,136	8	New	AEMC	Jun-13
363 George Street	Core	2,041	5	New	Yancoal Australia Pty Ltd	Jun-13
477 Pitt Street	Southern	1,920	2	Renewal	Dept. of Juvenile Justice	Jun-13
99 Elizabeth Street	Midtown	1,416	6	New	Wilson HTM	Jun-13
77 Castlereagh Street	Midtown	2,500	10	New	Bartier Perry	May-13
135 King Street	Midtown	2,126	7	New	Moore Stephens	May-13

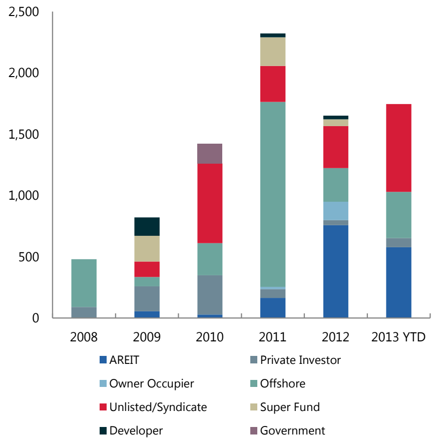
Source: Knight Frank   U/D refers undisclosed

INVESTMENT ACTIVITY & YIELDS

CBD assets remain keenly sought after by a broad range of both domestic and offshore buyer groups. 2013 year to date sales currently amount to $1.745 billion (for sales $10 million+). This figure has exceeded the 2012 total, although has been boosted by several portfolio sales. However with fewer owners looking to divest, particularly given yield compression currently being recorded, opportunities to invest in the market are relatively limited at present.

Over the past 12 months, AREITs have been the largest buyer of CBD assets (on both a gross and net basis) with activity led by the Mirvac and Cromwell portfolio acquisitions. In May, Mirvac acquired a select portfolio of office assets (seven in total) from GE Real Estate that included five assets located within the "Alfred, Pitt, Dalley and George Streets (APDG)" precinct and benefit from alternative planning controls. The assets comprised a $183 million apportionment of the $584 million total portfolio. Cromwell Property Group acquired a portfolio of seven office assets from the NSW State Government for $405 million. Three of the seven assets are located within the Sydney CBD, including Symantec House (207 Kent St), Bligh House (4-6 Bligh St) and the McKell Building (2-24 Rawson Pl), and amount to a combined value of $316 million.

Figure 6
Sydney CBD Sales $10million+
By Purchaser Type - ($m)



Source: Knight Frank

Offshore capital continues to seek opportunities in the CBD, although limited availability of prime assets for sale has constrained the number of recent acquisitions. The sale of 400 Kent Street to Credit Suisse on behalf of an unlisted property fund was the first acquisition above $20 million by an offshore group since March. So far in 2013, $377 million of CBD sales have gone to offshore investors, however the reported sales of both 16 Spring Street ($21.9 million to Malaysian investors) and 50 Margaret Street (circa $70 million to Singaporean investors) will both add to this figure.

There remains a consistent flow of activity from unlisted funds with groups such as Centuria, Centennial Property Group and Altis all making acquisitions in 2013 (refer Table 5 for details). Nevertheless, in net terms, unlisted funds have been sellers of CBD property (refer Figure 7). However in many cases divesting motivations have been complicated somewhat by factors such as pre-emptive rights or the wind up of funds.

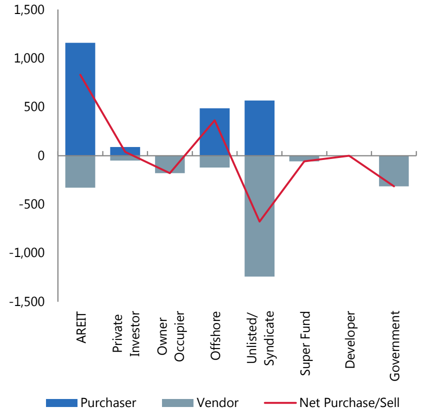
Table 5
Recent Sales Activity Sydney CBD

Address	Price ($ mil)	Core Mrkt Yield (%)	NLA (m^2)	\$/m^2 NLA	WALE (yrs)	Purchaser	Vendor	Sale Date
200 George St	317.00*	6.50‡	39,200	16,173	8.6	AMP (AWOF)	Mirvac	Jul-13
400 Kent St	58.01	7.80	10,461	5,535	8.2	Credit Suisse	Charter Hall	Jul-13
207 Kent St	133.03	7.70	21,107	6,324	3.3	Cromwell	NSW Gov't	Jun-13
2-24 Rawson Pl	130.00	8.20	25,251	5,148	15.0	Cromwell	NSW Gov't	Jun-13
4-6 Bligh St	53.00	8.80	9,964	5,319	4.9	Cromwell	NSW Gov't	Jun-13
121-127 Harrington St	43.50	8.50	6,311	6,893	5.1	Denwol Group	Charter Hall (IF4)	Jun-13
125 York St†	17.70	8.00	2,800	6,321	4.0	Centennial Prop. Grp	Dukeville	Jun-13
Portfolio Sale≈	183.00	7.90»	34,161	N/A	1.7	Mirvac	GE Real Estate	May-13
10 Spring St	91.64	8.71#	13,871	6,606	3.7	Centuria 10 Spring Street Fund	John Swire & Sons Limited	Apr-13
201 Kent Street	77.30ˇ	7.35	39,881	7,735	4.5	Colonial (CPA)	Colonial (DPIF)	Apr-13
115 Bathurst St & 339 Pitt St^	~100.0	VP	28,643	~3,492	VP	Greenland Group	Brookfield	Mar-13
117 Clarence Street	61.25	8.70	12,571	4,872	3.2	Altis	AMP (PIF)	Mar-13
32 York St	18.00	U/D	4,874	3,385	U/D	Private (Singapore)	Cheung Properties	Mar-13
9 Castlereagh St	172.50	7.60	20,899	8,254	2.5†	Charter Hall (CPOF)	Stockland	Feb-13
80 Clarence Street	31.00	8.00	5,567	5,568	2.4	Undisclosed	Aviva Investors	Feb-13

Source: Knight Frank * sale price is for a 50% interest in the land and development due to complete 2016 ‡ quoted capitalisation rate
† details as reported ˇ 25% share ^ bought for residential redevelopment » initial passing yield # fully leased basis
≈ figures as reported and comprise Sydney CBD portion only, namely 51 Pitt St, 37 Pitt St, 6-8 Underwood St, 210 and 220 George St

For example Colonial First State's Direct Property Investment Fund divested its share in 201 Kent St for $77.3 million under pre-emptive rights as it looks to wind up. Similarly Charter Hall sold their final asset in their retail fund CHIF4 when 121 Harrington Street was sold to the Denwol Group for $43.50 million.

Figure 7
Sydney CBD Purchaser/Vendor
Sales ($m) over $10 million FY2013



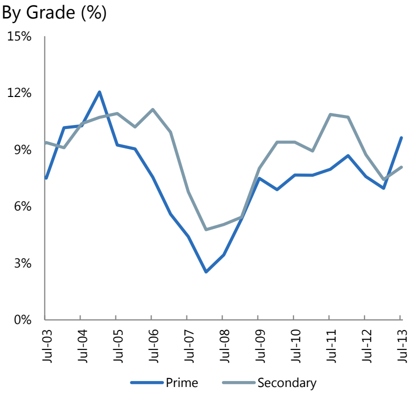
Source: Knight Frank

Average yields have shown further yield compression over the past six months as demand for prime CBD exposure has outweighed the negative influence of current leasing challenges. Premium, 'trophy' type assets have shown the greatest amount of yield compression. Average prime yields are estimated to range between 6.0% and 7.25% and are now trading just below their 10 year average (refer Figure 9). This reflects almost 75bps of tightening so far over the course of the tightening cycle that tentatively commenced around three years ago. However, depending on the asset, not all cap rate compression is necessarily flowing directly through to capital values given some below the line adjustments for factors such as rental reversion and any applicable vacancies. Firming of secondary assets has been comparatively less and as a result average yields continue to reflect a positive spread compared to the 10 year average. Average secondary yields range between 7.75% and 8.75%.

OUTLOOK

Tenant enquiry levels indicate net absorption will remain soft for the balance of 2013. However the encouraging signs of demand from smaller tenants is expected to gain momentum in 2014 as lower interest rates start to gain some traction with the state's economy. An election outcome with a clear majority should also help given the uncertainty that many prospective tenants have cited for delaying premises decisions. Occupied stock to the end of 2014 (next 18 months) is forecast to increase 1.05%, which is equivalent growth to half of the long run average. However despite sub-trend demand causing the vacancy rate to move above 9% in the next 12 months, the rate is anticipated to moderate to 8.7% by the end of 2014 given a minimal level of net supply. Demand akin to trend levels in 2015 is anticipated to see a further reduction in the vacancy rate in 2015 before the onset of increasing supply in 2016.

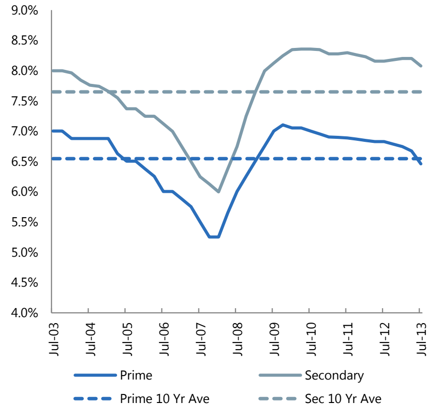
Figure 8
Sydney CBD Vacancy Rate
By Grade (%)



Source: PCA

Face rental growth is expected to be flat and incentives are expected to remain at elevated levels for the next 12 months. A decrease in sub-lease space and a widening in the differential between incoming and renewing tenant incentives will be required for rental growth to become material. Prime incentives have historically been lower compared to secondary, however the last six months saw this difference close. Given the relative availability of prime leasing options (refer Figure 8), prime incentives are expected to remain at levels consistent with secondary for the near term. This is expected to support tenant migration to refurbished upper B and A grade assets by smaller tenants.

Figure 9
Sydney CBD Average Yields
Prime and Secondary Core Market Yields



Source: Knight Frank

Contrary to conditions in the leasing market, the depth of interest and competition amongst buyer types, particularly for prime assets is expected to see the tightening bias in yields continue in the near term. It is anticipated that were an "upper prime" asset sold in the current market, a further re-rating or tightening would be experienced. This is differentiating the prime CBD market to secondary assets and suburban markets where yields and risk premiums remain elevated. The yield differential between CBD prime and secondary has now increased to approximately 160bps, well above the 10 year average of 110bps. This spike in risk premium supports the merits of value add type opportuinities on a risk adjusted basis.

However, there are emerging signs of buyers moving up the risk curve given the absence of stock and if this continues a correction in secondary yields would be anticipated. While buyer depth remains the predominant driver, it is noted that term rates have been rising in 2013, which may be a potential headwind for the extent of further yield compression, absent a material pick up in tenant demand.

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