

ADELAIDE

OFFICE MARKET OVERVIEW OCTOBER 2014

HIGHLIGHTS

Adelaide CBD vacancy rates, as measured by the PCA increased to 13.8% as at July 2014, up from 12.1% a year ago, which is the highest in 15 years.

Origin Energy's relocation to 100 Waymouth Street, downsizing from 12,500m² to 9,135m², highlights a trend within the market of major tenants becoming more efficient in how they occupy their space.

Lend Lease Commercial (APPF) has purchased the SachsenFonds portfolio. The portfolio is 100% leased, with a total net income of approx. \$15.2 million and a WALE of 2.5 years, income weighted.

KEY FINDINGS

The development of the Courts precinct and new office tower is now in the final stages of a Private Public Partnership tender.

Average CBD prime gross rents as at July 2014, are \$505/m² (\$399/m² net), with incentives at 20.4%.

Adelaide CBD recorded negative net absorption of 13,600m² for the six months to July 2014.

The speculative building at 70 Franklin Street has attracted quality tenants, with benchmark incentives of 20% plus, and is now over 72% leased.



PENNY DAVIDSON
Research SA

SUPPLY & DEVELOPMENT

Construction is underway at 50 Flinders Street, which will add 21,431m² of A-Grade office space by late 2015, with only two floors available after pre-commits from People's Choice Credit Union and Santos.

Gross supply in the Adelaide CBD has decreased in the last six months to 6,788m² from 30,566m² in the second half of 2013, resulting in a 78% decline of supply additions entering the market. This supply is due to the recent refurbishment of 101 Pirie Street, introducing 6,788m² of B-Grade space to the market, of which approximately 2,370m² remains vacant after the purchaser, Health Partners Ltd, has occupied 4,418m².

We anticipate that any new construction in the short to medium term in the Adelaide CBD will be minimal, unless significantly pre-committed. This is due to an increase in refurbished backfill space derived from a "flight to quality", as tenants relocate to new buildings.

With increasing vacancy levels, particularly amongst secondary stock, it is expected that refurbishment activity will increase through to mid 2015. At this stage there are staged refurbishment programmes underway with 2-12 King William Street introducing 4,820m², with pre-commits from Commercial and General (500m²) and Rabobank (500m²); 167-175 Flinders Street introducing 1,700m², with a pre-commitment from

Breast Screen SA; 82-98 Wakefield Street introducing 4,000m² with a pre-commitment from Torrens University (1,500m²) and lastly 169 Pirie Street introducing 8,000m² with pre-commits from Channel 9 (2,000m²), Lucid (1,000m²), Adelaide Vision (400m²) and another deal under negotiations.

The State Government is proposing an upgrade of the existing Courts precinct at 301-317 King William Street alongside a new A-Grade commercial office tower with a projected area of approximately 26,000m², and is in the final stages of a Private Public Partnership tender. It is expected that the project will be completed by late 2017. It is likely the Attorney General's department will vacate several offices to consolidate, including their main tenancy at 45 Pirie Street, which will become circa 75% vacant.

The development of 115 King William Street is currently in the early stages of gaining approval for the demolition of an existing 3 storey office building, to construct a 25 level office building. Once completed by mid 2016, the building will become Adelaide's sixth tallest building.

TABLE 1

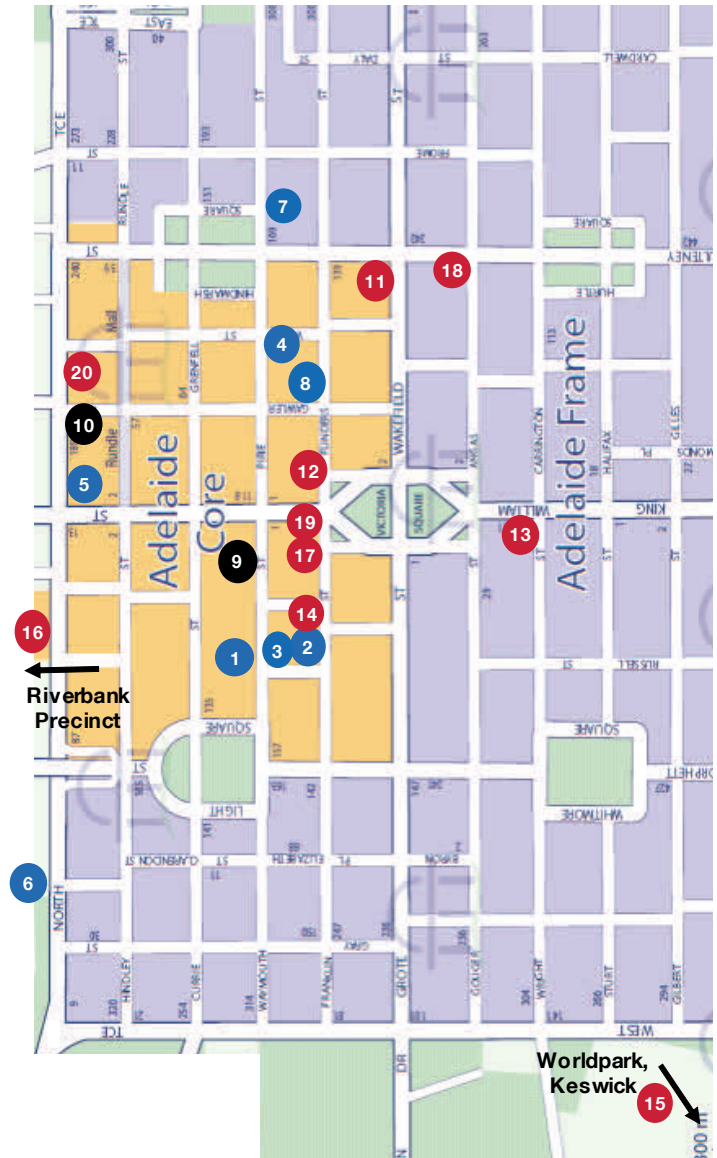
Adelaide Office Market Indicators as at July 2014

Grade	Market	Total Stock (m ²)	Vacancy Rate (%)	Annual Net Absorption (m ²)	Annual Net Additions (m ²)	Average Gross Face	Average Incentive	Average Core Market Yield
Prime	CBD	569,515	11.2	13,619	26,000	494	20.5	7.87
	Fringe	37,297	3.1	2,137	2,700	434	11.0	8.10
Secondary	CBD	815,809	15.6	-20,807	-7,114	368	21.5	9.16
	Fringe	182,871	11.3	-3,860	1,110	337	12.5	8.88
Total Precinct	CBD	1,385,324	13.8	-7,188	18,886			
	Fringe	220,168	9.9	-1,723	3,810			
Total Market	Adelaide	1,605,492	13.3	-8,911	22,696			

Source: Knight Frank/PCA

MAJOR OFFICE SUPPLY

- 1 100 Waymouth St # - 12,750m² [CPS & Origin Energy]
Cromwell - Jan 2013 - 100% committed
 - 2 70 Franklin St - 19,363m² [PWC, DIBP, Austereo]
Kyren - April 2013 - 72% committed
 - 3 81-95 Waymouth St (ex ATO) # - 17,878m²
KTS Properties - Nov 2013 - 100% vacant
 - 4 101 Pirie St # - 6,788m² [*Health Partners]
Health Partners Ltd - Apr 2014 - 65% committed
 - 5 2-12 King William St # - 4,820m² [RaboBank, Comm & Gen]
Private - Sept 2014 - 23% committed
 - 6 North Terrace "SAHMRI" ^ - 25,000m²
S.A. Gov't - Sept 2014
 - 7 169 Pirie St (ex BAB) # - 8,000m² [Lucid & Channel 9]
Aus Property Developments - Q4 2014 - 60% committed
 - 8 50 Flinders St - 21,431m² [People's Choice C.U. & Santos]
Cbus - Q4 2015 - 82% committed
 - 9 115 King William Street - 6,500m²
Brinz Holdings - Q2 2016
 - 10 186-190 North Terrace - 5,000m²
Adelaide Development Company (ADC) - 2017+
 - 11 102-120 Wakefield St - 16,500m²
Kambitsis Group - 2017+
 - 12 2-20 Flinders St - 17,500m²
Toga - 2017+
 - 13 301-317 King William St, Adelaide - 26,000m²
Supreme Court Precinct - 2017+
 - 14 42-56 Franklin St - 21,000m²
Private (Molfetas) - 2017+
 - 15 Worldpark - Richmond Rd, Keswick - 22,600m²
Axiom (Stage B & C) - 2018+
 - 16 Riverbank Precinct
Walker Corp/SA Government - 2018+
 - 17 Tower 7 - 12-26 Franklin St - 20,000m²
Charter Hall/Telstra Super Fund - 2019+
 - 18 130 Angas St (Yorke Campus Stg 2) - ~25,000m²
Commercial & General - 2019+
 - 19 Tower 4 - 141 King William St - 15,000m²
Charter Hall/Telstra Super Fund - 2019+
 - 20 200 North Terrace - ~17,000m²
Maras/Le Cordon Bleu - 2019+
- Under Construction/Complete
● DA Approved / Confirmed
● Mooted / Early Feasibility



Source of Map: Property Council

NB. Dates are Knight Frank Research estimates

Major tenant precommitment in [brackets] next to NLA

Major refurbishment

BAB Bendigo & Adelaide Bank

Office NLA quoted (>5,000m²)

* Owner occupier

^ S.A. Health & Medical Research Institute

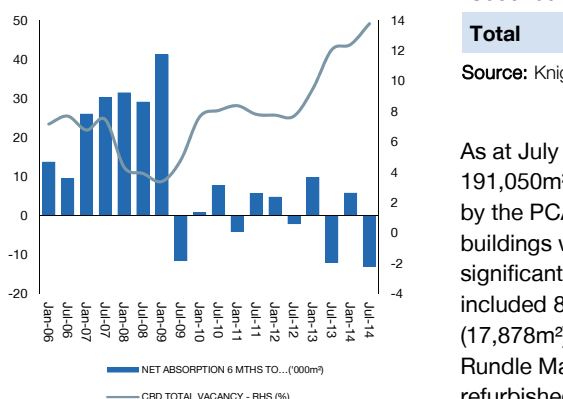
C.U. Credit Union

TENANT DEMAND & RENTS

Net Absorption

Both the Adelaide CBD and Fringe recorded a negative net absorption figure for the six months to July 2014, the CBD recording -13,006, while the Fringe recorded -4,191 (refer to Figure 1). This is result of weakened demand and major tenant relocations. The negative net absorption figure can also be attributed to the fact that a large majority of major tenants are becoming more efficient in how they manage their office space, by reducing their occupancy quite significantly when relocating to newer buildings from older stock. Origin Energy for example have recently signed a new lease; relocating from 1 King William Street where they occupied some 12,500m² to 100 Waymouth Street reducing their footprint to 9,135m².

FIGURE 1
Adelaide CBD Net Absorption
(‘000m²) vs Total Vacancy Rate (%)



Source: Knight Frank/PCA

There is also a noticeable shift in tenants becoming more focused on the square metres each employee occupies. In the past, tenants in an average office fit out allowed approximately 17m² per employee, however many have reduced that to 13m², as the push towards Activity Based Workplaces (ABW) increases. The State Government in particular are looking to reduce their footprint, as they currently occupy up to 25% of the total CBD office market.

Vacancy

Over the last 12 months there has been a significant increase in CBD vacancy rates from 12.1% at July 2013 to 13.8% as at July 2014 - it's highest rate in 15 years. In terms of quality grades, vacancies rose in all grades in the 12 months to July 2014. There has also been an increase in the Adelaide Fringe office market over the last 12 months, rising from 7.5% in July 2013 to 9.9% in July 2014.

TABLE 2
Adelaide Fringe Vacancy Rates

Grade	Jul 2013	Jan 2014	Jul 2014
A Grade	1.7%	4.4%	3.1%
Prime	1.7%	4.4%	3.1%
B Grade	8.0%	11.5%	14.8%
C Grade	8.3%	7.6%	10.1%
D Grade	18.0%	13.3%	13.3%
Secondary	8.6%	8.7%	11.3%
Total	7.5%	8.0%	9.9%

Source: Knight Frank/PCA

As at July 2014, there is approximately 191,050m² of CBD office stock recorded by the PCA as being vacant. Some of the buildings which contributed the most significant proportion of this vacant space included 81-95 Waymouth Street (17,878m²), the former ATO space at 50 Rundle Mall (9,900m²), the recently refurbished 100 Waymouth Street (9,135m²), 55 Currie Street (6,279m²), 108 North Terrace (5,661m²) and 70 Franklin Street (5,500m²). A large majority of the A-Grade vacancy is within the former ATO building (17,878m²), which is in need of a major refurbishment.

Other major vacancies that have not been accounted for in the most recent statistics include 1 King William Street (12,500m²) which will be 70% vacant once Origin Energy relocate in November to 100 Waymouth Street. 100 Waymouth will become 100% leased, and no longer have 9,135m² vacant.

As a result of pre-lease commitments to the new development at 50 Flinders Street, other pending vacancies include People's Choice Credit Union vacating 60 Light Square (7,000m²) and Santos vacating 30 Flinders Street (2,520m²) and 89 Pirie Street (2,640m²).

The PCA vacancy rates by grade in the below table indicate a high vacancy rate of 11.6% within the Premium CBD market. However it is worth noting that Premium grade consists of only two buildings. Similarly the Fringe is a comparatively small sized market and thus susceptible to minor fluctuations in vacancies.

TABLE 3
Adelaide CBD Vacancy Rates (%)
JUL 2013 TO JUL 2014

Grade	Jul 2013	Jan 2014	Jul 2014
Premium	4.4%	6.3%	11.6%
A Grade	9.9%	11.0%	11.2%
Prime	9.46%	10.6%	11.2%
B Grade	13.6%	14.0%	14.7%
C Grade	11.9%	11.5%	14.9%
D Grade	18.0%	17.2%	19.0%
Secondary	13.8%	13.6%	15.6%
Total	12.1%	12.4%	13.8%

Source: Knight Frank/PCA

Although Table 3 highlights that prime grade buildings have witnessed an increase in vacancy over the last 12 months, they are still the lowest vacancy rates recorded. Majority of existing vacancies in the total market are in secondary grade buildings. As a result more pressure will be put on building owners to reposition their lower grade buildings and make significant capital investments if they want their space to remain competitive in the market. Whilst there is A-Grade space available, and with attractive incentives on offer.

Tenant Demand

Weak demand is driving a notable shift in property owners focusing on building presentation, performance and NABERS energy efficiency ratings in order to retain tenants and compete with the significant amount of comparable quality space available in the market. Cromwell invested a substantial amount of capital (circa \$10 million) into their building at 100 Waymouth Street, which was a catalyst for Origin Energy securing a long-term lease, fully occupying the building.

Significant refurbishments undertaken in 77 Grenfell Street, 30 Flinders Street and 211 Victoria Square indicate how a quality refurbishment can attract quality tenants on long-term leases. Building owners of older stock need to undertake refurbishments to remain competitive in the market. The owner of 121 Greenhill Road within the Fringe is currently in the process of a major refurbishment to meet tenant requirements. The owner installed a new lift and air-conditioning to secure a rate of \$350/m² gross (refer to Table 4).

We note there is a low proportion of A-Grade stock within the Fringe, and as such Deloitte (\$403/m² net) and Gerard Lighting's (\$395/m² net) new buildings set the prime benchmark rents.

The construction of the Royal Adelaide Hospital project is driving demand for like minded medical use tenants along North Terrace, and the opportunity to create a medical hub within the North Terrace

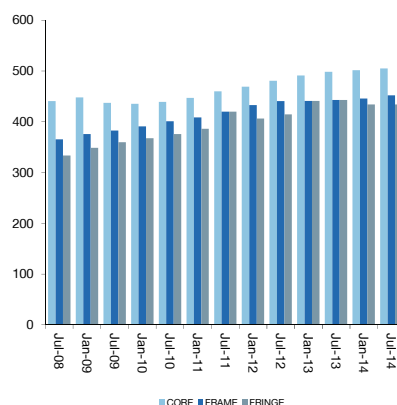
precinct.

Building owners within the CBD are currently experiencing a noticeable increase in demand to implement activity based workplaces (ABW) into their office fit outs. Companies such as PwC, Bendigo and Adelaide Bank, Austereo and DIBP have implemented this concept into their workplaces.

Rental Levels

The subdued level of tenant demand throughout 2014 is reflected in the stagnant rental growth in prime and secondary buildings over the last 12 months.

FIGURE 2
Adelaide Prime Gross Face Rents
By region (\$/m²)



Source: Knight Frank

Average Core prime gross face rents (refer to Figure 2) as at July 2014 are \$505/m² (\$399/m² net), an annual increase of 1.4%, with gross incentives at 20.4% (18.7% Jul 13). Average secondary gross face rents are \$375/m² (\$279/m² net), an annual increase of 1.1%, with gross incentives at 22.5% (20.9% Jul 13).

The new speculative office building at 70 Franklin Street continues to attract quality tenants such as DIBP (\$480 semi-gross), PwC (\$379/m² net) and Austereo (\$485/m² net) with their benchmark rents (refer to Table 4).

The spread between prime incentives for lease renewals and new leases is relatively large with renewal incentives averaging a minimum of 15%. Average incentives for new leases have increased from 18% to 21% in the Core, resulting in prime gross effective rents declining by 0.8% over the past 12 months. Lower A-Grade and refurbished stock will benefit from improved demand from smaller tenants seeking affordable leasing options.

Leasing activity within the Fringe market is mostly active around the 600m² to 1,000m² range. Average Fringe prime gross face rents as at July 2014 are \$434/m² (\$340/m² net), an annual increase of 0.9%, with gross incentives at 10.8% (10.2% Jul 13). Average secondary gross face rents as at July 2014 are \$337/m² (\$258/m² net), an annual increase of 1.7%, with gross incentives remaining relatively steady at 12.5% (11.9% Jul 13).



70 Franklin Street, Kyren Group

TABLE 4

Recent Leasing Activity Adelaide

Address	NLA m ²	Face Rent \$/m ²	Term yrs	Incentive (%)`	Tenant	Start Date
70 Franklin Street	2,034	379n	12	20#	PwC	Mar-15
70 Franklin Street	1,301	485n	15	20#	Austereo	Dec-14
100 Waymouth Street	9,135	465g	10	N/A	Origin Energy	Nov-14
121 Greenhill Road	2,278	350g	7	15	GPA Engineers	Oct-14
24-25 Greenhill Road	1,849	395g	7	15	Interactive	Aug-14
70 Franklin Street	5,991	480sg	7	20#	DIBP	Jul-14
162-163 Greenhill Road	1,888	375g	5	15	Oz Minerals	Jul-14

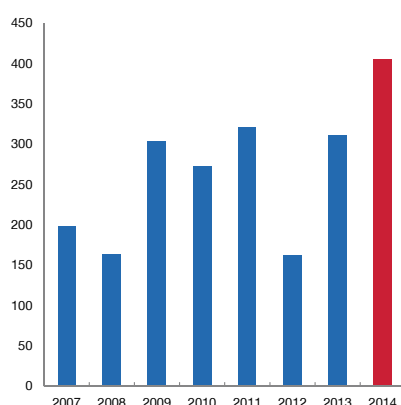
`estimated incentive calculated on a straight line basis g Gross n Net sg Semi-Gross #circa

Source: Knight Frank

INVESTMENT ACTIVITY & YIELDS

Transactional activity in excess of \$10 million within the Adelaide office market picked up in 2014, recording \$405.7 million worth of sales year to date, well above the \$311.8 million transacted for 2013 (refer to Figure 3). This total was enhanced by three major transactions, including the SachsenFonds portfolio, 151 Pirie Street which is under contract for circa \$72 million and the purchase of a 50% interest in Westpac House at 91 King William Street for \$74 million.

FIGURE 3
Adelaide Office Transactions \$10m+
\$ million total transaction value



Source: Knight Frank

These transactions indicate that, whilst supply of quality investment stock remains tight there has been a noticeable increase in demand from interstate institutions and offshore investors seeking to reinvest capital in property after repairing their balance sheets post GFC. Institutions nationally are seeking to invest capital in Adelaide's office market as investment opportunities in other interstate markets are being exhausted and buyers are being priced out. These purchasers are actively seeking quality assets, being well located, modern office towers subject to long term leases.

Lend Lease commercial (APPF) has purchased the SachsenFonds portfolio for a price which is Adelaide's biggest on record. The portfolio comprises three A-Grade office buildings, Santos headquarters at 60 Flinders Street, IAG Building at 80 Flinders Street, 60 Light Square currently occupied by People's Choice Credit Union and an adjoining eight level, 700 bay car park complex known as Flinders Link development. The portfolio is 100% leased, deriving a total net income of approximately \$15.2 million and a WALE of 2.5 years, income weighted. The sale of this portfolio highlights the investor demand for A-

Grade investment in Adelaide.

Another transaction of note is 151 Pirie Street which is currently under contract for circa \$72 million, reflecting a core market yield of 7.32%. The nine level office tower is 100% leased, with the major tenant being KPMG who occupies 38% of the building NLA, until May 2026.

It has been reported that Abacus Property Group has purchased a 50% stake in Westpac House for \$74 million, Adelaide's tallest office tower being a Premium Grade 31 level office building, located at 91 King William Street. This transaction takes Abacus's holding in the building to 100%, reflecting a total value for the property of \$148 million. The building has a NLA of 31,399m², of which is leased to 28 tenants with a WALE of 3.6 years and vacancy rate of 8.4%.

An Adelaide based syndicator Southern Cross Equity Group purchased 22-28 King William Street for \$41.8 million, reflecting a core market yield of 8.22%. The building sold with a WALE of 7.2 years income weighted. The major tenant for the building is NAB, occupying 64% of the building's total NLA until March 2024.

TABLE 5
Recent Sales Activity Adelaide

Address	Grade	Price \$ mil	Core Market Yield %	NLA m ²	\$/m ² NLA	WALE	Vendor	Purchaser	Sale Date
91 King William Street^	P	74.00	7.93	31,399	4,714	3.6	Arena Investment	Abacus Funds	Sep-14
SachsenFonds Portfolio	A	conf	N/A	36,302	N/A	2.5	SachsenFonds	Lend Lease (APPF)	Sep-14
151 Pirie Street	A	72.00*	7.32	12,571	5,727*	5.7	German Fund Real I.S.	Private Investor	Sep-14
22-28 King William Street	A	41.80	8.22	9,640	4,350	7.2	Quintessential	Southern Cross Equity	Jun-14
100 Pirie Street	A	28.61	9.39	9,022	3,171	2.1	Melis Developments	Private Investor	Jun-14
108 North Terrace#	A	69.10	8.33	20,061	3,445	4.4	Commonwealth (CPA)	DEXUS	Apr-14
11-29 Waymouth Street#	P	160.10	8.25	31,003	5,164	3.5	Commonwealth (CPA)	DEXUS	Apr-14
141 King William Street~	-	12.00	-	-	-	VP	Aspen	Core Plus Office Fund	Apr-14
12-26 Franklin Street^	A	-	-	37,350	-	13.5	Aspen	Core Plus Office Fund	Apr-14
44 Waymouth Street	B	14.10	10.42	7,220	1,953	0.6	Indigenous Business	Local Developer	Feb-14

Source: Knight Frank

*circa

#corporate transaction - part of DEXUS acquisition of CPA

^purchase of 50% interest

~development site

DEXUS announced their takeover of CPA's \$4 billion office portfolio in April, which included two core prime assets within Adelaide's office market. ANZ House located at 11-29 Waymouth Street was purchased for a book value of \$160.1 million and the EDS Centre located at 108 North Terrace was purchased for a book value of \$69.1 million. ANZ House is substantially leased to both the State and Federal Government who occupies approximately 72% of the buildings total NLA while ANZ occupies approximately 11.8%. The EDS Centre is currently 28.3% vacant with the major tenant being the Minister for Transport and Infrastructure occupying 46.2% of the buildings total NLA.

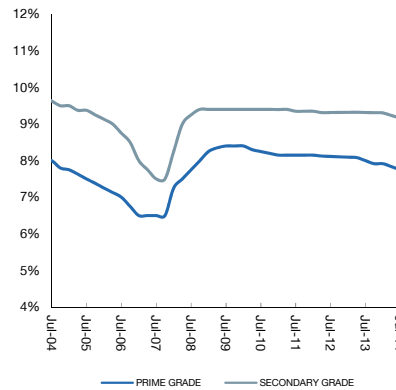
With further investment activity from interstate and South East Asian Pension Funds in the Australian market, there is a strong argument to suggest that there may be further yield compression in the short to medium term, particularly those assets with strong income streams. The demand is a result of the shift of money from low yielding investments such as term deposits due to a record low cash rate, in order to chase higher yielding investments such as commercial property (refer to Figure 5). The weight of money drives the demand rather than improvements in the office market fundamentals.

As regards to the longer term trend, market yields for the Adelaide CBD office market have reflected a general softening trend from the "peak" of 2007-08, despite some minor firming in 2011. They have continued to remain relatively static until the last 12 months where there has been some firming (refer to Figure 4) as a result of a resurgent appetite for AREITs and superannuation funds seeking properties with long term lease covenants.

Adelaide prime CBD indicative yields as at July 2014 are ranging from 7.25% to 8.25%, with secondary yields ranging from 8.50% to 9.75%.

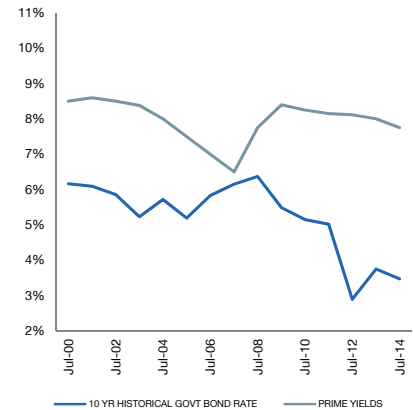
Adelaide prime Fringe indicative yields as at July 2014 are ranging from 7.75% to 8.75%, with secondary yields ranging from 8.25% to 9.25%.

FIGURE 4
Adelaide CBD Median Market Yields
By Grade



Source: Knight Frank

FIGURE 5
Adelaide CBD Yields & Govt Bonds
Core Market Yields vs 10 Yr Govt Bond Rate



Source: Knight Frank/RBA

Outlook

- The outlook for face rental growth over the next 12 months is forecast to remain modest compared with historic average rates, although still in line with the rest of the country.
- We anticipate incentives are likely to rise, particularly in the lower B and C-Grade stock, where there is a significant amount of space available.
- The limited growth which currently exists in the leasing market is being led by those few tenants actively seeking greater efficiencies through consolidation of space.
- Based on the pending vacancies as a result of tenant relocation, and assuming on-going soft demand in the short term, it is therefore reasonable to anticipate the vacancy rate will continue to rise.
- Since there is no significant new un-committed supply of office space under construction, we do not anticipate as sharp an increase in the vacancy rate going forward as what has been witnessed over the last 18 months.
- It is expected that more lower grade stock will become available as major tenants look to relocate.
- The speculative development at 70 Franklin Street will continue to attract quality tenants with their efficiently designed space and new benchmark incentives of 20% plus. The building is currently 72% leased.
- Demand for prime investments is strong nationally and therefore there is potential for further firming of prime yields in the short term if more quality offerings are brought to the market.



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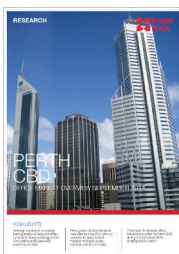
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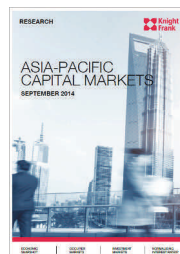
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