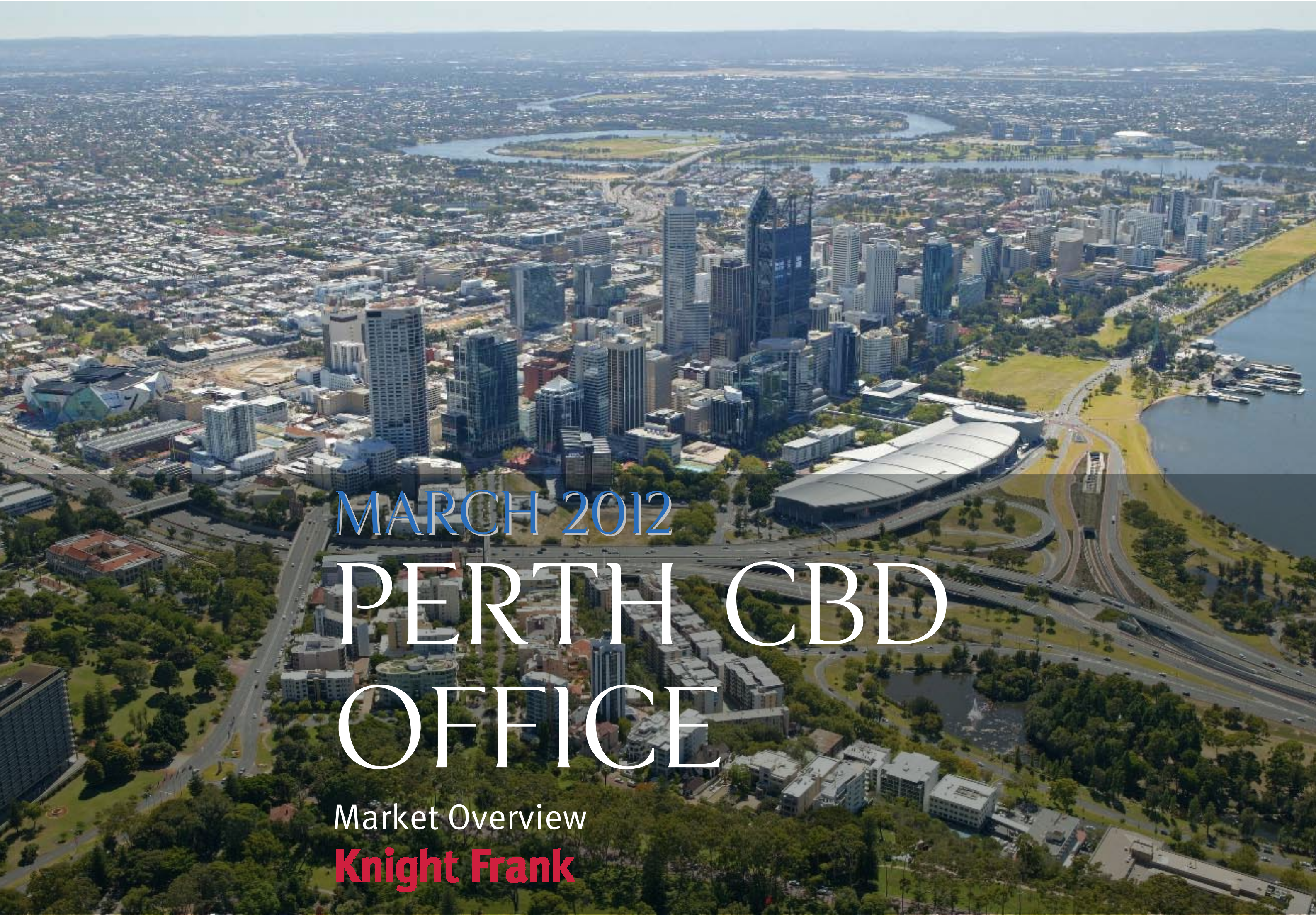
RESEARCH



MARCH 2012

PERTH CBD OFFICE

Market Overview

Knight Frank

HIGHLIGHTS

- The Property Council of Australia's total vacancy rate was 3.3% for January 2012 – down from 7.8% in July 2011. Premium-grade vacancy is now only 0.1%, with A-Grade vacancy falling from 6.6% to 1.4%.
- Knight Frank has calculated that space actually available to lease is 5.6%, accounting for the backfill opportunities at 108 St Georges Terrace and 197 St Georges Terrace.
- New supply additions to the Perth CBD were 19,140m^2 for 2011. The first six-months of 2012 are anticipated to see 159,981m^2 of new and refurbished building completions, which includes Raine Square and City Square.
- Major office transactions totalled $1.099 billion in 2011, a significant increase on 2010. Yields continue to remain stable, with Prime-grade yields ranging from 7.50% to 8.25%.

PERTH CBD OFFICE

Market Overview

Table 1
Perth CBD Office Market Indicators as at January 2012

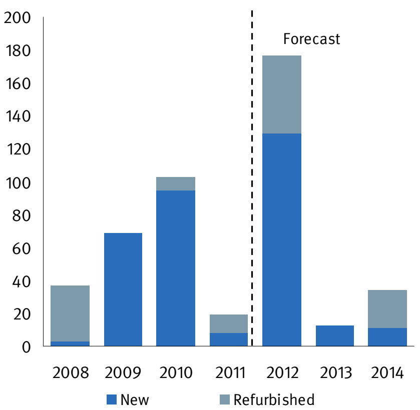
Grade	Total Stock (m²) ^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Annual Net Additions (m²) ^	Average Net Face Rent ($/m²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	800,203	1.0	51,918	1,362	700 – 850	5.0	7.50 – 8.25
Secondary	643,994	6.1	28,137	-22,990	500 – 650	10.0	8.25 – 9.00
Total	**1,444,197**	**3.3**	**80,055**	**-21,628**			

Source: Knight Frank/PCA ^ as at January 2012

SUPPLY & DEVELOPMENT ACTIVITY

Demand for office space within the Perth CBD has fuelled the development of new office buildings, its viability supported by rental growth and the requirement for space.

Figure 1
Perth CBD Office Supply
('000m²) New and Refurbished Stock



Source: PCA/Knight Frank

The Property Council of Australia's (PCA) January 2012 release saw 6,622m² of partial refurbishments completed in the first half of 2011 (108 St Georges Terrace and 553 Hay Street), with a further 1,115m² completed at 553 Hay Street and 2,613m² at 469 Wellington Street by the close of the year. Equus, a new strata office development at 580 Hay Street, added a further 8,100m² to stock levels in the Perth CBD.

Stock withdrawals for refurbishment/development in the Perth CBD totalled 40,768m². The largest withdrawal during the year was at 197 St Georges Terrace (25,857m²) which will be partially refurbished during 2012 as the WA State Government moves out of the premises and into 140 William Street.

The start of 2012 has seen two new developments complete – Raine Square (43,000m²) and 507 Murray Street (2,700m²). By mid-year it is anticipated the new developments at City Square (76,000m²) and Fairlanes (7,115m²) will be completed.

Refurbished space to be completed this year will total 47,849m², which includes 726 Hay Street (5,758m²), 469 Wellington St (6,930m²), the heritage buildings at City Square (4,010m²), and 197 St Georges Terrace (25,857m²).

Beyond this, 1006 Hay Street is currently under construction (2,350m²) with anticipated completion in early 2013, and DA Approval has been granted for 999 Hay Street (10,160m²), with completion expected by late 2013.

Potential Development

In addition to the space currently under construction, there are several buildings with DA Approval or lodged development applications which will or potentially be constructed in the Perth CBD.

As part of the St George's Cathedral Precinct redevelopment, the Public Trustee building has DA Approval to be fully refurbished (8,140m²) with anticipated completion in late 2014, and the new Treasury building has been granted DA Approval, has pre-commitment from the WA State Government, and will provide 28,758m² of new office space by around 2015.

The following developments are seeking pre-commitment prior to construction and include:

- 32 St Georges Terrace, DA Approved, 14,895m², 2014
- 123 St Georges Terrace, DA Approved, 32,000m², 2015
- 374-396 Murray Street, DA Approved, 30,000m², 2015+
- 950 Hay Street, DA Approved, 11,219m², 2015+
- Kings Square (Stage 1), DA Approved, 19,000m², 2015+

The past year has also seen preferred developer status been granted for the Waterbank area (East Perth), DA Approvals for forward works on the Waterfront (Perth CBD), and major works begin for the Perth City Link precinct.

Backfill Space

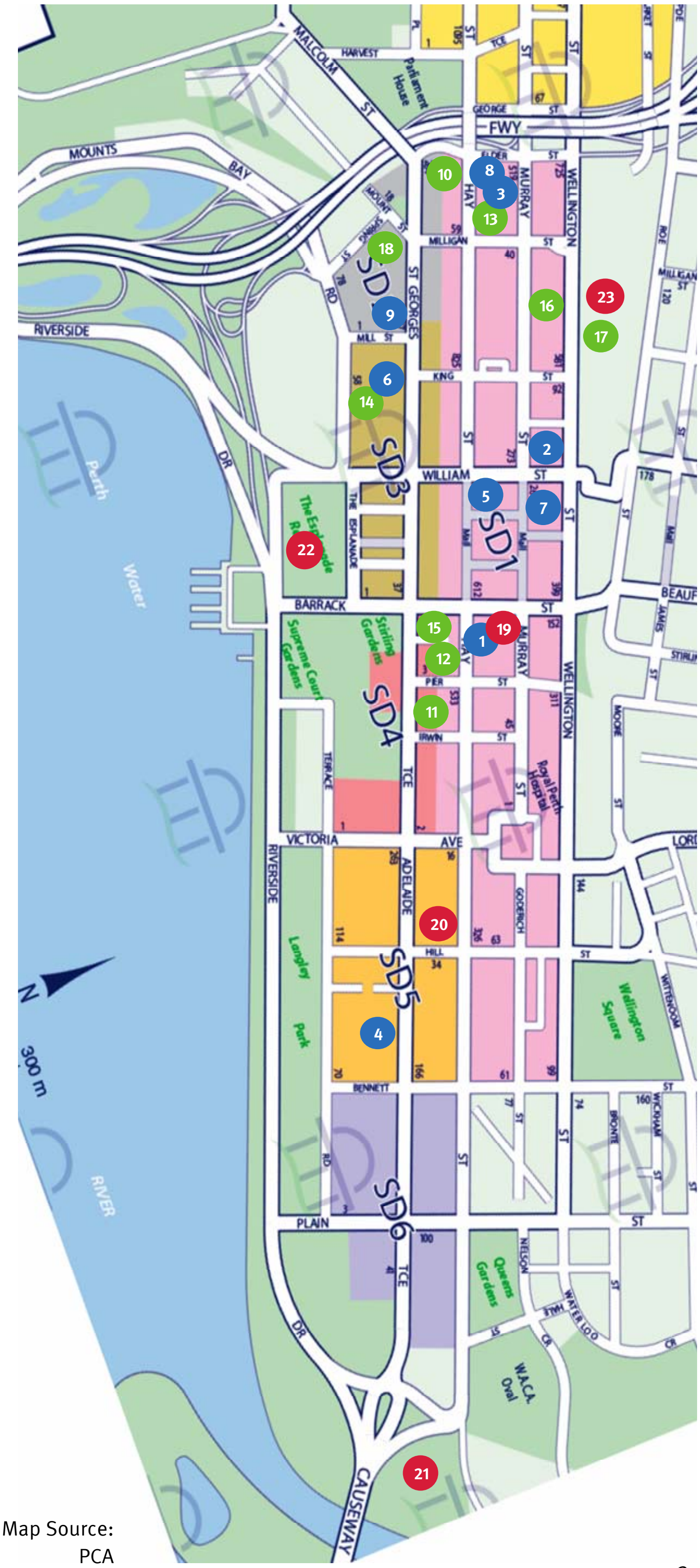
Major back fill space in the market will come from 197 St Georges Terrace and 108 St Georges Terrace, both as a result of major tenant moves (Bankwest 27,000m² to Raine Square, and 25,857m² with the WA Gov't to 140 William St). Pre-commitment, to date, for this backfill space sits at around 70%.

MAJOR OFFICE SUPPLY

1. Equus, 580 Hay Street - 8,100m² (Strata)
   Birchwood Consolidated - completed Q4 2011
2. Raine Square, 298-306 Murray St - 43,000m² [Bankwest]
   West Gem Investments - completed Q1 2012
3. 507 Murray Street - 2,700m²
   Private - completed Q1 2012 - 25% committed
4. Fairlanes, 181 Adelaide Tce - 7,115m²
   Finbar - Q1 2012 - 60% committed
5. 726 Hay Street - 5,758m² #
   Private - Q2 2012
6. 125 St Georges Tce (C2 - City Square) - 80,000m² ^ [BHP]
   Brookfield Multiplex - Q2 2012 - 100% committed
7. 469 Wellington Street - 9,343m² # [WA Gov't]
   WA State Government - Q2 2012 - 100% committed
8. 1006 Hay Street - 2,350m²
   Private - Q2 2013 - 100% committed
9. 197 St Georges Terrace - 25,857m²
   GDI Property Group - Q1-Q4 2012 - 65% committed
10. 999 Hay Street - 10,160m²
    QUBE - Q4 2013 - DA Approved, seeking pre-commit
11. 32 St Georges Tce - 14,895 m² #
    Private - 2014 - DA Approved, seeking pre-commit
12. Public Trustee Building - 8,140m² # [WA Gov't]
    WA Gov't - 2014 - DA Approved - 100% committed
13. 950 Hay St - 11,219 m² (old Melbourne Hotel site)
    Oakesfield - 2014 - DA Approved, seeking pre-commit
14. 123 St Georges Tce (City Square) - 32,000 m²
    Brookfield - 2015, DA Approved, seeking pre-commit
15. Treasury Building - 28,758m² [WA Gov't]
    Mirvac/Cbus consortium - 2015 - DA Approved 100% Committed
16. 374-396 Murray St - 28,000m²
    Private owner - 2015+ - DA Approved, seeking pre-commit
17. Kings Square (Stage 1), Wellington St - 19,000m²
    Seven Entertainment - 2015+ - DA Approved, seeking pre-commit
18. 239 St Georges Tce (Bishops See no.2) - 46,000 m²
    Brookfield/Hawaiian - DA Approved, seeking pre-commit
19. 133-141 Murray Street (Cine Centre) - 4,200m²
    Private owner
20. 339 Hay St (Grosvenor Hotel site)- 12,200 m²
    Private owner
21. Waterbank, near The Causeway - 17,000m²
    Lend Lease/EPRA
22. Waterfront, The Esplanade - 150,000m²
    DA Lodged for site works
23. Perth City Link / Kings Square
    Up to 240,000m² of commercial space

Under Construction / Completed (blue)
DA Approved / Confirmed / Site Works (green)
Mooted / Early Feasibility (red)

NB. Dates are Knight Frank Research estimates
Major tenant precommitment in [brackets] next to NLA
Major refurbishment
^ includes 4,000 sqm refurb of heritage bldg.
Office NLA quoted



Map Source: PCA

TENANT DEMAND & RENTS

Property Council of Australia

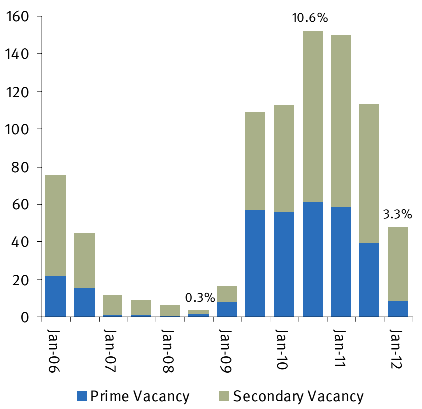
The January 2012 release of data from the PCA shows the vacancy rate dropping from 7.8% in July 2011 to 3.3%. This is the lowest total vacancy rate since January 2009.

Table 2
Perth CBD Vacancy Rates
January 2011 to January 2012

Grade	Jan 2011	July 2011	**Jan 2012**
Premium	2.6	0.0	**0.1**
A Grade	9.0	6.6	**1.4**
B Grade	16.9	13.6	**6.2**
C Grade	7.6	7.1	**6.2**
D Grade	3.2	3.2	**1.0**
Total	**10.2**	**7.8**	**3.3**

Source: PCA

Figure 2
Perth CBD Historical Vacancy
Prime and Secondary Grade ('000m²)



Source: PCA

Whilst the Premium-grade recorded a nominal increase of 300m² (0.1%) sub-lease vacancy, all other grades recorded significant decreases in their vacancy rates. The Prime-grade remains the tightest sector with vacancy now at 1.0%, or 8,378m².

Both direct and sub-lease vacancies have decreased over the last reporting period, continuing the trend of the past two years. The direct vacancy now stands at 2.9% and the sub-lease vacancy at 0.4%.

The western areas of Statistical Division's (SD) 2 and 3 (see map on page 3) continue to record the lowest vacancy rate in the Perth CBD, with a combined rate of 1.97% as at January 2012. A significant decrease in the vacancy rate was recorded also in SD5, lowering from 17.2% in July 2011 to 5.6% currently.

Tenant Demand

The demand for Premium and A-Grade space in the Perth CBD office market is reflected in the low vacancy for this Prime-grade stock. There is a lack of options for companies seeking large tranches of Prime accommodation, with only two full-floors available to lease at present.

Enquiry levels for space are two-tiered, with medium to high levels of demand for space over 1,000m² from larger tenants associated with the resources sector looking to expand or enter the market. Space less than 1,000m² is seeing lower levels of demand from tenants, particularly those outside the resource-associated industry.

Knight Frank has observed increases in pre-lease enquiry for new development space by companies seeking to satisfy their long-term leasing requirements in the CBD.

Rental Levels

Net face rents have continued to grow in the Perth CBD, with Prime net face rents on average $757/m² p.a., an increase of 10.9% over the past twelve months. Incentive levels have correspondingly decreased during this time and are now on average between 0% and 10%, depending on quality and location. As a result, net effective rents have increased 16.3% over the past year, most of this increase being in the second half of 2011.

Secondary-grade properties have also seen an increase in rental levels, after limited growth during 2010. Decreases in the Prime-grade vacancy have placed demand on available stock in some Secondary-grade assets, placing upward pressure on rents. Indicators have shown that average net face rents are $500 - $650 per m², with incentive levels at around 10%.

IT IS ANTICIPATED THAT THE SIX-MONTH PERIOD TO JULY 2012 WILL BRING ABOUT SUPER-NORMAL NET ABSORPTION IN THE PERTH CBD

Net Absorption

The six-month period to January 2012 saw 46,968m² of net absorption within the Perth CBD, the highest level since January 2006. This is a reflection of the increased demand for space in the Perth CBD over the past six months

The total occupied space within the Perth CBD increased to 96.7% of stock (from 92.2% in July 2011), and the drop in vacancy abetting the high level of net absorption. The level of stock withdrawal (31,425m²) from the market did impact on net absorption this period. However absorbed vacant space was 65,875m² to January 2012.

Anticipated Vacancy Levels

It is anticipated that the six-month period to July 2012 will bring about super-normal net absorption in the Perth CBD market due to major new completions at Raine Square and City Square (119,000m²). With both buildings 100% pre-committed, Knight Frank expect that 87% of their total NLA will be occupied by July 2012, with the remainder due for occupancy in the latter half of the year.

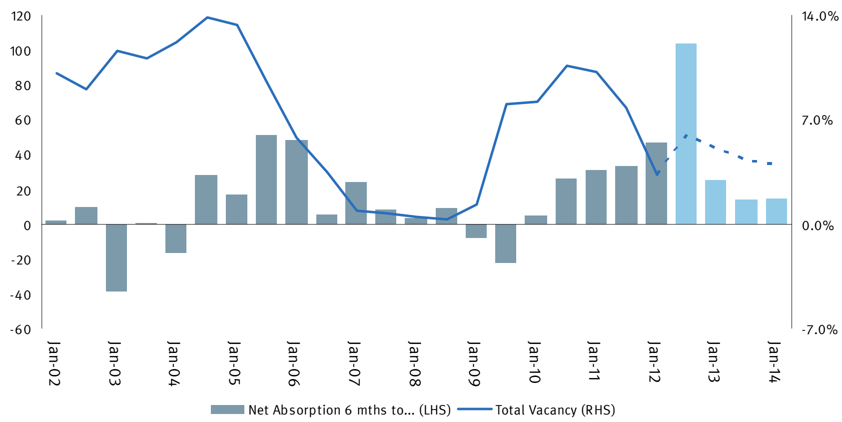
Despite the additional net absorption, it is anticipated that the PCA vacancy rate will increase mid this year to 5.9% whilst new developments and refurbishments under construction are completed and await occupancy.

With limited backfill opportunity and lower levels of new supply released, vacancy levels are anticipated to fall to 5.1% by the close of the 2012 and continue to tighten to 4.0% by the end of 2013.

Knight Frank has calculated that the space actually available to lease is 5.6% as at December 2011. Whilst this figure is higher than the PCA vacancy rate, it does account for backfill opportunities at 108 St Georges Terrace (22,794m²) and 197 St Georges Terrace (11,432m²).

It is estimated that this figure will gradually decrease to 4.7% by the close of 2012 as the market absorbs the available backfill space. With only 12,510m² of potential new development and sustained absorption during 2013, the available to lease vacancy rate will fall to 3.4% by the end of 2013.

Figure 3
Net Absorption and Vacancy
Per six month period ('000m²)



Source: PCA/Knight Frank

Table 3
Recent Leasing Activity Perth CBD

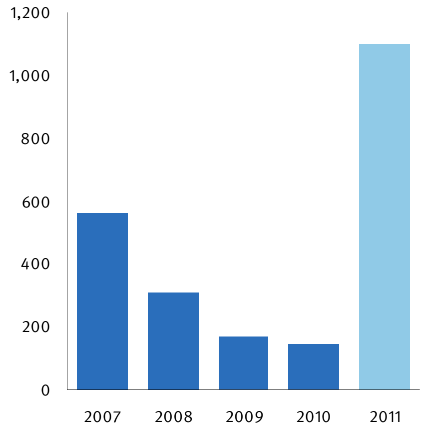
Address	Area (sq m)	Net Face Rental ($/m²)	Term (yrs)	Lease Type		Tenant	Start Date
221 St Georges Terrace	204	740	7.0	Direct	New	Bank of Tokyo	Mar 2012
77 St Georges Terrace	2,592	590	7.0	Direct	New	Minter Ellison	Mar 2012
Exchange Plaza, 2 The Esplanade	160	842	1.3	Direct	New	Mitsubishi Australia	Mar 2012
150 St Georges Terrace	1,356	575	10.0	Direct	New	Gadens	Dec 2011
256 Adelaide Terrace	382	475	4.0	Direct	New	Minister for Works	Dec 2011
EB Johnston House, 259 Adelaide Tce	402	537	3.0	Direct	New	Noble Corporation	Dec 2011
15-17 William Street	1,852	675	10.0	Direct	New	Dept of Health and Aging	Dec 2011
12 – 14 The Esplanade	1,059	725	5.0	Sub-Lease	New	KBR	Dec 2011
40 St Georges Terrace	253	625	3.0	Direct	New	Halcrow Pacific	Dec 2011
251 Adelaide Terrace	420	500	7.0	Direct	New	Perilya	Dec 2011
Raine Square, 300 Murray Street	4,897	695	12.0	Direct	New	Minter Ellison	Nov 2011
108 St Georges Terrace	610	750	6.0	Direct	New	Gerard Daniels	Nov 2011
77 St Georges Terrace	1,278	740	9.0	Direct	New	Hess	Nov 2011
181 St Georges Terrace	535	595	7.0	Direct	New	Westlink Logistics	Nov 2011
221 St Georges Terrace	797	730	5.5	Direct	New	BHP	Oct 2011
225 St Georges Terrace	212	695	7.0	Direct	New	Asset Partners	Oct 2011

Source: Knight Frank

INVESTMENT ACTIVITY & YIELDS

The Perth CBD office market has seen exceptional sales transaction activity over the 2011 calendar year. Eleven transactions over $10 million were completed at a total consideration of $1.099 billion. This value is up significantly on 2010, where $146.45 million worth of property sold.

Figure 4
Perth CBD Sales Activity
($million) Sales value ›$10million



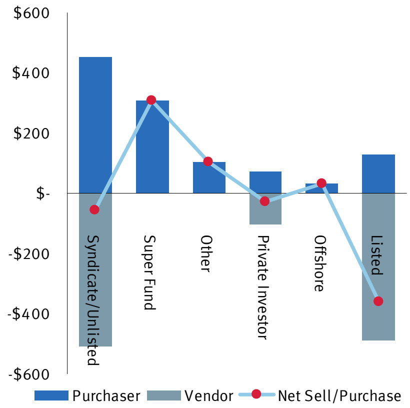
Source: Knight Frank

The 2011 year also saw the largest ever investment sale in the Perth CBD occur with the sale of a 50% interest in QVI for $310 million. Situated at the western end of St Georges Terrace, the half-share was acquired by the Commonwealth Superannuation Corporation (ARIA) from the SAS Trustee Corporation (DEXUS). While this Premium-grade building transacted with an initial passing yield (overall) of 7.0%, below market rents and a lease expiry in 2016 for the main tenant Chevron (33% of NLA), saw analysis reflect a core market yield of 8.2%.

Stockland sold its half-shares in two properties last year. June saw the transfer of 108 St Georges Terrace for $130.0 million to co-owner Brookfield as part of a deal involving residential sites that Brookfield owned. A 50% interest in Exchange Plaza sold for $157.7 million to AMP Capital Wholesale Fund in December. Both of these sales divested over half of the book value of Stockland's office properties in the Perth CBD.

And whilst strong interest has been shown for Prime assets, Secondary-grade assets, such as 251 St Georges Terrace which sold after an expression-of-interest campaign by receivers, are in demand as the potential to "add-value" to the investment being a significant driver of deals.

Figure 5
Perth CBD Purchaser / Vendor
($million) Sales value ›$10million



Source: Knight Frank

Table 4
Major Sales Activity Perth CBD

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	Vendor	Purchaser	Sale Date
2 The Esplanade	157.7 *	7.42	34,396	9,158	Stockland	AMP	Dec 2011
251 St Georges Terrace	61.3	9.60	9,697	6,322	Private Investor ~	Primewest	Aug 2011
QVI, 250 St Georges Terrace	310.0 *	8.20	63,835	9,713	DEXUS (STC)	ARIA (CSC)	July 2011
226 Adelaide Terrace	103.5	8.30	14,469	7,153	First State Group	Motor Accident Commission	July 2011
108 St Georges Terrace	130.0 *	9.30	39,252	6,624	Stockland	Brookfield	June 2011
432 Murray Street	30.3	8.30	4,626	6,550	First State Group	Kingslane Property Group	Feb 2011
89 St Georges Terrace	31.7	8.30	4,473	7,081	Primewest	Private Investor	Feb 2011
30 The Esplanade	50.0	8.40	7,003	7,140	AMP Capital	API	Feb 2011
99 St Georges Terrace	41.6	8.40	6,161	6,752	Private Investor	Private Investor	Jan 2011
182 St Georges Terrace	31.0	9.30	5,341	5,804	Hawaiian	Standard Life	Jan 2011
197 St Georges Terrace, 1 & 5 Mill Street	152.0	10.60^	40,055^	3,795^	Colonial First State	GDI Property Group	Jan 2011

Source: Knight Frank *50% share ^Analysed in one-line (settlement late 2011) ~ Receiver Sale
Core Market Yield: the percentage return/yield analysed when the assessed fully leased market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental revisions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc)

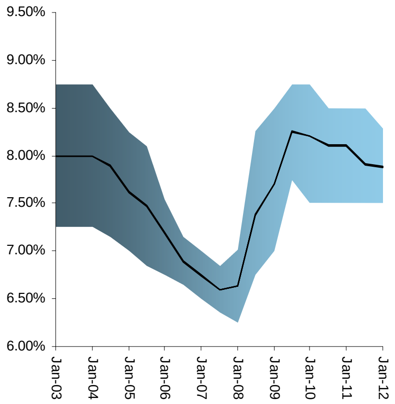
Purchasers within the Perth CBD have been dominated by syndicates/unlisted funds, purchasing five buildings for a total of $451.3 million. This continues the purchaser-profile trend recently, with private investors being the other major group active in the market.

It is anticipated that strong interest from overseas buyers seeking to diversify their portfolios will emerge, given the continued strength of the Perth CBD Market.

Figure 6

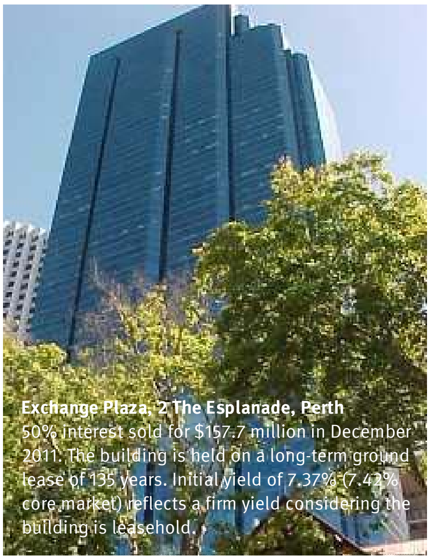
Perth CBD Yields

Prime Core Market Yield Range



Source: Knight Frank

Core market yields have remained stable over the past year, with a firming bias for well-located trophy assets. Recent benchmark sales have solidified the Prime-grade yield range, now averaging from 7.5% - 8.25%. Secondary-grade properties are on average 8.25% - 9.0%.



Exchange Plaza, 2 The Esplanade, Perth
50% interest sold for $157.7 million in December 2011. The building is held on a long-term ground lease of 135 years. Initial yield of 7.37% (7.43% core market) reflects a firm yield considering the building is leasehold.

OUTLOOK

Indicators show that the Gross State Product for the Western Australian economy is forecast to grow 4.75% over the 2011-12 year, up from the actual growth of 3.5% during 2010-11.

However, the local economy cannot ignore what is happening internationally, and whilst the fortunes of Europe hang in the balance, the latest indications from the United States show that its economy is stabilising with some optimism returning to its market. This optimism may now be seen as a stabiliser of international economies and continue the demand for Asian goods.

And whilst the Australian economy is not intrinsically tied with Europe's and America's, it is the fortune of Asia's economies which will drive growth within this nation.

Demand for Western Australian commodities is driving white-collar employment growth in the Perth CBD with annual employment growth forecast at 3.6% by December 2012. Whereas growth will moderate beyond this time, trend shows that growth will continue at and around 2%.

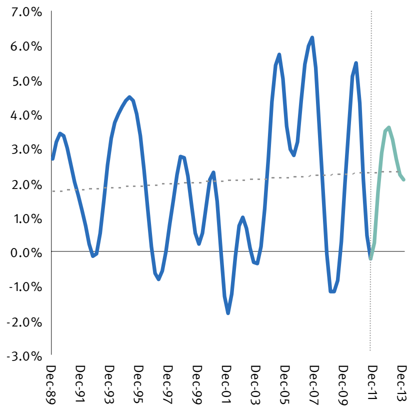
Forecast employment growth and strong economic fundamentals should continue to drive demand for office space within the Perth CBD market, however with limited large tranches of space available, this demand may be the impetus for pre-commitment to new development and the start of a new "supply-cycle". The reluctance of financial institutions to lend at present still remains an inhibitor to development, and significant pre-commitment to any of the proposed buildings in the city centre is a requirement.

Prime-grade space is at a premium at present and vacant space is limited to 8,378m^2 (PCA) – 96% of this being A-Grade vacancy. Net effective rental levels in this grade have increased over 6% in the last quarter of 2011, however, with no significant vacancy in Premium grade buildings, growth in prime face rents will be through A-Grade properties.

Figure 7

White Collar Employment

% Perth CBD Annual Growth



Source: Deloitte Access Economics

Secondary-grade buildings, particularly B-Grade properties, have also seen increases in their net-effective rents as tenants have sought space within these properties. It is anticipated that rents will continue to grow as this space is absorbed by the market.

Yields have remained stable over the past two years; however rent reversion may possibly see some modest yield compression in Prime-grade assets.

Investor sentiment is improving due to the strength of the economy, however a disconnect still exists between leasing and the investment market.

FORECAST ECONOMIC GROWTH AND STRONG ECONOMIC FUNDAMENTALS WILL DRIVE DEMAND

RESEARCH

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Knight Frank Newmark Global

Knight Frank Research
Matt Whitby
National Director – Research
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Alison Smith
Research Manager - WA
+61 8 9225 2434
Alison.Smith@au.knightfrank.com

Jennelle Wilson
Director – Research QLD
+61 7 3246 8830
Jennelle.wilson@au.knightfrank.com

Nick Hoskins
Research Manager - NSW
+61 2 9036 6766
Nick.Hoskins@au.knightfrank.com

Justin Mahnig
Research Manager - Vic
+61 3 9604 4713
Justin.Mahnig@au.knightfrank.com

Commercial Agency
John Corbett
Managing Director, Western Australia
+61 8 9225 2561
John.corbett@au.knightfrank.com

Greg McAlpine
National Director, Office Leasing
+61 8 9225 2426
Greg.mcalpine@au.knightfrank.com

Ian Edwards
Director, Asset Services
+61 8 9225 2420
Ian.edwards@au.knightfrank.com

Valuations
Marc Crowe
Director, Valuations
+61 8 9225 2521
Marc.crowe@au.knightfrank.com

Asset Management Services
Craig Dawson
Director, Asset Management Services
+61 8 9225 2406
Craig.dawson@au.knightfrank.com

Residential Project Marketing
Neil Kay
Director
+61 8 9225 2412
Neil.kay@au.knightfrank.com

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