RESEARCH

MARCH 2013

PERTH CBD OFFICE

Market Overview

Knight Frank

HIGHLIGHTS

- The total vacancy rate reported by the Property Council of Australia (PCA) was 5.7% as at January 2013. The biggest increase in total vacancy has been in Premium-grade buildings, with 4.5% of this stock vacant (up from 0.1% in January 2012). It is anticipated that the vacancy rate will fall below 5.0% by 2014.
- The 2012 year saw net additions of 144,875m². The two new buildings of Bankwest Place (part of the Raine Square development) and Brookfield Place have alone added 119,000m².
- Eight major office transactions within the Perth CBD totalled $573.825 million for the 2012 year. Secondary yields have softened over the past six months, with many purchasers now factoring in a risk premium. Prime Grade core market yields range from 7.25% - 8.75%. Secondary-grade core market yields on average between 8.75% - 10.00%.

Table 1
Perth CBD Office Market Indicators as at January 2013

Grade	Total Stock (m^2)	Vacancy Rate (%)	Annual Net Absorption (m^2)	Annual Net Additions (m^2)	Average Net Face Rent ($/$m^2$)	Average Incentive (%)	Average Core Market Yield (%)
Prime	925,615	5.1	86,853	125,412	714 – 829	10.0	7.25 – 8.75
Secondary	663,151	6.5	16,017	19,463	542 – 589	12.5	8.75 – 10.00
Total	**1,588,766**	**5.7**	**102,870**	**144,875**			

Source: Knight Frank/PCA

SUPPLY & DEVELOPMENT ACTIVITY

Following on from record-high gross additions of 157,926m² in the first half of 2012, the second half 2012 was relatively subdued, with gross additions totalling 21,981m². As a result, total stock levels increased by 10.1% during 2012.

The completion of the Premium-grade buildings of Brookfield Place and Bankwest Place (part of the Raine Square development) totalled 119,000m². Other new development additions to stock during the year were 507 Murray Street (2,700m²) and Fairlanes at 181 Adelaide Terrace (6,991m²).

Refurbished space within the Perth CBD totalled 51,216m² for the 2012 calendar year. Governor Stirling Tower at 197 St Georges Terrace was the main contributor to this total, being partially refurbished in stages over the 12-month period (25,583m²). Neighbouring property 5 Mill Street was withdrawn in stages in the second-half of 2012 to be refurbished, which is continuing into 2013. The third property in this group, 1 Mill Street, was withdrawn from stock in the second half of 2012 to be fully refurbished (6,325m²), with completion expected in the first half of 2013.

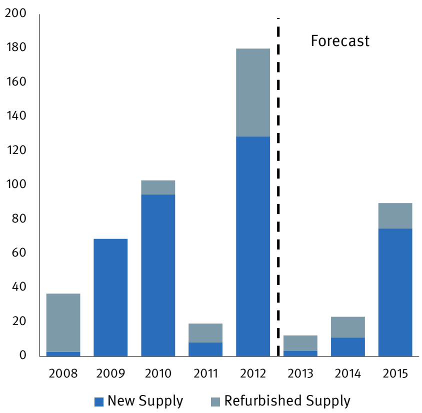
The total refurbishment of 88 William Street has seen the revitalisation of a historic Perth building, adding 5,480m² into stock.

Stock withdrawals during 2012 totalled 35,032m². 573 Hay Street is to be demolished to make way for the new Perth City Library. The neighbouring property at 565 Hay Street is undergoing a full refurbishment as part of the Cathedral Square Precinct redevelopment.

The FESA building at 480 Hay Street has also been withdrawn from stock in anticipation of the redevelopment of the site by BGC as part of a WA State Government initiative to provide land for hotel development in the Perth CBD. Designs have yet to be finalised, with proposals outlining a 300-room hotel development with commercial office space.

210 Adelaide Terrace was withdrawn during the year for the development of apartments.

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



Source: Knight Frank

Minimal stock additions are anticipated for the Perth CBD during 2013. 1006 Hay Street (3,104m²) is the only new development under construction. A further 9,145m² of refurbished stock is also due to be completed, the major property being 6,325m² at 1 Mill Street.

In 2014 it is anticipated that the new development at 861 Hay Street will be completed adding 10,947m² of space, in addition to 8,140m² at 565 Hay Street. Development approval has been granted for the full refurbishment of 100 Murray Street.

It is not until 2015 that there will be the next major round of stock additions to the Perth CBD. This includes the office tower within the Old Treasury Building Precinct (30,196m²), KS2 at King’s Square (19,000m²), KS4 at King’s Square (13,500m²), 32 St Georges Terrace (14,895m²), Veil253 at 253 St Georges Terrace (3,027m²) and 999 Hay Street (10,160m²).

Beyond this, around 295,000m² of mooted projects are in the pipeline, with a further 437,000m² of commercial space anticipated to come on line in the longer term at Waterbank, Elizabeth Quay and the Perth City Link.

TOTAL STOCK LEVELS INCREASED BY 10.1% DURING 2012

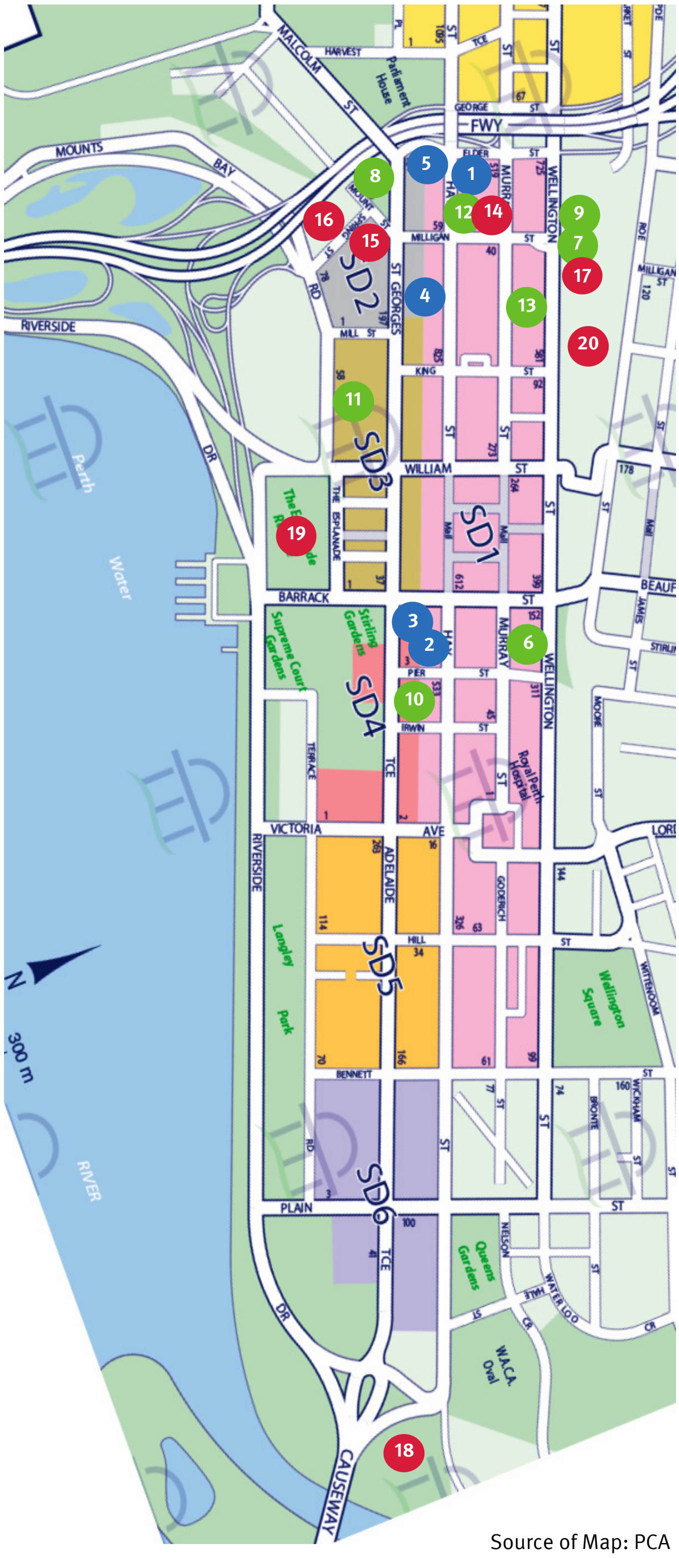
MAJOR OFFICE DEVELOPMENT

1. 1006 Hay Street - 3,104m²
   Private - 2013 - 25% committed
2. 565 Hay Street - 8,140m² # [WA Gov't]
   Perth Diocese - 2014 - 100% committed
3. Treasury Building - 30,196m² [WA Gov't]
   Mirvac/K-REIT consortium - 2015 - 100% committed
4. 861 Hay Street - 10,947m² [Aurecon]
   Perth Diocese - 2014 - 50% committed
5. 999 Hay Street - 10,160m²
   QUBE - 2015 - seeking pre-commit
6. 100 Murray Street - 4,000m² #
   AWD Diversified - 2014 - DA Approved, seeking pre-commit
7. KS2 (Kings Square), 376 Wellington St - 19,000m² [Shell]
   Leighton / Seven Ent. - 2015 - DA Approved - 80% committed
8. Veil 253, 253 St Georges Terrace - 3,027m²
   Primewest - 2015 - DA Approved, seeking pre-commit
9. KS4 (Kings Square), Wellington St - 13,500m² [HBF]
   Leighton / Seven Ent. - 2015 - DA Approved
10. 32 St Georges Tce - 14,895m² #
    Private - 2015 - DA Approved, seeking pre-commit
11. 123 St Georges Tce (Brookfield Place South) - 32,000m²
    Brookfield - 2015 - DA Approved - seeking pre-commit
12. 950 Hay St (old Melbourne Hotel site) - 11,219m²
    Oakesfield - 2015 - DA Approved - seeking pre-commit
13. 374-396 Murray St - 28,000m²
    Grocon - 2015+ - DA Approved - seeking pre-commit
14. 47-59 Milligan Street - 21,000m²
    Georgiou
15. 239 St Georges Tce (Bishops See no.2) - 30,000m²
    Brookfield/Hawaiian
16. Capital Square, 98-124 Mounts Bay Rd - 48,000m²
    AAIG - DA Lodged
17. King's Square (Future Stages) - 50,000m²
    Seven Entertainment
18. Waterbank, near The Causeway - 17,000m²
    Lend Lease / MRA - Initial site works
19. Elizabeth Quay - 200,000m²
    MRA - Initial site works
20. Perth City Link
    Around 200,000m² of commercial space

Under Construction (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

Office NLA quoted



Source of Map: PCA

TENANT DEMAND & RENTS

Property Council of Australia

The January 2013 release of data from the PCA saw the total vacancy rate for the Perth CBD increase to 5.7%, up from 4.2% in July 2012. Since January 2012, the total vacancy has increased by 42,005m², however it must also be noted that stock levels have increased by 145,899m² over the same period and now sit at 1,588,766m².

Table 2
PCA CBD Vacancy Rates (%)
Jan 2012 to Jan 2013

Grade	Jan 2012	July 2012	Jan 2013
Premium	0.1	1.3	4.5
A Grade	1.4	4.0	5.4
Prime	**1.0**	**3.1**	**5.1**
B Grade	6.2	5.8	6.2
C Grade	6.3	6.1	7.0
D Grade	1.0	1.0	9.0
Secondary	**6.1**	**5.9**	**6.5**
Total	**3.3**	**4.2**	**5.7**

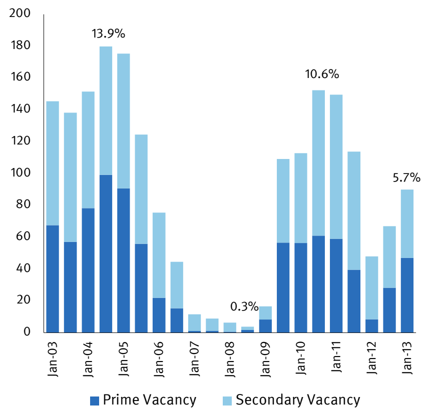
Source: PCA

Prime-grades have seen the biggest increase in vacancy over the last six months, increasing to 5.1% or 46,937m².

Within this Prime-grade, vacancy in Premium buildings increased by 3.2%, mostly attributable to 11,043m² of space being vacated at Central Park.

Vacancy in A-Grade buildings increased by 1.4% percentage points, to now total 32,573m². Sub-lease space is a major component of this grade's vacancy with 23,180m² unoccupied, around half (11,356m²) of which is available at 108 St Georges Terrace.

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



Source: PCA

Net Absorption

Total net absorption for the twelve month period to January 2013 was 102,870m². However, the PCA results for the second half of 2012 saw negative absorption of 18,332m². This negative result was mostly as a result of the sub-lease space that became available in the market. This has been particularly evident since September 2012 where the initial fall (by around 30%) in the spot price for iron ore impacted on business confidence and investment decisions.

Changes to company's leasing requirements is one factor attributable to around 16,254m² of Prime-grade space becoming vacant in the market in the second half of 2012. This follows the 103,107m² that was absorbed in the first half of the year.

The Secondary-grade saw smaller levels of stock being placed back in the market, with 2,078m² of negative absorption. This follows 18,095m² of positive absorption in the first half of the year. Within this, B-grade properties saw continued positive absorption over the twelve months of 2012. Low vacancy in Prime-grade stock at the beginning of the year, combined with the availability of contiguous fitted-out space in B-grade buildings at a lower rental level, has contributed to the positive absorption over the 12-months to the end of 2012 of 39,981m².

It is anticipated that over the next six to twelve months sub-lease space currently available will be re-absorbed either through companies withdrawing space from the market due to reassessment of needs or as other firms expand into the vacant space.

Backfill Space

Whilst BHP did not relinquish space immediately upon the completion of, and relocation to, Brookfield Place mid-year, the last quarter of 2012 saw the company place onto the sub-lease market around 8,800m² in Central Park. The other major backfill space currently available follows the move of Bankwest to Bankwest Place (300 Murray St), where about 40% (11,356m²) of the original sub-lease space remains available at 108 St Georges Terrace.

Looking forward, limited backfill space will become available to the market over the next two years due to the low levels of new supply being added. However, new development completing in 2015 will potentially see backfill space impact the market in that year.

The close of 2014/early 2015 will see Aurecon's move to 861 Hay Street, with around 3,000m² of backfill space becoming available from this move. It is estimated around 16,000m² will become available in late 2015 upon the completion of the Treasury Building, with further space expected following the move of tenants into the two new buildings at King's Square.

Table 3
PCA CBD Total Vacancy (m²)
Jan 2012 to Jan 2013

Grade	Jan 2012	July 2012	Jan 2013
Premium	300	4,192	14,364
A Grade	8,078	23,979	32,573
Prime	**8,378**	**28,171**	**46,937**
B Grade	25,367	25,932	28,092
C Grade	14,030	12,711	14,039
D Grade	88	88	800
Secondary	**39,485**	**38,731**	**42,931**
Total	**47,863**	**66,902**	**89,868**

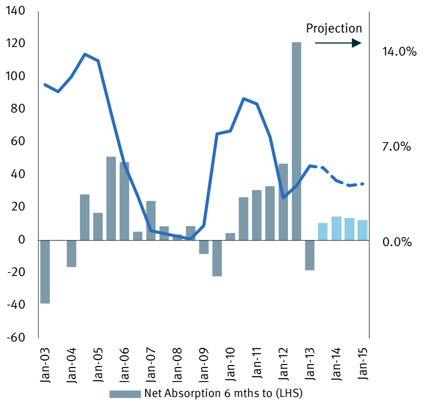
Source: PCA

Anticipated Vacancy Levels

The PCA has noted that the increase in sub-lease space currently sitting vacant in the market (2.4%) is impacting on total vacancy levels in the Perth CBD, having increased by over 30,000m² since January 2012.

Looking forward, it is anticipated that the absorption of space will come back to around 20-year average levels (28,500m² per year), which will see the PCA vacancy rate drop to 4.6% by the close of 2013. Minimal supply in the market through to 2015, combined with average absorption levels, should see vacancy rates continue to fall, with an anticipated vacancy rate of 4.4% by the end of 2014.

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



Source: PCA/Knight Frank

Knight Frank has calculated that the space actually available to lease, as at January 2013, is 7.6%. This figure is higher than the PCA figure for the same period as it incorporates the space actively marketed for lease, though not yet vacant, in the market.

Knight Frank expects that some of this space, particularly the sub-lease stock, will either be withdrawn or leased, bringing the "available for lease" rate back to 6.4% by the close of 2013.

Tenant Demand

Prime-grade buildings continue to be sought by firms looking for space in the Perth CBD. Whilst there was a level of enquiry in the market, the lack of options, combined with high rental levels, impacted on activity from the beginning of 2012.

The recent fall in rental levels has seen some companies become active again with consideration of their long-term leasing requirements.

There is a level of enquiry in the market for space greater than 2,000m², with timeframes ranging from now through to 2015. Companies are generally seeking to upgrade their premises to newer, Prime-grade stock, potentially moving to either existing space or pre-committing to future supply.

The consideration of employee requirements in workplace facilities has risen, with end of trip facilities and good transport links both important factors when seeking to relocate to new premises.

There has been a return of tenant enquiry being generated from within the resources industry; mostly within the oil and gas sector and from associated engineering firms, rather than iron ore.

Rental Levels

The two years to July 2012 saw strong increases in net face rents, where averages for Prime-grade buildings increased from \$657/m² to around \$805/m². However, since mid-2012 these levels have decreased by 4.2% to sit at \$771/m² as at January 2013.

Net face rents for Secondary-grade properties are on average between \$542/m² and \$589/m². This is a decrease of 8.1% since July 2012, however is on a par with average levels recorded at the beginning of 2012.

Incentives remained at around 5% for most of the 2012 year, although the last quarter of 2012 saw an increase in sub-lease vacancy levels and subsequently incentives offered in the market. Prime-grade properties now average 10.0%, with fringe areas of the CBD up to 15.0%. Larger increases in incentives have been felt in Secondary-grade properties, which on average are 12.5%, increasing further in fringe areas.

Incentives in the market are generally in the form of a fit-out contribution. Knight Frank anticipates that incentives will fall again towards the end of 2013 as the level of sub-lease space is absorbed.

Table 4
Recent Leasing Activity Perth CBD

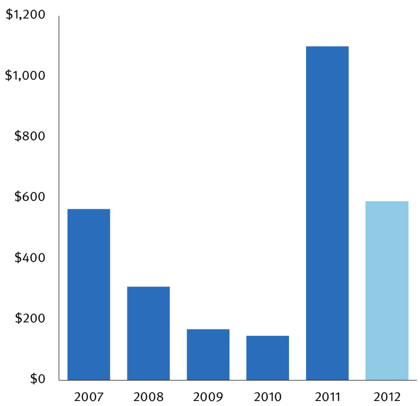
Address	Area (sq m)	Net Face Rental (\$/m²)	Term (yrs)	Lease Type	Tenant	Start Date
Exchange Plaza, 2 The Esplanade	453	900	5.0	Direct Lease	Norton Goldfields	Mar 2013
200 St Georges Terrace	1,060	680	10.0	Direct Lease	Australian Electoral Commission	Mar 2013
2 Mill Street	982	750	6.0	Direct Lease	Chamber of Minerals & Energy	Nov 2012
Exchange Plaza, 2 The Esplanade	804	915	6.0	Direct Lease	Bain & Co.	Nov 2012
Septimus Roe, 256 Adelaide Terrace	1,046	550	5.0	Direct Lease	Shell	Oct 2012
108 St Georges Terrace	1,645	550	2.2	Sub-lease	Aurecon	Sept 2012
197 St Georges Terrace	3,200	700	Undisclosed	Direct Lease	Chevron	Sept 2012

Source: Knight Frank

INVESTMENT ACTIVITY & YIELDS

With transaction activity during 2011 totalling just under $1.1 billion, the CY 2012 appeared subdued in comparison. However, the central Perth CBD area recorded eight major office transactions for 2012, totalling $573.825 million.

Figure 4
Perth CBD Sales Activity CY 2012
($ million) Sales value ›$10million



Source: Knight Frank

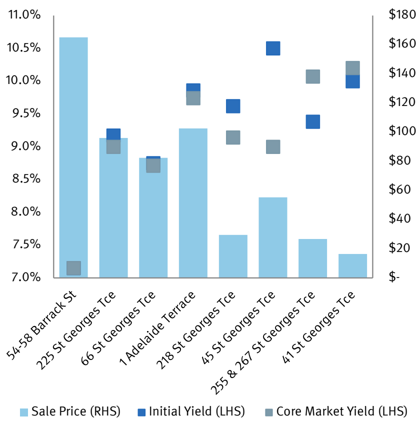
June 2012 saw 1 Adelaide Terrace sell for a consideration of $102.55 million. The distinctive semi-circular property at the eastern end of the Perth CBD was purchased by GDI Property Group. At the time of sale the building had a vacancy of 3.6% (710.5m²) and a WALE of 4.9 years.

218 St Georges Terrace is a smaller office building of 4,674m² located to the western end of St Georges Terrace. The property was in negotiation with interested parties for a period of time before being purchased by a private investor for $29.5 million in September. At the time of sale the weighted average lease expiry was 1.9 years, with new leases recently agreed for around 700m² of space.

The largest transaction of 2012 was the 50% share in the Treasury building at 54-58 Barrack Street. Keppel REIT Asia entered into an agreement to purchase a stake in the building from developer Mirvac for $165.0 million on a core market yield of 7.15%. The building is 98% pre-committed to the WA State Government (25 year lease) with around half the space being taken up by the Supreme Court. Demolition for this new building has commenced on site and is anticipated to complete around mid-2015.

In addition, on the fringe of the Perth CBD, 118 Bennett Street sold for consideration of $15.3 million in November 2012 to a private investor. With 100% occupancy, this building transacted with a core market yield of 8.82% on a WALE of 5.8 years.

Figure 5
Major 2012 CBD Sales and Yields
($ million) Sales value ›$10million



Source: Knight Frank

Unlisted Funds/Syndicates have been the dominant purchasers during the year, buying $241.7 million worth of property over four buildings, continuing last year's trend.

Table 5
Major Office Sales Activity 2012 Perth CBD

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	Vendor	Purchaser	Sale Date
218 St Georges Terrace	29.5	9.14	4,674	6,311	Private Investor	Private Investor	Nov 2012
118 Bennett Street	15.3	8.82	3,197	4,785	Australian Executor Trustees	Private Investor	Nov 2012
54-58 Barrack Street	165.0 *	7.15	30,800	10,714	Mirvac	Keppel REIT Asia	Sept 2012
45 St Georges Terrace	55.25	9.00	10,018	5,515	Stockland Trust	Credit Suisse (Private Investor)	Sept 2012
66 St Georges Terrace	82.375	8.71	11,446	7,197	AMP Capital Investors	Investa Office Fund	July 2012
255 & 267 St Georges Terrace	26.7 ^	10.07	4,131	6,463	Stockland	Primewest	July 2012
1 Adelaide Terrace	102.55	9.74	19,825	5,173	Fortis Funds Management	GDI Property Group	June 2012
225 St Georges Terrace	96.0 *	9.00	21,221	9,048	Wyllie Group	Charter Hall (CPOF)	June 2012
41 St Georges Terrace	16.45	10.20	2,901	5,671	Private Investor	Wakefield Properties	Jan 2012

Source: Knight Frank *50% share ^Analysed in one-line
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)

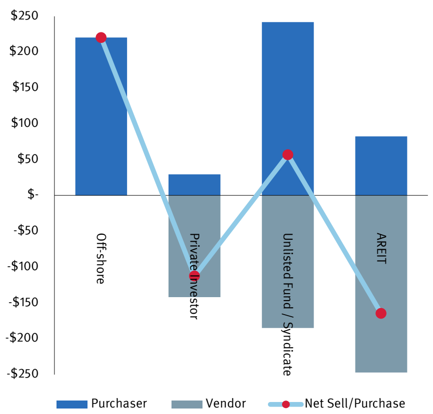
The Perth CBD has seen greater investment in the market by off-shore investors during 2012. 45 St Georges Terrace was purchased through Credit Suisse REF Global (Switzerland) by an overseas private investor in September for $55.25 million. Singaporean group Keppel REIT Asia has taken a 50% share in the Old Treasury Precinct office tower for $165.0 million.

The stability of the Australian (and Western Australian) economy in comparison to the world economic environment as it stands is driving some off-shore investors to invest in the country notwithstanding the high Australian dollar. In addition, off-shore investors during the year purchased other major assets including Plaza Arcade in the Perth CBD (retail mall) for $48.0 million, the Optima Centre in the Herdsman Business Park (fringe CBD) for $105.67 million and the Phoenix Shopping Centre in Spearwood for $75.8 million.

Figure 6

Perth CBD Purchaser / Vendor CY 2012

($ million) Sales value ›$10million



Source: Knight Frank

Prime-grade core market yields continue to remain stable, on average ranging between 7.25% and 8.75%. The sale of the half share in the Treasury building had an advised passing market yield of 7.15% reflecting the long WALE attached to this prime building. This follows on from other Premium benchmark sales such as Exchange Plaza (December 2011) at 7.42% core market yield.

Secondary-grade properties, where the core market yield range has increased, now average between 8.75% and 10.0%, the result of an increased risk premium being factored into purchases.

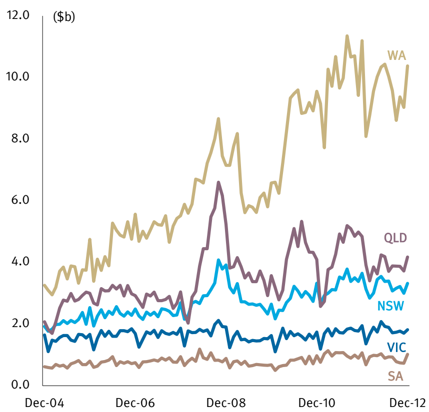
OUTLOOK

Exports from Western Australia remain strong, particularly as a result of the resources sector, with the State's main trading partner, China, using a large share of mined commodities for use in its development and rapid urbanisation.

Figure 7

Australian State Exports

($ billion) Value of merchandise exports



Source: ABS 5368.0

It is anticipated that the continued recovery in the iron ore spot price as well as steadiness from the leadership change in China should see confidence return to the market, supporting the continuation of investment by companies into major projects. Western Australia remains well placed to benefit from continued growth in Asia where growth estimates remain positive.

The increase of sub-lease space on the market has seen average net face rents fall. Minimal net face rental growth is anticipated over the next twelve months in Prime-grade space, and even less so in Secondary-grades as the market absorbs the space available at present. However, the limited supply coming onto the market and decreasing vacancy may place upward pressure on rents again towards the end of 2013.

A lower level of transactions is anticipated, with fewer properties coming to the market for sale due to many assets being tightly held. Demand remains for properties in the Perth CBD that are either well covenanted or have the potential to "value-add". Risk aversion is still key to many purchasers in the Perth market.

As such, the recent listing of Raine Square and Bankwest Place for sale by expressions of interest should be keenly sought after with a long WALE to major office tenant Bankwest as well as additional hotel and retail components. Nationally, Prime assets are being strongly sought, with firming yield pressure emerging at the top end of the market.

Secondary yields have softened as investors factor in a risk premium into purchases, particularly as much of the current leasing demand is from tenants seeking to upgrade their accommodation. Knight Frank anticipates that this will continue to be factored in in the short-term. However, decreasing interest rates combined with lower levels of buildings for sale may see yields tighten over time.

Artist's impression of the 33-storey building at 54-58 Barrack Street in the Old Treasury Precinct. A 50% share in the development was sold to Keppel REIT Asia for a consideration of $165.0 million.

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