RESEARCH

MARCH 2011

BRISBANE NEAR CITY

Office Market Overview

Knight Frank

HIGHLIGHTS

- The next 12-18 months is expected to be a period of consolidation for the Near City market following four years of major construction which has transformed that market. The 16 largest tenants in the Near City occupy 224,000m² and 95% of this space was leased in the past four years.
- While supply for the next 18 months is forecast to be very low (approx 10,000m²) development options are again coming to the fore, with increased expectations of a further round of major relocations 2012 – 2014 as prime accommodation remains subject to firm demand.
- The investment market has shown definite signs of improvement through the end of 2010 and into 2011 with increased levels of activity. Yields have remained stable to date, however some firming is expected in the second half of 2011 as prime rental growth returns.

BRISBANE NEAR CITY OVERVIEW

Table 1
Brisbane Near City Commercial Market Indicators as at January 2011

Grade	Total Stock (m²) ^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Annual Net Additions (m²) ^	Average Gross Face Rent ($/m²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	527,325	6.1	101,850	89,898	448	25	7.60 – 8.75
Secondary	608,934	12.4	-124	1,716	380	25.5	8.75 – 9.50
Total	**1,136,259**	**9.5**	**101,726**	**91,614**			

Source: Knight Frank/PCA ^ PCA OMR January 2011

Four Year Transition

The Brisbane Near City market performed extremely well in terms of net absorption during 2010 with the level of demand catching up with the supply additions of the previous two years. While the recent construction cycle has been influential for the Brisbane CBD, for the Near City market the past four years have been transformational, more than doubling the amount of prime grade stock within the Near City (243,945m² in Jan 2007 to 527,325m² in Jan 2011). The impact of this level of supply, growing the whole Near City market by 42% over those four years, is still being felt throughout the market.

As the character of the market changed, becoming home to more larger corporate tenants, the net absorption for this market has consistently outperformed expectations based from while collar employment forecasts. This strong net absorption, with a further 101,726m² during 2010, has seen the vacancy rate quickly reduce below double figures to 9.5% from the peak of 11.8% recorded six months prior.

Table 2 gives a snapshot of the largest entities currently occupying space within the Near City. This underlies the rapid transformation of the market over the past four years. Of the 224,320m² of space relocated to by these major tenants identified within the table, only 11,963m² or 5% occurred before January 2007. Without exception these tenants have moved into a newly constructed or pre-committed building and thus have been direct drivers of the strong construction cycle.

Table 2
Near City Market – occupiers 7,500m²+
As at March 2011

Tenant	Area * (m²)	Relocation Date
Energex	28,600	2010
BCC	16,980	2008
AECOM	13,600	2010
Ausenco	14,742	2009
Origin Energy	12,800	2009
Virgin	12,800 2,115	2009 2010
Leighton	11,377	2010
Qld Health	1,395 6,773 14,290 2,270 2,000	2006 2007 2008 2010 2011
Bechtel	9,700 4,590 7,929	2008 2010 2011
Thiess	10,568	2003
QUT	9,500	2008
SKM	9,463	2008
Hatch	9,055	2008
CMC	8,400	2008
Cardno Alexander Brown	7,800	2008
KBR	7,573	2007
Total	**224,320**	

*headlease may not currently occupy whole space
Source: Knight Frank

THE 16 LARGEST TENANTS OCCUPY 224,000M²; 95% OF THIS SPACE WAS LEASED IN THE PAST FOUR YEARS.

Brisbane Flood 2011

In early January 2011 the Brisbane region experienced the largest flooding event since 1974. This did have an impact on the Near City precincts of Milton/Toowong and the Inner South. While there was limited incursion to commercial areas directly through the River breaking its banks, several buildings were nonetheless impacted by the flooding event. In general this occurred through water incursion via the storm water drains, in areas which are locally lower than the Riverbanks. Damage for commercial buildings was largely confined to flooded basements and the associated damage to electrical and other building service equipment. Fortunately the impact was not widespread, with all but a handful of buildings re-opening to tenants within 7 – 14 days post the flood peak.

SUPPLY & DEVELOPMENT ACTIVITY

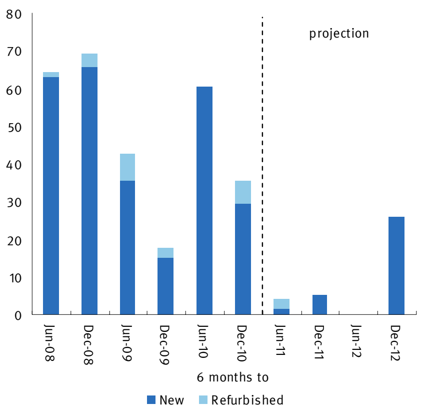
Development Cycle

At this time there are only two major Near City projects under construction. Well into construction, for completion late this year, is the new ABC Headquarters at South Bank. The whole building is some 15,500m² of GFA, but the estimated pure office content is only 4,000m², all of which will be owner occupied. M&A at 825 Ann St, Fortitude Valley is in the early stages of construction with a second major tenant commitment understood to be imminent. The other currently active project is the refurbishment/expansion at 15 James St, Fortitude Valley. The 2,619m² building is fully committed to Fosters and PAN Australia.

Figure 1 below shows the fall away of new construction which is expected to take place over the next 18 months. At this stage any future construction commencement for major developments remains subject to tenant pre-commitment. However Knight Frank believes the emerging tenant demand is likely to trigger one or two of these projects, with completion dates late 2012 to mid 2013.

In addition there are likely to emerge greater refurbishment activities and smaller, single tenant, fully pre-committed developments on infill sites throughout the Near City zone.

Figure 1
Brisbane Near City – Supply
'000m² new and refurbished stock



Source: Knight Frank

Table 3
Brisbane Near City Supply – >2,500m²

Project	NLA (sq m)	% Leased	Developer	Status	Date
26 Reddacliff St, Newstead	28,600	100	FKP (Cromwell)	Complete	Sept 10
4 Kyabra St & 26 Commercial Rd, Newstead	4,735	50	White Property Gp	Complete	Sept 10
15 James St, Fortitude Valley	2,619	100	Private	Refurbishment	Mar 11
ABC Headquarters, Inner South	4,000	100	ABC	Construction	Dec 11
825 Ann St, Fortitude Valley	17,467	30*	Laing O'Rourke	Construction	Dec 12
15 Green Square Cl, Fort. Valley	16,300	Undis	CBIC	Application	Jun 13
The Gasworks, Bld A & E, Newstead	8,600	40*	FKP	Approved	s.t.p
RNA Stage 1, Bowen Hills	10,250	33*	Lend Lease	Application	s.t.p
11 Breakfast Creek Rd, Newstead	17,744	-	Watpac	Approved	s.t.p
The Gasworks, Bld G, Newstead	18,500	-	FKP	Approved	s.t.p
Southpoint, Inner South	25,000	-	Anthony John Gp	Approved	s.t.p

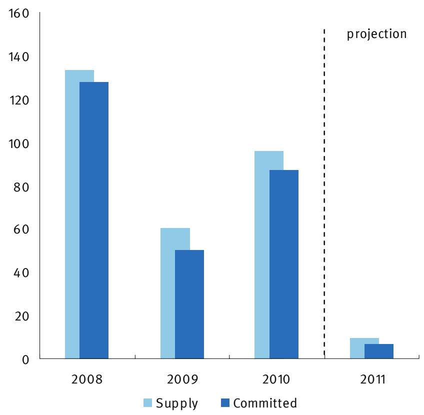
Source: Knight Frank *developer commitment s.t.p – subject to pre-commitment

SUPPLY FOR 2011 IS EXPECTED TO BE JUST UNDER 10,000M²

Additional supply during the second half of 2010 totalled 33,335m², dominated by the 28,600m² Energex Building at Newstead. Supply for 2011 is expected to be limited to smaller projects such as the addition of another floor at 19 Lang Pde, Milton (1,157m²), 455 St Paul's Tce (1,500m² new build) and the refurbishment at 15 James St (2,619m²). This puts the total expected additions for the year at just under 10,000m² - some 90,000m² below the 99,502m² recorded in 2010.

Commitment levels for new supply remained strong through 2010 (91% committed) and the conservative development environment means that over 70% of the expected completions for 2011 are currently committed as well.

Figure 2
Brisbane Near City – commitment levels
'000 commitment to supply



Source: Knight Frank

Despite falling vacancy levels and little prime competition, the financing environment remains too conservative for speculative development activity on anything but a small scale. While several buildings have developer pre-commitments, financiers will require additional third party commitments before construction can be triggered.

TENANT DEMAND & RENTS

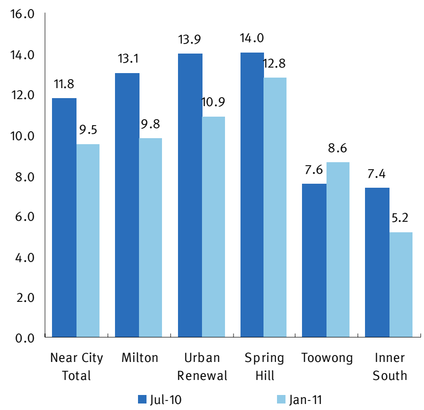
Strong net absorption levels across the Near City market has resulted in a marked fall in the vacancy rate. However, most of this improvement has come about in the A grade (prime) market as the recently completed buildings absorbed almost all of the take-up. The total vacancy rate fell from 11.8% in July 2010 to 9.5% at the start of 2011. The prime market fell from 10.9% vacancy to 6.1% over the period; in contrast the secondary market showed little improvement with the vacancy of 12.4% down only marginally from 12.5% in mid-2010.

Table 4
Vacancy Rates Brisbane Near City
January 2011

Grade	Vacancy (%)
A Grade	6.1
B Grade	15.3
C Grade	7.1
D Grade	0.5
Prime	**6.1**
Secondary	**12.4**
Total	**9.5**

Source: Property Council of Australia

Figure 3
Brisbane Near City Vacancy
% total vacancy by precinct



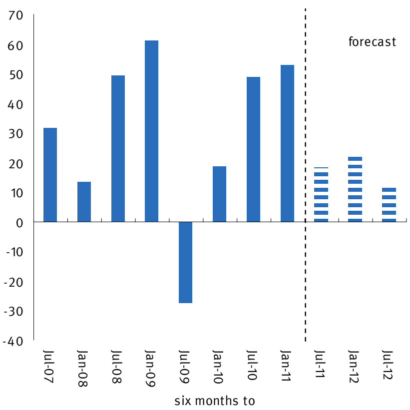
Source: PCA

This reduction in the vacancy level has been spread fairly evenly across the Near City precincts. As shown in Figure 3, all but the Toowong market has recorded falls over the past six months. As quite a small sub-market, the increase in the Toowong vacancy was largely attributable to one tenant, Technology One, relocating to the Urban Renewal precinct.

Net Absorption

The net absorption for the Near City has remained at record levels throughout the year. The six month result of 52,800m² to January 2011 has continued the strong absorption that was seen in the Near City throughout the whole of 2010. The annual figure of 101,726m² was the second highest recorded for the Near City market, behind the 110,432m² recorded during CY 2008.

Figure 4
Brisbane Near City Net Absorption
'000 per six month period



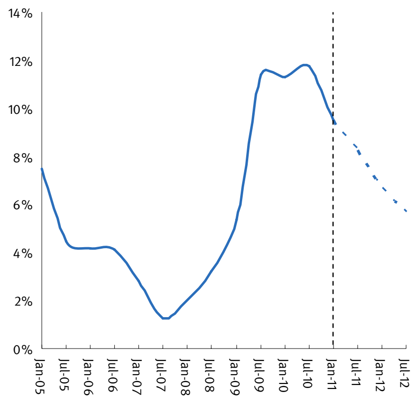
Source: Knight Frank/PCA

In further confirmation that the A grade market has been responsible for all of the improvements in the Near City precinct over the past 6- 12 months, the net absorption for the A grade has been 50,591m² (101,850m² over the past 12 months) which accounts for virtually all of the net absorption in the market. While this is good news for the newly constructed accommodation, it does indicate that the strength in the market is limited to the upper level.

Going forward, the high levels of net absorption associated with the flurry of major tenant relocations is not expected to continue in a market with less new supply and more focus on second tier tenants. Thus the forecast net absorption for the first half of 2011 is expected to be 18,400m² and thereafter remain within the rage of 12,000m² – 22,000m² per six months until mid 2012.

Anticipated Vacancy Levels

Figure 5
Brisbane Near City Vacancy
% total vacancy



Source: Knight Frank

The vacancy rate for this cycle has now peaked, with net absorption bringing the vacancy rate down quickly once the levels of new supply began to slow. The vacancy rate peaked in mid-2010 at a revised rate of 11.8% (down from 12.2% when first published in July 2010). As at January 2011 the vacancy rate was estimated by the PCA to be 9.5%.

The vacancy rate is expected to continue to fall, with net absorption remaining positive, although at lower levels than recently seen. In a climate of little new supply additions, any net absorption is quickly converted into falls in the vacancy rate. So long as there is accommodation available which appeals to active tenants, and the Near City remains priced at levels competitive to the CBD, the vacancy rate should continue to decline until major additional supply comes on line in late 2012 or beyond.

Tenant Demand

The greatest activity over recent months has come from the resources and engineering sectors, with companies such as Bechtel taking on additional space as they win contracts (8,000m² in expansion space) and smaller companies following the larger firms with good growth stimulating relocation to larger facilities.

Unlike 2008 – 2010 where larger tenants dominated, the current crop of tenants seeking new accommodation in the short term are smaller, with most 1,500m² or under. This is a natural progression for the market and these smaller tenants will sustain the market in the near term, although are unlikely to support net absorption at the same levels as seen over the past two years. Project space is expected to remain an important part of the Near City market with several of the large engineering firms now firmly established in the region.

The next round of larger tenant relocations is already emerging with tenants such as Ergon Energy (7,000m² in 2012), Urban Utilites (8,000m² in 2013) and more recently Suncorp (27,000 – 30,000m² in 2014) now actively searching for new accommodation.

Table 6
Major Near City Requirements
As at March 2011

Tenant	Area * (m²)	Timing
S2F	1,000	2011
GR Engineering	1,000	2011
Stockland	2,000	2011
Silver Chef	1,200	2011
EMC Corporation*	1,400	2011
Gallagher Basset*	1,350	2011
APA Group	1,700	2012
AON Australia*	2,100	2012
Ergon Energy	7,000	2012
Urban Utilities	8,000	2013
Suncorp*	30,000	2014

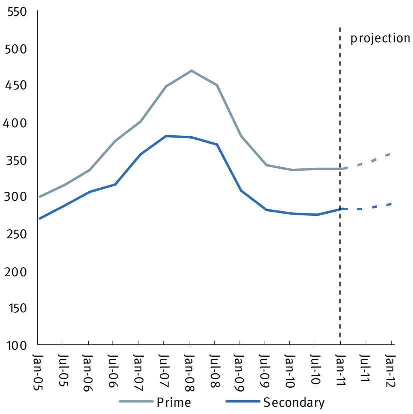
Source: Knight Frank * consider CBD or Near City

Rental Levels

Rental levels have ceased falling within the Brisbane Near City market, with 2010 to form the cyclical lowpoints for both prime and secondary rentals. Prime gross effective rents have been largely stable since early 2010 with a minor increase over the 12 months to January 2011 of 0.5%. Current average gross effective rents are $336/m² ($448/m² @ 25% incentive). As the prime vacancy rate continues to fall over the coming 18 months the prime rental levels are expected to show recovery, with forecast effective growth of 6.3% over the year to January 2012. From mid to late 2012 the prime rents are expected to see further upward pressure as the economic rental levels set for new construction with delivery 2012+ draw the market upward (currently $525 – $550/m² gross face).

The secondary market has seen some improvement in rents from mid-2010 when the market confidence was at its lowest. With the average current gross effective rent at $283/m² ($380/m² face @25.5% incentive) this represents growth of 2.8% over the past year. This is seen more as a rebalancing of an overcorrection to the market during 2010, with only minor growth expected going forward (2.0% - 3.5% p.a).

Figure 6
Brisbane Near City Rents
Prime & Secondary $/m² gross effective



Source: Knight Frank

Table 5
Recent Leasing Activity Brisbane Near City

Address	Precinct	Area (sq m)	Face Rental ($/m²)	Term (yrs)	Incentive (%)`	Lease Type	Tenant	Start Date
45 Commercial Rd	UR	3,929	495 g	5	20%	New / Expansion	Bechtel	Mar 11
100 Wickham St	UR	1,992	415 g	4	‹15%	Expansion	Queensland Health	Jan 11
15 James St	UR	1,500	Mid-400s g	8	undis	Pre-commitment	Fosters Group	Mar 11
200 Creek St	SH	2,100	495 g	10	25% +	New	WBM	Mar 11
15 James St	UR	900	490 g	undis	undis	Pre-commitment	PAN Australia	Mar 11
Green Square	UR	4,000	495 g	3	Fitout	Sub-lease	Bechtel	Jan 11
12 Cribb St	M	3,226	450 g	1	Fitout	Sub-lease	MC JV (Origin JV)	Dec 10
179 Grey St	IS	10,568	495 g	10	undis	Sitting tenant	Thiess	Nov 10
52 Merivale St – SW1	IS	1,245	450 g	4	Fitout	Sub-lease	McNab Constructions	Nov 10
25 Montpelier Rd	UR	1,670	465 g	7	undis	New	Hynes Lawyers	Oct 10
512 Wickham St	UR	4,590	525 g	5	undis	New / Expansion	Bechtel	Oct 10
67 High St	T	2,574	475 g	10	15 - 20%	Existing	Data #3	Sept 10

Source: Knight Frank
M=Milton, IS = Inner South, SH = Spring Hill, T = Toowong, UR = Urban Renewal g= gross

INVESTMENT ACTIVITY & YIELDS

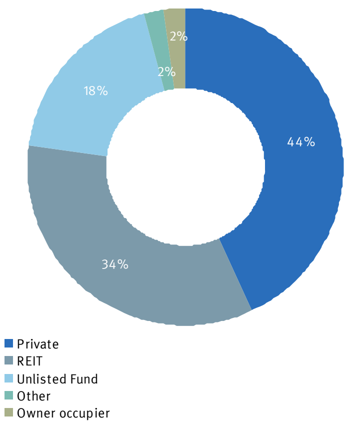
Investment activity across the Near City has increased over the past six months, however the established larger REITS have remained absent from the market to date. Major purchasing activity has remained in the hands of privates, unlisted funds such as PrimeWest or Century Funds Management and other entities like Growthpoint, which is a listed entity seeking to grow market share in eastern Australia.

Over the 12 months to March 2011 there were 15 sales over $3 million for a total value of $358.78 million. This is a stronger result than for the same period a year earlier which recorded 18 sales for a total of $205.7 million. The major difference is a greater number of sales in excess of $50 million, with the current period recording three of these larger sales, indicating a return to stronger market activity.

In terms of dollar value, private investors remained the most active with 44% of all sales above $3 million. Private sector investment is boosted by the imminent circa $70 million purchase of 179 Grey St by Unison Projects.

The REIT sector was the second most active in terms of transaction value with 34% ($123 million). This was entirely due to a single transaction by GrowthPoint properties. This encompassed two Near City property sales, both above $50 million; 52 Merivale St ($62.36 million) and 32 Cordelia St ($60.66 million) which formed part of a larger portfolio sale of assets from local developer Property Solutions.

Figure 7
Brisbane Near City Purchaser Profile
Sales ›$3 million 12 months to March 2011



Source: Knight Frank

This calendar year, despite the interruptions to business and decision making caused by natural disasters, the market has already seen greater levels of purchasing activity. There are currently four larger investment sales under contract in the market. Apart from 179 Grey St, South Brisbane there is a building fully leased (office component) to John Holland under contract for circa $25.5 million. After a long hiatus the capital market in Milton has also seen some activity with two properties – 12 Cribb St ($13.3 million) and 50 Park Rd ($12.8 million) under contract at this time. Previous to these sales the most recent major office transaction for Milton was the $20 million purchase of 259 Coronation Dr/5 Cribb St in June 2009.

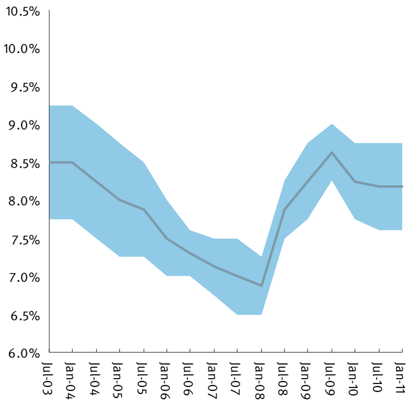
Yields for prime investment property have remained quite stable over the past six months, with core market yields currently falling within the rage of 7.60% - 8.75% reflecting a median yield of just under 8.2%. While the yield range has remained largely unchanged, the breadth of investments considered by the market has broadened. During 2009 and much of 2010, and because of the quite conservative unlisted buyers in the market, only assets with long WALEs and a passive risk profile were being considered (eg Energex Bld WALE = 15years. HQ South WALE = 10years). Over the past six months investor appetite for some risk has returned as the potential for future upside is again

Table 7
Recent Sales Activity Brisbane Near City

Address	Grade	Price ($ mil)	Core Market Yield (%)	NLA (m^2)	$/$m^2$ NLA	WALE (yrs)	Vendor	Purchaser	Sale Date
12 Cribb St, M	Secondary	13.30	13.3 initial	3,310	4,018	2.9	Mirvac	Harvest Denison Synd	Contract
14 Murri Way, FV	Prime	c25.50	8.5 initial	4,428	5,759	5.6	Private Investor	Private Investor	Contract
179 Grey St, IS*	Prime	c70.00	7.70	11,043	6,429	9.9	Trafalgar	Unison Projects	Contract
50 Park Rd, M	Secondary	12.80	7.6 initial	2,330	5,493	7.0	Farallon Capital	Undisclosed	Contract
200 Creek St, SH	Secondary	37.70	8.70	7,710	4,889	5.2	Valad Core Plus Fund	Century Funds Mgt	Dec 10
12 Commercial Rd, UR	Prime	37.50	8.0% ^	4,637 #	5,714	9.2	Watpac	Cambooya Pty Ltd	Dec 10
47 Park Rd, M	Secondary	4.25	n/a	907	4,686	n/a	Private Investor	Unison Projects	Sept 10
99 Melbourne St, IS	Prime	28.50	8.25 initial	6,200	4,597	2.8	APGF	PrimeWest	Sept 10
52 Merivale St, IS*	Prime	62.36	8.24	9,453	6,601	5.3	Property Solutions	Growthpoint Prop.	Aug 10
32 Cordelia St, IS*	Prime	60.66	7.74	10,052	6,035	8.0	Property Solutions	Growthpoint Prop.	Aug 10

Source: Knight Frank * 999 year leasehold ^blended yield incorporating both commercial space and retail space leased to Liqourland (25% of income) #Total NLA = 6,563m^2 - 1,926m^2 of hotel/retail and 4,637m^2 of office space M=Milton, IS = Inner South, SH = Spring Hill, T = Toowong, UR = Urban Renewal recognised across the market. Recent sales encompass investments with a range of WALEs from 2.8 years through to 9.9 years. Partially this market acceptance of lower WALEs and less passive investments has come as international wholesale purchasers have been less active in the market due to not being able to come to terms on targeted investments, and also the sustained higher AUD eroding their purchasing power.

Figure 8
Brisbane Near City Prime Yields
Prime Investment Yield Range & Median



Source: Knight Frank

For secondary properties, the investment market remains quite thin. Two larger recent secondary sales within Milton were partially owner occupied (47 Park Rd) or had future development upside (50 Park Rd). While secondary investment evidence remains scarce, current core market yields range between 8.75% and 9.50%.

OUTLOOK

After a tumultuous start to 2011, businesses are now beginning to knuckle down to making strategic business and investment decisions. While little business time was lost due to flooding in Brisbane (of the office tenants impacted, most were fully operational within 1-2 weeks) the broader economic impact of widespread QLD flooding to mining and primary production are being felt in the short term. As mines return to production this impact will lessen and necessary repairs and re-construction activity will provide a boost.

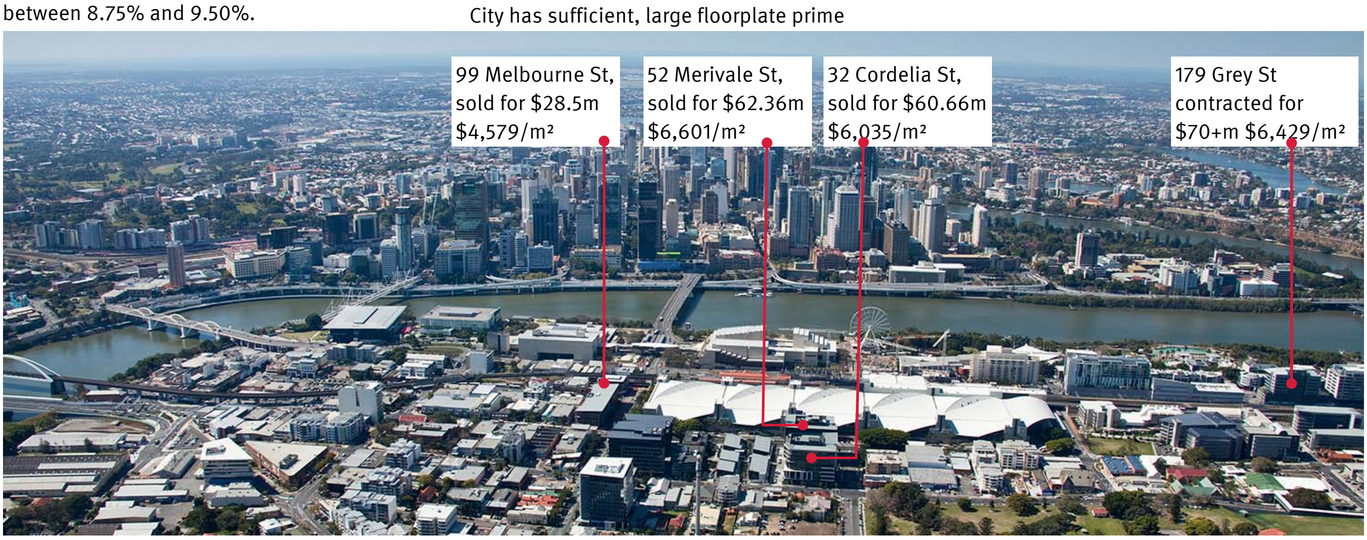
Leasing activity and the level of net absorption has continually surprised on the upside for the Near City, as most of the larger tenants within the Near City market relocated over the past four years. The next 12 months is expected to be somewhat of a consolidation phase for the market, with second tier tenants more active.

Mining/energy companies, engineering and related firms are expected to continue to seek additional space for project related accommodation, as service contracts are awarded given the progression and commissioning of major natural resources projects across Queensland and SE Asia. This is expected to be a continual boost to the net absorption for the market, outweighing organic growth from tenants as they upgrade their accommodation. So long as the Near City has sufficient, large floorplate prime vacancies the market will continue to benefit from these project driven tenant expansions.

As has been the case for the past two years, most of the tenant demand is expected to benefit the prime market, with the secondary market remaining quite soft at this time. As rental growth re-enters the prime market, some smaller tenant demand may shift back to secondary buildings. However, where large floorplates or location conveys the potential to achieve an A grade rating, the imperative for refurbishment, where possible, is undeniable for building owners.

IMPERATIVE FOR REFURBISHMENT IS UNDENIABLE

Prime yields have been stable and are expected to remain static through the middle of 2011 with some tightening expected towards the end of the year. This tightening of market yields will emerge only as the reducing vacancy is sustained and rental growth expectations are confirmed. As the development market rejuvenates, targeting completions 2012 – 2014, joint venture activity is also likely to increase. This is following the recent trend in Australian CBDs where generally wholesale funds JV projects as a cost effective way to acquire current generation, long WALE investments.



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