RESEARCH

DECEMBER 2010

BRISBANE CBD

Office Market Overview

Knight Frank

HIGHLIGHTS

- Tenant demand within the Brisbane market has grown throughout the year, even though tenant relocation activity has remained sporadic. When combined with the lack of new supply through 2010 this has seen vacancy improve.
- Effective rents have stabilised with current levels expected to form the low point for the market. Face rentals improved marginally over the past six months, however were counterbalanced by further increases in incentive levels. Going forward effective rents are expected to remain relatively stable in the short term due to tension between tenant demand and continued supply additions with the associated backfill space.
- The investment market has continued to improve over the course of the year with several large transactions taking place and some broadening in purchaser demand now identifiable. Yields have come off recent highs however are not expected to show any further major re-rating in the short term.

Table 1
Brisbane CBD Commercial Market Indicators as at November 2010

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	908,344	8.8	103,555	66,907	667	27	7.68
Secondary	1,137,316	13.6	-35,099	14,371	505	28	9.08
Total	**2,045,660**	**10.9**	**68,456**	**81,278**			

Source: Knight Frank/PCA ^ as at July 2010

SUPPLY & DEVELOPMENT ACTIVITY

There are three commercial buildings under construction at this time. While 2009 formed the recent peak for supply additions to the Brisbane CBD, further construction remains underway. The most advanced project is the DEXUS developed 123 Albert Street with practical completion on the 38,500m² building expected during January 2011. The building is 80% committed by Rio Tinto and Bentleys Accountants with five low-rise floors remaining for lease.

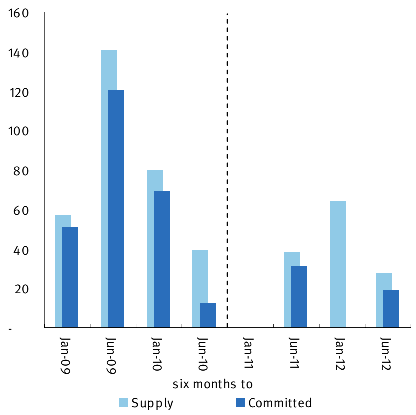
Currently on track for completion in late 2011, 111 Eagle Street will add 64,000m² of commercial accommodation to the Brisbane city stock. At this stage there are no confirmed tenant pre-commitments to the riverfront building.

The final building presently under construction is 145 Ann Street, being delivered by Leighton Properties and on sold to Commonwealth Property Office Fund. The 27,660m², A grade building was sold on a fund through basis with 68% commitment by tenants and the remainder under a rental guarantee.

Construction completions for the calendar year of 2010 are limited to the ATO leased 140 Elizabeth Street, the completion of which spanned the New Year period 2009-10. With no further new space completions, supply additions were due to refurbished space being offered to the market. Full building projects were 116 Adelaide St (6,938m²) and Transit Centre West and East Towers (19,000m² & 13,174m² respectively).

New supply for 2011, both 123 Albert St and 111 Eagle Street, are both being marketed as Premium accommodation. Thus the addition of these two buildings, totalling 102,000m², will be the first new Premium accommodation added to the market since the completion of Riparian Plaza in 2005. This will change the landscape for the top level commercial market previously dominated by Waterfront Place, Riverside Centre and Riparian Plaza.

Figure 1
Brisbane CBD Supply
('000m²) Supply (new & refurb) & commitment



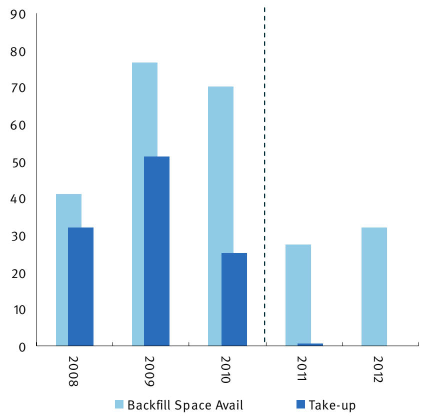
Source: Knight Frank

Some developer activity has returned to the market for projects with a potential late 2013 or 2014 delivery. This was sparked by development sites changing hands and the new owners looking towards the future, including a reported requirement for the ATO of 18,000m² for 2013 along with a cluster of bank tenants with lease expiries 2013 – 2015.

Backfill Space

In the shorter term backfill space remains a major influence on the Brisbane market, given the high levels of tenant relocation over the past 18 months and upcoming relocations of Energex & Rio Tinto which will add almost 40,000m² of backfill space to the market during 2011 & 2012. Added to the remaining available backfill space of 52,471m² made available during 2008 & 2009 there was 41,880m² brought to the market during 2010, of which 13,724m² has been absorbed. This leaves total available space of 80,627m² vacant due to tenant relocations of 2,500m²+. Of this currently vacant 80,627m², 66% is within secondary space. Most of the available A grade space was formerly B grade buildings which have recently been upgraded (ie 40 Creek St, Transit Centre Buildings).

Figure 2
Brisbane CBD Backfill Space
('000m²) Backfill from tenant relocations >2,500m²



Source: Knight Frank

MAJOR OFFICE SUPPLY

Under Construction

- 01 — 123 Albert St – 38,500m² - DEXUS – Q1 2011. 80% committed.
- 02 — 111 Eagle St – 64,000m² - GPT consortium – Q4 2011.
- 03 — 145 Ann St – 27,660m² - Leighton/CPA – Q2 2012. 68% committed.

Refurbished Space

- 04 — 40 Creek St – 11,888m² - Charter Hall – Q2 2009. 17% committed.
- 05 — 160 Ann St – 12,570m² - Investa Wholesale – Q4 2009 60% committed
- 06 — Roma Street Transit Centre – 29,120m² - GPT/APPF – Q1 2010 45% committed*
- 07 — 116 Adelaide St – 6,938m² - Private Investor – Q2 2010 – 11% committed
- 08 — 150 Charlotte St – 11,255m² - Stockland – 2012

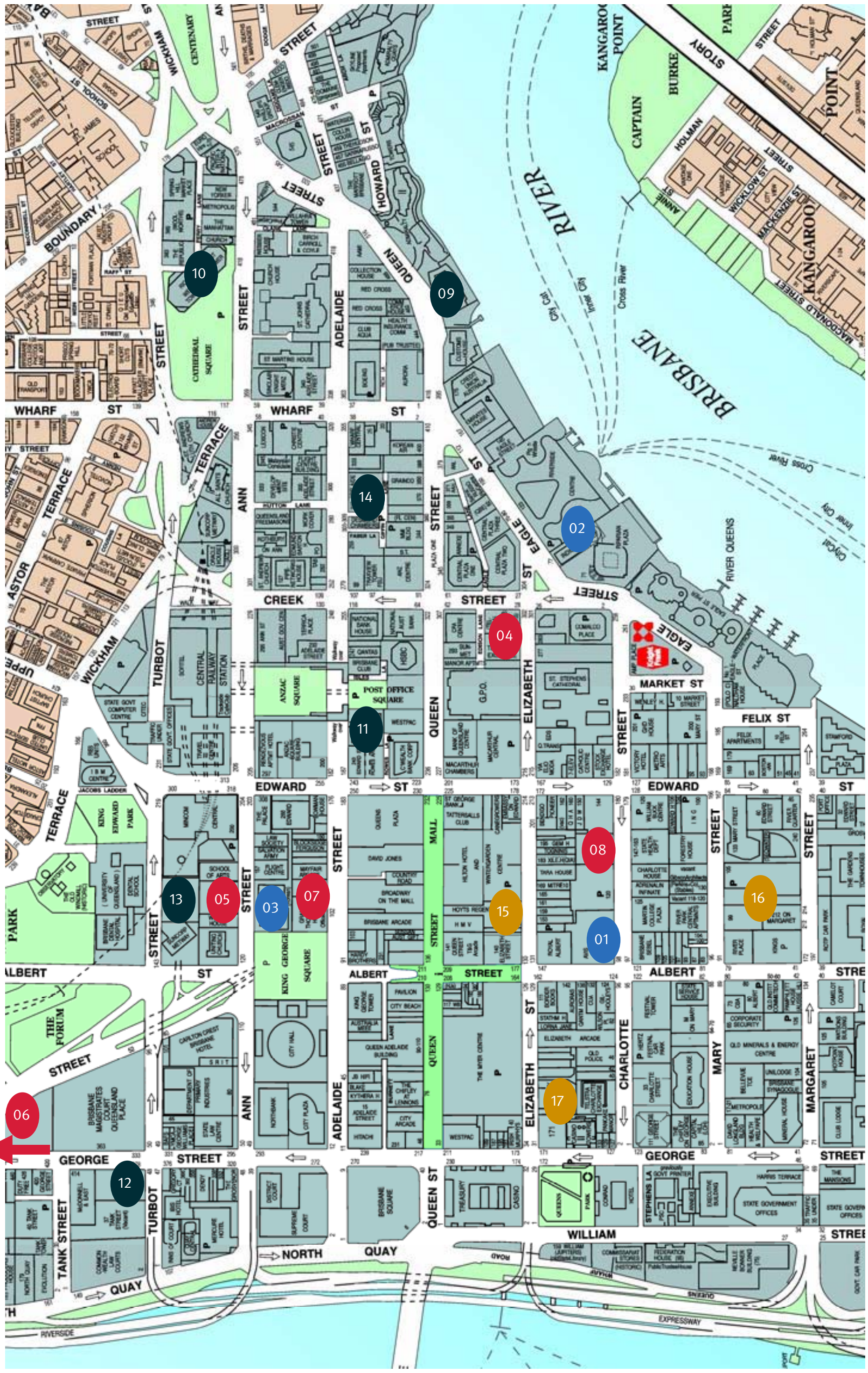
Existing larger space (5,000m²)

- 09 — 443 Queen St – 5,546m² - Bramley Properties – Q2 2011
- 10 — 410 Ann St – 6,373m²– Investa – Q1 2009.
- 11 — 215 Adelaide St – 5,331m² - GIC – Q1 2011
- 12 — 400 George St – 5,816m² - Grosvenor/HSBC Trinkaus & Burnhardt Immobilien Q1 2010
- 13 — 179 Turbot St – 5,875m² - APG – Q2 2009
- 14 — 313 Adelaide St – 4,238m² - F.A Pidgeon & Son Pty Ltd – Q4 2010

Mooted Office Developments 2013+

- 15 — Regent theatre Development – 50,000m² -ISPT
- 16 — Vision Site commercial component – 30,000m²
- 17 — Empire Site commercial component – 20,000m²

As at Nov 2010, excluding strata buildings. * Further commitments expected prior to Dec 2010.



TENANT DEMAND & RENTS

The vacancy rate for the Brisbane CBD has reduced over the past six months as net absorption levels have remained strong in a climate of no new supply. The PCA Office Market Survey recorded a total vacancy of 10.9% as at July 2010 made up of 197,993m² or 9.7% direct vacancy and 25,654m² or 1.25% of sub-lease space, the sub-lease space almost halving over the previous six months.

Table 2
Brisbane CBD Vacancy Rates
July 2010

Grade	Direct Vacancy %	Sublease Vacancy %
Premium	3.9	1.8
A Grade	6.6	1.4
B Grade	14.2	1.2
C Grade	5.6	0.9
D Grade	13.4	0.8
Total	**9.7**	**1.3**

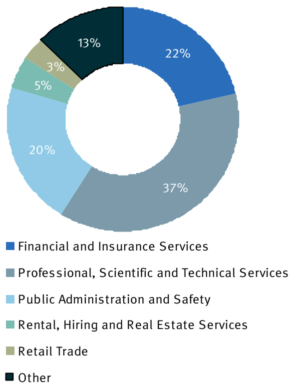
Source: PCA

Net Absorption

Net absorption is expected to remain relatively strong in the short term, underpinned by strong forecast white collar employment growth. Impacted by the expected relocation of Energex out of the CBD and into the Near City, encompassing an approx 17,000m² reduction to net absorption, the projected net absorption for the six months to January 2011 of 25,000m² reflects a strong underlying rate of general take-up.

This white collar employment growth is expected to continue to remain strong with average annual growth of between 2.0% - 3.6% over the calendar years of 2011 – 2015. While much of the recent and expected future upside in the Brisbane CBD has been tied to

Figure 3
Brisbane CBD Employment Growth
Break-up of employment growth 2011 - 2015

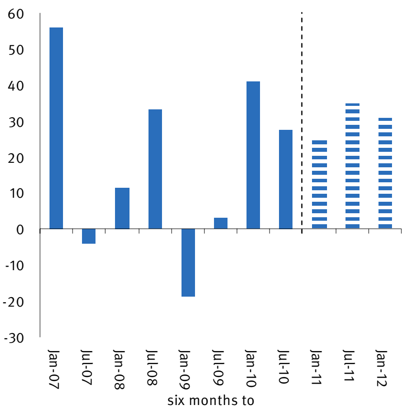


Source: Access Economics

the natural resources exploration and project commissioning, the sectors expected to account for most (79%) of the white collar employment growth over the next 5 years are in allied professional industries and government administration.

Brisbane CBD market sentiment has been boosted by the fact that despite the GFC, the market only recorded one period of negative net absorption. At certain points during 2008/09 sustained falls in the white collar employment base for the Brisbane CBD was forecast, particularly during 2010. Thankfully these predictions did not become reality and white collar growth in the order of 1.3% is now estimated for the Brisbane CBD for CY 2010.

Figure 4
Brisbane CBD Net Absorption
('000 m²) per 6 month period

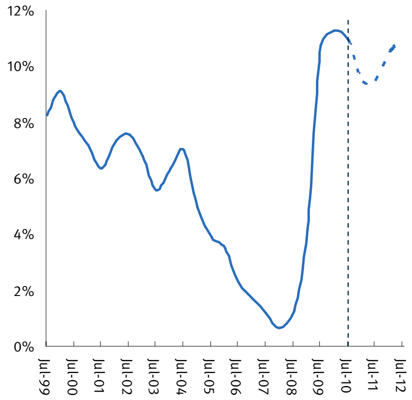


Source: Knight Frank/PCA

Anticipated Vacancy Levels

The vacancy rate for the Brisbane CBD, at 10.9% as at the July 2010 survey, was a reduction on the previous six months. The vacancy rate as at January 2011 will be released by the PCA in February 2011 and is expected by Knight Frank to show a vacancy rate in the region of 9.5%, a continued reduction in the overall market vacancy.

Figure 5
Brisbane CBD Vacancy
Total vacancy



Source: Knight Frank/PCA

The addition of 123 Albert St in the first half of 2011 is not expected to have a major impact on the vacancy rate to mid-2011, as there is presently expected to be strong net absorption over that period to largely negate the additional supply to the market. Much of this upside is coming from the major tenant of 123 Albert St, Rio Tinto, which is consolidating from many CBD and Near City locations into the new building. While the vacancy rate is not expected to increase greatly to mid-year, the expected completion of 111 Eagle Street in late 2011 is forecast to have a significant impact on the vacancy rate – increasing to 10.5% as at January 2012 under the weight of the 64,000m² addition to the stock base. This impact may be mitigated by any growth which may be forthcoming from tenant commitments which may be announced for the project, however as can be seen in Figure 4, the expected net absorption remains quite strong during that period.

Tenant Demand

Tenant demand has remained sporadic during the course of 2010, however has been on an upward trend. The largest new leases over the second half of 2010 have been dominated by Government entities such as Health and Ageing (Federal), Department of Main Roads (State) and BCC/Urban Utilities (Local & State). In addition QRail have taken significant new space in order to separate operations prior to the listing of QR National. Large tranches of space, such as that within the Brisbane Transit Centre are now being taken up, albeit at a price point. Further large tenant movements are expected to be announced prior to the end of the year, in preparation for business activities in 2011.

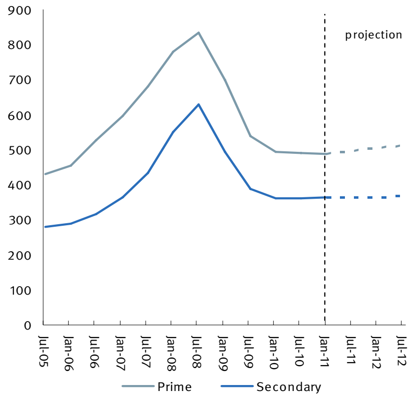
Private sector tenants are also beginning to increase their enquiry levels with project space remaining a strong driver of private sector take-up. This trend will continue with major projects creating demand for 3,000m² – 8,000m² almost overnight following progression of a project to the next level (ie Worley Parson's 8,000m² requirement from BG Group gas project). This will be joined by professional firms taking the opportunity to upgrade their accommodation.

Rental Levels

Rental rates have now stabilised across both the prime and secondary markets and while expected to remain quite stable in the short term, the next movement for effective rentals will be upwards. Prime face rents have risen slightly over the past six months. However this upside has largely been negated by a further increase in average incentives from 26% in the first half of the year to 27%. On an annual basis, prime gross effective rents have fallen marginally by 1.6% to Q4 2010 to be $487/m² gross ($667/m² gross face @ 27% incentives). This is expected to be the low-point for the market. While prime rents are expected to increase from this point, this will be a gradual process with marginal face rental growth over the next three years. Effective rental growth is expected to range between 1.4% - 4.0% p.a over that period, responding to a gradual reduction in incentives to 22% as the market tightens.

The secondary market has also seen some recovery in average face rentals, increasing from $490/m² to $505/m² as deals are consistently being achieved above the $500/m² threshold. Similarly to the prime market, this increase in face rentals has come at the cost of further increases to incentives with average secondary incentives now sitting at 28%. Average secondary effective rents are currently $364/m² ($505/m² @ 28% incentive), an increase of 1.2% over the year to Q4 2010. This modest adjustment to the market represents balancing of the over correction triggered by some landlord panic earlier in the year. Nevertheless there is limited further upside to the market with secondary stock expected to still be competing heavily on price well into 2013.

Figure 6
Brisbane CBD Rents
$/m² p.a average gross effective rent



Source: Knight Frank

Table 3
Recent Leasing Activity Brisbane CBD

Address	Grade	Area (sq m)	Face Rental ($/m²)	Term (yrs)	Incentive (%)`	Lease Type	Tenant	Start Date
400 George St	A	1,500	625 g	10	25+	New	NTI	Oct 10
215 Adelaide St	A	952	550 g	5	20-25	New	Halcrow Pacific	Sept 10
171 Roma St	B	8,350	465 g	4	25+	New	Brisbane City Council	Sept 10
295 Ann St	A	7,876	537 g	10.3	undis	New	Q Rail	Sep 10
259 Queen St	A	1,615	675 g	3	Fit out	New	Gadens	Sept 10
1 Eagle St	P	4,147	760 g	8	25+	Sitting Tenant	Philips Fox	Jul 11
171 Roma St	B	2,081	465 g	5	25+	New	Q Rail	Nov 10
295 Ann St	A	1,219	550 g	10.4	undis	New	Q Rail	Jul 10
10 Eagle St	A	954	660 g	5	25+	New	Adani Group	Oct 10
232 Adelaide St	B	1,384	500 g	6	undis	Sitting Tenant	Pacific Gateway College	Jul 10
140 Creek St	A	2,998	590 g	6	undis	New	Dept T'port & Main Roads	Jul 10
66 Eagle St	A	2,940	675 g	10	25+	New	Dibbs Barker	Jul 10
160 Ann St	B	2,481	525 g	15	25+	New	Dept Health & Ageing	Jul 10
1 Eagle St	P	1,822	650 g	3	undis	Sub-lease	Lend Lease	Jul 10
160 Ann St	B	5,000	535 g	15	25+	New	Central Queensland Uni	Jun 10
307 Queen St	A	1,592	540 g	8	25+	New	Hanrick Curran	Jun 10

Source: Knight Frank g = gross `Knight Frank's estimation of incentive calculated on a straight line basis.

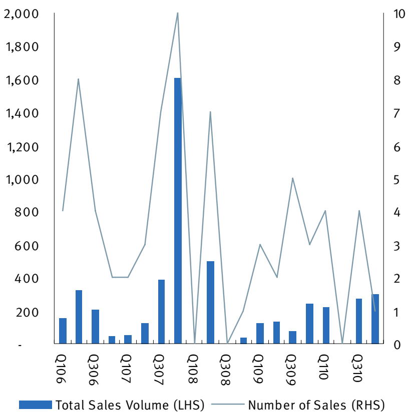
INVESTMENT ACTIVITY & YIELDS

Sales activity has been increasing within the Brisbane CBD over the course of 2010. With three of the recently completed major office towers now having sold (or part sold) the confidence levels in the investment market have increased. During 2010 to date there have been nine sales in excess of $5million within the Brisbane CBD. These have fallen into two very different categories – over $150 million, and below $30 million. Thus rather than a two tier market, the Brisbane CBD seems to be currently split into three tiers.

The top tier represents the prime assets which tick all the boxes for major investors (long WALE, NABERS ratings, tenant covenant and/or income support, modern building) and three of these sales have occurred during this calendar year (275 George St (50%), 32 Turbot St, Brisbane Square) potentially to be joined by a 50% interest in Waterfront Place before the end of this year. Anything which falls outside of this quite narrow definition has continued to be regarded with a degree of suspicion by the market.

The middle tier is represented by solid, older A or B grade buildings which have traditionally been well accepted by the market, however at the moment the shorter WALE and older building fabric (particularly if 4.5+ NABERS ratings have not been achieved) is being largely discounted by the market.

Figure 7
Brisbane CBD Major Sales
Sales Volume ›$5mil ($mil) & Number



Source: Knight Frank

The third tier represents the smaller older style assets which typically sell for under $30 million and are dominated by private investors. This sector has continued to be relatively active throughout the GFC with five of these sales recorded during 2010. The transactions for these properties have reflected a wide variety of yields, depending on the passing income which is being achieved by the property and have recorded passing yields from 8.0% through to topping 10.0%.

The other commercially related sale recorded during 2010 was the purchase of the Vision development site which contains a commercial building pad. There have been a number of CBD site sales and this is expected to continue into the new year. Aside from Vision site (reported to be under contract for $40 million) other site sales, largely for residential projects have included 107 Margaret St ($12million), 127 Charlotte St ($9.99million) potentially to be joined by two purchases by Grocon Developments. While these sites are currently largely earmarked for residential unit or hotel development they may encompass some commercial component and do increase the confidence which exists within the overall Brisbane CBD market.

RATHER THAN A TWO TIER MARKET, THE BRISBANE CBD SEEMS TO BE CURRENTLY SPLIT INTO THREE TIERS

Table 4
Recent Sales Activity Brisbane CBD

Address	Grade	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	Vendor	Purchaser	Sale Date
Brisbane Square	A	300.00~#	n/a	57,300	5,236	Westcheme Management	Charter Hall (CPOF) & Telstra Super	Nov 10
55 Elizabeth St	Site	tba	n/a	1,989'	-	Metacap Pty Ltd	Grocon Developments	H1 2011
127 Charlotte St	Site	9.99	n/a	911'	10,977	Hogan Group	Yanijian Group	Sep 10
107 Margaret St	Site	12.00	n/a	1,366'	8,785'	Comino Family	China Pacific	Sep 10
32 Turbot St	A	287.00	7.51	34,414	8,340	RNP	Permodalan Nasional Berhad	Aug 10
46 Charlotte St	B	16.45	8.50	4,264	3,858	Private Syndicate	Private Investor	Aug 10
10 Felix St	B	25.10	8.35% ^	4,662	6,435	Seymour Group	Canberra Raiders	Aug 10
105 Mary St*	Site	40.00	n/a	5,479'	7,300'	Receivers	Billbergia Group	Jul 10

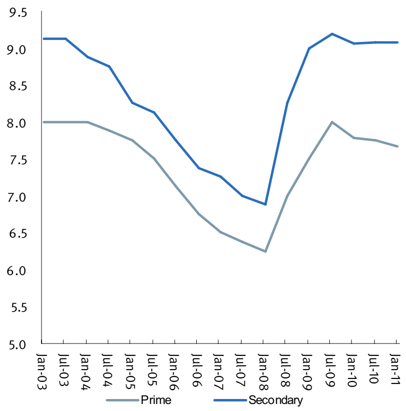
Source: Knight Frank *likely to target residential development & under contract only ^passing yield
~purchase via ownership entity est effective cost $300 – 330million # includes income top-up 'site and $/m² site

The headline sales for the Brisbane CBD for 2010 have been the sales of 32 Turbot St and Brisbane Square. The RNP developed 32 Turbot St was sold for $287million to PNB, a Malaysian unlisted investor, at a core market yield of 7.51% ($8,340/m² of NLA). The building had been completed just on 12 months at the time of sale. The Brisbane Square transaction is more difficult to analyse despite the purchaser's indication that $300 million was allocated to the asset. There were associated costs and benefits with the transaction which was undertaken via purchasing the holding company for the asset. Without a definitive price further analysis is not possible given an estimated passing income of $344/m² net, boosted by approx $18 million in income support.

Figure 8

Brisbane CBD Yields

(%) Prime & Secondary Core Market Yield



Source: Knight Frank

Average yields for prime assets have stabilised and firmed by approx 30 basis points since yields peaked in mid-2009. This correction has reflected greater purchaser interest in the market and increased confidence in the stability and eventual growth in market rental levels. Going forward any further falls in yields are expected to be gradual at best with prime average yields expected to remain in the vicinity of 7.7% in the short term. Secondary yields have also stabilised, however purchasing decisions for that market remain tied to passing income and interest cover more so than the analysed core market yield.

OUTLOOK

The economic conditions have improved over the course of 2010 with a far greater level of confidence in the wider market than was seen during 2009. Many indicators such as business or consumer confidence remain highly volatile, reacting to cash rate decisions and off-shore sovereign debt funding issues. However overall expectations of trading conditions remain strong.

Within this climate the market conditions within the Brisbane CBD have steadily improved throughout the year. With positive net absorption across the past 18 months, the market has avoided taking any backward steps, although market activity has often been only moderate. With the market now sitting on a better than expected base, the potential upside as the market recovers is greater than was anticipated early in 2010.

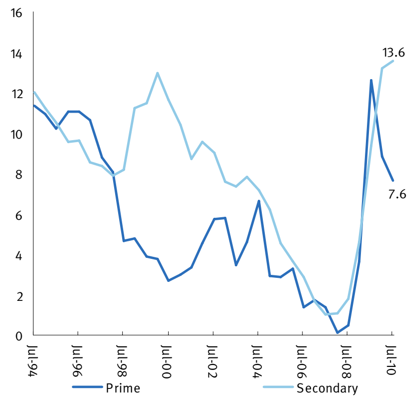
This confidence has been a two edged sword in many ways with future expectations for the CBD underpinning the three projects still under construction and potentially spurring more in the medium term. Net absorption, boosted by projected sustained white collar employment growth, is expected to remain at levels above the 10 year average over the next three years. This will enable demand, currently projected at 108,200m² to largely match supply of 140,755m² over the next two calendar years. On the downside this also means that there will be little wholesale improvement to the vacancy rate until 2013, with the headline rate expected to fluctuate between 9.5% and 10.9% through to the end of 2012. After that time a break in project completions until late 2013/early 2014 is expected to allow for some headway to be made to bring the vacancy rate consistently into single figures.

As a result of the vacancy rate remaining relatively high, albeit stable, there is expected to be little pressure to trigger significant rental growth over that same period. The prime market remains in a far better condition than the secondary market with the vacancy rate recorded at July 2010 at 7.6% for the prime market, compared with 13.6% for secondary space. This balance between prime and secondary vacancies will continue to fluctuate as new supply comes onto the market, however the continuing theme of tenants upgrading to a higher grade of accommodation is expected to remain a feature of the market through into the medium term.

Figure 9

Brisbane CBD Vacancy

(%) Prime & Secondary Vacancy



Source: Knight Frank

The investment market has also improved through the course of 2010 with greater purchaser interest and confidence now evident in the market. Sales transactions remain slow to complete and obtaining finance remains a hurdle to many potential purchasers. The Australian listed entities have remained largely out of the market, however recent purchases by unlisted Australian funds indicates a return to more regular market conditions. A lack of activity in the $30 million - $100 million category of investments remains an issue for the market with either the top or bottom end of the market active at this time. Yields are not expected to fluctuate greatly over the coming year with any improvements to confidence or underlying rental and vacancy assumptions being counterbalanced by increases in funding costs.

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