RESEARCH

SEPTEMBER 2011

BRISBANE CBD

Office Market Report

Knight Frank

HIGHLIGHTS

- Sustained high net absorption levels (69,903m²) over the 2010/11 financial year has seen the vacancy level fall to 7.4% as at July 2011. Much of the recent upside in demand has come from the resources sector, however identified future demand is broad based.
- With only one new building to be completed during 2011 (123 Albert Street) the hiatus from new supply and falling vacancy rate has provided the climate for rental growth to return to the market. Effective rental growth over the year to July 2011 was 4.0% for prime space and after significant discounting in 2010, secondary space recorded 7.1% growth. This is expected to moderate to 2.8% and 3.0% for prime and secondary respectively in 2012 as supply additions in excess of 100,000m² come on line.
- The investment market conditions have been steady with both prime core assets and secondary properties finding buyers. Core market yields have shown some minor firming over the past six months (5bps for median prime) however are expected to remain relatively stable with a slight firming trend in the short term as the positive impacts of returning rental growth are balanced by wider financial market uncertainty.

Table 1
Brisbane CBD Office Market Indicators July 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	914,144	4.0	37,010	5,800	680	25.0	7.15 – 8.10
Secondary	1,125,542	10.0	32,893	-14,722	525	26.5	8.25 – 9.65
Total	**2,039,686**	**7.4**	**69,903**	**-8,922**			

Source: Knight Frank/PCA

SUPPLY & DEVELOPMENT ACTIVITY

Supply additions for the Brisbane CBD are currently lower than in recent years with only one new building to come on line during 2011. The DEXUS developed 123 Albert Street was completed in August 2011, just missing the deadline for inclusion in the July 2011 figures. The 38,500m² building was 91% committed with only 2.5 floors remaining for lease. The anchor tenant is Rio Tinto with 31,000m².

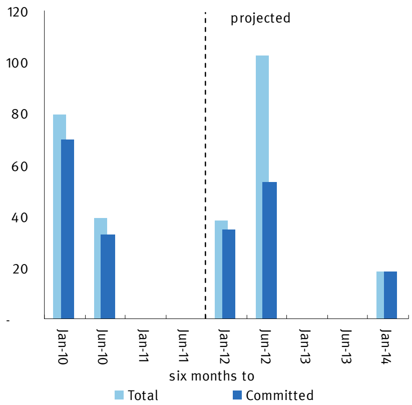
This lower level of supply will soon reverse, with three buildings under construction within the CBD at this time; 111 Eagle Street, 145 Ann Street and 55 Elizabeth Street. The GPT developed 111 Eagle Street has confirmed tenant pre-commitments of approx 26,000m² to ANZ, Ernst & Young, Norton Rose and Gadens. In addition there is a further mooted tenant believed to be Xstrata over two floors, leaving in the order of 32,900m² of space remaining to be leased. Completion of construction is currently expected in March/April 2012.

The development at 145 Ann Street has an anticipated completion of mid-2012. The project, on-sold to Colonial (CPA) is 80% committed, with the most recent leasing activity the exercising of options for additional space by both GHD and Grant Thornton.

The other new building in the early stages of construction is the fully committed (to the ATO) 55 Elizabeth Street. The building, with an expected completion of mid-2013 is being developed by Grocon and has been on-sold to Credit Suisse.

The remaining project which will return space to the market is the full refurbishment of 150 Charlotte Street. The building of 10,980m² will have a major refurbishment of services and foyer/awning with works to be completed in early 2012. The project has also recently been on-sold by Stockland to Walker Corporation as part of a larger asset swap. It is mooted that Rio Tinto will occupy the majority of the building as that company continues to seek to consolidate their office accommodation, in a period of major expansion.

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



Source: PCA/Knight Frank

Beyond these projects there is increasing developer and end-investor interest in the next generation of construction for the Brisbane market, although the commencement of further projects will only proceed subject to tenant pre-commitment.

Triggered by the Suncorp requirement, the next generation of buildings would be well received by investors seeking prime, long WALE, high green rated investments. Aside from the potential commitments by local banks, strong net absorption and demand from growing tenants, largely related to mining, energy/gas or engineering are expected to continue to lead commitments to new construction.

Backfill Space

Backfill space will remain an influence over the Brisbane market. The overhang of backfill space from tenant relocations 2007 – 2010 is now vastly reduced at 37,650m² thanks to the project driven nature of many active tenants in the market which have absorbed this space, particularly where the existing fitout can be used. At this stage Knight Frank is tracking some 92,000m² of backfill space , coming on line 2011-13 of which 76,000m² remains available for lease.

Table 2
Brisbane CBD Major Available Backfill 2011 - 2013

Address	Area (m²)	Timing
313 Adelaide St	9,662	2011
175 Eagle St	9,280	2012
324 Queen St	9,206	2012
410 Ann St	7,110	2011
215 Adelaide St	6,200	2011
443 Queen St	5,546	2012
201 Charlotte St	5,190	2012

Source: Knight Frank

MAJOR OFFICE SUPPLY

Under Construction/ Recently Completed

1. 123 Albert St – 38,500m² (Rio Tinto) - DEXUS Complete Aug 11. 91% committed.
2. 111 Eagle St – 64,000m² (ANZ/E&Y) - GPT– Q1 2012. c50% committed
3. 145 Ann St – 27,660m² (CUA/GHD)- Leighton/CPA – Q2/3 2012. 80% committed.
4. # 150 Charlotte St – 10,980m² (Rio Tinto) - Walker – Q2 2012. undisclosed commitment
5. # 313 Adelaide St – 9,662m² available - F.A Pidgeon & Son – Q2 2012
6. #175 Eagle St - 9,280m² available – Charter Hall – Q3 2012
7. 55 Elizabeth St -18,517m² (ATO) Grocon – Q3 2013. 100% committed

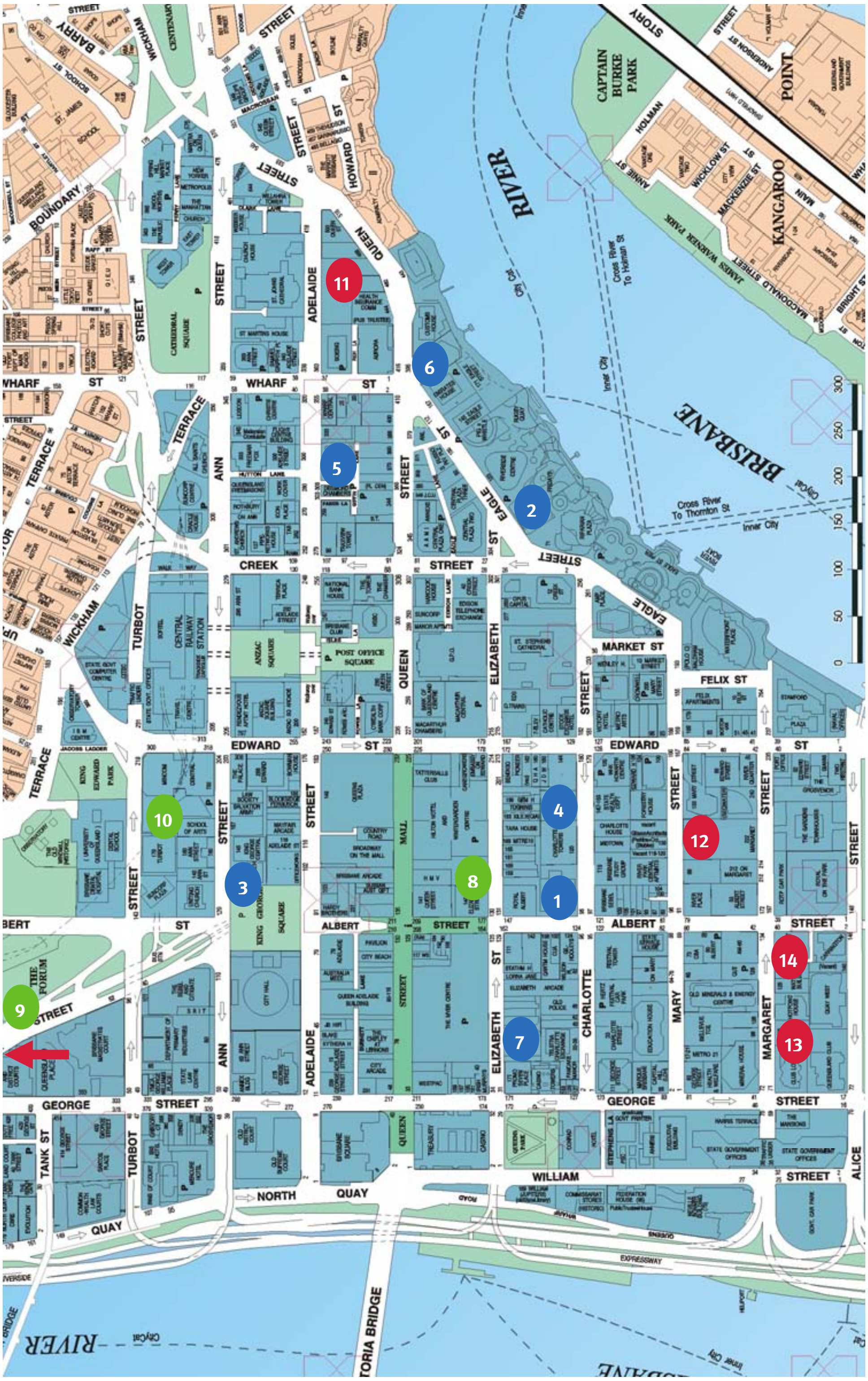
DA Approved/Site Works

8. The Regent Development – 50,000m² -ISPT – 2014+
9. Transit Centre Stage II – 70,000m² GPT/APPF
10. 174 Ann St – Daisho – 50,000m²

Development Application/ Mooted

11. 480 Queen St – Grocon (under option) – 58,000m²
12. 111 Mary St– Billbergia/ AMP SPP3 – 35,000m²
13. 111 Margaret St –Devine – 25,000m²
14. 40 Albert St – Devine (under option to undisclosed party)– 25,850m²

As at August 2011, excluding strata buildings.
Major Refurbishment.
Major pre-commits in brackets   Office NLA Quoted



TENANT DEMAND & RENTS

The vacancy rate fell strongly in the first half of 2011 from 9.4% as at January to 7.4% in July. This was largely attributable to steady take-up within a climate of no new supply. For the first time in eight years, there were no supply additions to the market over the six month period, giving the market well-needed breathing space.

The type and size of tenants active within the Brisbane market continues to mature, shaped obviously by the activity levels in the resources sector. Brisbane has previously been well known for having a leasing market with a high proportion of Government tenants. Excluding State Government owned and occupied buildings, the government sector currently occupies approximately 27% of leased space within the Brisbane CBD.

Larger corporate tenants are beginning to challenge the dominance of the Government tenants, as major companies invest further in head office facilities in QLD. The top 10 non-Government tenants are shown in the table below. While the Brisbane market has benefitted greatly from the stability provided from a high government occupancy level, much of the recent upside for the market has arisen due to high growth levels in these private sector tenants.

Table 3
Brisbane CBD Major Private Sector Tenants

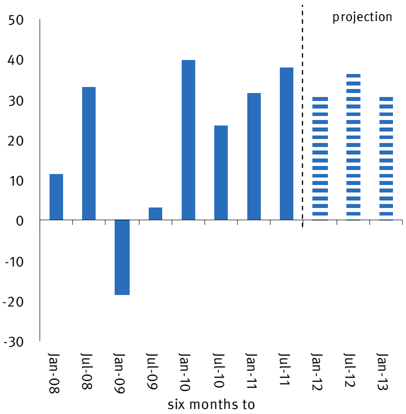
Tenant	Approximate Area Occupied (m²)
Suncorp	59,200
Telstra	52,000
Rio Tinto	43,500
QR National	19,500
Worley Parsons*	19,000
GHD*	18,700
Santos	16,800
Queensland Gas	12,800
CBA	12,000
Flight Centre	12,000

Source: Knight Frank
*may include accommodation for project works taken on behalf of other corporates

Net Absorption

Net absorption levels have continually been on the high-side of expectations through 2010 and into 2011. As discussed above, this has to a large extent been due to space requirements created by mining resource projects, bidding for major construction and/or implementation of major projects to further stages. The net absorption of 38,108m² for the first six months of the year was roughly double the average of the past 10 years of 19,000m² per six month period.

Figure 2
Brisbane CBD Net Absorption
('000 m²) per 6 month period



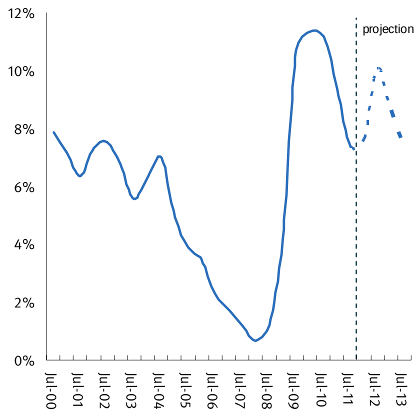
Source: PCA/Knight Frank

Net absorption levels are expected to remain above 30,000m² per six month period over the next 18 months, supported by this gearing-up for the resources sector. Beyond this time the present forecasts indicate a slight moderation to the net absorption levels to be in the order of 45,000m² - 50,000m² per annum. Risks to future strong net absorption growth for 2014 and beyond include the potential relocation of large space users out of the CBD and into the maturing Near City Market. Suncorp's space brief for 30,000m², which is currently at short list stage, includes the potential to leave the CBD should a Near City location be chosen, similar to the Bank of Queensland's 15,000m² requirement. In addition, Queensland Health's 30,000m² brief for new office accommodation within Bowen Hills is expected to draw about half of this space from within the CBD.

Anticipated Vacancy Levels

Having fallen strongly in the first half of 2011, the vacancy rate is expected to remain fairly stable at 7.6% to the end of 2011. Net absorption is expected to largely be balanced by additions to stock (the addition of the recently completed 38,500m² 123 Albert Street) into the market. While the building itself is over 90% leased the backfill created by Rio Tinto consolidating into this space will add to the amount of vacancy on the market.

Figure 3
Brisbane CBD Vacancy
% total vacancy



Source: PCA/Knight Frank

Stronger new space additions (approximately 103,000m² in the first six months of 2012) are expected to see the vacancy rate temporarily just above 10% as at July 2012. This is based upon expectations that 150 Charlotte Street, 111 Eagle Street and 145 Ann Street will all be completed within the first half of 2012. Should a project such as 145 Ann Street be deferred into the second half of the year, this will moderate the increase in vacancy to below 9%. From mid-2012 onwards the vacancy is expected to steadily decrease until the next significant supply additions, potentially in 2014/15.

Tenant Demand

Tenant demand has remained at overall good levels, but with quieter periods following major and widely reported economic upheavals either in Australia or internationally. The decision to relocate a business, and/or expand remains subject to the confidence of business owners or executives and this has continued to fluctuate in line with wider financial factors. For tenants, the need for capital expenditure to be minimised as part of the relocation remains paramount. Therefore, secondary space with fitout in place or space where the incentive covers the cost of fitout remains ahead of the pack in terms of tenant appeal.

Major tenant requirements in the market include the well publicised Suncorp brief for 27,000 – 30,000m² in 2014, Bank of Queensland for 15,000m² also in 2014, Optus for 6,000m² in 2013 (all of which would consider either CBD or Near City space if it meets the brief). Recently Arrow Energy has been seeking 12,000m² of space for mid - 2012. There are also a number of shorter term requirements between 1,500m² and 3,000m² for tenants such as Cliftons, Cerner Corp, ERM Management, AON Australia and Perpetual. Resources sector tenants feature in the list of recent leases and XStrata is mooted to have committed to space within 111 Eagle Street.

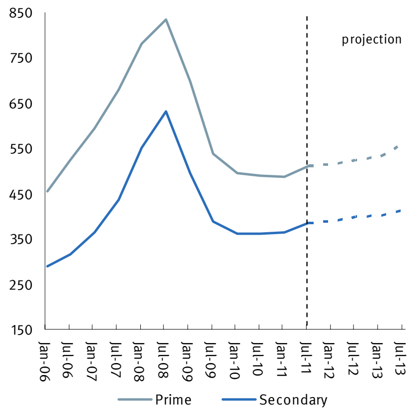
Rental Levels

Rental levels across the Brisbane market have increased over the first six months of the year in line with reducing vacancies. This was apparent over both the prime market and more recently the secondary market, where a temporary shortage in contiguous space has seen rents rebound from the discounts needed to lease space during 2010.

Increased confidence and perceived tenant demand have now laid the foundations for landlords to increase their asking rentals and reduce incentives. For prime rentals the improvement over the past six months has come through a 1.9% increase in average gross face rents to $680/m² and a reduction in average incentives from 27% to 25%. This results in gross effective rental growth over the year to July 2011 of 4.0%. This return to rental growth is expected to moderate, ranging between 2.8% - 5.5% over the next 18 months as the new supply and associated backfill (currently 34,000m² prime space) comes to the market.

Stronger prime rental growth is expected to emerge from mid-2013 as the vacancy rate heads downwards. The pace of rental growth 2014+ will be determined by the level of construction to emerge and the impacts of any major tenant relocations out of the CBD.

Figure 4
Brisbane CBD Rents
$/m² p.a average gross effective rent



Source: Knight Frank

The secondary market has benefitted from stronger net absorption over the past six months as the accommodation (reasonably priced, fitted out, flexible lease term) has been well received by active tenants. Average gross face rents increased almost $20/m² over the first half of 2011 to be $525/m² and incentives have fallen from 28% to average 26.5%. This represents effective rental growth of 7.1% p.a and a return to more reasonable market conditions. This level of growth is not expected to continue with the past six to nine months seen as a re-basing of the market from a heavily discounted position.

Table 4
Recent Leasing Activity Brisbane CBD

Address	Grade	Area (sq m)	Face Rental ($/m²)	Term (yrs)	Incentive (%)`	Lease Type	Tenant	Start Date
55 Elizabeth St	A	18,500	695 g	15	undis	Pre-commitment	ATO	Mid 13
111 Eagle St	Premium	6,700	Undis	-	25+	Pre-commitment	ANZ Bank	Jun 12
111 Eagle St	Premium	7,050	Undis	10	25+	Pre-commitment	Ernst & Young	Mar 12
120 Edward St	A	1,882	595 g	10	20-25	New	Norman Disney Young	Sept 11
171 Roma St	A	2,081	465 g	5	25+	New	DHL	Aug 11
144 Edward St	B	1,538	550 g	5	20-25	New	AMEC Minproc (Zektin)	Aug 11
144 Edward St	B	2,300	550 g	3	Existing Fitout	New	Bank of Queensland	Aug 11
123 Albert St	Premium	2,200	Undis	10	Undis	Pre-commitment	Bentleys	Aug 11
295 Ann St	A	2,464	624 g	3	Undis	Sitting Tenant	Q-Build	Jul 11
171 Roma St	A	2,081	465 g	5	25+	New	Department of Defence	Jul 11
215 Adelaide St	A	2,726	510 g	8	25+	Sitting Tenant	Intec Billing Aust	Jun 11
369 Ann St	B	835	540 g	3	Undis	New	Sapiem Australia	May 11

Source: Knight Frank g = gross `estimated incentive calculated on a straight line basis

INVESTMENT ACTIVITY & YIELDS

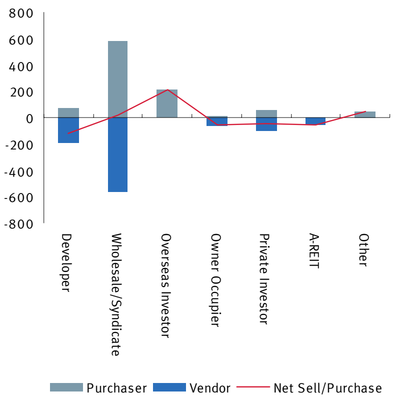
Transaction activity during 2011 has remained aligned with the pattern seen in the market during 2010. There were two large sales to wholesale/institutional investors, with remaining transactions in largely secondary properties and under $70 million.

The sale of 50% of Waterfront Place, 1 Eagle Street, to the Future Fund was finally completed in May 2011. The purchase price was attributed at $216.375 million and settled after a lengthy due diligence. The premium property is to undergo refurbishment of ground level and building services and was sold on a passing yield of 8.4%, core market yield of 7.74% and a WALE of 4.5 years.

The other major transaction was the sale of 55 Elizabeth Street for $169.5 million on a fund through basis. The building is in the early stages of construction and is fully leased to the Australian Tax Office on a 15 year term from completion (Q3 2013). The property was purchased by Credit Suisse and is expected to show a core market yield of 7.38%.

This purchase by Credit Suisse has continued the trend of overseas investors being net buyers into the Brisbane market, although they have limited their purchases to core assets with long WALES. The relative strength of the Australian economy is overcoming issues with the persistently high AUD, to attract investment into the market.

Figure 5
Brisbane CBD Purchaser/Vendor
$ million sales over $3million yr to August 2011



Source: Knight Frank

Aside from these two major sales, the other market activity has largely been limited to properties in the $30 – $70million bracket. This has been the domain of private investors, smaller wholesale investors or syndicates. Long term confidence in the Brisbane market has seen a number of secondary properties changing hands in recent months, reflecting expectations of medium term value appreciation and a greater risk tolerance by investors.

Apart from the private investors there were two sales to buyers not generally active within the Brisbane CBD. Industry body, Canegrowers Australia purchased the B grade 100 Edward St for $47 million. Secondly, the fund established to invest royalties from PNG Lihir Gold mine on behalf of local land owners, MRL Capital, purchased 316 Adelaide St for $38 million.

GREATER RISK TOLERANCE IS EMERGING FROM PURCHASERS

Two further properties, 150 Charlotte Street and 310 Ann Street, were purchased with definite works and upside in mind. 150 Charlotte Street was acquired by Walker Corporation as part of a larger asset swap from Stockland Trust. The apportioned price of $54 million included the cost of works to undertake a significant refurbishment of the building to A grade standard. At the time of sale, negotiations were advanced with Rio Tinto to occupy a significant portion of the building, significantly de-risking the project.

Armada Funds Management purchased 310 Ann Street from Suncorp on a vendor leaseback arrangement. The 3.5 year leaseback offered by Suncorp aligns with their current requirement for alternative office accommodation. This makes vacancy of the building at the end of the leaseback likely, but dependent on Suncorp's current search

Table 5
Recent Sales Activity Brisbane CBD

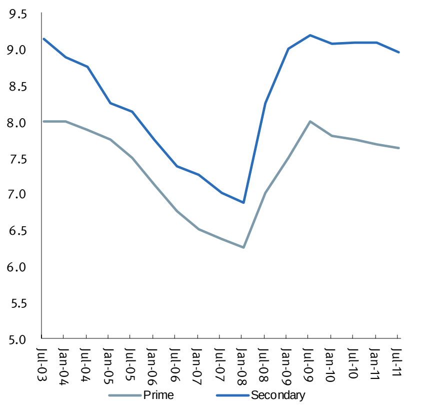
Address	Grade	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	Vendor	Purchaser	Sale Date
310 Ann St #	A	64.00	8.97	16,435	3,894	Suncorp	Armada Funds Mgt	Aug 11
410 Queen St	B	30.00	8.00^	5,878	5,104	Farralon Group	Rifici Family	Jul 11
100 Edward St	B	47.00	n/a	7,166	6,559	Private Investor	Canegrowers Aust.	Jul 11
316 Adelaide St	B	38.00	8.24	7,388	5,143	AMP Capital Investments	MRL Capital	Jul 11
150 Charlotte St~	A	54.00	n/a	11,013	4,903	Stockland Trust	Walker Corporation	Jun 11
55 Elizabeth St*	A	169.50	7.38	18,500	9,162	Grocon	Credit Suisse	May 11
1 Eagle St'	P	216.38	7.74	58,948	7,342	SDOT 1	Future Fund	May 11

Source: Knight Frank ^passing yield *Fund through basis '50% sale of the asset, price above excludes the Eagle Street Pier component
~purchase as part of swap of several properties. Sales figure is of the building after refurbishment # vendor leaseback 3.5 yrs

for new office accommodation. These secondary buildings have all been sold with core market yields in the range of 8.25% - 9.00%, which continues to reflect the relative uncertainty of the secondary leasing market.

Even though sales activity has begun to increase within the Brisbane CBD market, there remains a gap between the number of properties offered to the market and the level of sales. Yields have remained relatively static over the first six months of the year with secondary core market yields from 8.25% to 9.65%.

Figure 6
Brisbane CBD Yields
% median yield prime and secondary



Source: Knight Frank

Prime investments are currently indicating core market yields between 7.15% and 8.10% which reflects a slight tightening over the past six months, via tightening of the upper yield range. Yields are expected to remain relatively static in the short term with slight tightening possible if there is sustained improvement in the global financial markets and local business confidence.

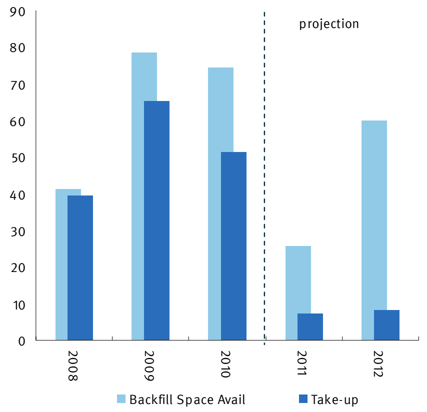
YIELDS ARE EXPECTED TO REMAIN RELATIVELY STATIC IN THE SHORT TERM

OUTLOOK

While economic uncertainty both in Australia and overseas, combined with the expected significant backfill space are negative factors for the CBD market, the steady and sustained tenant take-up of space provides an underlying confidence. Net absorption for the past 12 months at 69,903m² is in line with peak levels recorded by the market.

Increasing levels of backfill space through 2012 in response to tenants relocating to 111 Eagle Street and 145 Ann Street will impact on the market, but largely this is expected to see a flattening out of rental growth rather than any degradation in market conditions. Figure 7 shows the currently known backfill spaces created by tenant relocations over 2,500m², which can be expected to grow as further tenant commitments are made.

Figure 7
Brisbane CBD Backfill Space
('000m²) Backfill from tenant relocations >2,500m²



Source: Knight Frank

Sustained demand from tenants, and largely tenants within an industry with a strong growth profile, has seen rental growth return to the market. The rental growth from the past 6-9 months largely reflect a return to more reasonable market levels with the extreme discounting no longer a feature of the market, particularly for secondary space. The annual growth rates of 4.0% and 7.1% for prime and secondary respectively over the 2010/11 financial year are not expected to be repeated over the next 12 months due to the increased level of supply and competition for tenants. Gross effective rental growth over the next 12 months is forecast to be 2.8% for prime and 3.0% for secondary. As the 2012 supply is absorbed, the growth rates are forecast to return to levels in the range of 4.0% - 6.5% in 2013.

Despite strong demand, the addition to the market of over 100,000m² of space during the first half of 2012 will send the vacancy rate back to levels just over 10.0%. Following that supply, there will be a hiatus of additional construction until mid-2013. Therefore the increase in vacancy is expected to be relatively short lived and at this stage the vacancy rate is expected to return to current levels in mid-2013.

Whether the Suncorp requirement of 30,000m² is fulfilled by a new CBD building or not, there remains the expectation that further pre-committed CBD supply will come on line in 2014 or 2015. This is to cater for further tenant growth and the desire by major companies to relocate into larger floor plates and current generation green rated buildings.

Investment demand for these assets, even years from completion, is high with investors seeking to capture these prime investments at the development site stage. While the ownership of major development sites by major property investors is not as strong as currently in Sydney, the purchasing demand for a strong scheme or committed building is undeniable.

For the remainder of the investment market there has been an increased appetite for risk with more secondary buildings changing hands, or buildings with refurbishment and upside now accepted by the market. Transactions remain difficult to complete with competitive tension between purchasers still absent from many transactions. Within this climate the expectations for yields are to remain relatively stable. The return of rental growth has provided some downward pressure on yields, however this is largely countered by macro pressures across the financial market.

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