RESEARCH

NORTH SHORE

OFFICE MARKET OVERVIEW APRIL 2015

HIGHLIGHTS

A steady flow of leasing deals resulted in net absorption turning positive over the past year. Coupled with a vacancy rate decline exacerbated by stock withdrawals, trend rental growth has resulted.

A further 91,342m² of office buildings are earmarked for future withdrawal for change of use purposes, which is equivalent to 6.3% of total North Shore stock.

Office sales volumes for 2014 ($10m+) measured a record high of $1.95 billion and resulted in further yield compression, particularly for assets contested by both local and offshore buyers.

KEY FINDINGS

The North Shore vacancy rate dropped from 11.0% to 9.5% in the six months to January 2015 as a result of another period of negative net supply.

Prime net face rents have risen by circa 3.0% in most markets in the 12 months to April 2015.

A modest decline has been recorded in North Sydney prime incentives given the relatively tighter prime vacancy rate (4.9%) compared with other markets.

Assets continue to be keenly contested amongst a broad depth of buyers, which, along with falling bond yields, has seen further cap rate compression.

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NORTH SYDNEY

Development Activity

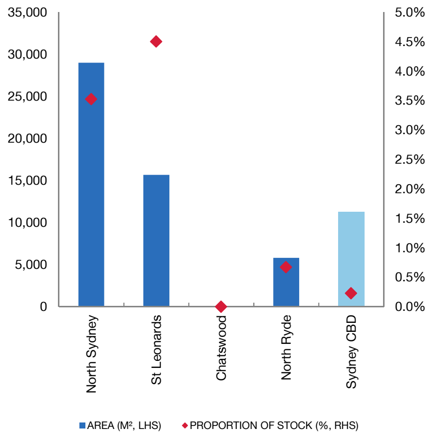
The forthcoming completion of 177 Pacific Highway (39,144m²) in the first half of 2016 will be a welcome addition of new stock for North Sydney given the negative net supply that has been experienced during the past four years. Stock levels since mid-2010, when the last major development, 40 Mount Street, was completed, have declined 4.9% as a result of the strong level of interest in change of use for residential development opportunities.

While this trend has been prevalent across the broader Sydney market, North Sydney has led the way in timing of such withdrawals with 28,993m² of commercial office buildings being withdrawn in 2013 and 2014 (refer Figure 1). Withdrawals have entirely comprised secondary stock and have mostly been located in fringe locations either North of Berry St, or in the Milsons Point precinct. It is estimated that a further 30,074m² of office buildings will be withdrawn from the North Sydney stock count during the next two years with an additional 19,360m² of buildings earmarked for conversion beyond 2016.

FIGURE 1

Permanent Change of Use Withdrawals

January 2013 to January 2015



Source: Knight Frank/PCA

The most recent PCA data as at January 2015 recorded a 12 month net supply of negative 26,415m², equivalent to 3.2% of total stock. However, 5,600m² of this will be returned to the market as refurbished supply following the occupancy of Jemena at 99 Walker St in April.

Further potential supply in the medium term stems from the DA approved projects 100 Mount St (40,100m²) and 1 Denison St (45,270m²). While both

TABLE 1

North Shore/North Ryde Office Market Indicators as at April 2015

Market	Grade	Total Stock (m²)^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Avg Net Face Rent ($/m²)	Outgoings ($/m²)	Average Incentive (%)*	Average Core Market Yield (%)
North Sydney	Prime	222,796	4.9	-816	641	119	26.3	6.50 - 7.25
North Sydney	Secondary	599,394	10.6	-11,217	521	117	28.9	7.50 - 8.50
North Sydney	**Total Market**	**822,190**	**9.1**	**-12,033**	**553**	**117**	**28.2**	**6.50 - 8.50**
Crows Nest/St Leonards	Prime	102,699	11.1	5,672	478	112	30.5	7.50 - 8.25
Crows Nest/St Leonards	Secondary	245,670	11.8	-3,981	404	101	30.0	8.50 - 9.00
Crows Nest/St Leonards	**Total Market**	**348,369**	**11.6**	**1,691**	**426**	**104**	**30.1**	**7.50 - 9.00**
Chatswood	Prime	157,412	8.7	10,886	439	115	28.7	8.00 - 8.50
Chatswood	Secondary	127,833	7.6	8,032	371	101	30.3	8.75 - 9.25
Chatswood	**Total Market**	**285,245**	**8.2**	**18,918**	**408**	**109**	**29.4**	**8.00 - 9.25**
North Shore	**Total Market**	**1,455,804**	**9.5**	**8,576**	**494**	**112**	**28.9**	**6.25 - 9.25**
North Ryde/Macquarie Park	Prime	615,716	8.0	24,451	358	80	28.0‡	7.25 - 8.00
North Ryde/Macquarie Park	Secondary	250,764	14.7	-17,569	283	95	32.0‡	8.50 - 9.25
North Ryde/Macquarie	**Total Market**	**866,480**	**10.0**	**6,882**	**336**	**84**	**29.2‡**	**7.25 - 9.25**

Source: Knight Frank Research/PCA ^ as at January 2015 * Incentives on a Gross basis ‡ Incentives are on a Net basis

Note. Average data is on a weighted basis Yield ranges reflect the average lower and upper yields for a select basket of office assets in each market and Grade

Grade: Prime includes modern and A-Grade stock whilst Secondary includes B, C and D quality Grade.

projects are being actively marketed, timing remains uncertain with pre-commitments necessary prior to commencement.

Leasing Market and Rents

The North Sydney vacancy rate dropped from 10.2% to 9.1% in the six months to January 2015 with the impact of negative net supply outweighing another six month period of negative net absorption. Despite the negative net absorption, which has been present since mid-2012, underlying demand is considered to be relatively stronger than the headline figure suggests with a steady flow of leasing deals in the past six months resulting in above trend rental growth. In the prime market, a lack of contiguous space for lease (prime vacancy rate measures a relatively tight 4.9%) continues to stifle occupancy growth amongst A-grade assets. In the secondary market, negative net absorption has largely reflected the relocation of tenants from buildings that have undergone a change of use.

Although in 2015 the Havas Worldwide departure to the CBD in March (2,347m² ex 60 Miller St) will result in some tenant outflow, this is forecast to be more than offset by the Sony and Jemena leasing deals that will add 8,030m² to net absorption in the first half of 2015. In conjunction with some modest organic growth, this is anticipated to result in positive net absorption in 2015 and a 100bp fall in the vacancy rate to almost 8.0% by the end of 2015. In 2016, the impact on vacancy from the completion of 177 Pacific Highway in H1 2016 is forecast to be relatively limited given the backfill from the Leighton 76% pre-commitment will be predominantly concentrated in the Chatswood market. However some further withdrawals have the potential to see a further reduction in vacancy levels.

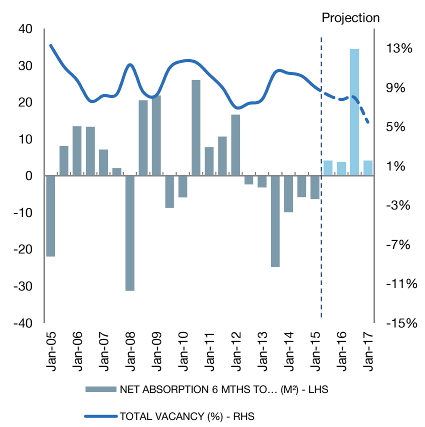
In the 12 months to April 2015, prime net face rents increased 3.0% to $641/m², however a modest decline in average incentive levels resulted in net effective growth of 4.3%. The tight prime market has started to flow through to upper B-grade assets, which resulted in secondary net face rents recording annual growth of 3.5% to measure $521/m² as at April with a modest fall in average incentives boosting the growth rate in net effective rents to 5.1%. Underpinned by the tightening vacancy outlook, relatively firm rates of rental growth are forecast to be sustained. Over 2015 and 2016, prime and secondary net face rents are forecast to grow on average at 3.75% and 2.9% per annum respectively with effective rents to be boosted by some further moderation in average incentives.

Sales and Investment Activity

A number of $30 million+ transactions were recorded in the final quarter of 2014. In the A-grade market, 73 Miller Street sold for $116.5 million to a partnership between Chinese group Fosun Property and Propertylink. The asset sold 100% leased to the NSW Government with a 4.2 year WALE and reflected a core market yield (CMY) of 7.97%. Although softer than the average North Sydney prime range, the risk adjusted CMY reflects closer to 7.5% after accounting for year 5/6 re-leasing and capex costs. The October sale of 101 Miller Street (North Shore's only premium grade asset) remains the benchmark sale for upper prime assets with the office component reflecting a CMY of 6.3%. This underpins a North Sydney prime CMY range of 6.50% to 7.25% (based on five year WALE), which is 50bps firmer compared with 12 months previous.

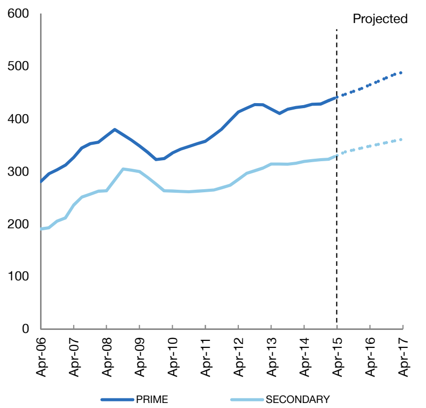
In the secondary market, yields have firmed by a similar amount in the past year with CMYs now estimated to range from 7.50% to 8.50%. Major B-grade sales have included 2 Elizabeth Plaza and 132 Arthur Street, which sold for $45.6 million and $36.75 million respectively to local buyers. While each sale reflected a CMY of 8.7%, which is above the estimated average range, it is noted that both sales reflected WALEs of circa two years as opposed to the assumed five year WALE adopted for average market yield range estimates (refer Table 3, page 7 for specific sale details). Assets sales where buyer depth has comprised competitive pressure from both local and offshore interest have reflected tighter sale parametres.

FIGURE 2
North Sydney Net Absorption & Vacancy
Per six month period (000's m², %)



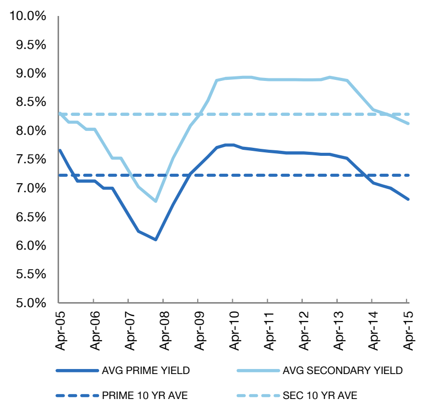
Source: Knight Frank/PCA

FIGURE 3
Average Net Effective Rents
Prime & Secondary, North Sydney ($/m²)



Source: Knight Frank

FIGURE 4
Average Core Market Yields
North Sydney



Source: Knight Frank

CROWS NEST/ST LEONARDS

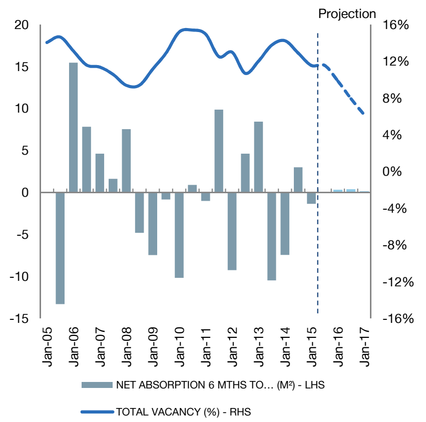
Leasing Market and Rents

The Crows Nest/St Leonards vacancy rate has improved substantially declining to 11.6% as at January, compared to 14.3% a year earlier. The fall was largely a result of stock withdrawals, with 8,964m² withdrawn during 2014 for change of use purposes.

Organic demand, as indicated by the modest increase in occupied stock in the 12 months to January 2015 of 0.6%, remains below trend. However, the displacement of tenants from withdrawn stock has underpinned a boost for the prime market with subsequent tenant churn feeding into positive net absorption amongst A-grade assets. As a result, A-grade net absorption in 2014 totalled 5,672m², equivalent to 6.6% of A-grade stock. This resulted in a 12 month decline in the A-grade vacancy rate from 16.6% to 11.1%. Absorption has been negative amongst secondary assets (-3,981m² in the 12 months to January), although this is representative of the tenant displacement from change of use withdrawals.

Prime net face rents have posted modest rental growth over the past 12 months, increasing 2.5% to $478/m² as at April 2015. However, on an effective basis, annual growth was more subdued at 0.4%. This reflected some upward movement in average incentives in the first half of 2014, however these have stabilised in the past six months at 30.5%. Secondary rents have followed a similar pattern, increasing 1.8% in the past year to $404/m². Incentives have remained unchanged at an average of 30.0%.

FIGURE 5
Crows Nest/St Leonards Net Absorption & Vacancy
Per six month period (000's m², %)



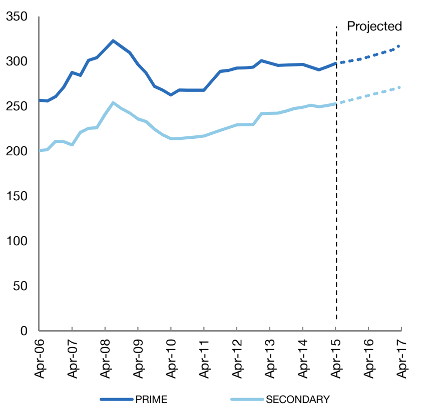
Source: Knight Frank/PCA

Development Activity

The supply pipeline is considerably benign. There remains several DA approved sites at Gore Hill Technology Park although it is understood that progression as office space is unlikely in the short term with some of the site expected to be progressed as mixed use. Although there is DA approval at 88 Christie Street for a 28,500m² office development, it is anticipated that the site will progress as a residential development.

In late 2014, the NSW Government ran an Expression of Interest (EOI) campaign to sell land within the North Shore Hospital precinct. The site has the potential for up to 34,700m² of office space, where NSW Government would pre-lease a minimum of 20,000m². However, as yet, details as to the likely progression of the project are uncertain.

FIGURE 6
Average Net Effective Rents
Prime & Secondary, Crows Nest/St Leonards ($/m²)



Source: Knight Frank

Strong demand for residential conversion opportunities is anticipated to have a continued impact on stock and vacancy levels. In the two years since January 2013, withdrawals have resulted in total office stock declining 5.5% to 348,369m². There is currently a further 34,792m² of office stock earmarked for potential change of use withdrawal. The absence of short term supply coupled with stock withdrawals is forecast to underpin further falls in the vacancy rate over the next two years with a sub-10% vacancy rate anticipated by 2016.

Sales and Investment Activity

Recent sales activity has largely comprised assets with residential development upside. Major sales have included Mirvac's acquisition of 39 Herbert Street for $150.0 million in October. Although acquired as part of a five asset industrial portfolio, the asset consists of a mix of two low rise office towers as well as high tech industrial office/warehouse units. The office towers are leased until 2030, however the balance of the site could potentially be re-developed, which is reflected in the transactions' relatively sharp core yield of 6.7%. Sales have also included the secondary asset at 617-621 Pacific Highway, which sold for $39.0 million and is slated for a major mixed use redevelopment. Confirming offshore interest in the market, the site was sold to an undisclosed overseas developer.

On average, prime yields range between 7.50% and 8.25% and between 8.50% and 9.0% for secondary. Over the past year these ranges are indicative of circa 25bps of firming for prime. However, secondary firming has been more pronounced with firming of circa 50bps. This outperformance has partly been a result of strong competition from developers for secondary assets.

CHATSWOOD

Leasing Market and Rents

The Chatswood leasing market has performed strongly over the past year with the highest 12 month period of net absorption recorded since 2007. The 12 months to January 2015 saw 18,918m² of positive net absorption, equivalent to 7.8% of stock. The result has seen a relatively rapid reduction in the vacancy rate to 8.2% compared with 12.3% a year earlier. The A-grade vacancy rate has now fallen to 8.7%, which is a substantial improvement on the 20%+ rate that was present in the market four years ago.

Although part of the pick-up in demand has been generated by work on major infrastructure projects (eg. Lend Lease leasing 3,000m² at Zenith), local Chatswood factors are also playing a role in the revival of leasing activity. The expanded retail and dining precinct at the Chatswood Interchange has resulted in a significant boost to the overall amenity of the market, which, along with a number of other residential projects, has improved the location's appeal for tenants.

Over the balance of 2015, the vacancy rate is expected to trend moderately down to sub-7.5% given no new supply is expected during this period. There is a considerable amount of backfill space due to impact the market in 2016 when Leighton relocate to their new premises in North Sydney. The backfill space, estimated to measure approximately 17,000m², will result in a vacancy rise should a new tenant not be sourced in the interim.

Prime net face rents increased in the 12 months to April 2015 by 2.7% to measure $439/m². Effective growth was marginally higher given the lack of good quality contiguous leasing options resulting in a moderate fall in average incentives to 28.7%, well below the mid-30% levels recorded back in 2011. The current rate of prime rental growth is forecast to be sustained in 2015 before a backfill induced moderation in 2016.

Secondary rental growth has also been positive, albeit at a less pronounced rate compared to prime, which reflects the stronger net absorption amongst prime stock in the second half of 2014 (5,964m² for A-grade compared with only 580m² for B-grade). As at April, secondary net face rents measured $371/m², which was a one year increase of 1.9%. Incentives held broadly stable at an average of 30.3%.

Development Activity

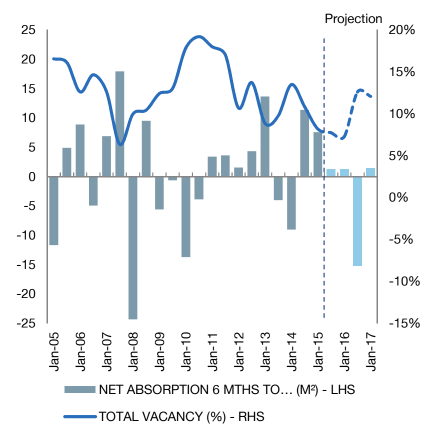
There are currently no major commercial projects in the pipeline for the Chatswood market with any supply expected to consist of refurbishments stemming from tenant turnover. There is however the potential for small increments of supply as part of mixed use formats including the Australia Post office site at 45 Victoria St where indicative plans suggest the inclusion of 1,860m² of commercial space. However, the impact on the market will be minimal.

Sales and Investment Activity

Being relatively thinly traded, the Chatswood prime market has only recorded two major sales since the beginning of 2013. The most recent was the 67 Albert Avenue transaction, which was acquired by CorVal for $81.64 million in May 2014 on a core yield of 8.30%. In the secondary market, the sale of 815 Pacific Highway has been completed. The asset was purchased by Lindfield Developments from Kingsmede Properties for $29.0 million in October 2013, however was sold subject to a delayed settlement in December 2014. The building is slated for a mixed use redevelopment.

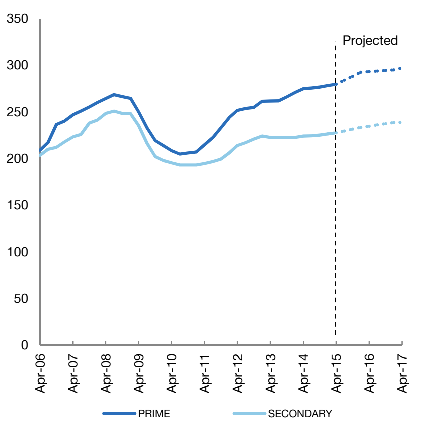
Nevertheless, core market yields are estimated to range on average from 8.00% to 8.50% for prime and 8.75% to 9.25% for secondary. While this represents a moderation in the rate of yield compression from the sharp firming recorded in late 2013/early 2014, it nevertheless indicates that yields are considered to have compressed further given the strong level of buyer interest in non-CBD markets in conjunction with the fall in bond prices to historic lows. Prime yields are estimated to equal the 10 year average, although secondary yields are moderately tighter, which is a reflection of developer competition for secondary assets with value-add upside.

FIGURE 7
Chatswood Net Absorption & Vacancy
Per six month period (000's m², %)



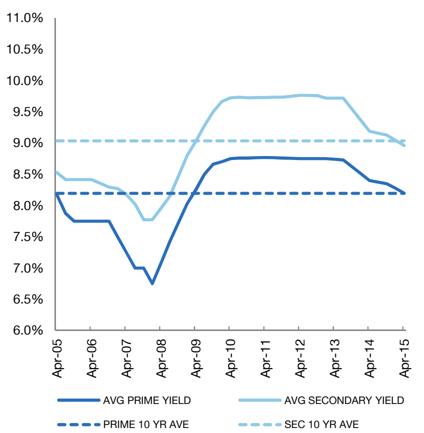
Source: Knight Frank/PCA

FIGURE 8
Average Net Effective Rents
Prime & Secondary, Chatswood ($/m²)



Source: Knight Frank

FIGURE 9
Average Core Market Yields
Chatswood



Source: Knight Frank

MACQUARIE PARK/NORTH RYDE

Leasing Market and Rents

Tenant demand has recorded a material improvement since mid-2014 with net absorption in the six months to January 2015 measuring 10,565m² (1.4% total stock). This has positively impacted the vacancy rate which reduced from 11.2% to 10.0% over the same period with the prime market vacancy relatively tighter at 8.0%.

Supporting the improved absorption data has been the capacity of North Ryde to accommodate larger, contiguous requirements, which has resulted in a number of larger leases comprising consolidation from other markets. The most recent PCA figures were underpinned by large deals to Ricoh (6,200m², consolidating ex. CBD, North Sydney, Frenchs Forest) and Abbott Australasia (4,200m², ex. Botany, Lane Cove, Pymble). This trend will continue to flow through to absorption data in 2015 and 2016 with forthcoming occupancies from the likes of Metcash (9,000m², ex. Silverwater and North Ryde) and Novartis (10,000m², ex. North Ryde, Frenchs Forest, Pyrmont, and Melbourne).

Other factors supporting growth include the technology sector, with software group Citrix's lease at 66 Waterloo Rd in July 2014 comprising expansion space of circa 2,000m² from their previous premises. Government infrastructure investment has also been a factor with the North West Rail Link (GPNSW)sub-lease space of 9,818m² at 22 Giffnock Avenue to be crystallised into the PCA data in the current half year period.

As a result of this leasing activity, rental growth in the A-grade market has outperformed other North Shore markets with annual face growth of 5.2% taking average net rents to $358/m² as at April 2015. Net incentives have moderated slightly to 28%, although are closer to 25% for larger sized deals. The combination of a relatively benign supply pipeline (refer below commentary) coupled with a number of positive leasing outcomes yet to be reflected in the PCA vacancy data is anticipated to see the vacancy rate continue to reduce with an 8.0% vacancy rate forecast by the end of 2016. This outlook is expected to sustain average prime face rental growth of 3.25% over the next two years. On the back of a relatively higher secondary vacancy rate (14.7%), secondary net face rents have remained unchanged at $283/m² over the past year, however net incentives have increased slightly to 32.0%.

Development Activity

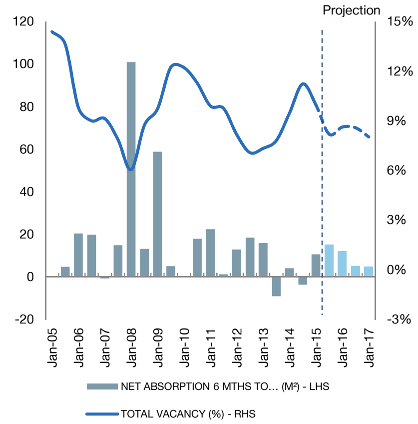
By historical standards, development in the next two years is set to be relatively modest with net supply increasing stock levels by an average of 1.4% per year, well below the 4.6% average since 2005. The second half of 2015 is anticipated to see the new facilities for Novartis Pharmaceuticals at 52 Waterloo Rd reach completion in addition to the refurbishment of the Canon backfill space at 1 Thomas Holt Drive (11,500m²). In the first half of 2016, the 5,000m² office facility being developed by Holdmark Holdings that includes 3,000m² of purpose built space for AstraZeneca is also expected to reach completion. Beyond this, the pipeline consists of a large number of potential development sites, five of which have DA approval (refer Development Map). However timing remains uncertain given it is unlikely for any projects to progress without a sufficient pre-commitment.

Sales and Investment Activity

After an extended period post-GFC where no A-grade assets traded, there has been a steady flow of such sales since the second half of 2013. This has resulted in prime core market yields (CMY) firming to an average range of 7.25% to 8.00%, which is approximately 25bps below the 10 year average. The secondary range is estimated to average between 8.50% and 9.25%.

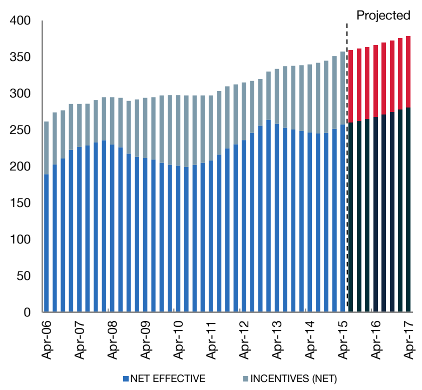
In terms of sales activity, the beginning of 2015 has been marked by Altis Property Partners acquiring 6 and 7 Eden Park Drive, Macquarie Park for $81.8 million. The sale reflected a CMY of 8.07%, which, while at the upper end of the estimated range for A-grade assets, was reflective of the asset's 20% vacancy. It is noted, however, that the June 2014 sale of the Precinct Corporate Centre indicated that modern assets with long dated WALE and strong covenant security will trade a substantial premium to the average range. Completed in 2012, the commercial complex was sold fully leased to the Federal Government with an 18 year WALE and reflected a CMY of 6.3%.

FIGURE 10
Macquarie Park/North Ryde Net Absorption & Vacancy
Per six month period (000's m², %)



Source: Knight Frank/PCA

FIGURE 11
A-Grade Net Rents & Incentives
Macquarie Park/North Ryde, Prime



Source: Knight Frank

RECENT TRANSACTIONS

TABLE 2

Recent Leasing Activity North Shore and North Ryde/Macquarie Park

Address	Region	Area (m²)	Face Rental ($/m²)	Term (yrs)	Lease Type	Tenant	Start Date
132 Arthur St	North Sydney	622	550g	5	New	Comops	Jul-15
201 Miller St	North Sydney	650	550n	5	New	Yuhu	Jun-15
141 Walker St	North Sydney	968	675n	5	New	Rider Levitt Bucknall	May-15
99 Walker St	North Sydney	5,600	U/D	10	New	Jemena	Apr-15
181 Miller St	North Sydney	845	570g	5	New	Cummin & Partners	Apr-15
65 Berry St	North Sydney	849	550n	5	New	ICPA	Apr-15
90 Arthur St	North Sydney	808	495n	5	New	CAN	Apr-15
111 Pacific Hwy	North Sydney	252	645n	3	New	Ghella	Apr-15
32 Walker St	North Sydney	190	520n	4	New	AAI Australia	Apr-15
1 Elizabeth Plaza	North Sydney	229	585g	5	Renewal	Mo Mobils	Mar-15
2 Elizabeth Plaza	North Sydney	225	475n	5	New	GTS Travel	Mar-15
100 Arthur St	North Sydney	1,370	725n	5	New*	U/D	Feb-15
1 Elizabeth Plaza	North Sydney	1,477	560g	7	New#	FIS Australia	Feb-15
655 Pacific Hwy	St Leonards	954	470g	5	Renewal	GTA Australasia	Apr-15
29 Christie St	St Leonards	1,000	450n	5	New	Crossmark	Q1 15
207 Pacific Hwy	St Leonards	449	505n	4	Sub-lease	Toll Holdings	Dec-14
12 Help St	Chatswood	c. 2,000	365n	5	New	Lenovo	Jan-15.
67 Albert Ave	Chatswood	478	470n	2	Renewal	PMP Print	Oct-14
26 Talavera Rd	Macquarie Park	1,982	325n	6	New	Ruralco	Jul-15
12-26 Talavera Rd	Macquarie Park	7,400	360n	5	Renewal	Sanofi	Jan-16
16 Giffnock Ave	Macquarie Park	1,658^	285n	5	New	Sonartech Atlas	Q4-14
22 Giffnock Ave	Macquarie Park	9,821	U/D	5	Sub-lease	Gov. Property NSW	Dec-14

Source: Knight Frank   n refers net   g refers gross   * expansion space for existing tenant   # part renewal plus expansion space
^ includes 600m² warehouse space   U/D refers undisclosed

TABLE 3

Recent Sales Activity North Shore and North Ryde/Macquarie Park

Address	Region	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
168 Walker St	North Sydney	157.50	5.00›	17,560	8,969	c. 2.5	Anton Capital	Aqualand	Dec-14
73 Miller St	North Sydney	116.50	7.97‡	14,672	7,940	4.2	Investa Property Group	Fosun Group & Propertylink	Dec-14
2 Elizabeth Pl	North Sydney	45.60	8.70	7,654	5,958	1.8	Altis Prop. Partners	Marprop	Nov-14
101 Miller St	North Sydney	305.15^	6.30*	46,340	11,194*	3.1*	Eureka Funds Management#	TIAA Henderson Real Estate	Oct-14
132 Arthur St	North Sydney	36.75	8.70	7,830	4,694	2.3	Valad Property Group	Centennial Prop.	Sep-14
39 Herbert St†	St Leonards	150.00	6.70	36,847†	4,071†	8.7	Altis Prop. Partners	Mirvac	Oct-14
67 Albert Ave	Chatswood	81.64	8.30	15,047	5,425	2.9	Eureka Core Prop. Fund 3	CorVal	May-14
6 & 7 Eden Park Drive	Macquarie Park	81.80	8.07	18,131	4,512	2.9	Investa Commercial Property Fund (ICPF)	Altis Prop. Partners	Mar-15
105 Delhi Rd	North Ryde	67.50	6.30	10,397	6,493	18.0	Goodman (GAIF)	Private	Jun-14
15 Talavera Rd	Macquarie Park	35.09	9.60	12,613	2,782	2.1	AMP Capital Investors	Propertylink	Jun-14

Source: Knight Frank   › bought for potential residential conversion   ^ 50% share   * based on office tower notional split
‡ circa 7.5% risk adjusted yield after accounting for present value of year 5/6 releasing/capex costs
# Eureka Core Property Fund 3 (37.5%) and Eureka Core Property Fund 1 (12.5%)
† part of industrial portfolio sale. Lettable area comprises 31% office and 69% hi-tech industrial office/warehouse. Site comprises residential upside potential

Outlook

Despite the presence of a number of headwinds facing the broader economy, the anticipated relative outperformance of the NSW economy is expected to underpin positive tenant demand in 2015 and 2016. In conjunction with limited new supply and further permanent stock withdrawals, these dynamics are forecast to result in a steady downward trend in the average vacancy rate across the North Shore markets.

The lack of contiguous, prime space for lease (North Shore prime vacancy of 35,995m² vs 102,161m² for secondary), is expected to sustain trend rental growth in the prime market. Some of this growth will also flow through to quality B-grade assets. While secondary growth is expected to moderately lag, tenant displacements due to building sales for change of use construction purposes will benefit this part of the market.

Although buyer interest in non-CBD locations has resulted in average yields moving either inline or moderately below 10-year averages, the depth of buyers seeking opportunities is expected to underpin a continuation of heightened capital inflow and transaction activity. Low interest rates are expected to continue to be a positive for asset prices with bond spreads suggesting further yield compression in 2015. The depreciation of the Australian dollar (-17.8% vs USD and -11.3% vs TWI since mid-2014) will also provide a boost to offshore buying power. Nevertheless, it is noted that the timing of the Federal Reserve increasing US policy rates remains a potential headwind to the extent of further compression.

Definition:
Core Market Yield: The percentage return/yield analysed when the assessed fully leased net market income is divided by the adopted value/price which has been adjusted to account for property specific issues (i.e. rental reversions, rental downtime for imminent expiries, capital expenditure, current vacancies, incentives, etc).

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

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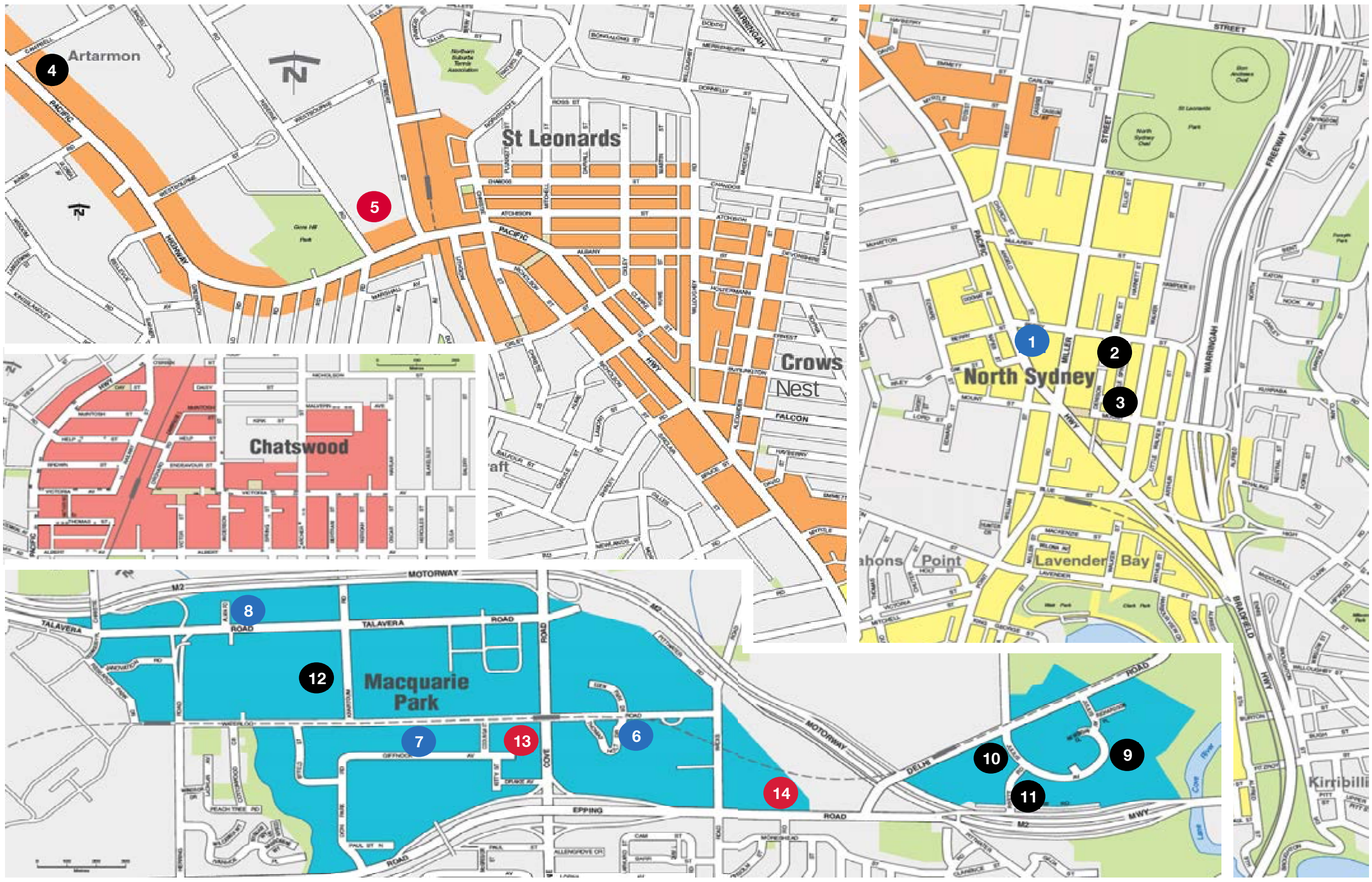

Source of Map: Knight Frank

North Sydney

1 — 177-199 Pacific Hwy - 39,144m² [Leighton]
Suntec REIT Q2 2016 - 76% committed

2 — 1 Denison St - 45,270m²
Eastmark Holdings 2018+

3 — 100 Mount St - 40,100m²
Laing O'Rourke 2018+

Crows Nest/St Leonards

4 — Gore Hill Technology Park - up to 46,000m²‡
Lindsay Bennelong Development 2017+

5 — Reserve Road, St Leonards - 34,700m²
NSW Govt. Property* - Site for sale* - 2018+

Macquarie Park/North Ryde

6 — 1 Thomas Holt Drive# - 11,500m² [Metcash]
AMP Q3 2015 - 80% committed

7 — 52 Waterloo Rd - 10,000m² [Novartis]
Novartis (owner-occupied) - H2 2015

8 — 66-82 Talavera Road - 5,000m² [AstraZeneca]
Holdmark Holdings H2 2016 - 60% committed

9 — Epicentre at Riverside, Julius Ave - 34,000m²
ISPT 2017+

10 — 39 Delhi Rd - 30,000m²
Stockland 2017+

11 — 1 Rivett Rd (Stage 2) - 11,380m²
Pathway Property 2017+

12 — 8 Khartoum Rd - 11,360m²
Goodman 2017+

13 — 396 Lane Cove Rd - 79,736m²
Winten and Australand 2018+

14 — 29-35 Epping Rd -14,500m²
Harvey Norman Holdings 2018+

Chatswood

N/A

Under Construction/Complete

DA Approved/Confirmed/Site Works

Mooted / Early Feasibility

NB. Dates are Knight Frank Research estimates
Office NLA quoted, Major tenant precommitment in [brackets]
Major refurbishment/backfill
* NSW Govt Property to pre-lease min 20,000m²
‡ likely to partially proceed as mixed use