RESEARCH

NORTH SHORE

OFFICE MARKET OVERVIEW OCTOBER 2015

HIGHLIGHTS

Positive net absorption and change of use stock withdrawals have continued to apply downward pressure to vacancy rates, which has seen the strong rental growth of recent years continue in 2015.

Aside from 177 Pacific Hwy, North Sydney, development activity is relatively benign. However several tenancy relocations in 2016 will need to be digested by the market to maintain current vacancy levels.

Sales volumes over the past 12 months ($10m+) measure $1.46 billion, which although down on the previous corresponding period, reflect the continuance of strong demand for investment opportunities.

KEY FINDINGS

The North Shore vacancy rate has reached an eight year low of 8.5%, a result of positive demand and negative net supply.

Both prime and secondary net face rents have risen by 3.0%+ in most markets in the 12 months to October 2015.

The outlook for net supply remains modest with total stock (North Shore and North Ryde) to increase by a benign 1.1% over the next two years.

North Shore & North Ryde yields have compressed an average of 85bps in the last 12 months, although remain 50bps softer than the previous market peak.

NICK HOSKINS
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NORTH SYDNEY

Development Activity

New supply still remains relatively limited in North Sydney with the only major office project currently under construction being the development of 177 Pacific Highway. The project will add 39,144m² of new space to the market in the first half of 2016. The supply pipeline also includes two DA approved projects at 100 Mount St (40,100m²) and 1 Denison St (45,720m²), however both remain mooted given pre-commitments have yet to be achieved. There has been market speculation that DEXUS is in due diligence to acquire the 100 Mount St site, however it is envisaged that a major pre-commitment will still be necessary to trigger the progression of the development.

However, residential development activity continues to play a significant role in market stock levels with a number of buildings being withdrawn for residential conversion. Since the beginning of 2013, 33,342m² of office stock has been withdrawn from the market for such purposes, resulting in total stock declining by 4.4% during this period to 823,351m². Withdrawals have entirely comprised secondary stock and have predominantly been located in the periphery locations of Milsons Point or north of Berry St. There remains a further 44,887m² of secondary buildings that have been earmarked for potential conversion to residential with approximately 40% of this amount anticipated to be withdrawn within the next 24 months.

Leasing Market and Rents

After three consecutive years of negative occupancy growth, net absorption in the North Sydney market turned positive in the first half of 2015. While on the surface, this suggests a turnaround in leasing demand, the negative results in 2013 and 2014 have largely reflected the relocation of tenants from buildings that have undergone a change of use. However, despite a further 4,439m² of change of use withdrawals in the first half of the year, the commencement of several new leasing deals to incoming tenants such as Jemena, Sony and Living Social, albeit on deals agreed to in 2014, was sufficient to underpin first half net absorption of 8,363m² (1.1% of total stock).

TABLE 1
North Shore/North Ryde Office Market Indicators as at October 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	3.3	1,402	663	119	26.5	6.25 - 6.75
North Sydney	Secondary	600,555	9.7	693	528	117	29.0	7.00 - 7.50
North Sydney	**Total Market**	**823,351**	**8.0**	**2,095**	**564**	**117**	**28.0**	**6.25 - 7.50**
Crows Nest/St Leonards	Prime	102,699	11.0	4,983	488	112	29.5	7.00 - 7.50
Crows Nest/St Leonards	Secondary	244,235	11.3	-6,451	410	98	30.0	7.75 - 8.25
Crows Nest/St Leonards	**Total Market**	**346,934**	**11.2**	**-1,468**	**433**	**102**	**30.0**	**7.00 - 8.25**
Chatswood	Prime	157,412	6.9	8,719	442	115	28.5	7.50 - 8.00
Chatswood	Secondary	127,053	6.6	2,122	385	101	29.5	8.00 - 8.50
Chatswood	**Total Market**	**284,465**	**6.8**	**10,841**	**416**	**109**	**29.0**	**7.50 - 8.50**
North Shore	**Total Market**	**1,454,750**	**8.5**	**11,468**	**504**	**112**	**28.5**	**6.25 - 8.50**
North Ryde/Macquarie Park	Prime	615,716	5.7	20,993	368	80	28.0‡	6.50 - 7.25
North Ryde/Macquarie Park	Secondary	252,579	14.9	4,574	300	95	30.0‡	7.50 - 8.50
North Ryde/Macquarie Park	**Total Market**	**868,295**	**8.4**	**25,567**	**348**	**84**	**28.5‡**	**6.50 - 8.50**

Source: Knight Frank Research/PCA ^ as at July 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.

After reaching a cyclical peak of 10.6% in July 2013, the North Sydney vacancy rate has been steadily declining. While the decline has partly reflected negative supply, the positive demand resulted in a further 90bp reduction in the vacancy rate over the first half of the year to 8.0% as at July. The prime vacancy rate is relatively tighter at 3.3%, which continues an extended period of tight conditions for prime stock with the five year average measuring 4.0%.

These tight conditions have been translating into a strong period for rental growth in the North Sydney market, albeit with the bulk of growth stemming from face rents with incentives remaining at relatively elevated levels given the high levels in adjacent markets such as the CBD (29% to 30% incentives for prime stock). As at October, prime face rents had increased to $663/m² net, equating to annual growth of 5.0%, with the last three years averaging 4.1%. Average incentives have shown some inconsistencies depending upon specific asset vacancy issues, however, on average, have held stable during 2015 at 26% to 27%.

This growth has been cascading into the secondary market, predominantly B-grade stock, with secondary net face rents recording annual growth of 4.0% to measure $528/m² as at October. After some modest falls in late 2014, average incentives have held steady in 2015 within an average range of 28% to 29%.

While tight leasing conditions are anticipated to sustain strong rental growth over the next 12 months, the outlook is less certain from mid-2016 when a number of leasing options are expected to enter the market and add upward pressure to the prime vacancy rate. These include the anticipated departures of major tenants RMS and Cisco, which will result in a combined total of approximately 20,600m² of prime space becoming available for lease. It is also understood that Leighton have been looking to sub-lease the space they have committed to at the 177 Pacific Highway development, while the residual 9,935m² remains officially uncommitted despite some market speculation of several deals being negotiated.

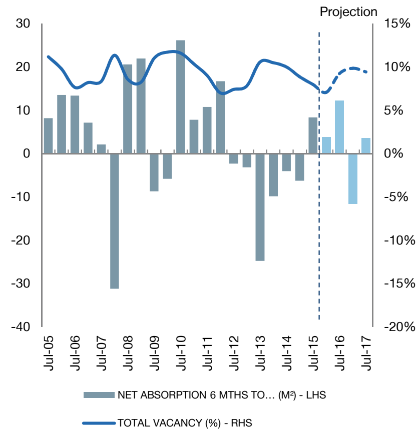
As a result of these dynamics, the base case projection for the vacancy rate over the next two years is for some further moderation over 2015 before a steady increase in 2016 to a rate close to 10%. The bulk of this rise will be in the prime vacancy rate. As such, prime face rental growth is forecast to measure 4.0% in FY16 with incentives holding broadly steady, before the rate of face rental growth moderates in FY17 to a forecast 2.0% as the market digests anticipated vacancy.

Sales and Investment Activity

Several large B-grade assets have recently traded with the sales confirming approximately 100bps of firming in the secondary market over the past 12 months, with average core market yields (CMY) now estimated to range between 7.0% and 7.50% (assuming five year WALE). Examples include the June sale of 140 Arthur St for $58.23 million, with the asset acquired by offshore group HK Realway on a CMY of 7.46%. The B-grade asset was 100% occupied reflecting a 2.3 year WALE and had previously traded in December 2012 for $39.1 million, showing a CMY of 9.4%. 20 Berry St also traded, with the sale showing a CMY of 7.29%. The asset was fully occupied with a 5.42 year WALE. The most recent sale was 33 Berry St, which was acquired by Australian Catholic University for part owner occupation purposes, with the purchase an indicator of the growth in occupancy demand stemming from the education sector. The transaction reflected a relatively tight sub-7% yield, indicative of ACU's motivation as an owner occupier.

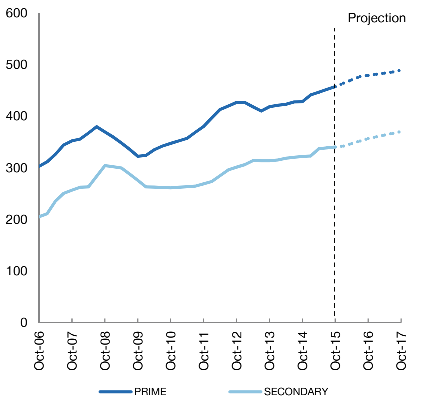
In the prime market, the A-grade asset, 80 Pacific Highway, has also traded in 2015. The building was sold as part of the Investa Property Group portfolio sale to CIC (refer Sales Table, page 7 for details). Although precise asset splits remain confidential to the purchaser, it is estimated that the asset traded at a CMY within the range of 6.50% to 6.75%, which indicates there has also been substantial firming amongst prime grade assets, albeit less pronounced than secondary. Average CMYs are estimated to range between 6.25% and 6.75%, which equates to 60 bps of firming over the past 12 months. While CMYs for both asset grades have now been firming below the 10 year average for more than a year, current yields are still 30bps and 50bps softer than the 2007 market peak for prime and secondary respectively.

FIGURE 1
North Sydney Net Absorption & Vacancy
Per six month period (000's m², %)



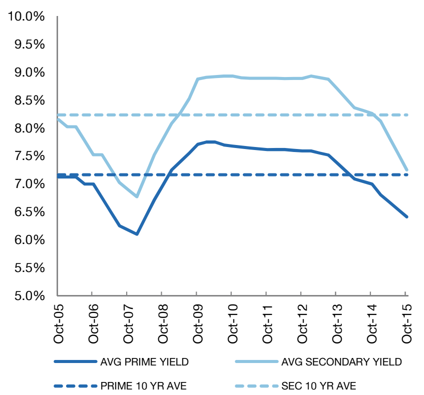
Source: Knight Frank Research/PCA

FIGURE 2
Average Net Effective Rents
Prime & Secondary, North Sydney ($/m²)



Source: Knight Frank Research

FIGURE 3
Average Core Market Yields
North Sydney



Source: Knight Frank Research

CROWS NEST/ST LEONARDS

Development Activity

In terms of office development, activity is essentially dormant with no new projects currently under construction. There remain several DA approved sites at Gore Hill Technology Park, however the projects are awaiting tenant precommitment. There is also DA approval at 88 Christie St for a 28,500m² office development, however the format that this project will proceed as remains uncertain. At the Royal North Shore Hospital precinct, the NSW Government ran an EOI campaign in late 2014 for the sale of the southern campus land with the potential for up to 34,700m² of office space, where NSW Government would pre-lease a minimum of 20,000m². Although the campaign resulted in a number of interested parties, the sale has been temporarily postponed.

However, the area is set to benefit from a significant amount of non-office development. High density housing (four storeys plus) in Crows Nest and St Leonards is expected to add 1,088 new apartments between mid-2015 and 2018, with such projects set to include substantial investment in associated local amenity. From an infrastructure perspective, the Sydney Metro City & Southwest, while still in the planning stage, will likely include stations at Artarmon as well as either St Leonards or Crows Nest.

Leasing Market and Rents

The Crows Nest/St Leonards vacancy rate posted another decline in the first half of 2015 to measure 11.2% as at July, the tightest rate in three years. The steady fall over this period, however, has predominantly been a result of permanent stock withdrawals for change of use development to residential and mixed-use. This trend has seen 19,877m² of stock (equivalent to 5.7% of current stock) permanently removed from the market since the start of 2013. This trend will continue to shape the market with a further 41,961m² identified as potential change of use withdrawals over the next three years.

In terms of occupancy demand, net absorption of virtually zero was recorded in the first half of the year (-132m²). This flat result was despite tenant inflow via Fleet Partners (1,816m² at 601 Pacific Highway) and Dance 102 (642m² at 575 Pacific Highway), with these areas of growth being offset by 2,500m² of sub-lease space following the departure of URS to the CBD after they were acquired by AECOM. Net absorption is forecast to be higher in the second half of the year when the Primary Healthcare lease of 4,163m² at 203 Pacific Highway will be crystallised into the data, along with a number of deals at 601 Pacific Highway.

The aforementioned deal is anticipated to underpin a sub 10% vacancy rate by the end of 2015, however further vacancy falls are anticipated to be driven by stock withdrawals with a vacancy rate approaching 6.0% by mid-2017 forecast.

Prime net face rents posted their strongest growth in three and a half years in the year over the past 12 months, increasing 4.3% to $488/m² as at October 2015. The reducing vacancy rate saw a slight moderation in average incentives to a 29.5% to 30.0% range, which boosted net effective growth to 6.2% over the same period. This has outpaced the secondary market, where net face rents increased 2.9% over the past 12 months to $410/m² with incentives remaining unchanged at an average of 30.0%.

Although the tightening vacancy rate will be a positive for prime rents, growth is expected to track in line with CPI. This outlook stems from forecast stock withdrawals comprising secondary stock, while the bulk of large tenant enquiry currently in the market has generally been absorbed.

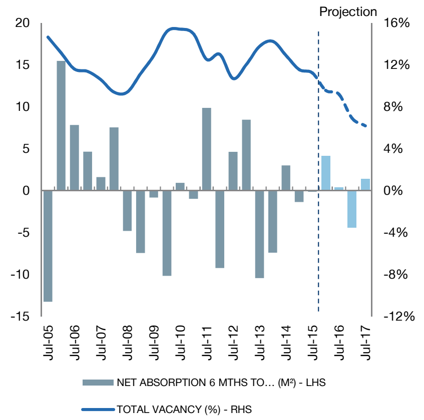
Sales and Investment Activity

2015 has been an extremely active period for the St Leonards market with YTD asset sales of $686.5 million, more than the three previous calendar years combined. There has been particularly strong activity in the prime segment of the market with sales comprising Space 207 Pacific Hwy for $168.55 million, as well as both 201 Pacific Hwy for $115.0 million and 203 Pacific Hwy for $86.0 million (both part of the Forum Complex). For sales details, refer Sales Table, page 7. The sales have confirmed further yield compression with average prime yields ranging between 7.00% and 7.50%. This range is indicative of approximately 100bps of firming over the past 12 months, which is the most prime firming amongst the North Shore markets during this period. There has also been commensurate firming in the secondary market with average yields ranging between 7.75% and 8.25%.

FIGURE 4

Crows Nest/St Leonards Net Absorption & Vacancy

Per six month period (000's m², %)

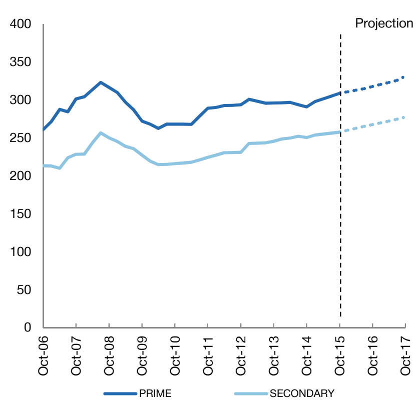


Source: Knight Frank Research/PCA

FIGURE 5

Average Net Effective Rents

Prime & Secondary, Crows Nest/St Leonards ($/m²)



Source: Knight Frank Research

CHATSWOOD

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, however the impact on the market will be minimal. The Chatswood market has been less impacted by change of use stock withdrawals than other Sydney markets. While several existing owners have mooted potential residential re-development of existing buildings, these are predominantly in the early planning stage and are unlikely to impact the market materially over the next two years.

Leasing Market and Rents

Since the beginning of 2014, Chatswood has experienced a demand driven fall in the vacancy rate from 13.5% to 6.8% as at July 2015. This is the tightest the market has been since 2007 and is a result of positive net absorption over the past 18 months of 22,185m² (equivalent to 7.8% of stock). While in 2014 much of this demand was generated by the need for project space by groups associated with major infrastructure projects in Sydney's North West, more recent demand has stemmed from technology, telecommunications and business services. This was evidenced by groups such as Stellar Asia and Crestron relocating to the market and Lenovo increasing their occupied space.

Huawei were another local tenant to take expansionary space, absorbing 1,200m² previously occupied by Leighton at 799 Pacific Highway and additional space at 12 Help St. The second half of 2015 will also see further ex Leighton space absorbed, with Interleasing (owned by McMillan Shakespeare) having agreed to move from Macquarie Park and lease circa 1,300m² at 475 Victoria Avenue. Since Leighton announced their pre-commitment at 177 Pacific Highway in North Sydney, there has been some uncertainty around the approximate 17,000m² of Leighton backfill space in Chatswood. However with the group seeking to sub-lease the North Sydney space, agreeing to renew three floors at 475 Pacific Highway for a five year term and some existing space already being absorbed by other tenants in the aforementioned deals, the resulting impact on the vacancy rate appears to be more muted than previously forecast (potentially at the expense of North Sydney). It is also noted that Leighton occupy circa 4,000m² of space at Mirvac's mixed use development site in St Leonards that will be vacated in late 2016, however relocation details are yet to be confirmed.

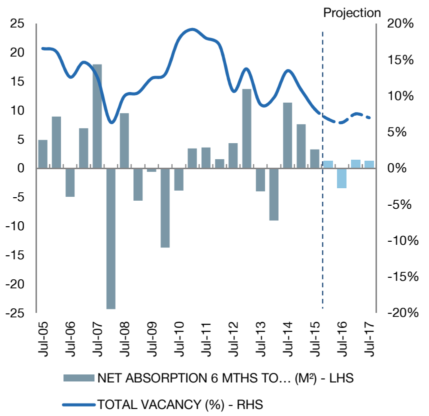
Recent rental growth in Chatswood has been relatively firm given the reducing vacancy rate and pick up in office demand. However after the past three calendar years saw prime net face rents increase by an average of 3.5% pa, rents have consolidated in 2015 with net face rents measuring $442/m² as at October, a 1.50% increase compared to a year ago. However, after a period of underperforming the prime market in 2013 and 2014, growth has been stronger in the secondary market where net face rents have shown annual growth of 4.6% as at October to measure $385/m². While this growth partly reflects a degree of 'catch up', it is also a result of the secondary vacancy rate declining to 6.6%, the lowest rate since 2002.

With no major supply in the pipeline, the Chatswood vacancy rate is forecast to average between 6.5% and 7.0% over the next two years. This outlook is expected to be conducive to net face rental growth averaging 2.75% and 3.0% pa over the next two years for prime and secondary respectively, with the slight outperformance of secondary a reflection of recent momentum and some further relative 'catch up'.

Sales and Investment Activity

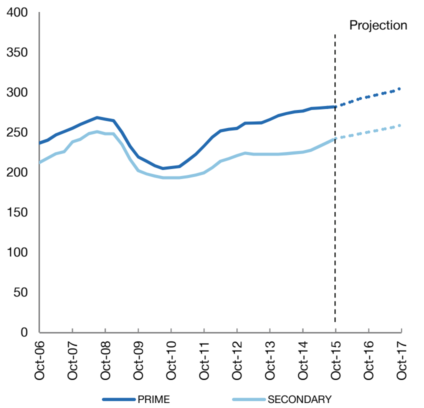
Being relatively thinly traded, the Chatswood prime market has not recorded any major sales in 2015. Nevertheless, core market yields are estimated to range on average from 7.50% to 8.00% for prime and 8.00% to 8.50% for secondary. While the average prime yield has been firmed by a notional 65bps over the past 12 months, it is noted that this results in the prime yield still being 95bps above the 2007 peak. This spread is the largest amongst the North Shore prime markets, however it is noted that a prime sale is needed to provide true clarity to current yields.

FIGURE 6
Chatswood Net Absorption & Vacancy
Per six month period (000's m², %)



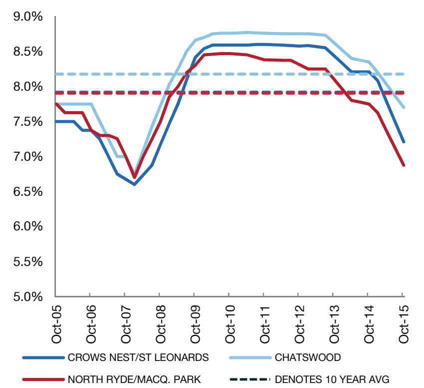
Source: Knight Frank Research/PCA

FIGURE 7
Average Net Effective Rents
Prime & Secondary, Chatswood ($/m²)



Source: Knight Frank Research

FIGURE 8
Average Prime Core Market Yields
Crows Nest/St Leonards, Chatswood and North Ryde/Macquarie



Source: Knight Frank Research

MACQUARIE PARK/NORTH RYDE

Development Activity

There is an abundance of development activity currently underway in the market, however the bulk of this is stemming from the new supply of units, as well as development activity by serviced hotel operators including Quest and Holiday Inn. However, office development, by historical standards, in the next two years is set to be relatively modest with net supply increasing stock levels by an average of 1.1% per year, well below the 4.3% average since 2005. The second half of 2015 is set 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, now fully committed to Metcash, Hartmann and ISS World). In mid-2016, the 5,000m² office facility being developed by Holdmark Holdings that includes 3,000m² of purpose built space for AstraZeneca is also due to reach completion. Beyond this, the pipeline consists of a large number of potential development sites, four of which have DA approval (refer Development Map).

Leasing Market and Rents

The capacity of Macquarie Park/North Ryde to accommodate larger, contiguous floor plate requirements continues to underpin a strong period of tenancy demand for the market. Over the 12 months to July, net absorption measured 25,567m² (3.3% of stock), which was the largest increase in occupied stock across all national markets excluding the Melbourne and Sydney CBDs. A significant proportion of this growth has come from tenant inflow from suburban markets with occupiers looking to consolidate into the market's affordable office space. This consolidation trend added approximately 10,000m² to net absorption in the first half of the year via tenants such as Ricoh, IGT, Rural Co and Veolia.

This trend is forecast to continue supporting demand in the second half of 2015 with forthcoming moves including Novartis (10,000m², ex. Frenchs Forest, Pyrmont, and Melbourne, as well as 5,500m² within Macquarie Park), Hartmann (1,644m² ex. Rhodes), ISS (1,644m² ex. Lane Cove) and UTC (ex. Ashfield). The UTC lease came off the back of their Ashfield premises been sold for residential re-development. Markets such as North Ryde have been beneficiaries of tenant displacement stemming from the increase in suburban office building conversions into residential.

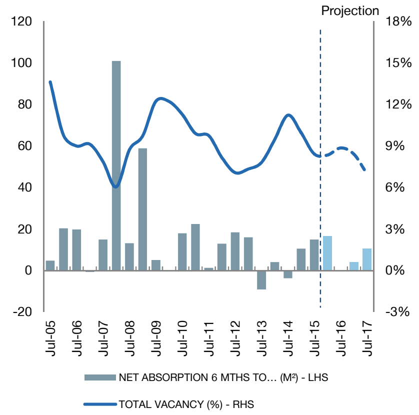
As a result of this leasing activity, the vacancy rate has fallen from 11.2% a year ago to the current level of 8.4%. The vacancy rate is expected to remain at this level over the balance of 2015 given forthcoming supply will generally be counter balanced by tenant inflow. While the 2016 and 2017 period is anticipated to be absent of any major new supply, the base case forecast for the vacancy is for a modest rise in 2016. This is due to some potential tenancy contractions such as Canon and Goodman Fielder, while Lend Lease will vacate circa 5,000m² when they consolidate into new premises at Barangaroo (CBD). Nevertheless, there is the potential for the impact of these leasing options to be relatively muted should the momentum of tenant inflow currently being recorded be sustained.

Rental growth in the A-grade market has been relatively strong with annual face growth of 4.1% taking average net rents to $368/m² as at October 2015. Net incentives have held mostly steady at 28%. The combination of a relatively benign supply pipeline (refer adjacent commentary) coupled with positive demand outcomes are expected to maintain average prime face rental growth of 3.0% over the next two years, with this growth to be slightly more modest in 2016 due to some aforementioned new vacancies. The relatively higher vacancy rate of the secondary market over the past three years has seen secondary rental growth lag the prime market. However net face growth of 3.3% was recorded over the past year taking the average rate to $300/m² with net incentives reducing slightly to 30.0%.

Sales and Investment Activity

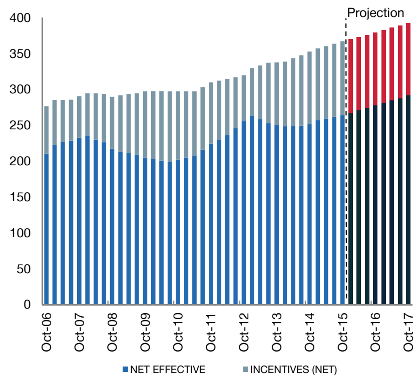
Further cap rate compression has been recorded in Macquarie Park/North Ryde with prime core market yields (CMY) reducing to an average range of 6.5% to 7.25% as at October, a 12 month firming of 85bps. Recent activity has comprised the Goodman Australia Industrial Fund selling three assets in July 2015 (Fujitsu at 118 Talavera Road, Macquarie Park (circa 8 year WALE), Optus at 22 Giffnock Avenue, Macquarie Park (circa 7 year WALE) & Unisys at Rhodes (circa 4 year WALE)) to Singaporean based Mapletree Investments. Indications suggest the overall average yield is circa 6.75%, with each asset having +/- variations on this (indications 6.5% to 7.0%). All the assets essentially have a majority single tenant with a medium to long WALE.

FIGURE 9
Macquarie Park/North Ryde Net Absorption & Vacancy
Per six month period (000's m², %)



Source: Knight Frank Research/PCA

FIGURE 10
A-Grade Net Rents & Incentives
Macquarie Park/North Ryde, Prime



Source: Knight Frank Research

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
181 Miller St	North Sydney	c.1,600	495n	5	New	InvoCare	Mar-16
80 Pacific Hwy	North Sydney	1,780	670n	5	New	Helloworld	Feb-16
181 Miller St	North Sydney	400	430n	5	New	Pactera Technology	Nov-15
40 Mount St	North Sydney	2,259	750n	10	New	Gartner	Oct-15
60 Miller St	North Sydney	c.1,800	650n	7	New	Vocus Communications	Oct-15
181 Miller St	North Sydney	625	525n	5	New	Aconnex	Oct-15
90 Arthur St	North Sydney	808	540n	5	New	AxiCorp	Aug-15
132 Arthur St	North Sydney	622	550g	5	New	Comops	Jul-15
203 Pacific Hwy	St Leonards	4,164	470n	7	New	Primary Health Care	Oct-15
601 Pacific Hwy	St Leonards	1,818	475n	5	New	Fleet Partners	Jul-15
9 Help St	Chatswood	514	420n	5	New	JCurve	Sep-15
799 Pacific Hwy	Chatswood	340	440n	7	New	Asthma Foundation	Jun-15
1 Thomas Holt Dr	Macquarie Park	1,644	395n	10	New	ISS World	Dec-15
1 Thomas Holt Dr	Macquarie Park	1,644	390n	U/D	New	Hartmann	Dec-15
19-25 Khartoum Rd	Macquarie Park	1,636	U/D	4	Renewal	Virbac	Oct-15
2-4 Lyon Park Rd	Macquarie Park	303	350n	5	New	Schulke	Oct-15
33 Talavera Rd	Macquarie Park	9,147	U/D	8	New#	UTC	Jul-15

Source: Knight Frank Research   n refers net   g refers gross   U/D refers undisclosed   # includes c. 4,200m² warehouse space

TABLE 3

Recent Sales Activity North Shore and North Ryde/Macquarie Park

Address	Region	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Yrs)	Vendor	Purchaser	Sale Date
33 Berry St	North Sydney	c.95.0	sub-7.0	13,195	c.6,821	2.5	Horaco Property	ACU	Sep-15
80 Pacific Hwy›	North Sydney	c.130.0	c.6.5-6.75	13,696	c.10,000	2.5	Investa Prop. Trust (Morgan Stanley)	China Investment Corporation (CIC)	Jul-15
20 Berry St	North Sydney	59.00	7.29	9,723	6,068	5.4	Velment Pty Ltd	Yuhu Group	Jul-15
140 Arthur St	North Sydney	58.23	7.46	8,384	6,945	2.4	CorVal Partners	HK Realway	Jun-15
203 Pacific Hwy+	St Leonards	86.00+	8.00+	11,737	7,327	5.0	Challenger Life	Centuria+	Sep-15+
500-520 Pacific Hwy#	St Leonards	150.00	N/A	13,120	6,945	U/D	Charter Hall (DOF) & IOOF Holdings*	New Hope & VIC Invest. Mgmt^	Aug-15
207 Pacific Hwy	St Leonards	168.55	6.76	19,955	8,446	4.1	Primewest Funds & Valad (50:50)	Altis Prop. Partners	Jul-15
472 & 486 Pacific Hwy#	St Leonards	121.00	N/A	10,510	11,513	U/D	CIMIC Group	Mirvac	Jun-15
201 Pacific Hwy	St Leonards	115.00	U/D	16,529	6,957	U/D	Challenger†	Abacus & Goldman Sachs	Jun-15
407 Pacific Hwy, Artarmon	St Leonards	16.10	8.30	5,929	2,715	4.9	Denison Group	Bellpen P/L»	Jun-15
170 Pacific Hwy, Greenwich	St Leonards	18.50	8.50	4,464	4,144	1.5	Southern Cross Broadcasting (Aust.)	Property Bank Australia	Mar-15
118 Talavera Rd‡	Macquarie Park	80.00	c.6.50	11,728	6,821	c.8.0	GAIF	Mapletree Invest.	Jul-15
22 Giffnock Ave‡	Macquarie Park	74.00	c.6.60	13,394	5,525	c.7.0	GAIF	Mapletree Invest.	Jul-15

Source: Knight Frank Research   ACU refers Australian Catholic University   # bought for likely mixed use/residential conversion

› Part of a nine asset portfolio sold for $2.45bn with other assets comprising six Sydney CBD assets and one asset in each of the Melbourne and Brisbane CBDs

+ Asset acquired by Centuria Metropolitan REIT and a newly established Centuria unlisted retail investor office property syndicate on a 50:50 basis with the $86m consideration being before costs . Yield quoted is an initial yield. Settlement scheduled for December 2015.

* sold as a Joint venture by IOOF Holdings as owner of 500 Pacific Hwy (2,037m² NLA) and Charter Hall as owner of 504 Pacific Hwy (11,083m² NLA)

^ Chinese group New Hope Real Estate Development and local group VIC Investment Management Group

U/D refers undisclosed   † Challenger Diversified Property Group (60%)/Challenger Life (40%)

» Managed by Jaden Property Group

‡ Sold as part of a three asset portfolio by GAIF (Goodman Australia Industrial Fund) for c.$225.0m. Sale also included Building G, 1 Homebush Bay Drv, Rhodes.

Outlook

The North Shore and North Ryde markets have experienced strong rental growth over the past two years with average prime net face rents increasing by 3.25% per annum during that period. Although macro conditions such as low vacancy rates, a benign supply outlook and an outperforming state economy will be conducive to further rental growth, the rate over the next two years is forecast to moderate to a more sustainable level of circa 2.75% to 3.0%. This moderation is premised on the bulk of large enquiries having been absorbed in the leasing market as well as several tenant relocations and contractions that the market will need to digest.

As has been the case for several years, there remains a significant pool of unsatisfied capital looking for opportunities in the market. Despite prime yields having already firmed, on average, 75bps below the 10 year average, it is anticipated that further yield compression will be recorded over the balance of 2015. Low interest rates are expected to continue to be a positive for asset prices with office yields providing elevated spreads above government bonds, while the depreciating dollar is providing a boost to the buying power of offshore investors. It is noted that the anticipated lifting of US interest rates prior to the end of the year as the Federal Reserve looks to 'normalise' bond yields, may provide a 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.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

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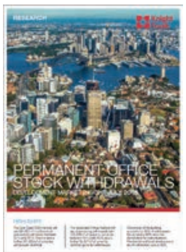
September 2015



Australian Office Stock Withdrawals
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Sydney Residential Development
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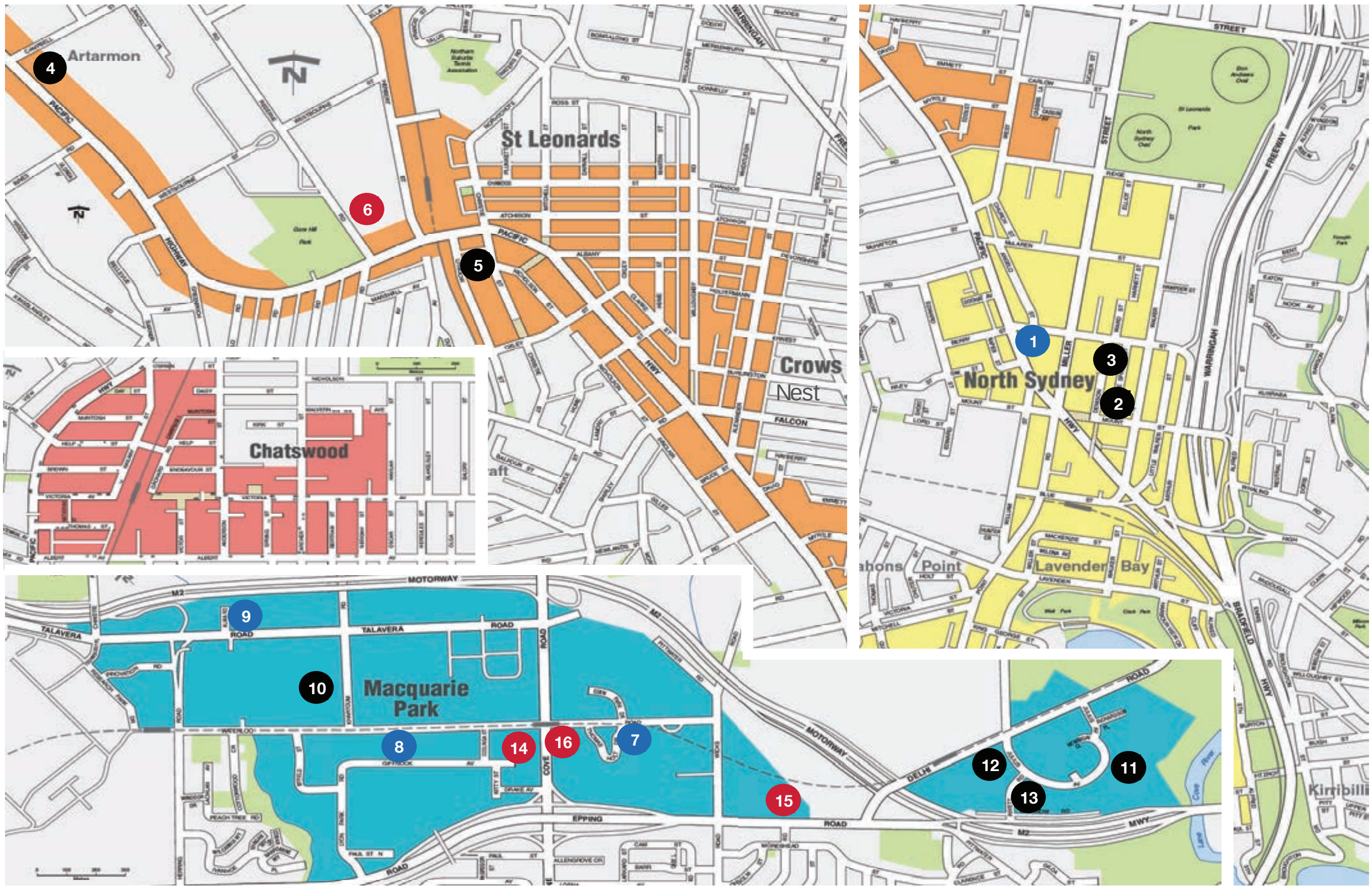
MAJOR OFFICE SUPPLY



Source of Map: Knight Frank

North Sydney

1 — 177 Pacific Hwy - 39,144m^2 [Leighton»] Suntec REIT Q2 2016 - 76% committed»

2 — 100 Mount St - 40,100m^2 Laing O'Rourke^ 2018+

3 — 1 Denison St - 45,270m^2 Eastmark Holdings (Recevership) 2019+

Crows Nest/St Leonards

4 — Gore Hill Technology Park - up to 46,000m^2 Lindsay Bennelong Development 2018+

5 — 88 Christie St - 26,500m^2 Winten Property Group - 2018+

6 — Reserve Road, St Leonards - 34,700m^2 NSW Govt. Property* - 2019+

Macquarie Park/North Ryde

7 — 1 Thomas Holt Drive# - 11,500m^2 [Metcash] AMP Q3 2015 - 100% committed

8 — 52 Waterloo Rd - 10,000m^2 [Novartis] Novartis (owner-occupied) - Q3 2015

9 — 66-82 Talavera Road - 5,000m^2 [AstraZeneca] Holdmark Holdings H2 2016 - 60% committed

10 — 8 Khartoum Rd - 11,360m^2 Goodman 2017+

11 — Epicentre at Riverside, Julius Ave - 34,000m^2 ISPT 2018+

12 — 39 Delhi Rd - 30,000m^2 Stockland 2018+

13 — 1 Rivett Rd (Stage 2) - 11,380m^2 Pathway Property 2018+

14 — 396 Lane Cove Rd - ~75,000m^2 Winten and Australand 2018+

15 — 29-35 Epping Rd -14,500m^2 Harvey Norman Holdings 2018+

16 — 271 Lane Cove Rd - ~34,000m^2 Mirvac 2020+

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]
» available for sub-lease
^ site reportedly in due diligence
* Site expected to be sold as a development site with NSW Govt Property to pre-lease min 20,000m^2
# Major refurbishment/backfill