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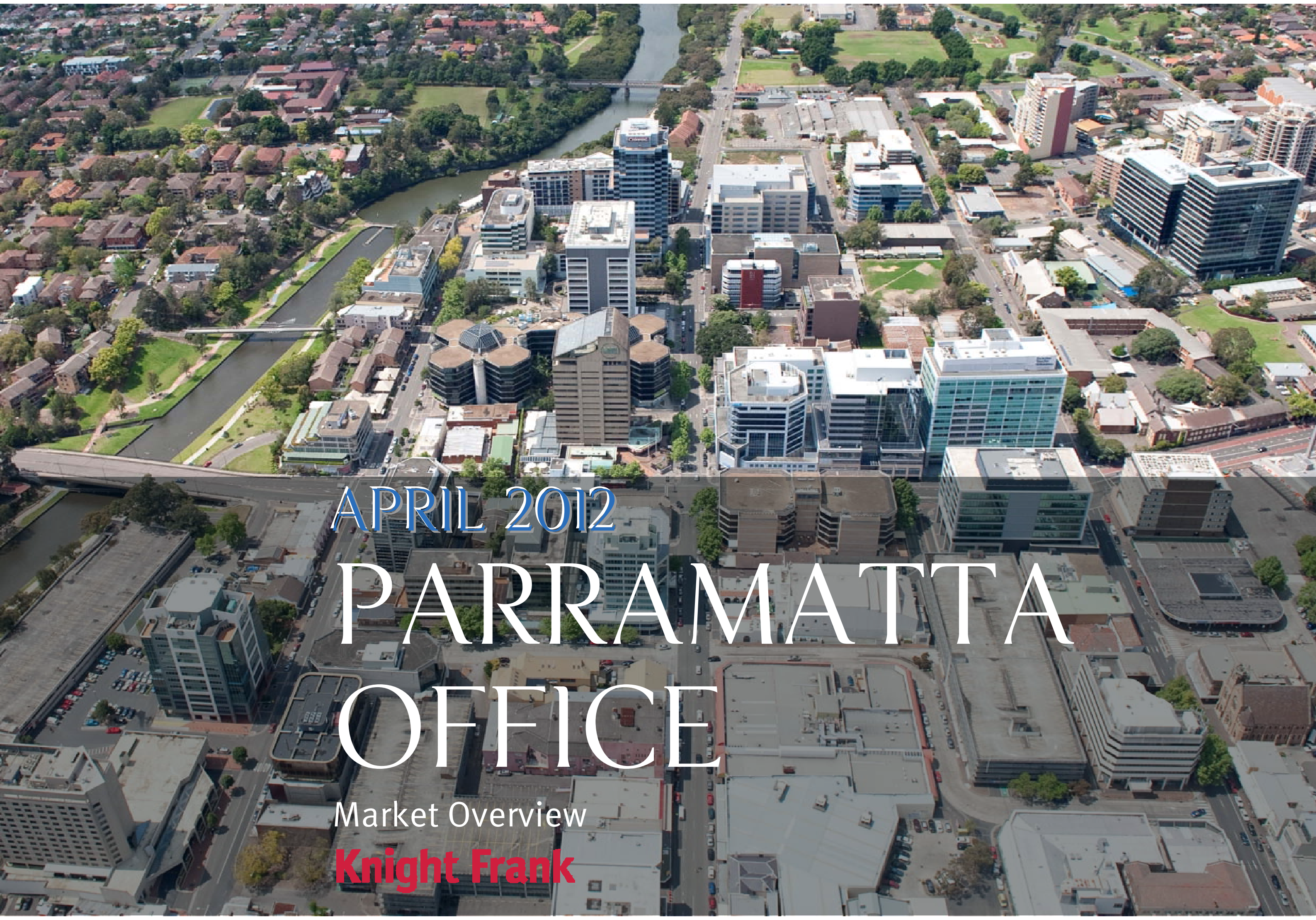


APRIL 2012

PARRAMATTA OFFICE

Market Overview

Knight Frank

HIGHLIGHTS

- Low prime vacancies have translated into strong rental growth with A-grade gross face rents increasing 6.8% in the 12 months to April 2012 to an average rate of $453/m². Above average rental growth is forecast for the next two years with owners expected to capture a greater share of growth for larger lease renewals given a lack of contiguous alternatives and the relatively firmer demand amongst bigger firms. Smaller tenants remain more cautious, which is having a marked impact on the rate at which sub-1,000m² lease sizes are being absorbed by the market.
- The gap between economic rents and market rents remains a constraint on new supply. This will prolong the existing discrepancy between prime and secondary vacancies which currently measure 2.1% and 12.7% respectively. Not withstanding a temporary lift in vacancies in the second half of 2012 following the completion of Eclipse, medium term total vacancies are expected to decline from a current level of 9.1% to below 8% over the next two years. This is providing strong opportunities for current owners to refurbish and reposition assets without the competition from new supply.
- Investment activity outside of the Sydney CBD has so far been concentrated on the North Shore and is yet to flow through to the Parramatta market. In the absence of any major $5m plus transactions (the last recorded was in May 2011), A-grade core market yields are estimated to range on average 8.50% and 9.50% and remain elevated above long run average levels. Several assets are currently being marketed, which will provide a good indication of both values and the level of buyer depth in the market.

APRIL 2012

PARRAMATTA OFFICE

Market Overview

PARRAMATTA OFFICE OVERVIEW

Table 1

Parramatta Office Market Indicators as at April 2012

Grade	Total Stock (m²)^	Vacancy Rate (%)^	Annual Net Absorption (m²)^	Annual Net Additions (m²)^	Avg Gross Face Rent ($/m²)	Outgoings ($/m²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	229,967	2.1	-582	0	400 - 500 (453 Avg)	98	15.0 - 17.5	8.50 - 9.50
Secondary	454,722	12.7	3,858	68	320 - 400 (368 Avg)	90	22.5 - 27.5	9.50 - 11.00
Total Market	**684,689**	**9.1**	**3,277**	**68**				

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).

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

Source: Knight Frank/PCA ^ as at Jan 2012

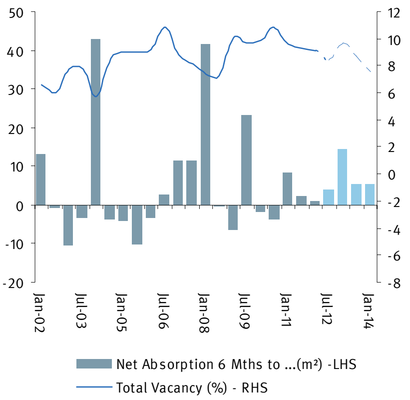
Development Activity

Although prime vacancies have averaged only 2.3% over the past three years, the lack of quality stock is yet to translate into a meaningful boost to new supply. A key challenge for new developments continues to be the premium between economic rents in excess of $500/m² (gross face) and current market rents. However above average forecast rental growth over the next two years will start to bridge this difference and improve the appeal for developers to start progressing new developments.

Figure 1

Vacancy and Net absorption

Parramatta – per six month period (000's m²)



Source: PCA/Knight Frank

The pending completion of Eclipse in August (25,660m² by Leighton Properties/Grosvenor Australia JV) is the only major new development underway, however further significant additions are not expected until at least 2014. One project that will shortly commence is Nationwide News as owner occupier/developer, who will imminently commence work on the first stage of their development at 142 Macquarie St. The five storey, 11,980m² development will be used as the head quarters for the Cumberland Media Centre. A potential addition to the supply pipeline includes 105 Phillip Street, where DEXUS have DA Approval for a 19,730m² building. The Council also remains keen to progress the Civic Place redevelopment. However with the development agreement between Council and Grocon having been terminated, Council will need to conduct a new tender process likely delaying the projects timing further.

For owners, the soft development pipeline has provided an excellent opportunity to refurbish assets that will have minimal competition from new stock. While repositioning will assist in attracting a higher calibre of tenants, it is becoming an increasingly important strategy for tenant retention given the growing importance tenants are placing on the NABERs rating. There is also evidence that the benefit of increased rental rates are flowing through almost immediately. An example is Sola Gracia, who have completed refurbishment work to 100 George Street. Prior to the work, rents in the building averaged $320/m² gross, however the building is now enjoying the immediate benefit from repositioning and is now generating rents of approximately $385/m².

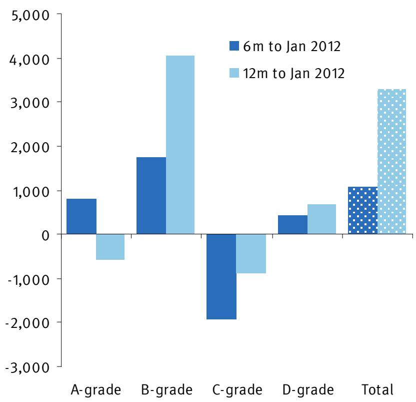
Vacancy & Tenant Demand

The Parramatta vacancy rate posted a third successive half yearly decrease in the six months to January 2012 and now measures 9.1% (PCA). However, the vacancy rate for A-grade stock, which accounts for 34% of total stock, is substantially lower, measuring 2.1%. The absence of A-grade leasing options has had a twofold effect. Firstly it has driven strong increases in average prime rents (via market renewals) and it has also forced tenants seeking new accommodation to expand or move into B-grade stock. This has been borne out in net absorption being concentrated in B-grade stock.

Figure 2

Net absorption by Grade

Parramatta (m²)



Source: PCA

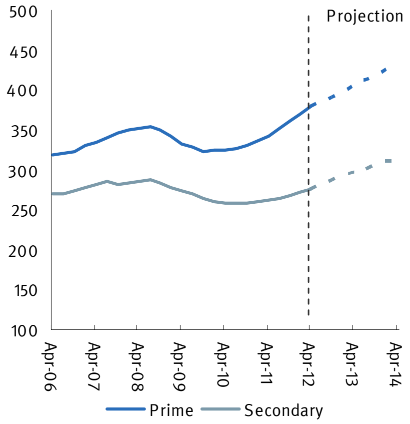
In terms of size, demand from larger tenants has been relatively firmer. The deficiency of available contiguous stock or upcoming supply does not provide relocation alternatives and is allowing owners to capture strong rental growth from large renewals due to this lack of availability. Some major renewals are currently in final negotiations and will verify this shortage. The level of demand from smaller tenants has been comparatively softer with sub 1,000m² vacancies slower to lease.

Medium term vacancies are expected to decline, not withstanding a temporary lift in vacancies in the second half of 2012 following the completion of Eclipse in August. Although Eclipse is 80% pre-committed to Landcom, Deloitte and QBE, the temporary increase will be minimised by several factors. 330 Church Street, where Landcom will move from, is scheduled to be redeveloped into residential. At 10 Smith Street, where Deloitte will move from, there is strong interest from existing tenants to absorb the backfill as expansion space. At 56 Station Street, where QBE will vacate, the pending backfill space is yet to be committed to.

Leasing Market and Rents

Very tight vacancies in the A-grade market have seen strong rental growth emerge over the year to April 2012. A-grade gross face rents are estimated to average $453/m², representing annual growth of 6.8%. On an effective basis, growth has been even greater, rising 10.7% due to incentives reducing around four percentage points.

Figure 3
Parramatta Rents
$/m² average gross effective rent



Source: Knight Frank

Although secondary stock is more readily available, the concentration of net absorption in B-grade stock underpinned secondary gross face rents rising 3.3% to an average rate of $368/m². Secondary incentives have also started to reduce and now range on average from 22.5% to 27.5% on a gross basis. Secondary rental growth has been stronger for upper B-grade assets.

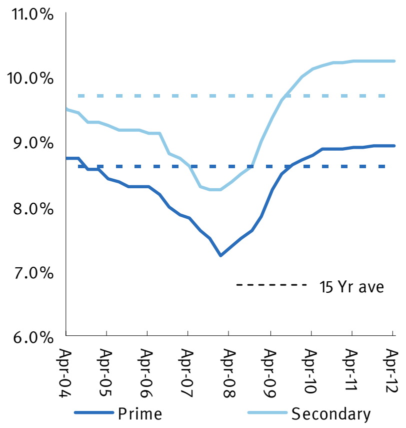
The tight market conditions are forecast to underpin further A-grade rental growth over the next two calendar years with effective rents projected to increase by an average of 7.1% per annum. However these increases will be predominantly captured by renewals of larger tenancies given the deficiency of appropriate alternatives.

Sales and Investment Activity

Sales activity has been somewhat quiet in Parramatta, with the majority of non-CBD office sales in Sydney being concentrated on the North Shore. The current offerings of the Lang Centre at 132 Marsden Street and 18 Smith Street will serve as a good indicator of investor appetite.

The last major transaction to complete was the purchase of 80 George Street by Heathley for $25.72m on a core market yield of 10.3%. Trading on a similar yield was 30 Cowper Street, which sold for $20.25m on a core market yield of 10.4%. However the purchaser, Alphacrucis College will be a part owner occupier of the building having purchased the asset in an off market transaction after initially seeking to lease space in the building.

Figure 4
Average Core Market Yields
Parramatta



Source: Knight Frank

Average core market yields have shown some mild softening over the last 12 months and range between 8.50% and 9.50% for prime and 9.5% and 11.00% for secondary. These yield ranges remain above long term average levels and are indicative of the good relative value currently available for investors.

Table 2
Recent Leasing Activity Parramatta

Address	Face Rental ($/m²)	Area (sq m)	Term (yrs)	Lease Type	Tenant	Start Date
79 George St	425g	1,637	10	New	CBHS	Jun-12
Level 12, 100 George St	385g	732	7	New	NSW Business Chamber	Mar-12
Level 2, 35 Smith St	350g	379	3.3	New	Lifetime Care and Support	Feb-12
Level 1, 130 George St	360n	354	5	New	Hays HR	Feb-12
60 Phillip St	420g	480	5	New	Capral	Jan-12
Level 5, 111 Phillip St	390g	1,148	2	New	News Limited	Nov-11

Table 3
Recent Sales Activity Parramatta

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
80 George St	25.72	10.30	8,123	3,166	4.8	360 Capital	Heathley	May-11
30 Cowper St	20.25	8.32*	7,937	2,551	1.7	Denison Group	Alphacrucis College	Apr-11

Source: Knight Frank g gross n net * Reported passing initial yield. Low yield reflects approximately 23% vacancy

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Knight Frank Newmark Global

Knight Frank Research

Nick Hoskins
Research Manager - NSW
+61 2 9036 6766
Nick.hoskins@au.knightfrank.com

Matt Whitby
National Director – Research
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Knight Frank Valuations

David Castles
State Director, Knight Frank Valuations
+61 2 9036 6648
David.castles@au.knightfrank.com

Anthony Alford
Divisional Director, Parramatta
+61 2 9761 1872
Anthony.alford@au.knightfrank.com

Adam Elias
Associate Director, Knight Frank Valuations
+61 2 9036 6771
Adam.elias@au.knightfrank.com

Commercial Agency Contacts

John Siciliano
Director – Office Leasing, Parramatta
+61 2 9761 1833
John.siciliano@au.knightfrank.com

Scott Butler
Associate Director – Commercial, Parramatta
+61 2 9761 1813
Scott.butler@au.knightfrank.com

James Parry
National Director
Head of Capital Transactions, NSW
+61 2 9036 6758
James.parry@au.knightfrank.com

Brett Burridge
Director, Commercial Sales & Investments
+61 2 9036 6703
Brett.burridge@au.knightfrank.com

Richard Garland
Director, Commercial Sales & Investments
+61 2 9036 6744
Richard.garland@au.knightfrank.com

Richard Horne
National Director Investment Sales
+61 2 9036 6622
Richard.horne@au.knightfrank.com

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