



APRIL 2012

WEST PERTH OFFICE

Market Overview

Knight Frank

HIGHLIGHTS

- The total vacancy rate for West Perth decreased from 5.4% in July 2011 to 4.4% in January 2012 – Property Council of Australia (PCA).
- New development and refurbished space for 2012 will total 31,724m² - 80% of this space is pre-committed with minimal backfill opportunities becoming available.
- Average Prime-grade net face rents are up by 2.3% in the six-months to April 2012, to range from \$525/m² to \$600/m². Secondary-grade net face rents now range from \$475/m² to \$540/m².
- \$74 million worth of major investment sales transacted during 2011. Core market yields remain stable at 8.00% – 8.50% for Prime-grade properties and 8.50% - 9.00% for Secondary-grade properties.

WEST PERTH OFFICE

Market Overview

Table 1

West Perth Office Market Indicators as at April 2012

Grade	Total Stock (m ²) ^	Vacancy Rate (%) ^	Annual Net Absorption (m ²) ^	Annual Net Additions (m ²) ^	Average Net Face Rent (\$/m ²)	Average Incentive (%)	Average Core Market Yield (%)
Prime	123,873	1.6	-2,283	0	525 – 600	5.0	8.0 – 8.5
Secondary	255,685	5.7	-16,068	-15,911	475 – 540	5.0	8.5 – 9.0
Total	379,558	4.4	-18,351	-15,911			

Source: Knight Frank/PCA ^ as at January 2012

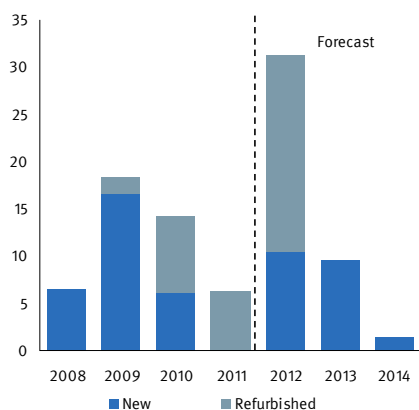
Supply and Development

The latest report by the Property Council of Australia (PCA) showed that 6,268m² of refurbished space was added to supply in the six-month period to January 2012. Withdrawn space during this time totalled 22,179m², which included the withdrawal of 20,187m² at 2 Havelock Street (Dumas House).

It is anticipated that 10,460m² of new development will complete during 2012, being at 1120 Hay Street, 682 Murray Street and 100 Havelock Street. In addition, full refurbishments will complete at 2 Havelock Street, 11-13 Lucknow Place, 668 Murray Street, and 673 Murray Street. Refurbished space will total 21,264m² for the year.

Figure 1

West Perth Office Supply

New and Refurbished Stock ('000m²)

Source: PCA/Knight Frank

New supply will taper off after this year. 1 Ord Street, 34 Parliament Place and 1154 Hay Street are under construction and anticipated to complete in 2013, with demolition and

commencement of 1101 Hay Street expected soon.

From 2014 onwards, it is anticipated that 1,414m² of office supply will be constructed at 959 Wellington Street. Applications for new office developments at 24 Prowse Street, 25 Prowse Street and 16-18 Ventnor Avenue have also been lodged, though no forward works have commenced at this time.

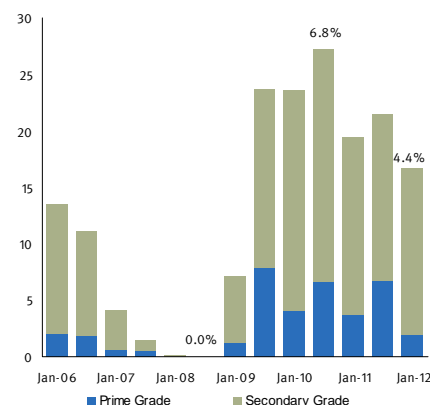
Several developments are either planned, or under construction or subject to refurbishment outside the core West Perth area, and include 2 Bagot Road, Subiaco; 28 Troode Street, West Perth; and 48 Oxford Close, Leederville with approximately 29,000m² of office space planned for this fringe area.

Vacancy and Tenant Demand

The PCA noted that the total vacancy rate for West Perth decreased from 5.4% in July 2011 to 4.4% in January 2012.

Figure 2

West Perth Historical Vacancy

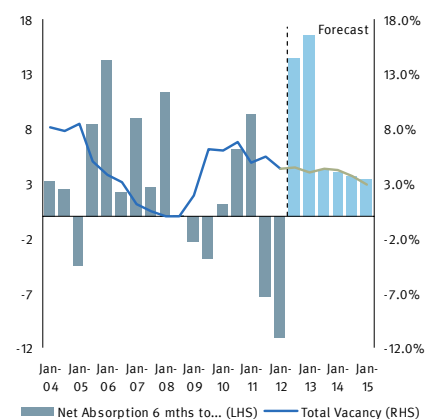
Prime and Secondary Grade ('000m²)

Source: PCA

Net absorption for the twelve months to January 2012 was negative 18,351m² – however, this result was mostly due to the withdrawal of 27,481m² of space during this time. Vacant space absorbed over this period totalled 2,862m².

Figure 3

West Perth Net Absorption and Vacancy

Per six month period ('000m²)

Source: PCA/Knight Frank

The high level of net absorption over the 2012 year will mainly be attributable to the addition of Dumas House back into supply (100% commitment by WA Government). Backfill opportunities this year are anticipated to be minimal. Around 1,450m² will become available mid-year at 1110 Hay Street due to the relocation of Technip Oceania, taking expansion space at 1120 Hay Street (5,066m²).

As a result, it is anticipated that the PCA total vacancy rate will decrease to 4.0% by the close of 2012, increasing marginally to 4.3% during 2013 and tapering to 2.9% by January 2015.



Rental Levels

Reducing vacancy rates within West Perth, particularly in Prime-grade stock, has increased the average net face rent in the last six months by 2.3%, to now range from \$525/m² to \$600/m² as at April 2012. Secondary-grade properties have also seen increasing rents due to reducing space availability, with net face rents now ranging from \$475/m² to \$540/m².

Average incentive levels continue to contract, with Prime and Secondary-grade incentives averaging 5%.

Increases in gross rental valuations, and subsequent increases in tax and rate levies, have seen outgoings in the West Perth area rise recently. Outgoings at present are ranging between \$150 - \$165/m², and up to \$185/m². And whilst the triennial cycle of valuation assessments will temper some of these increases, some growth is anticipated.

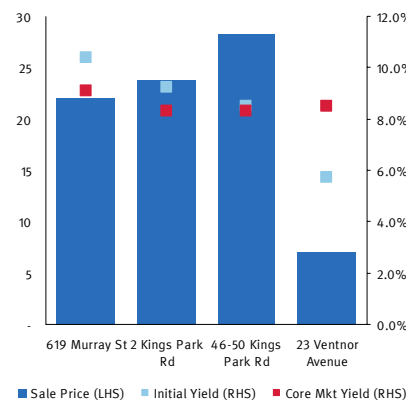
Investment Activity

West Perth saw three major investment sales (over \$10 million) during 2011, being 2 Kings

Park Road (\$23.75m), 619 Murray Street (\$22.0m) and 46-50 Kings Park Road (\$28.25m). 23 Ventnor Avenue sold for \$7 million in December 2011.

Private investors and local syndicates remain the most active investors within West Perth. Examples include the purchase of 2 Kings Park Road by a private investor whilst separate syndicates acquired 619 Murray Street and 46-50 Kings Park Road.

Figure 4
Major Sales and Yields
Sales Value (\$million) with Initial and Core Mkt Yield



Source: Knight Frank

The lower levels of sales are mostly due to fewer major assets coming onto the market. Investment sales below \$5 million remain attractive to private investors and owner-occupiers are active.

Average core market yields in West Perth have remained stable at 8.00% – 8.50% for Prime-grade buildings and 8.50% – 9.00% for Secondary-grade buildings.

Outlook

There is demand for development sites, however supply is limited. The small size of lots and the requirement to amalgamate them, coupled with the mixed-use of existing sites, is the biggest inhibitor to new development within the West Perth area.

Tightening vacancy and limited new supply could push prospective tenants further afield to areas surrounding West Perth, i.e. Subiaco and Leederville.

A plot ratio review has been undertaken by the City of Perth, potentially amending sections around the West Perth town centre (between Hay and Murray Street's, through to Outram Street), as well as the eastern area along the Mitchell Freeway is likely to see an increases to plot ratio. This may benefit development within these areas.

Rents have increased as vacancy has tightened, particularly in Prime-grade buildings. With limited availability within this grade, growth will be shown as new leaseings lead the market. However, it is Secondary grade stock which will be the greatest beneficiary of rental growth as tenants vie for space in West Perth.

It is anticipated that the level of investment sales will remain at similar levels to 2011, with limited or no yield compression expected.

Table 2
Leasing Activity West Perth

Address	Area (sq m)	Net Face Rental (\$/m ²)	Term (yrs)	Lease Type	Tenant	Date
1120 Hay St	5,066	585	8.0	Pre-commit	Technip	Mid 2012
35 Havelock St	800	550	5.0	New	Titan	Mar 2012
1195 Hay St	724	493	3.4	New	PHPA	Mar 2012
1100 Hay St	1,469	610	n/d	Extension	CBI Constructors	Feb 2012
677 Murray St	387	450	5.0	New	Undisclosed	Feb 2012
16 Ord St	102	500	3.0	New	Excalibur Mining	Oct 2011
18-32 Parliament Pl	1,803	600	MR	MR	Alacer Gold	Sept 2011
22 Delhi St	275	575	5.0	New	WHL Energy	Aug 2011

Table 3
Major Sales Activity Over \$5 million West Perth

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	Vendor	Purchaser	Sale Date
23 Ventnor Avenue	7.00	8.50	993	7,048	Territory Resources	Private Investor	Dec 2011
46-50 Kings Park Road	28.25	8.29	4,090	6,907	Charter Hall	API	July 2011
619 Murray Street	22.00	9.10	3,984	5,522	Becton Group	Primewest	Jan 2011
2 Kings Park Road	23.75	8.30	4,132	5,748	API	Private Investor	Jan 2011

Source: Knight Frank n/d = not disclosed MR = Market Review



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Knight Frank Research

Matt Whitby

National Director
Head of Research & Consulting, Australia
+61 2 9036 6616
Matt.whitby@au.knightfrank.com

Alison Smith

Research Manager - WA
+61 8 9225 2434
Alison.Smith@au.knightfrank.com

Valuations Contact

Marc Crowe

Director, Valuations
+61 8 9225 2521
Marc.crowe@au.knightfrank.com

Commercial Sales Contacts

John Corbett

Managing Director, Western Australia
+61 8 9225 2561
John.corbett@au.knightfrank.com

Tony Delich

Director, Commercial Sales
+61 8 9225 2528
Tony.delich@au.knightfrank.com

Todd Schaffer

Sales Executive
+61 8 9225 2402
Todd.schaffer@au.knightfrank.com

Vincent Siciliano

Commercial and Investment Sales
+61 8 9225 2523
Vincent.siciliano@au.knightfrank.com

Commercial Leasing Contacts

Bret Madden

Director, Office Leasing & Strategic Assets
+61 8 9225 2407
Bret.madden@au.knightfrank.com

Sallese Wilmot-Barr

Associate Director, Office Leasing
+61 8 9225 2405
Sallese.wilmot-barr@au.knightfrank.com

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