



AUGUST 2012
**GOLD
COAST**
Office Market Report
Knight Frank

HIGHLIGHTS

- The Gold Coast office market has faced difficult conditions since mid-2008 as demand contracted sharply while there was still a construction pipeline completing significant levels of new space during 2008 and 2009. This resulted in the total vacancy for the market increasing from a very tight 4.1% in early 2007 to a peak of 22.6% in January 2011.
- Steady improvement to demand and relatively low supply additions has seen the vacancy contract to the current level of 21.5% as at July 2012. Over the calendar year 2012 a modest 4,292m² of new and 1,723m² of refurbished space will be added to the market. New construction is currently expected at 1,400m² for 2013 and 4,000m² for 2014 and the development pipeline is expected to remain subdued until the vacancy rate contracts further.
- The sales market has been dominated by private investor or owner occupier sales across a range of freestanding and strata property. Forced sales remain a factor in the market.

AUGUST 2012 GOLD COAST

Office Market Report

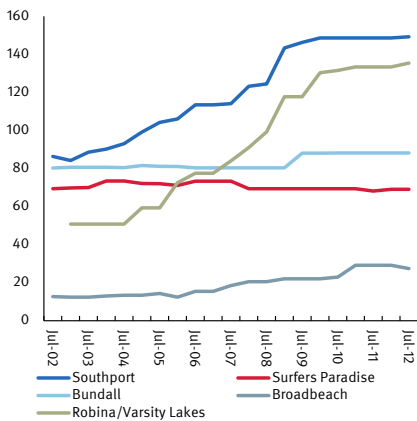
Table 1
Gold Coast Office Market Indicators as at July 2012

Grade	Total Stock (m ²) ^	Vacancy Rate (%)^	Annual Net Absorption (m ²)^	Annual Net Additions (m ²) ^	Average Gross Face Rent (\$/m ²)	Average Incentive (%)
Prime	132,163	25.6	3,332	4,292	447	17.5
Secondary	337,293	19.9	2,296	-2,522	370	16.0
Total	469,456	21.5	5,628	1,770		

Source: Knight Frank/PCA ^ as at July 2012

The Gold Coast region has an emerging commercial office market, with the current market characterised by a mixture of traditional locality based office space within retail hotspots and masterplanned regions. The precincts are spread in a linear fashion along the coast with varying distance from the Beachfront areas. From north to south the significant precincts are Southport, Surfers Paradise, Bundall, Broadbeach and Robina/Varsity Lakes.

Figure 1
Gold Coast Office Market Precincts
'000m² of stock 2002 - 2012



Source: PCA

The Gold Coast office market has grown strongly over the past 10 years, with dedicated office space increasing from 248,794m² (PCA July 2002) to the current stock of 469,456m² in July 2012. This growth has been concentrated in the Robina/Varsity Lakes (assisted by mixed use master-planning) and Southport precincts. The largest precinct remains Southport with 149,240m² of office stock, growing by 73% over the past 10 years.

Supply & Development Activity

Supply additions from 2010 have been modest (15,609m²) as market conditions deteriorated from mid-2008, suspending any further major construction starts.

Recent completions during 2012 have been smaller office buildings such as 237 Scottsdale Dr, Robina (1,996m²) and the office component at H2O Southport (1,196m²). The most recent significant supply additions were the Southport Central Stage 3 (18,000m² Q1 2009 strata units), Corporate Centre Stage 2, Bundall (7,648m² Q1 2009), The Rocket, Robina (11,280m² Q4 2009) and the commercial component of The Oracle development in Broadbeach (6,260m² Q4 2010). After a slow start for some of these developments they have now leased well with the Wyndham Centre (Corporate Centre Stage 2) having approx. 24% vacancy, The Rocket less than 5% available and The Oracle fully leased.

At this stage any proposed near term development is within smaller projects or

refurbishment of existing buildings.

Improving stock quality within the established beachside locations of Southport and Broadbeach is likely to be well accepted by the market, with strong locational loyalty from tenants sometimes tested by the lack of quality space available. Longer term there remains significant further development scope across Bundall and Robina/Varsity regions with significant future land banks.

Net Absorption & Vacancy

The Gold Coast region has seen relatively lacklustre demand for office accommodation since early 2008. This, combined with new stock continuing to enter the market during 2009 and 2010, saw the vacancy rate increase quickly across the region from a low of 4.1% in early 2007. The vacancy as at July 2012 was 21.5%, with the market showing gradual improvement from the peak of 22.6% in January 2011.

The prime market has continued to show steady recovery from a vacancy rate of 40.8% in mid-2010, to now stand at 25.6%. At the same time the secondary vacancy has slowly

Table 2
Gold Coast Supply — New Construction or Major Refurbishment

Project	NLA (sq m)	% Leased	Developer	Status	Date
82 Marine Pde, Southport	1,196	-	Philip Usher	Complete	Feb 12
237 Scottsdale Dr, Robina	1,996	35	Condev Const.	Complete	Apr 12
16 Queensland Ave, Broadbeach#	2,213	50	Optex Prop.	Complete	May 12
40 Nerang St, Southport#	1,730	25	Maylake P/L	Construction	Mar 13
Capri on Via Roma, Surfers Paradise	1,400	-	Private Investor	Site Works	Sept 13
The Base, Robina	4,000	9	RLC	Site Works	Jan 14

Source: Knight Frank # refurbishment



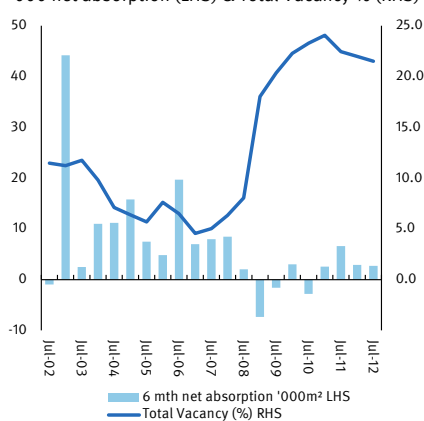
Table 3
Recent Leasing Activity Gold Coast Region

Address	Area (sq m)	Face Rental (\$/m ²)	Term (yrs)	Tenant	Start Date
The Base, Robina	360	400 n	5	Radcliffe Taylor	Jan 14
Corporate Centre 1, 2 Corporate Ct, Bundall	700	480 g est	7	Gold Coast Cth Games Organising Committee	Jun 12
9 Ouyan St, Bundall	765	400 g	5+5	Pearls Australasia	Jun 12
169 Varsity Pde, Varsity Lakes	1,500	300 g	6	NBN Co	May 12
Oracle, 2 Charles Ave, Broadbeach	1,877	385 n	10	Southern Cross Ten	Jan 12
Oracle, 2 Charles Ave, Broadbeach	925	385 n	undis	Gold Coast Tourism	Jan 12

Source: Knight Frank g= gross rent, n = net rent undis = undisclosed

improved to be 19.9%. However this was assisted by the withdrawal of secondary space from the market, rather than take-up.

Figure 2
Gold Coast Office Demand
'000 net absorption (LHS) & Total Vacancy % (RHS)



Source: PCA

Tenant Demand & Rents

Tenant demand has been subdued across the Gold Coast market as the wider economic conditions cooled. With a large proportion of the market made up of smaller tenants (100-200m²) the recent influx of new strata product (ie Southport Central) has diverted demand from the leasing market. Net absorption across the Gold Coast has recently been positive overall (1,770m² 12 months), reflecting a slow recovery. However secondary net absorption has been negative as tenants seek to upgrade to better quality space.

There is the potential for larger tenant relocations with the Gold Coast City Council expected to consolidate their offices, which are currently split between Bundall and Nerang, into a central location. To fill this requirement the council is reported to be in the process of purchasing the Waterside

complex in Bundall for circa \$32.5 million. In addition, tenants such as the ATO (1,000m² in Biggera Waters), KPMG (850m² in Bundall) and Hyder Consulting (700m² in Southport) are considering relocation and testing the leasing market. In line with the market conditions the rental market has softened in recent years with the current average prime gross effective rent \$368/m² (\$447/m² face and 17.5% incentive). The secondary market has also softened with \$370/m² gross face rents and 16% incentives.

Investment Activity

Recent major sales activity was dominated by the \$63.4 million purchase by Cromwell of the Corporate Centre at Bundall in late 2011. Outside of this headline sale the majority of transactions have been under \$7 million with a number of forced sales. In this sector of the market private investors have been active, seeking to purchase at or below replacement cost and if needed, undertake refurbishment. At the smaller end of the market, strata sales have continued to tick along, however with a large proportion of this stock controlled by receivers, price points have suffered.

Outlook

Market conditions remain tough in the Gold Coast market, but steady positive net absorption and little new supply means that gradual improvement is expected. In addition the Gold Coast will benefit from the current major infrastructure spending (\$1 billion Light Rail Project) and the Commonwealth Games in 2018, which will boost the local business community in the medium term.

Table 4
Recent Sales Activity Gold Coast Region

Address	Price (\$ mil)	Core Market Yield (%)	NLA (m ²)	\$/m ² NLA	Vendor	Purchaser	Sale Date
64 Ferny Ave, Surfers Paradise	c7.0	n/a	2,860	2,448	Reedling Pty Ltd	Private Investor	Jun 12
40 Nerang St, Southport	3.50	3.43 [^] #	2,054	1,704	Corporate Land Holdings	Private Investor	May 12
16 Queensland Ave, Broadbeach	6.60	n/a	2,245	2,940	Receiver (Elite Prop.)	Private Investor	Mar 12
12+13/97 Queen St, Southport	1.55	VP	372	4,167	Strategic Properties	Outlook Eye Specialists	Feb 12
Corporate Centre, 2 Corporate Ct, Bundall	63.40	n/a	20,565	3,083	Trident Corporation	Cromwell Group	Dec 11
128 Bundall Rd, Bundall	5.83	n/a	2,900	2,010	Receiver (City Pacific & Shangri-La Corp)	Private Investor	Nov 11

Source: Knight Frank [^] passing yield VP vacant possession # building sold approx. 65% vacant n/a not available



Americas

USA
Bermuda
Brazil
Canada
Caribbean
Chile

Australasia

Australia
New Zealand

Europe

UK
Belgium
Czech Republic
France
Germany
Hungary
Ireland
Italy
Monaco
Poland
Portugal
Romania
Russia
Spain
The Netherlands
Ukraine

Africa

Botswana
Kenya
Malawi
Nigeria
South Africa
Tanzania
Uganda
Zambia
Zimbabwe

Asia

Cambodia
China
Hong Kong
India
Indonesia
Macau
Malaysia
Singapore
South Korea
Thailand
Vietnam

The Gulf

Bahrain
Abu Dhabi, UAE

Knight Frank Research

Jennelle Wilson

Director – Research QLD
+617 3246 8830
Jennelle.Wilson@au.knightfrank.com

Matt Whitby

National Director – Head of Research & Consulting
+612 9036 6616
Matt.Whitby@au.knightfrank.com

Knight Frank Australia

Stephen Ellis

Executive Chairman
+612 9036 6666
Stephen.Ellis@au.knightfrank.com

Grant Whittaker

Managing Director Queensland, Executive
+617 3246 8888
Grant.Whittaker@au.knightfrank.com

Commercial Agency Contacts

John Meyers

Director in Charge – Gold Coast
+617 5636 0801
John.Meyers@au.knightfrank.com

Craig Marshall

Office Leasing – Gold Coast
+617 5636 0803
Craig.Marshall@au.knightfrank.com

Kym Thrift

Retail Leasing – Gold Coast
+617 5636 0804
Kym.Thrift@au.knightfrank.com

Kevin Lonard

Asset Management – Gold Coast
+617 5636 0807
Kevin.Lonard@au.knightfrank.com

Knight Frank Research provide strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, financial and corporate institutions. All recognise the need for the provision of expert independent advice customised to their specific needs.

Knight Frank Research reports are also available at www.knightfrank.com.au

© Knight Frank 2012

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not permitted without prior consent of, and proper reference to Knight Frank Research.