RESEARCH

Knight Frank

PERMANENT OFFICE STOCK WITHDRAWALS

DEVELOPMENT MARKET INSIGHT JULY 2015

HIGHLIGHTS

The East Coast CBD markets will see 387,927m² of office stock permanently withdrawn between 2015 and 2018. There is also a further 261,235m² of potential withdrawals identified.

The associated Fringe markets will also have strong withdrawals with 125,683m² of space to come out between 2015 and 2018; plus a further 35,057m² of currently identified potential withdrawals.

Conversion of the building accounts for 32% of withdrawals; the remaining 68% are to be demolished for redevelopment. Residential and hotel developments are the dominant uses at 80%.

KEY FINDINGS

Permanent withdrawals of office stock will increase **by 41% in 2015** and then a **further 48% in 2016**

Sydney CBD & North Shore dominates with 64% of withdrawals; driven by the extreme demand for development opportunity and the **lack of available sites.**

Melbourne, being further through its residential development cycle, **will see peak withdrawals in 2015.**

Brisbane withdrawals are driven by the **soft secondary market** particularly within the CBD where **4.7% of stock** will be withdrawn.

JENNELLE WILSON

Senior Director — Research QLD

MATT WHITBY

Head of Research and Consulting

"The withdrawal of obsolete office stock supports office market metrics and provides the opportunity for redevelopment to rejuvenate core commercial areas."

CITIES IN REJUVENATION

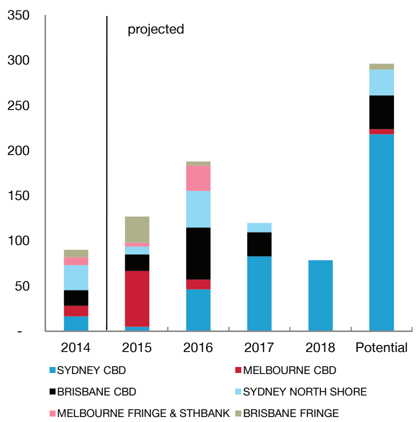
The permanent withdrawal of existing, largely secondary, office stock is on the increase. Although the dominating force is the demand for residential development—each city has different sub-drivers

Permanent withdrawals of office stock across the major East Coast markets will accelerate through 2015, increasing 41% above 2014 levels. However the peak is expected to be in 2016 when 188,000m² of office stock is projected to be withdrawn across the markets analysed by Knight Frank Research.

FIGURE 1

Permanent Office Stock Withdrawals

'000m² by city & market



Source: Knight Frank Research

For the years 2015—2018, Knight Frank Research has identified 387,927m² of permanent withdrawals across the CBDs of Sydney, Melbourne and Brisbane, with a further 261,235m² identified as potential withdrawals. This is dominated by the Sydney CBD, with 66% of the total.

In the fringe CBD precincts of Sydney North Shore, Melbourne Southbank & City Fringe and the Brisbane Fringe market there are also significant levels of office stock withdrawal. For 2015—2018, 125,683m² of office stock has been identified as expected withdrawals, with a further 35,057m² of potential withdrawals. To date there has not been the same level of site scarcity in fringe locations to drive the conversion or redevelopment of significant office assets to the same extent as the CBD markets.

Drivers

Overwhelmingly the major demand driver for this change of use of office stock has been the upswing in residential investment demand and the associated clamour for development sites. Hotel development, student accommodation and also the creation of development sites for new office projects have also been a factor in a number of withdrawals. Across the three cities, 47% of the stock withdrawn is for a change of use to residential with a further 26% slated for a likely residential/hotel development and 7% with pure hotel proposals.

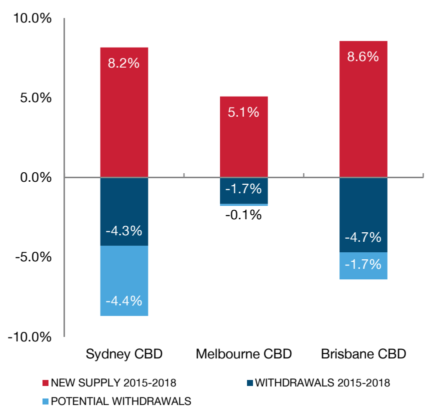
Impacts

Withdrawal of secondary office stock is expected to have a cushioning effect against relatively high supply levels, particularly in Sydney and Brisbane. For the Sydney and Brisbane CBDs permanent withdrawals in the next four years accounts for 4.3% and 4.7% of stock, against new construction of 8.2% and 8.6% respectively. Melbourne CBD is lower on both fronts with 1.7% stock withdrawal and 5.1% new supply.

FIGURE 2

Permanent Withdrawal v New Supply

% of current stock base—CBD markets

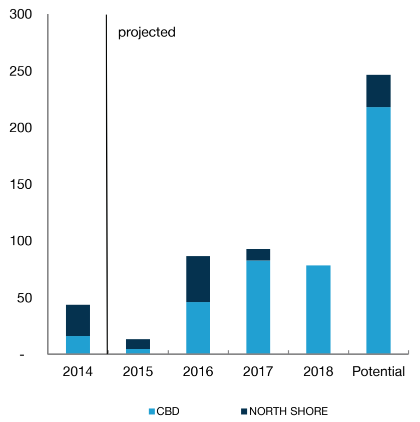


Source: Knight Frank Research

SYDNEY

The Sydney CBD and North Shore markets are not expected to have significant permanent office market withdrawals during 2015, with 13,451m² forecast across both markets, following 43,970m² withdrawn during 2014. This is expected to change markedly in 2016 and 2017 with permanent withdrawals of 86,737m² and 93,293m² respectively.

FIGURE 3
Sydney Office Stock Withdrawal
('000m²) CBD & North Shore—Permanent



Source: Knight Frank Research

Withdrawals in the Sydney CBD are seen by many as a welcome antidote to the strong supply additions which are to enter the market, particularly in 2015 and 2016 (361,755m²) to keep the vacancy rate sub-8.5%. At this stage the expected withdrawals in the years 2015-2018 total 212,531m², which is 4.3% of the current stock base. In contrast, the forecast new supply over the same period is 404,755m² or an 8.2% uplift on current stock.

Knight Frank is also tracking additional significant potential withdrawals, where office stock is considered to be a likely withdrawal, however there is no formal date for withdrawal at this time. The potential withdrawals within the CBD total 218,062m², which represents an additional 4.4% of current stock and this may further offset the current supply cycle. The Sydney CBD is also expected to see the continuation of the current strong refurbishment market, triggered by relocation of large tenants, where office assets are temporarily withdrawn for major works, before being returned to the market.

Withdrawals across the North Shore outpaced the CBD in 2014 with 27,573m² and that is also expected to be the case in 2015 with 8,652m² of stock to be withdrawn compared with 4,889m² in the CBD. Withdrawals will accelerate during 2016 at 40,526m², however will be overshadowed by the levels seen in the CBD. Over the period 2015-2018 the North Shore is expected to record 59,580m² of withdrawals (4.1% of current stock) and Knight Frank is tracking a further 28,476m² of potential withdrawals.

Drivers

The primary driver for the withdrawal of office stock in the Sydney market has been the upsurge in underlying demand for development options and limited greenfield sites. This has primarily been driven by the surging residential development demand, however hotel and new commercial development has also been a factor in some withdrawals of stock. As shown in Figure 4, residential development accounts for 48% of the stock to be withdrawn, residential/hotel accounts for 16% and pure hotel use is a further 10%.

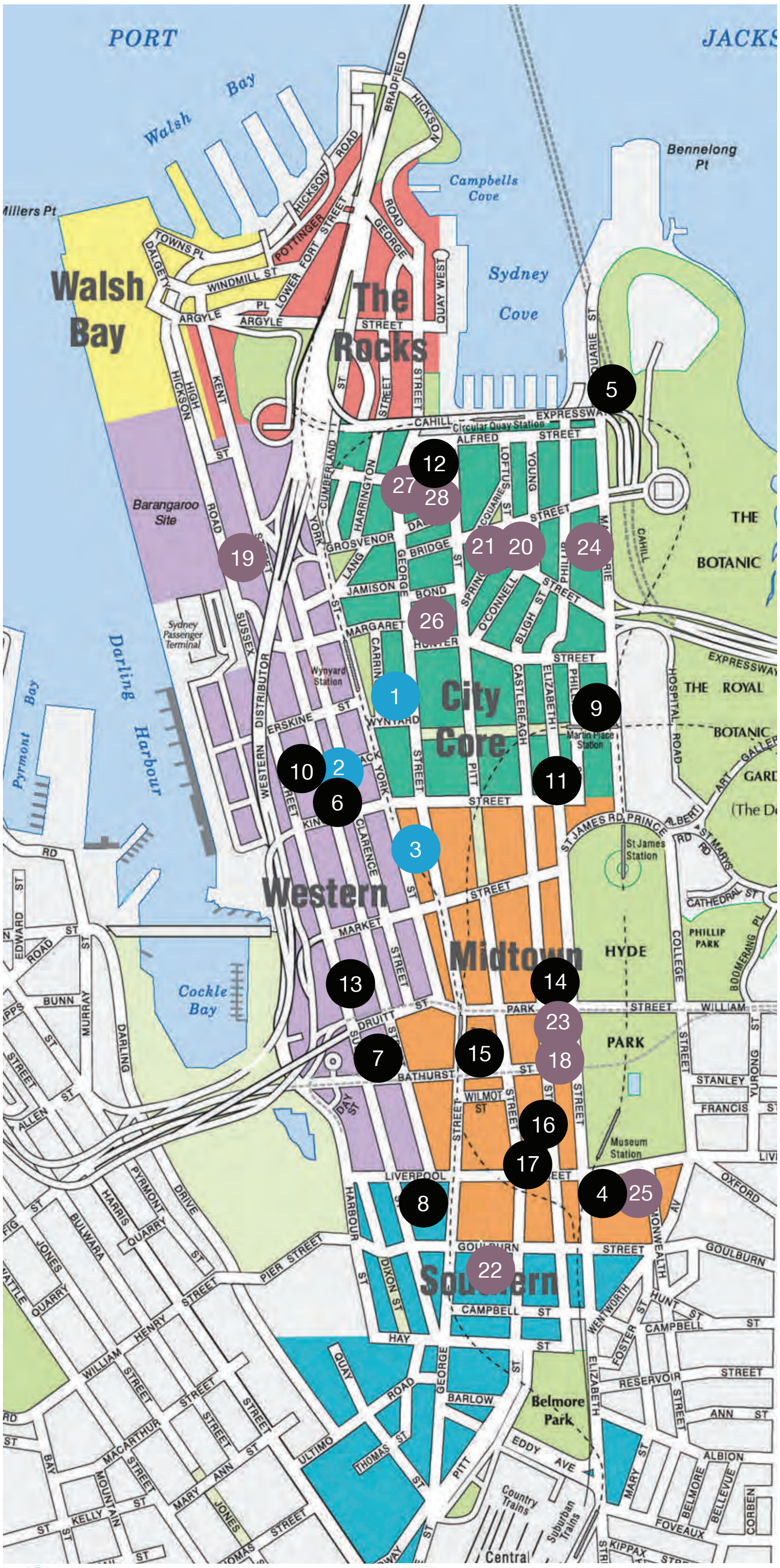
TABLE 1
Recent Major Sales Activity Sydney CBD & North Shore - Conversion or Demolition Assets

Address	Precinct	Price $ mil	Bld NLA m²	$/m² NLA	Site m²	$/m² Site	WALE yrs	Vendor	Purchaser	Sale Date
472-486 Pacific Hwy	North Shore	121.00#	10,510	11,513	5,133	23,573	1.5	Leighton	Mirvac Group	Jun 15
53-55 Liverpool St	CBD	19.10^	3,360	5,685	791	24,147	1.3	Private Investors	Undisclosed Developer	May 15
619-621 Pacific Hwy	North Shore	39.18#	5,317	7,369	1,042	37,601	n/a	Legacy Property Gp	Private Developer	Feb 15
130 Elizabeth St	CBD	121.00^	10,308	11,738	973	124,358	0.9	Cbus Property	Ecove Group & China Aoyuan Property Group	Feb 15
173-175 Phillip St	CBD	46.00#	8,630	5,214	879	52,332	VP*	University of Sydney	ISPT/Galileo	Feb 15
168 Walker St	North Shore	157.50^	17,663	8,917	4,898	32,156	2.5	Anton Capital	Aqualand	Jan 15
338 Pitt St ‡	CBD	102.00#	18,580	5,490	1,616	63,119	1.7	AMP Capital Wholesale Office	Visionary Investment Group	Jan 15
19-31 Pitt St ~	CBD	73.00#	5,518	13,229	911	80,132	undis	AXF Group & Ever Bright Group	Dalian Wanda	Jan 15
1 Alfred St ~	CBD	415.00#	23,456	17,692	2,677	155,024	undis	Blackstone (Valad)	Dalian Wanda	Dec 14

Source: Knight Frank Research ^ likely conversion # likely demolition *Occupants related to the Uni will be relocated; other tenants have a 12 month demolition clause ~ likely aggregation incorporating 31A Pitt St ‡ purchaser currently also owns 233 Castlereagh St so aggregation potential

SYDNEY CBD WITHDRAWALS

1. 333 George St—10,850m²
   Charter Hall—H1 2014—Office Redevelopment
2. 161-165 Clarence St & 304 Kent St—3,322m²
   Crown International Holdings—H1 2015
   Residential Redevelopment
3. 383 George St & 38-48 York St—3,389m²
   Fife Capital—H1 2015—Residential Redevelopment
4. 130 Elizabeth St—9,140m²
   Ecove Gp & China Aoyuan Property Gp—H1 2016
   Residential Conversion
5. 71-79 (Lot 1) Macquarie St—9,447m²
   Mirvac/AMP—H1 2016—Residential Redevelopment
6. 151 Clarence St—16,000m²
   Investa Office Fund—H1 2016—Office Redevelopment
7. 286 Sussex St—6,152m²
   Ausbao—H1 2016—Residential/Hotel Conversion
8. 53-55 Liverpool St—3,360m²
   Undisclosed—H2 2016—Hotel Conversion
9. 60 Martin Place—27,855m²
   Investa/Gwynvill- H1 2017—Office Redevelopment
10. 333 Kent St—8,938m²
    Maville—H1 2017— Residential/Hotel Conversion
11. 148A -160 King Street/173-175 Phillip St—8,630m²
    ISPT/Galileo Group—H1 2017
    Residential Redevelopment
12. 1 Alfred St & 19-31 Pitt St—27,118m²
    Dalian Wanda Group—H1 2017
    Residential/Hotel Redevelopment
13. 234 Sussex St- 11,000m²
    Meriton—H1 2017—Residential Conversion
14. 50-54 Park St—18,138m²
    Far East Group—H1 2018—Residential Conversion
15. 570 George St—21,930m²
    TFE Hotels—H1 2018—Hotel Conversion
16. 233 Castlereagh St—19,982m²
    Visionary Investment Group—H2 2018
    Residential Redevelopment
17. 338 Pitt St—18,580m²
    Visionary Investment Group—H2 2018
    Residential Redevelopment
18. 227 Elizabeth St—17,052m²
    Far East Group—Potential Residential Conversion
19. 189 Kent St (ADC House) - 15,000m²
    Barana Group—Potential Residential Conversion
20. 35—39 Bridge Street—12,330m²
    Government Property NSW
    Potential Residential/Hotel Conversion
21. 23 - 33 Bridge Street—8,815m²
    Government Property NSW
    Potential Residential/Hotel Conversion
22. 59 Goulburn St—19,553m²
    Roxy Pacific Holdings—Potential Hotel Conversion
23. 201 Elizabeth St—38,800m²
    Perron Investments/DEXUS Property Group
    Potential Residential Conversion
24. Hudson House, 131 Macquarie St—7,000m²
    Undisclosed—Potential Residential Conversion
25. 175 Liverpool St—46,583m²
    Shimao Property Group
    Potential Residential Conversion
26. 280 George St—5,123m²
    TFE Hotels—Potential Hotel Conversion
27. 182 George St & 33 Pitt St—26,206m²
    Lend Lease (for sale)—Potential Office Redevelopment
28. 37 Pitt St, 55 Pitt St & 6-8 Underwood St—19,480m²
    Mirvac—Potential Office Redevelopment



Office Stock Withdrawn

Potential Withdrawal Targets

Expected Withdrawals

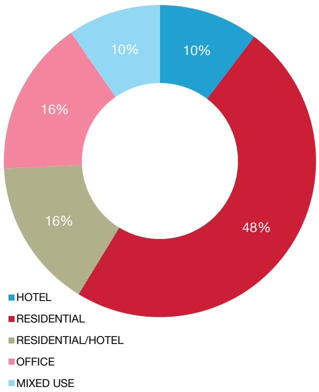
Source of Map: Knight Frank
As at June 2015
Office NLA quoted.

While the Sydney CBD is clearly on the cusp of a major office supply cycle, withdrawal of older office stock has not been driven by poor performance of secondary assets. In fact secondary assets have recently been outperforming prime stock both in terms of vacancy (7.1% vs 7.7%) and gross effective rental growth (6.2% v 3.2% yr to April 2015). However on a broad view the commercial market has not seen the same upswing as the residential market.

Therefore purchases which have been undertaken for an expected or potential withdrawal have often been done at a premium to the underlying value for an office use. Two sales towards the end of 2014 highlighted this with 233 Castlereagh St achieving 27% above the mid-2014 valuation and 338 Pitt St which was sold at a 12% premium to book value. 1 Alfred St, purchased as part of a larger site amalgamation, was also reported to have achieved a price some 15-20% above other bidders who were planning to continue the office use.

Conversely in the core CBD region the future demand for centrally located office space has resulted in two older office buildings at 151 Clarence St and 60 Martin Place slated for demolition for the construction of new office stock, accounting for 16% of withdrawals.

FIGURE 4
Sydney—Reason for Withdrawal
CBD & North Shore Withdrawals 2015—2018



Source: Knight Frank Research

Conversion versus Redevelopment

To date the majority of withdrawals across the CBD and North Shore have been for redevelopment with only three smaller conversions in the North Shore market to date. Going forward there is expected to be a more even spread between demolition and conversion. With conversion providing a faster turnaround and access to profits, assets such as 227 Elizabeth St, 50-54 Park St and 570 George St are amongst the larger buildings to be converted.

"Due to the clamour for development sites, prices paid for conversion or redevelopment have been at a premium to the ongoing office use valuation"

Future

With a large proportion of the withdrawn stock located in the Midtown portion of the CBD, this is expected to consolidate the migration of the major office core towards the north. The demand for residential apartment living in the inner city is expected to continue to drive both redevelopment and conversion into the medium term, with premiums to continue to be paid over and above a long term office use. With the North Shore already having a strong mix of residential and office uses, the withdrawal of older office stock is expected to facilitate a greater blending of these activities.

TABLE 2
Major Office Withdrawals— Sydney North Shore

Address	Precinct	NLA (m²)	Owner/Developer	Reason/Expected Reason for Withdrawal	Date
177 Pacific Hwy	North Sydney	4,303	Suntec REIT	Office Redevelopment	Apr 14
80 Arthur St	North Sydney	6,510	Meriton	Residential Redevelopment	Nov 14
18 Berry St, 148 & 154 Pacific Hwy	North Sydney	6,596	Private Developer	Residential Redevelopment	Nov 14
30 Alfred St	North Sydney	3,952	Private Developer	Residential Redevelopment	H2 2015
619-621 Pacific Hwy	St Leonards/CN	5,317	Private Developer	Mixed Use Redevelopment	H1 2016
221 Miller St	North Sydney	7,015	Yuhu Group	Office/Residential Redevelopment	H2 2016
472 & 486 Pacific Hwy	St Leonards/CN	10,510	Mirvac	Office/Residential Redevelopment	H2 2016
100 Christie St	St Leonards/CN	9,631	Altis Real Estate Equity Partnership	Residential Conversion	2016+
52 Alfred St	North Sydney	10,031	Bridgehill	Residential Conversion	2017
168 Walker St	North Sydney	17,663	Aqualand	Residential Conversion	tba
504 Pacific Hwy	St Leonards/CN	9,605	Charter Hall	Residential Conversion	tba

Source: Knight Frank Research   CN Crows Nest

MELBOURNE

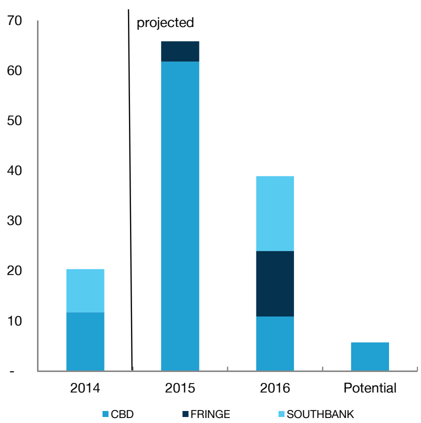
The impact of office stock withdrawal in the Melbourne CBD, Southbank and Fringe markets is concentrated in the near term with 65,830m² of stock to be withdrawn in 2015, following the relatively modest withdrawal of 20,329m² over the course of 2014. Withdrawals for 2016 are expected to be more modest with just under 40,000m² of stock currently identified as likely to be withdrawn from the market.

383 King St in the Melbourne CBD was purchased by Haileybury College from residential developer Aspial Corporation for $52 million. The building will be converted into an educational facility.

FIGURE 5

Melbourne Office Stock Withdrawal

('000m²) CBD, Southbank & Fringe—Permanent



Source: Knight Frank Research

In the longer term, particularly in the CBD, the current levels of residential construction in Melbourne has resulted in an increasing level of conservatism regarding future residential development or conversion opportunities which have a delivery window beyond 2016. For the period covering 2015—2018 there is anticipated to be 72,639m² of office space permanently withdrawn from the CBD market, representing 1.7% of the current stock base. Over the same period there is forecast to be 223,700m² of new office supply completed, which represents 5.1% of the current stock base. Therefore while permanent withdrawals will provide a mitigating factor for the total vacancy, the market will be reliant on the forecast strong net absorption, boosted by strong migration into the CBD by fringe and suburban tenants, and a growing level of temporary withdrawals for refurbishment, to keep the total vacancy in check.

The Melbourne CBD Fringe areas and also Southbank have also seen significant residential development of late, however a relatively low proportion of these developments have displaced significant office assets. The greatest level of withdrawal in these fringe CBD markets is expected to come in 2016 when 28,038m² of stock will be withdrawn.

TABLE 3

Recent Major Sales Activity Melbourne - Conversion or Demolition Assets

Address	Precinct	Price $ mil	Bld NLA m²	$/m² NLA	Site m²	$/m² Site	WALE yrs	Vendor	Purchaser	Sale Date
23-31 Lincoln Square Sth, Carlton	Fringe	12.52^	3,745	3,343	906	13,819	VP	Private Investor	KLW Holdings	Mar 15
185 Rosslyn St, West Melbourne	Fringe	40.00#	9,333	4,286	9,206	4,345	VP	Australia Post	Trenerry Property Group	Mar 15
383 King St	CBD	52.00^	12,975	4,008	2,200	23,636	VP	Aspial Group	Haileybury College	Feb 15
71-87 City Rd	Southbank	~40.00#	3,479	11,613	2,327	17,361	n/a	Various	Central Equity	Dec 14
85 Coventry St	Southbank	15.20#	2,006	7,577	976	15,574	n/a	Private Investor	Offshore Developer	Dec 14
600 Collins St	CBD	60.00#	7,995	7,505	2,428	24,712	n/a	Henkell Brothers Investment Mgt	Offshore Developer	Aug 14
555 Collins St	CBD	78.00^	23,579	3,308	2,241	34,806	VP	Private Investor	Fragrance Group	Jun 14
393 Swanston St	CBD	35.00#	4,738	7,387	786	44,529	VP	PGA Group	Scape Student Living	May 14

Source: Knight Frank Research ^ likely conversion # likely demolition

MELBOURNE MAJOR WITHDRAWALS

1. 54-68 Kavanagh St, Southbank—3,137m²
Central Equity—H1 2014
Residential Redevelopment

2. 85 Spring St, CBD—10,700m²
Grocon—H2 2014
Residential Redevelopment

3. 1-23 Queensbridge St, Southbank—4,066m²
Schiavello/Crown Holdings—H2 2014
Residential/Hotel Redevelopment

4. 383 King St, CBD—12,975m²
Haileybury College—H1 2015
Educational Use Conversion

5. 555 Collins St, CBD—23,579m²
Fragrance Group—H1 2015
Residential Conversion

6. 380 Lonsdale St, CBD—4,890m²
Hiap Hoe—H1 2015
Residential Redevelopment

7. 393 Swanson St, CBD—4,738m²
Scape Student Living—H2 2015
Student Accommodation Redevelopment

8. 280 Queen St, CBD—3,130m²
Offshore Developer—H2 2015
Residential Redevelopment

9. 63 Exhibition St, CBD—6,048m²
Asia One—H2 2015
Residential Redevelopment

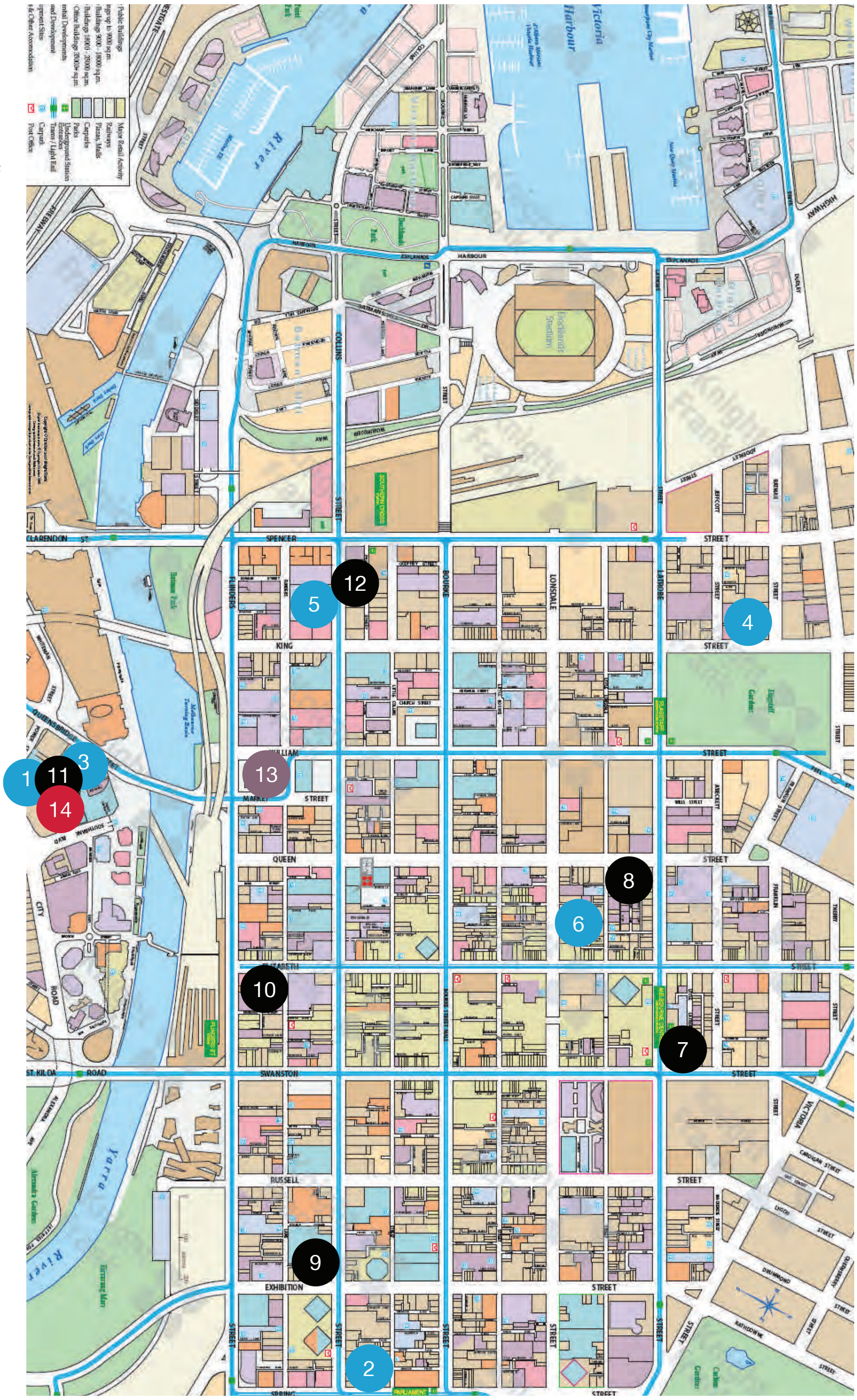
10. 227-279 Flinders Lane, CBD—3,826m²
Wake Up Hostels—H2 2015
Hotel Conversion

11. 158 City Rd, Southbank—4,014m²
Offshore Developer—H1 2016
Residential Redevelopment

12. 600 Collins St, CBD—7,995m²
Offshore Developer—H2 2016
Residential Redevelopment

13. 22 William St, CBD—5,700m²
Orion Homes Australia Pty Ltd
Potential Residential Conversion

14. 38 Freshwater Place—approved 42,000m²
GL Investment Co Melbourne Pty Ltd
Proposed Residential/Hotel



Office Stock Withdrawn

Expected Withdrawals

Potential Withdrawal Targets

Development site converted from an office scheme to alternate use

Source of Map: Knight Frank
As at June 2015
Office NLA quoted.

Drivers

The predominant driver for withdrawal of office stock in the Melbourne market has been the residential development upswing. As seen in Figure 6, residential development clearly dominates the reasons for the withdrawal of office space, accounting for 79% of the office area to be withdrawn 2015-2018.

Outside of residential development uses there has been one asset purchased for hotel conversion with 277 Flinders Lane, Melbourne to be converted into backpacker accommodation. Education users account for the remaining withdrawals with Haileybury College purchasing 383 King St, Melbourne for conversion into a school and 393 Swanson St, Melbourne has been purchased for redevelopment into purpose built student accommodation.

In the Southbank and Fringe markets the withdrawals are predominantly for residential development. The level of residential demand in these areas has been far stronger than the withdrawal of office stock suggests, as there has been many additional cleared or lower density sites available for development.

There is an increasing level of caution from residential developers on large-scale, longer term projects in Melbourne and this has somewhat curtailed the expected levels of office stock withdrawal beyond 2016. With more than 11,600 apartments currently under construction in the Inner Melbourne precinct, four times the average supply total of the past 10 years, there is an increased reticence to acquire a new asset for redevelopment with the expectation of progressing in the short term.

There has been sustained strong demand across the Melbourne market for commercial assets, particularly from off-shore purchasers. As prime investment opportunities became limited the market attention turned to the secondary market, with many offshore investors seeking to gain a presence in Melbourne. In the main, secondary assets which transacted since mid-2014 have been purchased with a value-add focus, rather than for short-term redevelopment.

Conversion versus Redevelopment

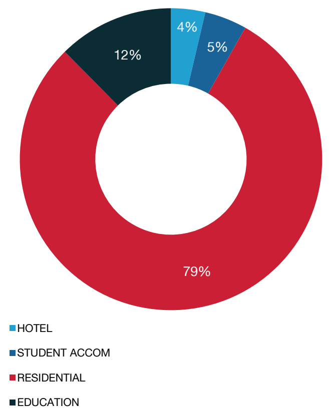
Within the CBD market more office space is being withdrawn for conversion (56%) than for redevelopment (44%). This reflects the ready availability of development sites within the central Melbourne grid area, with new developments likely to be sited on an existing development site or low rise non-office uses.

In the Fringe and Southbank precincts there are no conversions with all withdrawals being for redevelopment. This is indicative of the underlying office stock which is being withdrawn, largely older low rise buildings without character or heritage attributes.

FIGURE 6

Melbourne—Reason for Withdrawal

CBD, Southbank & Fringe Withdrawals 2015—2018



Source: Knight Frank Research

Future

As Melbourne experienced a strong cycle of withdrawals and conversions during the Postcode 3000 planning incentive scheme during the mid-late 1990s, the current levels of office withdrawal are not as pronounced as in other cities. Even though the secondary office market vacancy is currently 11.3%, sentiment in that market is relatively robust, with a number of education tenants seeking secondary space and forecast rental growth above 5%p.a for the next three years. Following a spate of withdrawals in 2015 and 2016, the medium term is expected to see lower levels of permanent withdrawal with owners likely to favour short term refurbishment for office use whilst awaiting the next major residential development cycle.

TABLE 4

Major Office Withdrawals— Melbourne Southbank & Fringe

Address	Precinct	NLA (m^2)	Owner/Developer	Reason/Expected Reason for Withdrawal	Date
54-68 Kavanagh St	Southbank	3,137	Central Equity	Residential Redevelopment	Jun 14
1-23 Queensbridge St	Southbank	4,066	Schiavello/ Crown Holdings	Residential/Hotel Redevelopment	Dec 14
1 Rathdowne St, Carlton	Fringe	4,071	Offshore Developer	Residential Redevelopment	Dec 15
158 City Rd	Southbank	4,014	Offshore Developer	Residential Redevelopment	Jun 16
71-87 City Rd	Southbank	3,479	Central Equity	Residential Redevelopment	Jun 16
23-31 Lincoln Square Sth, Carlton	Fringe	3,745	KLW Holdings	Residential Redevelopment	Dec 16
185 Rosslyn St, West Melbourne	Fringe	9,333	Trenerry Property Group	Residential Redevelopment	Dec 16

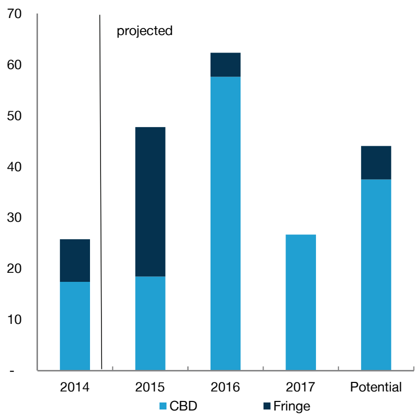
Source: Knight Frank Research

BRISBANE

The Brisbane CBD and Fringe markets are expected to experience significant withdrawal of obsolete stock over the next three years, after the withdrawal of 25,772m² during 2014.

It is forecast that between 2015-2018 the CBD will see some 102,757m² of stock withdrawn from the market, representing 4.7% of the current stock base. Knight Frank is also tracking an additional 37,473m² of stock which has the potential to be withdrawn from the CBD in the medium term. This withdrawal is anticipated to somewhat mitigate the impact of the delivery of 188,000m² (8.6% of the current stock base) of new supply over a 12 month period from late 2015.

FIGURE 7
Brisbane Office Stock Withdrawal
('000m²) CBD and Fringe—Permanent



Source: Knight Frank Research

As seen in Figure 7, the majority of the CBD stock withdrawal is expected to occur within the 2016 calendar year and is tied to the demolition of older State Government owned buildings to create the Queens Wharf development site. The majority, if not all, of the occupants within the buildings to be demolished in 2016 are expected to relocate into the newly completed 1 William Street in mid- 2016.

Within the Fringe market, for the period 2015-2018, there is expected to be 33,994m² of office stock withdrawn (2.8% of current stock). The Fringe market is presently seeing high demand for residential development sites, however the majority of this demand is being satisfied by existing sites or low-rise service retail or semi-industrial premises. Therefore existing office assets are only being redeveloped in a small proportion of the residential developments. Much of the Fringe stock to be withdrawn is within smaller, low rise, assets with an average NLA per withdrawn building of 3,574m².

363 Adelaide Street has been purchased by Valparaiso Capital for conversion to student accommodation.

Drivers

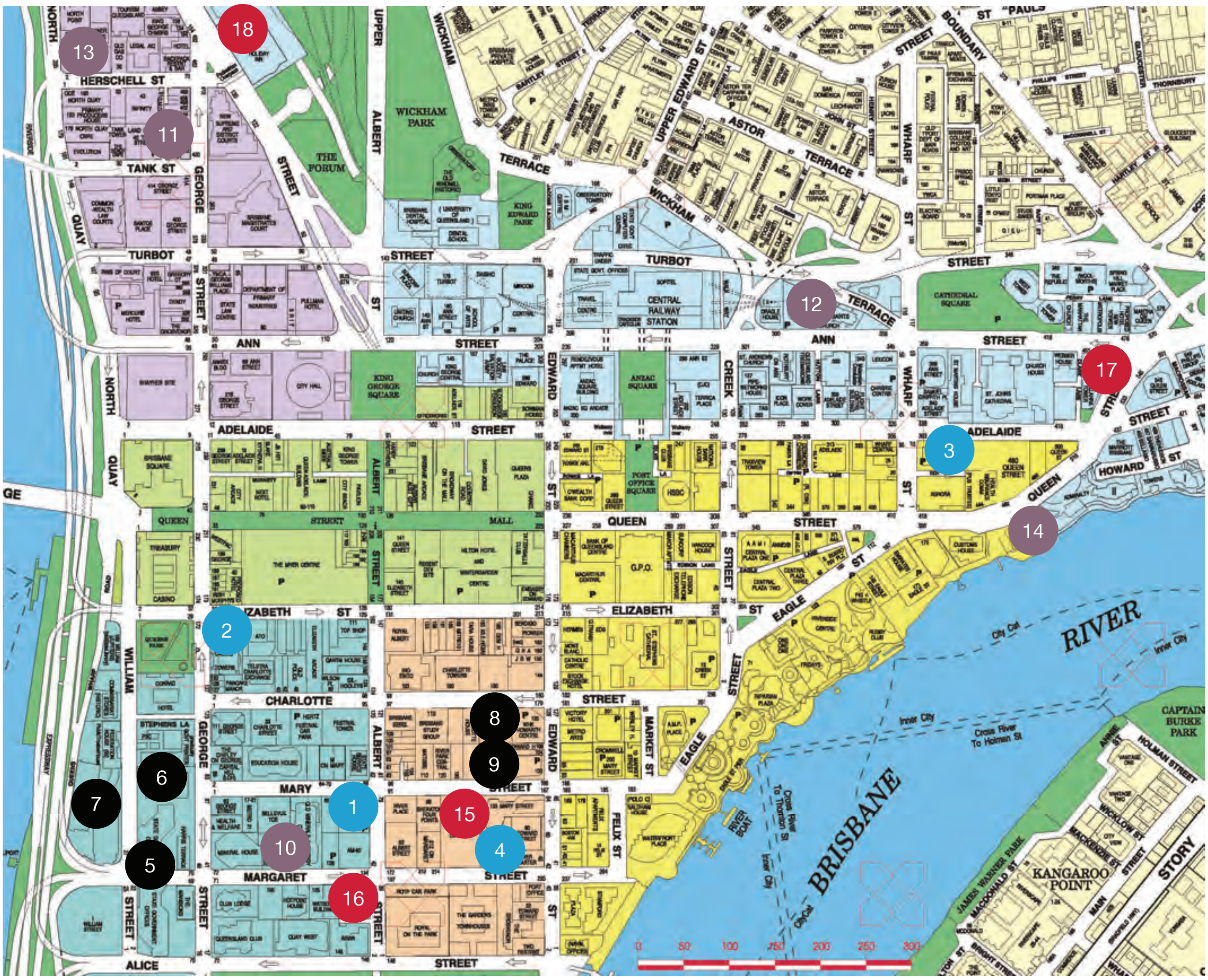
The increased prevalence of withdrawal of stock in Brisbane commercial markets has emerged due to softer commercial leasing market conditions, combined with improved sentiment and demand across residential, hotel and student accommodation. While the residential development cycle has come later to the Brisbane market, it has resulted in an unprecedented level of proposed supply.

TABLE 5
Recent Sales Activity Brisbane - Conversion or Demolition Assets

Address	Precinct	Price $ mil	Bld NLA m²	$/m² NLA	Site m²	$/m² Site	WALE yrs	Vendor	Purchaser	Sale Date
185 Wharf St, Spring Hill	Fringe	14.00 #	2,824	4,958	1,835	7,629	VP	Silverstone Developments	Cbus Property~	Jun 15
363 Adelaide St	CBD	47.50 ^	14,962	3,175	2,846	16,690	VP	Investa Property Group	Valparaiso Capital	Dec 14
240 Margaret St	CBD	30.00 #	3,750	8,000	1,715	17,493	VP	Qld Water Corporation	Aspial Corporation	Jul 14
171 George St	CBD	35.00 ^	8,700	4,023	1,378	25,399	n/a	Private Investor	Toga Far East Hotels	Jul 14
443 Queen St	CBD	49.00 #	5,560	8,909	2,183	22,446	1.9	Private Investor	Cbus Property	Jul 14
109 Melbourne St, Sth Brisbane	Fringe	10.00 #	2,100	4,762	1,347	7,424	VP	Heathley Keystone	ARIA Property Group	Jun 14
168-184 Wharf St, Spring Hill	Fringe	7.50 #	1,836	4,085	1,244	6,029	VP	Private Investor	Pro-Invest Australian Opportunity Pty Ltd	May 14
152 Wharf St, Spring Hill	Fringe	13.50 #	4,613	2,927	1,981	6,815	0.6	Heathley Diversified Property Fund	MPG Developments	May 14

Source: Knight Frank Research ^ likely conversion # likely demolition ~reported contract, settlement to be confirmed

BRISBANE CBD WITHDRAWALS



1	80 Albert St—9,118m^2 Frasers Hospitality— Q1 2014 Hotel Conversion
2	171 George St—8,260m^2 office NLA Toga Far East Hotels—Q4 2014 Hotel Conversion
3	363 Adelaide St—14,700m^2 Valparaiso Capital — Q1 2015 Student Accommodation Conversion
4	240 Margaret St—3,750m^2 Aspial Corporation— Q1 2015 Residential Redevelopment
5	80 George St—16,150m^2 State Government—2016/2017 Integrated Resort/Residential redevelopment (Queens Wharf)
6	100 George St - 22,906m^2 State Government— 2016/2017 Integrated Resort/Residential redevelopment (Queens Wharf)
7	75 William St—18,600m^2 State Government— 2016/2017 Integrated Resort/Residential redevelopment (Queens Wharf)
8	147-163 Charlotte St—13,395m^2 Cromwell Property Group—2017 Likely Redevelopment
9	146-160 Mary St—13,256m^2 Cromwell Property Group—2017 Likely Redevelopment
10	126 Margaret St—5,718m^2 Investec Prop Opportunity Fund 10% occupied
11	420 George St—6,500m^2 Forza Capital 14% occupied
12	310 Ann St—16,500m^2 Pidgeon Family—Q1 2015 Currently fully vacant
13	205 North Quay—3,318m^2 RNP Currently fully vacant
14	443 Queen St—5,560m^2 Cbus Property
15	111 Mary St—approved 35,000m^2 Sam Chong Seeking new DA for hotel development
16	30 Albert St—approved 25,000m^2 Aspial Corporation Residential Proposed
17	550 Queen St—approved 18,500m^2 Qualitas/Consolidate Properties Residential Development
18	Transit Centre Stage 2—approved 70,000m^2 GPT (GWOF)/APPF Likely residential if pursued

- Office Stock Withdrawn (blue)
- Expected Withdrawals (black)
- Potential Withdrawal Targets (purple)
- Development site converted from an office scheme to alternate use (red)

Source of Map: Knight Frank
As at June 2015
Office NLA quoted.

The relatively softer market conditions in the secondary markets has been a major factor in creating opportunities for stock withdrawal with largely vacant or imminently vacant buildings. With a current secondary vacancy of 20.5% in the CBD and 13.6% in the Fringe there are buildings with weak tenant profiles, making them ripe for redevelopment. The Brisbane City Council has stepped up planning support for the redevelopment of obsolete stock.

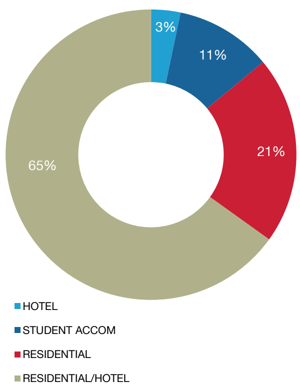
While only 21% of stock withdrawn is for purely residential development, 66% is for residential/hotel development, dominated by Queens Wharf which will be an integrated resort and residential precinct. Change of use such as hotel or student accommodation has been supported by a combination of increased demand and support from the City Council. The Council offered subsidies on infrastructure charges for four or five star hotels, which were approved between July 2011 and July 2015.

Demand for student accommodation has been recovering as the AUD falls and offshore student numbers increased into Brisbane. In order to assist the market to meet demand the Brisbane City Council has offered a reduction in infrastructure charges for new student accommodation which has greater than 20 rooms and formal on-site management.

FIGURE 8

Brisbane—Reason for Withdrawal

CBD & Fringe Withdrawals 2015—2018



Source: Knight Frank Research

Conversion versus Redevelopment

To date the majority of withdrawals across the CBD and Fringe markets have been for conversion of an existing building to a new use, rather than for demolition and redevelopment. In the CBD 80 Albert St, 171 George St and 363 Adelaide St have been the dominant withdrawals to date, for conversion into hotel and student accommodation uses. In the Fringe, 477 Boundary St (19,538m²) was withdrawn in 2013 for conversion to residential and hotel uses and this has been followed by the TC Bierne Building which is being converted into a four star hotel and backpacker accommodation.

This trend is expected to change, led by the Fringe where withdrawals for redevelopment will account for 85% of the 2015 total as the residential site demand plays out. In the CBD, 2015 withdrawals for redevelopment is expected to be limited to the smaller 3,750m² 240 Margaret St, however will accelerate in 2016 with the 57,646m² of office stock to be withdrawn for the Queens Wharf development site.

Future

Withdrawal of stock is expected to continue to be a factor in both the CBD and Fringe markets into the medium term, with the current market conditions providing the opportunity to redevelop and rejuvenate areas of the city which would otherwise be vacant.

At this stage, 2015 is expected to be the peak year for withdrawals in the Fringe market with 29,299m². In contrast, withdrawals within the CBD are not expected to have a major impact until 2016. There will be some benefit to vacancy levels even though the withdrawals 2015-2018 (accounting for 4.7% of current stock) will be well outweighed by new supply at 8.6%.

TABLE 6

Major Office Withdrawals— Brisbane Fringe

Address	Precinct	NLA (m²)	Owner/Developer	Reason/Expected Reason for Withdrawal	Date
477 Boundary St	Spring Hill	19,538	Asian Pacific Group	Residential/hotel Conversion	Dec 13
168-184 Wharf St	Spring Hill	1,836	Pro-Invest Australian Opportunity Pty Ltd	Hotel Redevelopment	Dec 14
109 Melbourne St	Inner South	2,100	Aria Property Group	Residential Redevelopment	Dec 14
TC Bierne Bld	Urban Renewal	4,458	Forwin International	Hotel Conversion	Dec 14
185 Wharf St	Spring Hill	2,824	Cbus Property ~	Residential Redevelopment	Jun 15
152 Wharf St	Spring Hill	4,613	MPG Developments	Residential Redevelopment	Dec 15
25 Donkin St	Inner South	8,074	R & F Properties	Residential Redevelopment	Dec 15
435 St Paul's Tce	Urban Renewal	4,200	Abcor Group	Office or Residential Redevelopment	Dec 15
207 Wharf St	Spring Hill	4,695	Private Offshore (For Sale)	Residential or Hotel Redevelopment	Jul 16
301 Wickham Tce	Spring Hill	2,512	Cornerstone Properties	Residential Redevelopment	tba
Kings Row Bld 1	Milton	4,069	Investa ICPF (For Sale)	Residential Redevelopment	tba
50-56 Little Edward St	Spring Hill	2,694	Under Contract	Residential Redevelopment	tba

Source: Knight Frank Research ~reported contract, settlement to be confirmed

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