RESEARCH

MARCH 2012

SYDNEY SUBURBAN

Office Market Overview

Knight Frank

HIGHLIGHTS

- The Sydney suburban office market posted another year of positive net absorption in the 12 months to January 2012, with occupied stock increasing by 22,643m². However the addition of a similar level of new supply saw the total vacancy rise by 10bps to 9.6%. Vacancies remain tightest in the Inner West at 5.4%. Gross new supply equivalent to only 2.5% per annum is forecast to be added to the market in the next two years, although two thirds of this will be located in the Inner West and South regions.

- The majority of suburban vacancies are sub-1,000m² with larger options in excess of 3,000m² remaining limited. This is restricting the alternatives for larger tenants, who have tended to renew leases, a factor that has seen renewals drive the majority of rental growth. Smaller tenants remain more cautious and cost conscience, which has limited the rate at which smaller vacancies have been absorbed by the market.

- Rental growth has mirrored vacancy trends, where the tightest regions such as the Inner West and South West outperformed regions with higher vacancy rates such as the North West and North. Overall A-grade gross face rents now average $396/m², representing annual growth of 2.5%. However incentives also increased, albeit modestly, rising by an average of 85bps to 23%.

- A-grade core market yields range on average from between 8.50% and 9.75% with some modest softening recorded over the past 12 months. Investors are very selective outside of CBD locations, however with vacancies in the majority of regions forecast to reduce over 2012 and tenant demand expected to remain positive, opportunities are present for investors to participate in a market very close to, if not at the bottom of the cycle.

SUBURBAN MARKET OVERVIEW

Table 1
Sydney Suburban Office Market Indicators – Data as at January 2012

Region	Total Stock (m²)	Vacancy Rate (%)	Average A-Grade Gross Face Rent ($/m²)	Average A-Grade Incentive (%)	Outgoings ($/m²)	Average A-Grade Core Market Yield (%)
City Fringe	949,364	7.6	460	21.2	94	8.00% - 9.00%
North	567,888	13.3	397	30.0	95	9.00% - 10.00%
South	533,448	9.1	379	18.6	77	8.50% - 9.50%
Inner West	433,971	5.4	399	22.3	79	8.50% - 9.75%
North West	332,762	19.4	335	22.5	60	8.75% - 9.75%
South West	244,109	5.5	305	27.5	75	10.00% - 11.00%
West	143,998	7.5	314	25.0	75	10.00% - 11.00%
Total	**3,205,540**	**9.6**	**396**	**23.5**	**84**	**8.50% - 9.75%**

Definition:

Suburban: Includes office stock in the Sydney metropolitan area above 1,000 m² in size. It excludes stock in the CBD and the major office markets of North Sydney, Chatswood, Crows Nest, St Leonards, North Ryde and Parramatta.

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).

Source: Knight Frank   NB. Total market averages are weighted based

Suburban Office Regions

SUPPLY & DEVELOPMENT ACTIVITY

Suburban office supply was relatively muted over calendar year 2011 with approximately 42,245m² of new supply completed. Three quarters of this supply was located in two sub-regions, namely the North West and the South. In the former, this constituted the 12,278m² Vantage project at 7-9 Irvine Place, Bella Vista developed by Presida and the 8,629m² Atlas Norwest project at 2-8 Brookhollow Avenue developed by Capital Corporation. Both projects were completed in the first half of 2011. In the South, supply was led by Sydney Airport Corporation's Central Terrace project at 1 Airport Drive, Mascot, which added 9,000m² of new supply.

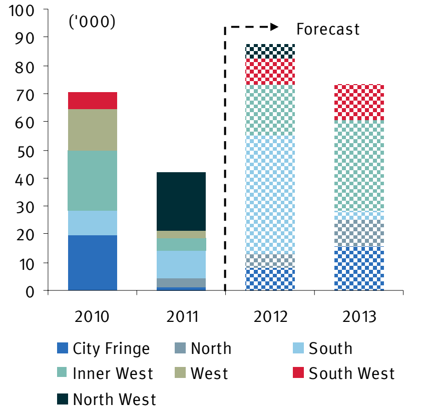
While a number of projects have attained development approvals, the majority of these have been mooted or deferred for at least two years. Nevertheless, supply is forecast to pick up in 2012, although this will be predominantly concentrated in the South and Inner West regions, where two thirds of new supply in 2012 and 2013 will be located. Over these two years, new supply of circa 161,023m² is forecast to come online, equivalent to 5.0% of total stock.

In the Inner West, developers are responding to the tightest suburban conditions, particularly for prime stock, and are progressing with projects located in Homebush and Rhodes. In Homebush, GPT have speculatively built a project at 5 Murray Rose Avenue, however the 12,200m² NLA project, which is due to complete in April has reached a leasing agreement with Lion Group for 100% of the space on a 12 year term. Also in Homebush, FDC have commenced work on a six storey commercial building of circa 5,800m² with completion due late 2012. In Rhodes, the next project to complete will be Australand's 17,700m² speculative Building F at Rhodes Corporate Park, which is due to complete in H1 2013.

In the South region four new developments are due to complete in the first half of 2012, of which 43% is pre-committed. These include Trivest's 18,500m² Alexandria Creative Park (7,500m² available), Yalumba's project at 90-96 Bourke Road (circa 13,000m² with 8,459m² available), 6,399m² at 85 Dunning Avenue (4,144m² available) and the Danks and Bourke project in Waterloo consisting of 4,000m² office space (3,800m² available).

While the North West has been a strong contributor to recent supply, new stock additions are set to ease in the next two years, which will likely see some downward pressure on vacancies. The only major project due to complete in 2012 is Capital Corporation's 11,000m² mixed use redevelopment at 22 Brookhollow Avenue, which is 75% pre-committed. The office component will be approximately 5,000m².

Figure 1
Supply Pipeline by Region
Suburban office



Source: Knight Frank

Table 2
Office Supply Major suburban developments

Address	Suburb	Region	Area (m²)	Developer/Owner	Stage	Est. Date of Compl.
Vantage, 7-9 Irvine Place	Bella Vista	North West	12,278	Presida	Complete	Q1 2011
1 Airport Drive	Mascot	South	9,000	SAC	Complete	Q2 2011
2-8 Brookhollow Avenue	Baulkham Hills	North West	8,629	Capital Corp	Complete	Q2 2011
Alexandria Creative Park	Alexandria	South	18,500	Trivest	U/C	Q1 2012
90-96 Bourke Road	Alexandria	South	13,000	Yalumba	U/C	Q2 2012
5 Murray Rose Avenue	SOP, Homebush	Inner West	12,200	GPT	U/C	Q2 2012
85 Dunning Avenue	Rosebery	South	6,399	EK Nominees	U/C	Q2 2012
8b Murray Rose Avenue	SOP, Homebush	Inner West	5,800	FDC	U/C	Q3 2012
22 Brookhollow Avenue	Baulkham Hills	North West	5,033	Capital Corp	U/C	Q4 2012
Building F	Rhodes Corp. Park	Inner West	17,700	Australand	U/C	H1 2013
Qantas Building#	Mascot	South	51,614	Cromwell	U/C	2013+
462 Chapel Road	Bankstown	South West	11,132	PT Property Group	DA Approved	2013+
15 Carter Street	Homebush Bay	Inner West	8,063	Goodman	DA Approved	2013+
Site 4B, Olympic Blvd	Homebush Bay	Inner West	23,500	Colonial	DA Approved	2014+
7 Carter Street	Homebush Bay	Inner West	18,588	Goodman	DA Approved	2014+
185-189 O'Riordan Street*	Mascot	South	16,908	Goodman	DA Approved	2014+
Jacksons Landing	Pyrmont	City Fringe	16,191	Lend Lease	DA Approved	2014+

Source: Cordell Connect/Knight Frank Estimates
U/C refers under construction
Major refurb
SAC refers Sydney Airport Corporation Ltd
*Stage 1 East Tower

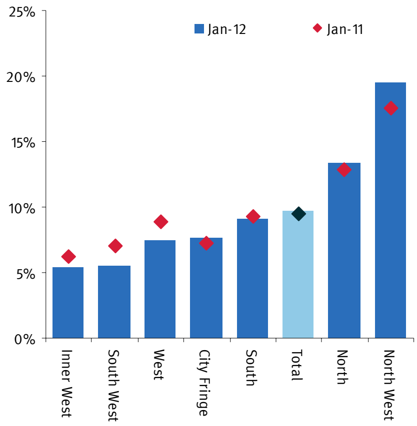
TENANT DEMAND & RENTS

Following some easing in labour market conditions and uncertainties surrounding global economic growth, a degree of caution is being demonstrated by tenants, which has seen the majority of leasing activity consist of leasing renewals as tenants look to extend existing leases. Nevertheless, the relatively defensive nature of the suburban office market saw moderate growth in occupied stock of 0.8% posted in the 12 months to January 2012, equating to 22,643m² of positive net absorption. The growth in demand was marginally outpaced by the increase in net supply resulting in the vacancy rate posting a modest increase from 9.5% to 9.6%.

There are currently only 21 vacancies in excess of 3,000m², however 80% of these are located in the North, North West and City Fringe regions. Excluding these larger 3,000m² plus vacancies the average building vacancy is 295m² which illustrates the majority of vacancies are relatively small in size. This is limiting the alternatives for larger tenants and has seen renewals drive rental growth. However the two tiered nature of the market where smaller tenants remain less confident to undertake expansion plans is constraining the rate at which smaller vacancies are being absorbed by the market.

The Inner West remains the tightest suburban region, with the vacancy rate falling from 6.2% to 5.4% in the year to January 2012 on the back of no major new supply and 4,145m² in positive net absorption. Homebush is the tightest market with a 1.4% vacancy rate, a factor that bodes well for the current pipeline of speculative projects due to complete over 2012. Significant new lease deals include Downer EDI absorbing 2,481m² of sub-lease space at 5 Rider Boulevard, Rhodes following Alcatel downsizing their occupancy while at 1 Rider Boulevard, Lumley Insurance also signed a new lease for 2,000m². In Burwood and Ashfield, new deals have been limited. The majority of availabilities consist of sub 250m² vacancies, which has limited the options for tenants looking for alternative leasing options. This has driven some tenants to different locations such as Paynter Dixon, who in October, vacated 2,402m² at 320 Liverpool Road, Ashfield and moved to a new D&C fit out at 2 Richardson Place, North Ryde.

Figure 2
Vacancy Rates by Region
January 2012 compared with January 2011



Source: Knight Frank

In the South, the 12 months to January 2012 saw the vacancy rate show a modest decline from 9.3% to 9.1% on the back of positive net absorption of 9,970m². Underpinning this result was the success of Sydney Airport Corporation's (SAC) 9,000m² Central Terrace development achieving 82% occupancy (SAC and Australian Federal Police) as well as some new deals in Hurstville (CMC for 1,600m² at 430 Forest Road and Navatas for 2,655m² at 7-11 The Avenue). Other major tenant moves included Volkswagon vacating Lakes Business Park, moving from 6 Lord Street to purpose built facilities at Chullora, although this was partly offset by Manton Air-Sea signing a new office/industrial lease for 1,269m² at 11 Lord Street. Although 19-21 Rosebery Avenue, Rosebery was vacated in May following the departure of Estee Lauder to 165 Mitchell Road Alexandria, Shine have absorbed the top floor with an October 2011 start date, while an additional floor is under Heads of Agreement.

Only two regions recorded negative net absorption in the year to January 2012, namely the City Fringe and North regions. However, in both instances some large single tenant departures to the CBD were largely responsible for the fall. In the In the City Fringe, the re-location of Westfield from 100 William Street into the CBD, underpinned the vacancy rate increasing from 7.2% to 7.6% in the 12 months to January 2012 and a rise in the East Sydney vacancy rate alone to 15.5%. Other major markets such as Pyrmont (6.6%) Ultimo (7.4%) and Surry Hills (9.1%) all remained relatively tighter.

In the North, occupied stock fell 0.6%, taking the vacancy rate to 13.3%. The departure of Harper Collins from 25-31 Ryde Road, Pymble to the CBD saw 6,300m² vacated, while Cardno's departure from Gordon to St Leonards vacated 2,700m² at 910 Pacific Highway. While most new lease deals have been organic in that tenants have relocated within the North region, some deals such as Navwealth and Le Creuset at 339 Military Road, Cremorne have contributed to net absorption. Small strata deals also helped absorb some of the residual 2010 supply. For example FKP's 12,000m² development at 117 Old Pittwater Road, Brookvale is now 95% occupied with approximately 60% of space being purchased by owner occupiers, while occupancy at 10 Tilley Lane, Frenchs Forest increased to just over 50% also on the back of owner occupier strata demand.

Although the North West region recorded the highest vacancy rate of 19.4%, the result was largely driven by the addition of approximately 21,000m² of new supply. Tenant demand was actually the highest of the suburban regions with positive net absorption of 11,044m² recorded, representing 4.3% of stock. Significant absorption was recorded at the 8,629m² Atlas development, including Virgin leasing 4,500m², with only 11 units of sizes 100m² to 120m² remaining.

The addition of very limited new stock in the South West and West and some smaller leasing deals has seen the vacancy rate fall in both regions from 7.1% and 8.9% to 5.5% and 7.5% respectively. In the South West, net absorption stemmed from the Vue development (1 Centennial Drive, Campbelltown, 10,000m² completed 2009) where occupancy has now increased to 94%

from 75% a year ago with suites slowly been leased and then sold to investors as strata. In the West, there was also minimal change with a number of small vacancies sitting idle for the past year. One asset to experience positive absorption however was Viento's Highviews Building in Blacktown, where occupancy increased from 54.7% to 71.3% over 2011. This constituted several new deals including Wentwest expanding their existing tenancy by an extra floor on a three year lease.

Rents

In the 12 months to January 2012, average suburban gross A-grade gross face rents increased 2.5%. Rental growth has mirrored vacancy trends, where the tightest regions such as the Inner West and South West outperformed regions with higher vacancy rates such as the North West and North.

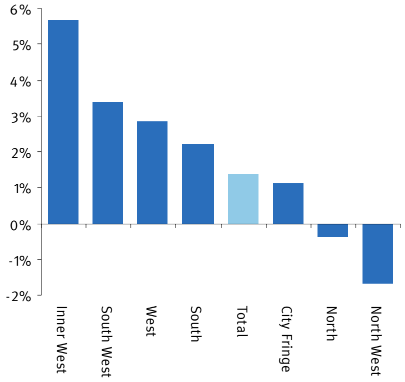
In the Inner West, A-grade gross face rents currently average $399, representing annual growth of 4.8%, the strongest growth recorded amongst regions. Combined with a slight reduction in incentives, A-grade gross effective rents posted growth of 5.7%. A-grade rental growth was not only achieved in Homebush and Rhodes, but also in Burwood, where tenant renewals are now achieving up to $400/m² on a gross face basis.

In the 12 months to January 2012, average A-grade gross face rents in the City Fringe increased approximately 2.8% to average $460/m². However this growth has been offset by average gross incentives increasing from 20% to 21% which has seen gross rents on an effective basis hold relatively steady.

Figure 3

Gross Effective Rental Growth

Annual growth to January 2012 (%)



Source: Knight Frank

In the West and South West limited tenancy options and cautious sentiment amongst tenants combined to curb the rate of new deals over 2011. However lease renewals for modern, A-grade assets with government tenants in suburbs such as Liverpool and Penrith of up to $350/m² gross face indicate some modest growth in rents. Average A-grade gross face rents currently average $314/m² in the West and $305/m² in the South West, however incentives remain elevated at 25% and 27.5% respectively.

In the North West, A-grade gross face rents average $335/m² with high vacancies continuing to place upward pressure on incentive levels, which have risen to an average 22.5% for A-grade buildings. Rental growth is likely to remain subdued given the volume of new stock to be absorbed by the market, although the relatively limited leasing options in neighbouring business parks will be a positive for new demand.

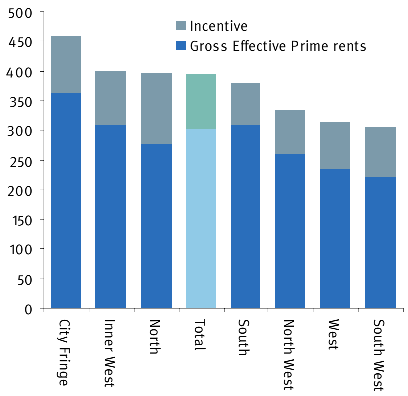
Although A-grade gross face rents of $397/m² in the North are commensurate with the average of Sydney's suburban regions, the high level of vacancies has seen incentive levels continue to post modest rises to now average 30%. This saw a slight fall of 0.4% in gross effective rents over the past year.

In the South region A-grade gross face rents range average $379/m² with incentives averaging 18.6%. The onset of new supply over the first half of 2012 is expected to keep incentives elevated.

Figure 4

A-Grade Gross Rents and Incentives

By region as at January 2012 ($/m²)



Source: Knight Frank

Table 3

Recent Leasing Activity Sydney Suburban

Address	Region	Area (m²)	Rent ($/m²)	Term (years)	Lease Type	Tenant	Start Date
171 William Street, Darlinghurst	City Fringe	5,327	500g	7	New	British American Tobacco	Mar-12
41-45 Bourke Road, Alexandria	South	2,500	360g	7	New	Bendon	Jan-12
5 Rider Boulevard, Rhodes	Inner West	2,481	U/D*	6	Sub lease	Downer EDI	Nov-11
56 Railway Parade, Burwood	Inner West	938	400g	4.4	Renewal	ADHC	Nov-11
20 Lexington Drive, Norwest	North West	2,161	284n^	10	New	KinCare	Oct-11
19-21A Rosebery Avenue, Rosebery	South	1,468	230n	3 + 2	New	Shine	Oct-11
Wharf 7, Pyrmont	City Fringe	2,400	550g	5	New	Google	Sep-11
90-96 Bourke Rd, Alexandria	South	561	374n	10	New	Explore & Dev. Childcare	Jun-11
18-20 Orion Road, Lane Cove	North	1,113	259n	5	New	Netcomm	May-11
L2 26 Waterloo Street, Surry Hills	City Fringe	1,800	350n	5	New	Cellarmasters	Apr-11
55 Mentmore Avenue, Rosebery	South	1,080	270g	8 + 4	New	The Benevolent Society	Apr-11
430 Forest Rd, Hurstville	South	1,600	385g	5.5	New	CMC Australia	Mar-11

Source: Knight Frank g gross n net *U/D refers to undisclosed ADHC refers Department of Ageing, Disability and Home Care ^ Reported

INVESTMENT ACTIVITY & YIELDS

Transaction Analysis

Active buyers in the suburban market during 2011 were almost exclusively made up of private investors, particularly in the sub $15m price range. However, one privately purchased asset to exceed this price range was 121-125 Henry Street, Penrith, which was acquired by Sandran for $31.025m in the largest suburban transaction of 2011. The asset was 100% leased to the Australian Tax Office, who had exercised an option to extend the lease by five years from December 2011, providing a 5.3 year WALE.

Other major transactions bought by private investors included 16-18 Bridge Street, Epping in the North, which was acquired by a Private Syndicator for $14.2m. The asset was 100% occupied and sold on a 3.1 year WALE. In the South region, 12 Butler Road, Hurstville also transacted with Abacus disposing of the 3,974m² office asset for $15.325m to an undisclosed private investor. The asset was 80% occupied, however the sale included a rental guarantee from the vendor.

In the first half of 2011, some signs of activity amongst wholesale funds was evident, however activity with this buyer type shifted towards CBD locations later in the year.

Acquisitions recorded included Centuria Property purchasing the newly completed 8 Australia Avenue, Homebush from the developer, Watpac for $30.15m in April 2011 on a core yield of 8.6%. Completed in January 2010, the building was 100% occupied and transacted with a 5.9 year WALE. Preceding this sale was Capital Corporation's purchase of 15 Bourke Road, Mascot for $29.0m. Although the building had 395m² of vacancy, the sale was subject to a rental guarantee from the vendor and equated to a core market yield of 9.8%.

The other non-private purchase was at 33 Moore Street in Liverpool where Liverpool City Council acquired the asset following PPB Advisory being appointed as Receivers and Managers. The $19.1m sale equated to a 10.95% core market yield and although the WALE was relatively small at 1.4 years, the Council was already a tenant having moved into the building in 2010 following a fire to their previous premises. NSW Police also took space in 2010, however on a short term lease while their old premises underwent refurbishments meaning they will likely vacate within two years.

In terms of suburban regions, the City Fringe experienced the highest number of transactions, however predominantly in the sub $10-15m range. Examples include 255 Broadway, Glebe being purchased by a private from FKP Core Plus Fund for $9.0m and 55 Murray Street, Pyrmont for $10.35m, also by a private investor. Private purchases in this price range were also evident in the North with 25-27 Sirius Road, Lane Cove West (48% office/ 52% warehouse) and 16-18 Cambridge St, Epping both selling for $10.68m and $6.5m respectively.

Some investors have looked to acquire and re-position buildings with properties such as 79 Commonwealth Street, Surry Hills being acquired by Titanium Property for a full refurbishment into modern creative space.

Yields

Some very modest yield softening was recorded in the 12 months to January 2012, with average suburban A-grade core market yields measuring 9.16%, an increase of 8bps compared to a year earlier.

Although two years ago City Fringe yields had been the first region to reach the peak in the suburban yield cycle, some modest softening was recorded over 2011. Nevertheless, City Fringe yields remain the tightest of the regions, averaging 8.00% to 9.00%.

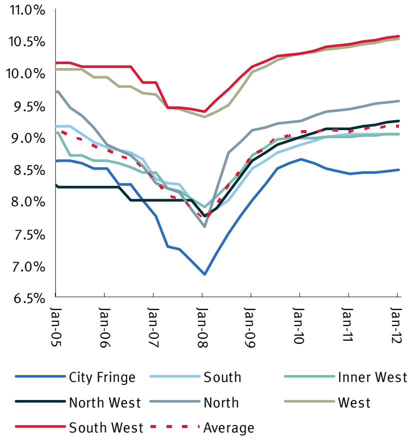
Table 4
Recent Sales Activity Sydney Suburban

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	Vendor	Purchaser	Sale Date
12 Butler Rd, Hurstville	15.33	9.40^	3,974	3,856	Abacus	Private Investor	Dec-11
16-18 Bridge St, Epping	14.20	10.00	3,177	4,469	Centuria Capital	Private Syndicator	Dec-11
79-83 Commonwealth St, Surry Hills	7.25	VP	1,893	3,830	Private	Titanium Property	Oct-11
255 Broadway, Glebe	9.00	8.70	2,035	4,423	FKP Core Plus Fund	Private	Sep-11
121-125 Henry St, Penrith	31.03	12.30	14,465	2,145	Australian Unity	Sandran P/L	Aug-11
25-27 Sirius Road, Lane Cove West~	10.66	10.00	8,693	1,226	Edward H O'Brien	Private Investor	Sep-11
55 Murray St, Pyrmont	10.35	U/D*	3,130	3,307	CPF Enterprises P/L	Bradfield Group P/L	Sep-11
16-18 Cambridge St, Epping	6.50	10.85	2,315	2,808	Winten Property Group	Jadan Property Group	Jul-11
29-31 Belmore St, Burwood	8.50	‡	2,945	2,886	APGF	Goldfield Investment	Jun-11
8 Australia Av, Homebush Bay	30.15	8.60	6,610	4,561	Watpac	Centuria Property	Apr-11
33 Moore St, Liverpool	19.10	10.95	8,826	2,164	PPB Advisory as	Liverpool City	Mar-11
15 Bourke Rd, Mascot	29.00	9.80	8,873	3,268	ISPT	Capital Corporation	Mar-11
349-355 Bulwara Rd, Ultimo	16.75	‡	7,650	2,190	Denison P/L	WN Devel. P/L	Feb-11

Source: Knight Frank ^ Fully leased yield ‡ bought for residential re-development VP refers vacant possession ~ 48% office/ 52% warehouse *U/D refers to undisclosed

Inner west A-grade yields range on average from 8.50% to 9.75%. The 8 Australia Avenue, Homebush sale at a core market yield of 8.6% was indicative of this range, however it is noted that Homebush yields are slightly tighter than the region as a whole. The South region is estimated to show similar A-grade yields, with an estimated range of 8.50% to 9.50%. 15 Bourke Road, Mascot transacted at a core market yield of 9.80% in early 2011, a rate commensurate for an upper B-grade asset in the South region.

Figure 5
Average A-Grade Core Market Yields
Sydney Suburban Regions



Source: Knight Frank

The West and South West regions have the highest A-grade yields, ranging from 10.00% to 11.00%. This is in line with the 33 Moore Street, Liverpool sale, which transacted on a core market yield of 10.95%, albeit on a small 1.4 year WALE. 121-125 Henry Street, Penrith transacted on a softer core market yield of 12.30%. The building was 18 years old and was considered to be over rented with a market review of rental rates to be carried out in November 2011.

In the North A-grade core market yields are estimated to range from 9.00% to 10.00%, a range confirmed by the 16-18 Bridge Street Epping sale on a core market yield of 10.00%. Transactions have been more limited in the North West, although A-grade core market yields are estimated to range from 8.75% to 9.75%. These ranges represented annual softening of around 12bps for both the North and North West regions.

OUTLOOK

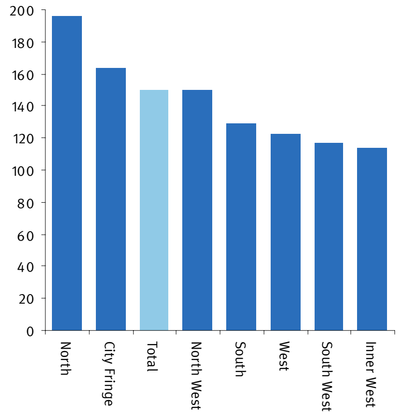
Although demand conditions are expected to remain patchy in 2012, the relative defensive nature of the suburban tenancy profile (higher weighting towards less cyclical employment sectors such as government, health and education) is expected to underpin a continuation of positive net absorption. Labour forecasts support this outlook with Deloitte Access Economics forecasting that Sydney white collar employment excluding the CBD and North Sydney will post average annual growth of 1.0% over the next two years, a rate exceeding the aforementioned CBD locations.

On the supply side, two thirds of supply over the next two years is forecast to be concentrated in the South and Inner West regions. Supply in other regions is more limited and implies that vacancies in these regions should gently tighten over 2012 and 2013 given expectations of positive, albeit modest, demand growth. In the Inner West, the existing substantially low vacancies, particularly in Homebush, means the region is well placed to absorb new supply, as illustrated by GPT's successful leasing agreement with Lion Group at 5 Murray Rose Avenue. In the South, where slightly more than 40,000m² of new stock with a current pre-commitment level of around 43% is scheduled to complete in the first half of 2012, there will be some pressure on vacancies and a likely continuation of elevated incentive levels.

The lack of leasing options in excess of 3,000m² that is limiting the alternatives for larger tenants, is forecast to see a continuation of tenants seeking to extend lease terms, which will underpin robust rental growth for lease renewals over the coming year. However the two tiered nature of the market, where tenant demand is relatively softer amongst smaller, cost conscious tenants, combined with the greater availability of smaller leasing options is expected to see relatively soft rental growth in this part of the market.

In the investment market, investors continue to be very selective outside of CBD locations. While this has narrowed the depth of active buyers in the suburban market, it has presented relatively 'cheap' opportunities for investors prepared to look beyond traditional CBD boundaries and participate in a market at the bottom of the cycle. In line with the selective nature of buyers, factors such as long lease terms and building quality remain critical factors underpinning asset values. Since January 2008, when suburban yields were at their tightest level, yields have softened on average 149bps (refer Figure 6) and are now 31bps above the 10 year average. Yields are expected to find a trough over the course of 2012, although it is noted that should global conditions worsen, there is the potential for some further market adjustment. However this would likely be modest given the adjustment to capital values that has already taken place.

Figure 6
A-Grade Suburban Yield Expansion
Yield movements from peak to current (bps)



Source: Knight Frank

Yields are expected to peak first in A-grade assets, which will benefit from the relative shortage of available modern premises. However this will accentuate the already heightened gap between A-grade and secondary values. For the discerning, active investor prepared to take advantage of the relative value in the secondary market there is considerable upside from capital reinvestment to improve factors such as service upgrades and environmental ratings that will increase appeal to prospective tenants.

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