HIGHLIGHTS

• 134,815m² of office space is under construction in the Perth Central Business District. 102,018m² was completed during 2010.

• The Property Council of Australia’s (PCA) total vacancy rate as at January 2011 was 9.5%, down from 9.9% in July 2010. There was 66,670m² of net absorption during the twelve months to January 2011.

• Knight Frank calculates the current real vacancy rate at 5.3% - being office space actually available for lease.

• There is downward pressure on incentives and upward pressure on rents for Prime-grade property. Prime-grade rents now range from $525 to $825 per m² p.a. net face. Secondary-grade property rents have remained stable over the past year at $400 to $475 per m² p.a. net face.

• Major transactions in the Perth CBD totalled $146.45 million during 2010, with over $300 million contracted or under due diligence in the first quarter of 2011. Average investment yields remain stable at market based rates of around 8.00%-8.25% for Prime assets.
Table 1

<table>
<thead>
<tr>
<th>Grade</th>
<th>Total Stock (m²)</th>
<th>Vacancy Rate (%)</th>
<th>Annual Net Absorption (m²)</th>
<th>Annual Net Additions (m²)</th>
<th>Average Net Face Rent ($/m²)</th>
<th>Avg. Incentive Range (%)</th>
<th>Avg. Core Market Yield Range (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>798,841</td>
<td>7.4%</td>
<td>87,876</td>
<td>90,481</td>
<td>671</td>
<td>0.0 – 15.0</td>
<td>7.50 – 8.50</td>
</tr>
<tr>
<td>Secondary</td>
<td>666,736</td>
<td>12.1%</td>
<td>-21,206</td>
<td>3,349</td>
<td>446</td>
<td>15.0 – 20.0</td>
<td>8.50 – 10.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,465,577</td>
<td>9.5%</td>
<td>66,670</td>
<td>93,830</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Knight Frank/PCA  ^ as at January 2011

ECONOMIC OVERVIEW

The beginning of 2010 saw strengthening in the Western Australian economic environment with confidence returning to the marketplace as a result of improved local, national and international conditions. The demand for resources by foreign markets and increased commodity prices have seen companies’ grow in the Perth Central Business District (CBD), requiring additional staff and thus office space to meet the growing demand.

Politics over 2010 did impact on the local office market, with the Federal Government’s announcement of the Resource Super Profits Tax (RSPT) in April almost halting leasing enquiries in the market as uncertainty loomed regarding the tax and resource companies fought against its implementation. A change in Federal Labor leaders and the announcement of an early Federal election during quarter three cast further nervousness over the market, particularly with the subsequent outcome of the election being a stalemate.

Since then, the political environment has settled and the resource sector has continued to strengthen through to the first quarter of 2011.

The Western Australian economy continues to grow strongly. Gross State Product increased in real terms by 4.3% during 2009-10 as a result of activity in the mining, oil and gas sectors. Growth in the State is forecast to remain stable in the coming years, particularly with sustained economic recovery in the global market.

Strong economic growth in Western Australia has seen high employment within the State, the unemployment rate being the lowest of all Australian States at 4.2% in February 2011 (5.0% for Australia), with forecasts by the State Government predicting unemployment to remain low through to 2013-14.

Positive net overseas and interstate migration has contributed to a growth of 2.1% in population over twelve months. The Australian Bureau of Statistics estimates the population of Western Australia to be 2,306,200 as at September 2010. This was the highest growth recorded for all Australian States.

Western Australia maintained its position as the dominant exporter in the Australian economy in the twelve-month period to January 2011, accounting for 44% of the total value of Australian merchandise exports (over $233 billion exported from Australia).

The Department of Mines and Petroleum has calculated that the resource sector currently has over $150 billion worth of projects either committed to or under consideration in Western Australia. Further to this, the State Government has $7.9 billion worth of non-resource projects underway, including the Fiona Stanley Hospital ($2.0b), Perth City Link ($656m), Perth Arena ($536m) and the Perth Waterfront ($440m).

OVER $150 BILLION WORTH OF RESOURCE PROJECTS COMMITTED OR UNDER CONSIDERATION IN WESTERN AUSTRALIA
SUPPLY & DEVELOPMENT ACTIVITY

Development Cycle

Unprecedented demand for office space and corresponding low vacancy rates during the resources boom resulted in strong rental increases in the Perth CBD which supported the viability of new development. The 2010 calendar year saw the highest level of supply additions to the market as a result of the development boom, with 94,593m² of new stock and 7,425m² of refurbished space completed during the year.

Major projects completed during 2010 included Dynons Plaza (13,200m²), 226 Adelaide Terrace (13,594m²), 140 William Street (36,000m²), Alluvion (21,980m²), Westralia Plaza (9,819m²), and 50 St Georges Terrace (7,425m² refurbishment).

Major projects completed during 2010 included Dynons Plaza (13,200m²), 226 Adelaide Terrace (13,594m²), 140 William Street (36,000m²), Alluvion (21,980m²), Westralia Plaza (9,819m²), and 50 St Georges Terrace (7,425m² refurbishment).

The 2011 year should see a further 52,815m² of new and refurbished space due for completion in 2012. Last year saw the sale of three major development sites in the Perth CBD – 32 St Georges Terrace, 123 St Georges Terrace and the old Emu Brewery site at 98 Mounts Bay Road.

A receivership sale, 123 St Georges Terrace was purchased by Brookfield Multiplex in October for $23 million from The Griffin Group. The 3,400m² site adjoins the City Square development site and has approval for a 14-level tower. This site sold at a rate of $6,765 per m² on the land area.

The 1.8 hectare site at 98 Mounts Bay Road sold for $54.45 million in August 2010 ($3,022 per m²). This site was sold under instructions from receivers and proposals have included a 5-star hotel, premium office space and/or residential apartments.

The May Holman Centre at 32 St Georges Terrace sold for $30.0 million in June 2010 to an international investor. The site currently has a vacant building of 8,806m² ($3,407 per m²) and a land area of 2,557m² ($11,732 per m²) and was sold under receivership.

The number of development site sales is encouraging, showing growing confidence in the market both towards new office and residential developments. As an indication, Perth CBD land values are estimated at around $2,500 to $4,000 per m² in the eastern CBD, and between $5,000 and $10,000 per m² for Prime commercial/residential sites in the central and western sectors.

Commitment Levels

Strong rental growth during the previous resources boom and high levels of pre-commitment to new buildings supported development in the current building cycle. Stock under construction and due for completion in 2011 is approximately 85% pre-committed, with stock due in 2012 approximately 93% pre-committed.

With the majority of space completed during 2010 fully absorbed and a pre-commitment of 90% to buildings currently under construction, companies seeking new space will have to look at future backfill or sub-lease opportunities in order to expand as new supply levels remain tight.

Development Sites

Last year saw the sale of three major development sites in the Perth CBD – 32 St Georges Terrace, 123 St Georges Terrace and the old Emu Brewery site at 98 Mounts Bay Road.

The recent announcements of these new developments in the CBD will help curb the future space shortage, particularly in Prime-grade buildings.

<table>
<thead>
<tr>
<th>Market</th>
<th>Status</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014 +</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raine Square, 300 Murray St</td>
<td>UC</td>
<td>43,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>181 Adelaide Terrace</td>
<td>UC</td>
<td>7,115</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>507 Murray Street</td>
<td>UC</td>
<td>2,700</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>City Square, St Georges Terrace</td>
<td>UC</td>
<td>82,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melbourne Hotel, Hay Street</td>
<td>DA Approved</td>
<td>11,219</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential Development 2014</td>
<td>Mooted</td>
<td></td>
<td></td>
<td></td>
<td>66,810</td>
</tr>
</tbody>
</table>

**TOTAL** | 52,815 | 82,000 | 11,219 | 66,810 |

Source: Knight Frank  *Knight Frank estimates of potential future space  UC = Under Construction
APRIL 2011
PERTH CBD OFFICE
Market Overview

TENANT DEMAND & RENTS

The Property Council of Australia (PCA) noted in its January 2011 report that the Perth CBD had a stock level of 1,465,577 m² of office space. The vacancy was 139,899 m², being 9.5%. Of this, direct vacancy was 86,030 m² (5.9%), up by 0.2% over the July 2010 figure. Sub-lease vacancy dropped modestly during the six-month period to January 2011, with 53,869 m² of space available (3.7%).

Knight Frank’s calculation of vacancy, as at March 2011, is only 5.3%, and is based on space actually available for lease and takes into account pre-committed space.

Figure 3
Historical Vacancy, Perth CBD
Prime and secondary grade buildings

As can be seen in Figure 3, but the release of recent figures by the PCA in January 2011 is showing a greater variation in vacancy rates between the two grades of buildings. Prime-grade assets have had higher levels of absorption and therefore a reduced vacancy rate, as compared to twelve months ago.

Knight Frank expects that Secondary-grade buildings will be vulnerable to long-term vacancy as the overall standard of accommodation in the Perth CBD increased as a result of the recent building cycle. This is now reflected in the sharp increase in total vacancy rate for Secondary-grade buildings (B, C and D grades) to 12.1%. Historically, Prime-grade properties have tracked in similar ways to Secondary-grade properties

Table 3
Perth CBD Vacancy Rates
Prime vs. Secondary
\[ \begin{array}{|c|c|c|} \hline Grade & Vacancy % & Vacancy % \\ & Jan 2010 & Jan 2011 \\ \hline Prime & 8.0 & 7.4 \\ Secondary & 8.5 & 12.1 \\ Total & 8.2 & 9.5 \\ \hline \end{array} \]

Net Absorption

During the resources boom, net absorption levels decreased as the level of available stock reduced as the market went close to a 0% vacancy. As the Global Financial Crisis (GFC) hit, the twelve-month period to July 2009 saw negative net absorption recorded for the first time since 2004 and vacancy levels spike dramatically to 8.0%.

With continued demand from our main trading partners for resources mined in the State, confidence in the economy has brought about a demand for more space within the Perth CBD, and net absorption has increased as a result.

As with historical vacancy rates, Prime-grade assets have shown the greatest level of absorption over the last twelve to eighteen month period – some 99,287 m² of space has been absorbed in this grade over the past eighteen months.

Anticipated Vacancy Levels

PCA analysis has the January 2011 total vacancy level at 9.5%, which includes the unoccupied space at 140 William Street (36,000 m²), Westralia Plaza (9,819 m²) and 226 Adelaide Terrace (13,594 m²). The majority of these new buildings are pre-committed to tenants (95%).

It is anticipated that the vacancy rate will fall from 9.5% to 6.6% by July 2011 as a result of absorption of the stock completed in 2010 and additional space absorption driven by strong recent demand. Anticipated new supply completions of 52,815 m² during the year will see the vacancy rate rise again, albeit modestly, to around 7.8% by the close of 2011. New stock completing in 2012 will see the vacancy rate remain steady, but with this space fully committed, and minimal predicted backfill space available, Knight Frank anticipates that the vacancy rate will fall to 6.7% by the end of 2012. Beyond this, stock withdrawals from the office market and minimal supply additions should see the total vacancy rate fall further, fuelling the next supply cycle.

Source: PCA
Figure 5
Total Vacancy, Perth CBD
Historical and Anticipated Levels

Source: PCA/Knight Frank

Tenant Demand

Office space west of Barrack Street continues to be highly sought after, but as this space is absorbed we are seeing a trend of space being taken up outside this core area. This is shown by FMG taking up an additional 12,760m² of space at the Hyatt Centre, Shell moving into 2 Victoria Avenue, and ENI taking over 4,672m² of space at 226 Adelaide Terrace.

Rental Levels

The beginning of 2010 saw the stabilisation of face rents with upward pressure on incentives beginning to dissipate within the market as a result of the increasing demand for space as confidence within the economy improved.

Indicators show that within the Perth CBD, Prime net face rents have increased over the past six months, and Secondary-grade net face rents have remained stable.

Prime net face rents on average are now considered to be between $525 and $825 per m² with incentives at an average of 10% (down from 17.5% at the beginning of 2010). As pre-commitment levels are high for new stock under construction, Knight Frank anticipates that upward pressure on rental levels will be placed on existing available stock.

The vulnerability of Secondary-grade assets in the market at present is being seen, where net face rents are on average between $400 and $475 per m² and incentives remain at approximately 15-20%.

Table 4
Recent Leasing Activity Perth CBD Office Market

<table>
<thead>
<tr>
<th>Address</th>
<th>Area (m²)</th>
<th>Face Rental ($/m²)</th>
<th>Term (yrs)</th>
<th>Lease Type</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>226 Adelaide Terrace</td>
<td>2,247</td>
<td>550 n</td>
<td>10</td>
<td>Direct</td>
<td>May 2011</td>
</tr>
<tr>
<td>2 The Esplanade</td>
<td>1,030</td>
<td>790 n</td>
<td>3</td>
<td>Direct</td>
<td>Feb 2011</td>
</tr>
<tr>
<td>503 Murray Street</td>
<td>1,180</td>
<td>450 n</td>
<td>7</td>
<td>Direct</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>256 St Georges Terrace</td>
<td>12,500</td>
<td>525 n</td>
<td>6</td>
<td>Direct</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>15 William Street</td>
<td>2,146</td>
<td>575 n</td>
<td>5</td>
<td>Direct</td>
<td>Dec 2010</td>
</tr>
<tr>
<td>Forrest Centre</td>
<td>1,732</td>
<td>650 n</td>
<td>4</td>
<td>Direct</td>
<td>Dec 2010</td>
</tr>
<tr>
<td>15 William Street</td>
<td>1,235</td>
<td>600 n</td>
<td>4</td>
<td>Direct</td>
<td>Nov 2010</td>
</tr>
<tr>
<td>226 Adelaide Terrace</td>
<td>4,672</td>
<td>550 n</td>
<td>10</td>
<td>Direct</td>
<td>Nov 2010</td>
</tr>
<tr>
<td>12-14 The Esplanade</td>
<td>1,029</td>
<td>625 n</td>
<td>6</td>
<td>Sub Lease</td>
<td>Nov 2010</td>
</tr>
<tr>
<td>Central Park</td>
<td>2,640</td>
<td>725 n</td>
<td>10</td>
<td>Direct</td>
<td>Jul 2010</td>
</tr>
<tr>
<td>226 Adelaide Terrace</td>
<td>4,336</td>
<td>600 n</td>
<td>10</td>
<td>Direct</td>
<td>Jul 2010</td>
</tr>
<tr>
<td>Hyatt Centre</td>
<td>12,760</td>
<td>425 n</td>
<td>10</td>
<td>Direct</td>
<td>Jun 2010</td>
</tr>
<tr>
<td>QV1</td>
<td>19,363</td>
<td>720 n</td>
<td>7</td>
<td>Direct</td>
<td>Jan 2010</td>
</tr>
</tbody>
</table>

Source: Knight Frank  n = net  *Knight Frank’s estimation of incentive calculated on a straight line basis  ^Average
INVESTMENT ACTIVITY & YIELDS

Eight major sales have occurred in the Perth CBD since the beginning of 2010. Of these, three were for development sites, each with an element of distress attached to the sale.

Figure 6
Perth CBD Sales Transactions
($ mill) Sales Value >$10 mill & No. of Sales

Source: Knight Frank

Overall, the market has been challenging due to the low availability of finance, although high net-worth individuals, syndicates and overseas buyers have gone against this trend and have been the largest group of investors in Perth property over the past twelve to eighteen months. The high Australian dollar has impacted upon overseas buyers, limiting interest from this sector of the market.

Minimal transaction activity from institutional investors has occurred during 2010 in the Perth CBD, with the only sale being the Brookfield Multiplex purchase of 123 St Georges Terrace. However, this has picked up during the beginning of 2011 and at present a 50% share in QV1 has been reported to be under due diligence for a consideration of more than $300 million by an institutional investor.

The start of 2011 has seen strong transactional activity in the market, with four properties under contract or settled at a value of almost $275 million. These sales include 99 St Georges Terrace, 182 St Georges Terrace, 30 The Esplanade and 197 St Georges Terrace with 1 and 5 Mill Street. We are presently aware of another commercial transaction in the due diligence stage for a consideration of around $30 million.

Table 5
Sales Activity – 2010/11 Perth CBD

<table>
<thead>
<tr>
<th>Address</th>
<th>Price ($ mil)</th>
<th>Core Market Yield (%)</th>
<th>NLA (m²)</th>
<th>$/m² NLA</th>
<th>Vendor</th>
<th>Purchaser</th>
<th>Sale Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 The Esplanade *</td>
<td>50.0</td>
<td>8.40</td>
<td>7,003</td>
<td>7,140</td>
<td>AMP</td>
<td>API</td>
<td>Feb 2011</td>
</tr>
<tr>
<td>99 St Georges Tce *</td>
<td>41.6</td>
<td>8.40</td>
<td>6,161</td>
<td>6,752</td>
<td>Private Investor</td>
<td>Private Investor</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>197 St Georges Tce, 1 &amp; 5 Mill St *</td>
<td>152.0</td>
<td>10.60^</td>
<td>26,553</td>
<td>3,795^</td>
<td>Colonial First State Property Limited</td>
<td>GDI Property Group</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>182 St Georges Tce *</td>
<td>31.0</td>
<td>8.85</td>
<td>5,317</td>
<td>5,830</td>
<td>Hawaiian Group</td>
<td>Standard Life</td>
<td>Jan 2011</td>
</tr>
<tr>
<td>123 St Georges Tce</td>
<td>23.0</td>
<td>Site</td>
<td>3,400 '</td>
<td>6,765 '</td>
<td>The Griffin Group</td>
<td>Brookfield</td>
<td>Oct 2010</td>
</tr>
<tr>
<td>98 Mounts Bay Rd</td>
<td>54.45</td>
<td>Site</td>
<td>18,017 '</td>
<td>3,022 '</td>
<td>Turnstone Nominees</td>
<td>AAIG Pty Ltd</td>
<td>Aug 2010</td>
</tr>
<tr>
<td>Kings Complex, 517 Hay St</td>
<td>38.0</td>
<td>8.90</td>
<td>4,841</td>
<td>2,479</td>
<td>Private Investor</td>
<td>Private Investor</td>
<td>Jun 2010</td>
</tr>
<tr>
<td>32 St Georges Tce</td>
<td>30.0</td>
<td>VP</td>
<td>8,806</td>
<td>3,407</td>
<td>Investec</td>
<td>Private Investor</td>
<td>Jun 2010</td>
</tr>
</tbody>
</table>

Source: Knight Frank

^ Analysed in one-line * Under Contract VP = Vacant Possession Site m² and $/m² site

Commercial transaction activity within the office market is expected to increase further during 2011, with purchaser confidence being boosted by reducing vacancy levels and improved prospects of rental growth across the markets. Continued project commissioning within the resources sector and the associated take-up of large tranches of office space should continue to rejuvenate
the market, particularly for Prime assets. We are also now beginning to see renewed institutional interest in the Perth market.

Yields or capitalisation rates within the office market remain stable with no major yield compression evident. Core market yields for Prime assets range from 7.5% and up to 8.5%, but centred around 8.00%-8.25%. Secondary core market yields are slightly higher at around 8.5% to 10.0%. Purchasers remain yield conscious, so that low-yielding properties remain difficult to transact.

OUTLOOK

That last twelve months has seen resilience in the economy and strengthening conditions which has buoyed confidence in the market. The PCA indicated that during this time the Perth CBD recorded 66,670m² of space being absorbed by the market as the space requirements of companies grew in line with growth in the resources sector.

Yields or capitalisation rates within the office market remain stable with no major yield compression evident. Core market yields for Prime assets range from 7.5% and up to 8.5%, but centred around 8.00%-8.25%. Secondary core market yields are slightly higher at around 8.5% to 10.0%. Purchasers remain yield conscious, so that low-yielding properties remain difficult to transact.

This period also saw 102,018m² of office stock completed, with an additional 134,815m² due for completion to the end of 2012. Beyond this, the previously mooted Melbourne Hotel redevelopment at 942 Hay Street will bring a further 11,219m² of space to the market at the earliest in 2013. Knight Frank’s calculations estimate that there is over 190,000m² of office space mooted, which includes the Treasury Building at 37,000m².

Knight Frank has calculated the actual real Perth CBD office vacancy at 5.3%, based on space actually available for lease as at March 2011. The next six months will see vacancy levels fall further as stock continues to be absorbed by the market, despite additional stock completing later this year.

From the start of 2012 a modest rise in the vacancy rate is anticipated as backfill space from Bankwest Tower comes onto the market following the completion of Raine Square. Further to this, City Square is expected to be completed during the year, but with this space 100% pre-committed, minimal backfill space available, and combined with the anticipated strong absorption levels, the vacancy rate is predicted to taper moving into 2013.

Gross State Product is expected to grow on average by 4.3% per year for the next 4 years, led particularly by the State’s strong resources sector. Strong business sentiment has been pivotal for confidence in the market and the flow-on effects have included a strong demand for labour, both in the Perth CBD and regional areas.

Sustained economic growth in the State will ensure continued upward pressure on Prime net face rents and downward pressure on incentives as the availability of space within Prime-grade assets reduces. It is anticipated that as the availability of office space within Prime assets reduces, space within Secondary grade assets will be absorbed, placing pressure on incentives and rents.

Yields have remained stable over the past twelve months and are expected to remain so over 2011, with limited or no real yield compression anticipated.
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