RESEARCH

MAY 2012

NORTH SHORE

Office Market Overview

Knight Frank

The Zenith, 821 Pacific Highway Chatswood
Owner: DEXUS Property Group (DXS) & GPT (GWOF)

HIGHLIGHTS

- North Sydney has been the stand out performer of all the North Shore markets over the past 12 months. A combination of strong absorption levels and limited supply has resulted in total vacancy levels contracting to 7.2% and a tight 1.9% across the A Grade market. This has put pressure on prime Net Face Rents; growing 10.2% over the last year to $587/m^2.

- The new Gore Hill Business Park adds another dimension to the Crows Nest/St Leonards market, although current tight finance conditions will limit scope for speculative development in the foreseeable future. However, the Park's distance from St Leonards station will not suit all prospective tenants. Despite vacancy levels in Crows Nest/St Leonards are below that of 2010, the current level of 13% will put pressure on the secondary market and cap projected rental growth.

- Like all North Shore office markets, rental growth in Chatswood has been robust during the last 12 months. With vacancy levels at a three year low of 10.7%, Prime Net Face Rents have achieved an 8.0% increase to $418/m^2. Despite this, incentives across all markets have seen limited compression over this same time frame as constraints on funding has resulted in an increased appetite for fitted out space.

NORTH SHORE OFFICE OVERVIEW

Table 1
North Shore/North Ryde Office Market Indicators as at April 2012

Market	Grade	Total Stock (m²)^	Vacancy Rate (%) ^	Annual Net Absorption (m²)^	Avg Net Face Rent ($/m²)	Outgoings ($/m²)	Average Incentive* (%)	Average Core Market Yield (%)
North Sydney	Prime	222,796	1.9	5,269	587	109	25.0	7.25-8.00
North Sydney	Secondary	637,089	9.2	22,166	461	106	30.0	8.50-9.25
North Sydney	**Total Market**	**859,885**	**7.2**	**27,435**	**494**	**107**	**28.7**	**7.25-9.25**
Crows Nest/St Leonards	Prime	88,599	13.9	8,824	473	104	30.0	8.00-8.75
Crows Nest/St Leonards	Secondary	269,260	12.7	-8,121	377	97	32.0	9.00-9.75
Crows Nest/St Leonards	**Total Market**	**357,859**	**13.0**	**703**	**401**	**99**	**31.5**	**8.00-9.75**
Chatswood	Prime	142,984	11.5	3,363	418	104	29.0	8.50-9.25
Chatswood	Secondary	123,433	9.7	1,788	350	95	32.5	9.50-10.25
Chatswood	**Total Market**	**266,417**	**10.7**	**5,151**	**386**	**99**	**30.6**	**8.50-10.25**
North Shore	**Total Market**	**1,484,161**	**9.2**	**33,290**	**452**	**105**	**29.7**	**7.25-10.25**
North Ryde/Macquarie Park	Prime	551,918	5.4	21,821	315	80	25.0~	8.00-8.75
North Ryde/Macquarie Park	Secondary	255,609	14.3	-7,720	273	95	30.0~	9.00-10.00
North Ryde/Macquarie Park	**Total Market**	**807,527**	**8.2**	**14,101**	**302**	**85**	**26.6~**	**8.00-10.00**

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).

Grade: Prime includes modern and A-Grade stock whilst secondary includes B, C and D quality Grade.

Source: Knight Frank Research/PCA ^ as at January 2012 *Incentives are on a Gross basis ~ Incentives are on a Net basis NB. Average data is on a weighted basis
Yield ranges reflect the average lower and average upper yields for a select basket of office assets in each market and Grade

The North Shore office market has been showing signs of positivity for the past six to twelve months. Vacancies across each of the markets are showing solid trends compared to the cyclical highs of 2010. Face rents have shown the first signs of significant growth for the past five years.

North Sydney has been the stand out performer of the “Golden Arc” with total vacancies down to 7.2%. This is the lowest vacancy recorded for North Sydney since 2001. Prime stock however has seen demand outstrip supply with only 3,550m² available; translating to a vacancy rate of 1.9%, again a similar low to pre “tech wreck” rates of January 2001. For this Prime market there is the likelihood of prolonged low vacancy given the limited supply environment despite tough white collar employment projections. No new projects have commenced within North Sydney and nothing new is likely to be delivered to the market until major pre-commitments can be achieved. This has had a beneficial effect on Net Face Rents with growth recorded of 10.2%.

Crows Nest/St Leonards has resulted in the greatest level of new supply across the North Shore. With availability within Gore Hill Business Park, building C has been speculatively built yet is expected to achieve close to full occupation by completion. Given the success of the “build it and they will come” strategy, we expect the remaining buildings within the development to be advanced over the course of the next five years pending available finance. This however will have a negative effect on the overall Crows Nest/St Leonards vacancy, which has been in double digits since late 2008. Given the likely increase in supply, vacancy levels are expected to maintain similar to the current 13.0% recorded. Despite this, given pressure from neighbouring North Sydney, face rents have seen a correction achieving good growth of 7.0% over the past year.

Chatswood has had a somewhat erratic vacancy history; the current rate of 10.7% shows a three year low. A positive for this market is the total stock reduction over the past 20 years. While some small additions are anticipated over the forecast period, total stock levels are expected to remain stable over the longer term. This market provides the most affordable space on the North Shore and given the contraction of availability in A Grade space in neighbouring North Shore markets, Chatswood is well placed to continue to improve fundamentals due to its availability of contiguous floor plates and relative affordability.

Macquarie Park/North Ryde is now a well-established office location, providing more campus style facilities; this location continues to be pre-commitment led. As such speculative supply is unlikely to enter this market in the foreseeable future keeping vacancy relatively steady over the forecast period.

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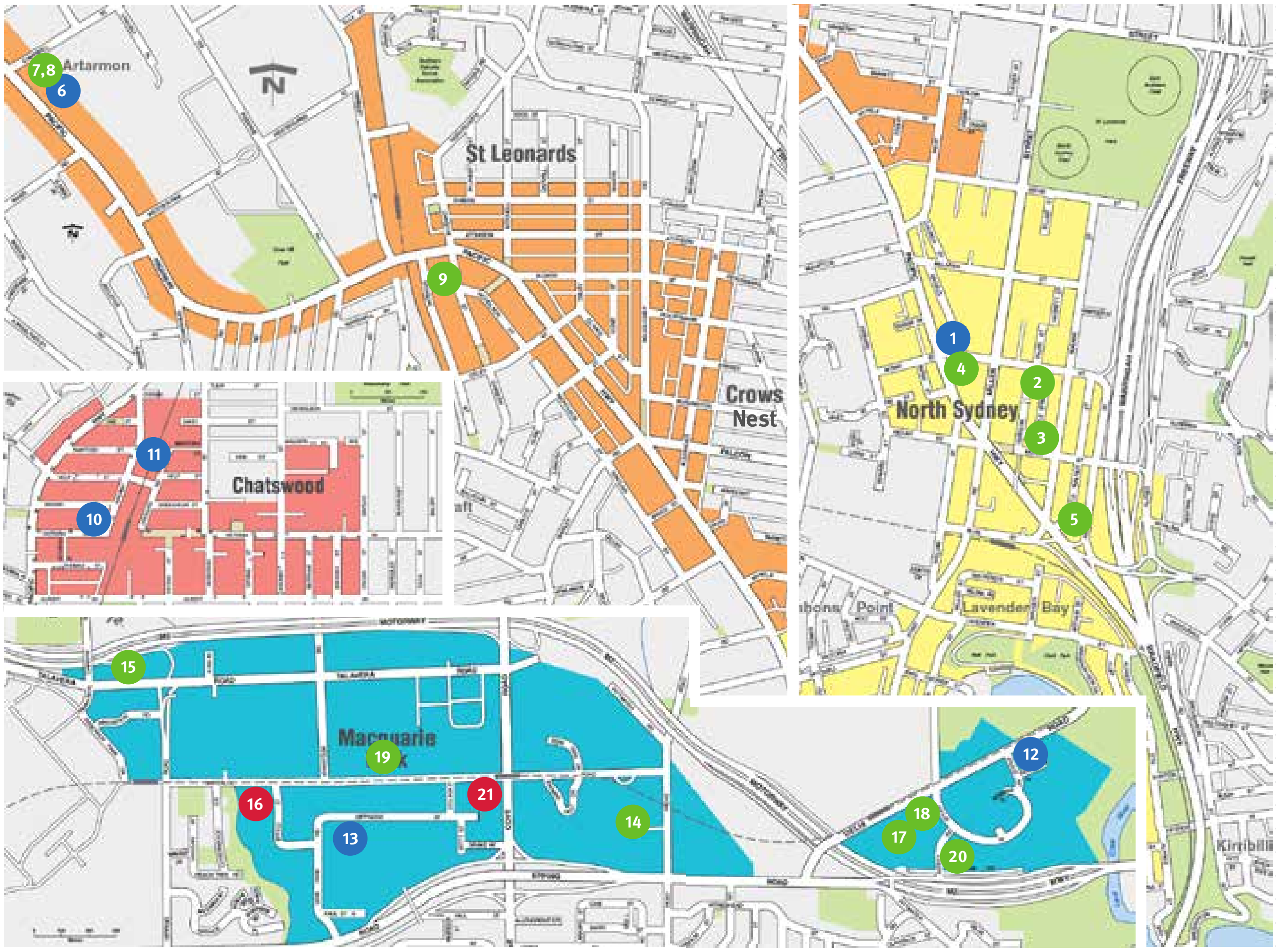
MAJOR OFFICE SUPPLY



Source of Map: Knight Frank

North Sydney

1. 20 Berry St# - 3,045m²
   Velment Pty Ltd Q4 2012
2. 77-81 Berry St - 46,135m²
   Eastmark Holdings 2015+
3. 100 Mount St - up to 40,000m²
   Laing O'Rourke 2015+
4. 177-199 Pacific Hwy - 38,000m²
   Winten Property Group 2015+
5. 80 Arthur Street - 15,808m²
   Medi-Aid Centre Foundation 2015+

Crows Nest/St Leonards

6. Gore Hill Building C - [Fox Sports 48%]
   Lindsay Bennelong Dev. 14,136m² - Q4 2012
7. Gore Hill Building D1 - 16,000m²
   Lindsay Bennelong Development Q2 2014
8. Gore Hill Building D2-3 - 42,000m²
   Lindsay Bennelong Development 2016+
9. 88 Christie St, St Leonards - 28,500m²
   Winten Property Group 2015+

Chatswood

10. 465 Victoria Avenue# - 15,000m² [VHA]
    FKP Q3 2012 - 40% committed
11. 7 Railway St - 4,900m2
    Mirvac Q2 2014

North Ryde/Macquarie Park

12. 105 Delhi Road - 10,270m² [DIISR]
    Goodman Q2 2012 - 100% committed
13. 22 Giffnock Avenue - 9,700m² [Optus]
    Goodman Q2 2013 - 100% committed
14. 144 Wicks Rd - 27,340m²
    DEXUS 2015+
15. 112 Talavera Rd - 12,000m²
    DEXUS 2014+
16. 80 Waterloo Rd - 13,678m²
    Centuria Funds Management 2014+
17. 27-37 Delhi Road - 32,000m²
    Goodman 2015+
18. 39 Delhi Rd - 30,000m²
    Stockland 2015+
19. 63-71 Waterloo Rd - 11,822m²
    Capital Corporation 2015+
20. 1 Rivett Rd - 11,380m²
    Pathway Property 2015+
21. 396 Lane Cove Rd - 79,736m²
    Winten and Australand 2015+

Under Construction/Complete

DA Approved/Confirmed/Site Works

Mooted / Early Feasibility

NB. Dates are Knight Frank Research estimates

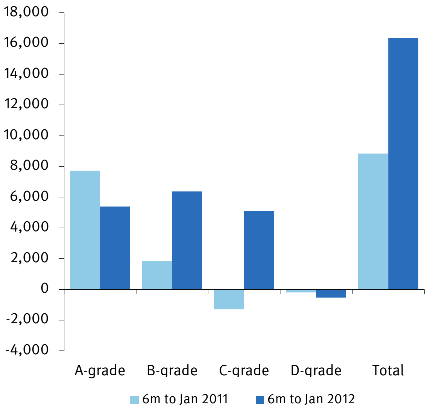
\# Major refurbishment
Office NLA quoted
Major tenant precommitment in brackets
VHA refers Vodafone Hutchison Australia
DIISR refers Department of Innovation, Industry, Science and Research

NORTH SYDNEY

Leasing Market and Rents

Tenant demand has been strong over the six months to January 2012 across all quality grades. As space options diminish for A Grade stock, tenants have been forced to consider secondary space. Robust absorption for A Grade (5,395m²) space is at a similar rate to the six months to January 2011 of 7,722m²; the secondary markets have shown significant improvement in take up. B Grade absorbing 6,378 m² while C Grade up from -1,293m² last January to now 5,117m².

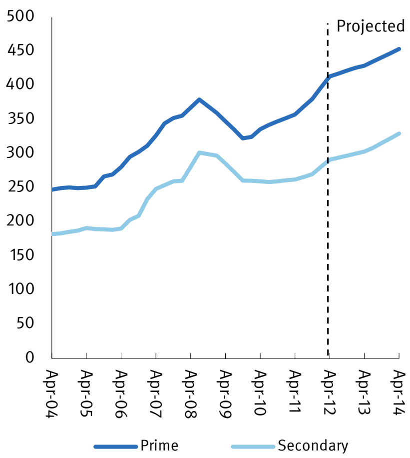
Figure 1
Net Absorption by Grade
North Sydney (m²)



Source: Property Council Australia

This high level of demand has resulted in a drastic reduction to vacancy rates across all Grades in North Sydney. At a long term low the A Grade sector only has 3,550m² recorded vacant representing just 1.9% of Prime stock. For the first time in three years B Grade has fallen from double digit vacancy to just 8.7% while C Grade demonstrates a similar trend down to 9.1%. With only 61,953m² vacant across the total North Sydney market, large, quality contiguous floorplates are difficult to source and as such face rents have grown rapidly over the past 12 months. Prime Net Face rents as at April 2012 averaged $587/m² representing an annual gain of 10.2%. Prime incentives (gross) are starting to experience some downward pressure and have now moderated to 25% from the 27.5% recorded in April 2011. In the secondary market, higher vacancy rates have seen incentives continue to average 30% (gross), having done so since the end of 2009. However despite these continued incentive levels, the average secondary Net Face rents have grown over the last 12 months by 7.8% to a current rate of $461/m².

Figure 2
Net Effective Rents
Prime and Secondary North Sydney ($/m²)



Source: Knight Frank Research

Despite this strong growth in face rents, incentives are expected to remain in the market for the short to medium term. Given capital funding constraints, tenants are looking for greater incentives to provide fit outs and are willing to pay a higher face rent for this type of product. This phenomenon of strong increases to face rents before a reduction in incentive is one unseen before, however highlights the difficulty in financing in the current economic climate.

TENANTS ARE WILLING TO PAY A HIGHER FACE RENT FOR FITTED OUT SPACE...

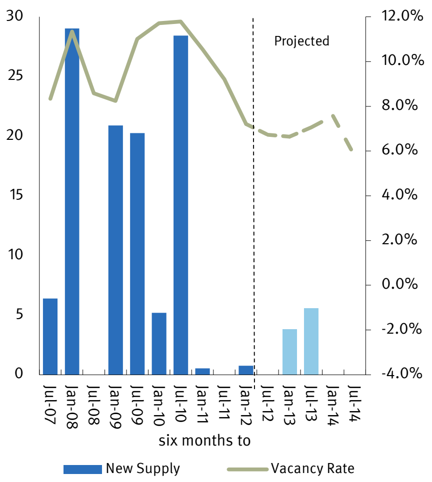
Looking ahead, softening in white collar demand is forecast over the next two years however given the tightness of the prime market and benign outlook for new supply, this is still expected to underpin a continuation of the rental growth albeit at a lesser rate. Given this change in role of incentives in the market, the majority of rental growth is forecast to come from increased face rents, with prime Net Face rents forecast to generate average growth of 4.9% over the next 2 years. This increase is heavily off the back of no major supply additions to the market until 2015 at the earliest. There are only minor reductions likely for prime and secondary incentives over the next two years of approximately 2.5%.

Development Activity

While there is over 135,000m² of DA Approved buildings in the pipeline, until major commitment is sourced these will not proceed given the current difficult finance environment. The only completion known for the next few years comes from the partial refurbishment of 20 Berry Street that will deliver 3,045m² of refurbished stock to the market in the second half of 2012. It is also likely that there will be some withdrawal from the market and subsequent refurbished stock will re-enter the market over this time frame. Despite these limited additions, office demand is expected to diminish over the next two years and as such vacancy levels are only forecast to reduce to 6.6% over the next year before increasing in late 2013 due to the relocation by Tower out of the North Sydney market growing vacancy levels to 7.6%. Post this blip in results vacancy is expected to reduce considerably falling to 5.5% in January 2015.

Given this positive outlook in vacancy coupled with face rental growth this should result in the growth in development activity, however the projects advancement will be dependent upon tenant pre-commitments and project funding. There are four DA approved developments that could potentially come online from late 2014 which include; 77-81 Berry Street, owned by Eastmark Holdings, this project could provide

Figure 3
Vacancy Rate vs Gross Supply
North Sydney (000s m²)



Source: PCA/Knight Frank Research

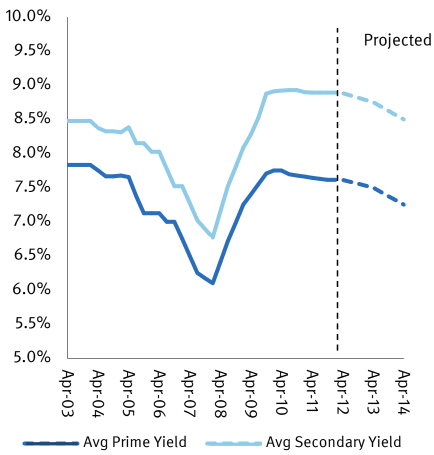
46,135m² of A Grade office space. Lang O'Rourke's 100 Mount Street project which is approved for up to 40,000m², while Winten Property Groups development at 177-199 Pacific Highway is earmarked as a 38,000m² office complex; Meriton no longer has an option for serviced apartments on the Medi-Aid Centre Foundation property at 80 Arthur Street which could potentially provide 15,808m² of office space to the North Sydney market.

Sales and Investment Activity

There has been little transactional activity in the North Sydney market this year. Over the past six months there has only been two sales recorded. One of which has development approval for a residential development, the other a secondary office building changed hands for $59.55 million, selling to Perth based investors Riffici Group and Property Bank Australia.

The differential between prime and secondary yields currently is 130 basis points, we expect this margin to remain over the next two years. It is unlikely that a return to the 60 basis points divide which we saw in early 2008 will return in the next five years. Current prime yields range between 7.25% and 8.00% with an average of 7.61%; the lowest rate post GFC rate recorded. Secondary averages in the 8.50% to 9.25% range.

Figure 4
Average Core Market Yields
North Sydney



Source: Knight Frank Research

The current strength in occupancy and rental growth prospects will ensure that North Sydney is a location of investment appeal. With limited prime supply currently, assets with value add or refurbishment potential to A Grade quality will show increased value given the scope for further yield contraction.

Table 2
Recent Leasing Activity North Sydney

Address	Region	Area (m²)	Face Rental ($/m²)	Term (yrs)	Lease Type	Tenant	Start Date
181 Miller Street	North Sydney	385	560g	5	New	DDI Asia Pacific	Jul-12
181 Miller Street	North Sydney	845	530g	5	New	White Clark Asia Pacific	May-12
40 Mount Street	North Sydney	583	480n	5	New	Sheldons	Apr-12
141 Walker Street	North Sydney	942	520n	5	New	Bedford Titley	Mar-12
181 Miller Street	North Sydney	410	520g	5	New	Directory Concepts	Mar-12
124 Walker Street	North Sydney	663	440n	7	New	BSP	Mar-12
141 Walker Street	North Sydney	1,935	630n	7	New	MWH Australia	Feb-12

Table 3
Recent Sales Activity North Sydney

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
116 Miller Street & 173 Pacific Hwy	59.55	9.20	11,352	5,245	3.6	AMP Capital Investors Limited	Riffici Group & Property Bank Australia	Mar-12
AIM Training Centre, 211-233 Pacific Hwy^	27.00	N/A	3,279	8,234	N/A	AIM Training	Crown International Holdings	Dec-11

Source: Knight Frank n refers net g refers gross ^DA for residential development

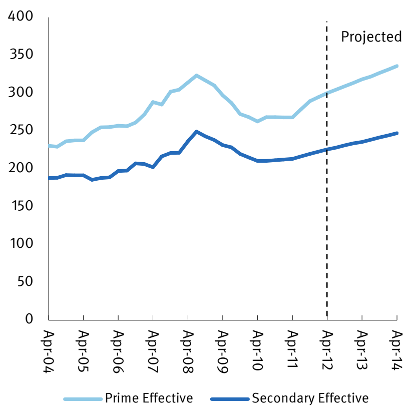
CROWS NEST/ST LEONARDS

Leasing Market and Rents

With new supply additions coming into Crows Nest/St Leonards over the next five years results are likely to be mixed. Strong absorption within neighbouring North Sydney may benefit the prime market as vacancy rates are currently at 13.0%, slightly down on the 2010 results of just over 15%.

Leasing deals have been limited across Crows Nest/St Leonards over the past six months with increased competition from the neighbouring North Shore markets. A combination of declines in forecast base employment demand and uncertainty surrounding the economic environment has resulted in more caution in business expansion and relocation across all locations. Despite this, over the past six months there has been an improvement in average face rents. Prime Net Face rents currently average \$473/m² representing a 7.0% increase since April2011. Incentives in this market however continue at a high 30.0% though down from 32.0% a year prior. This recent increase in rents represents a correction after a prolonged plateau/trough post GFC.

Figure 5
Net Effective Rents
Prime & Secondary Crows Nest/St Leonards (\$/m²)



Source: Knight Frank Research

With incentives showing some compression, effective rents have been positively affected. Prime net effective rents currently average \$300/m² for April 2012; this represents a 12.0% growth over the past year while secondary averages \$225/m² with a 5.8% annual increase. These strong increases are due to significant face growth coupled with some minor incentive reductions. As we do not expect incentives to reduce significantly from their current rates, effective rental growth is unlikely to maintain this current high in the next few years.

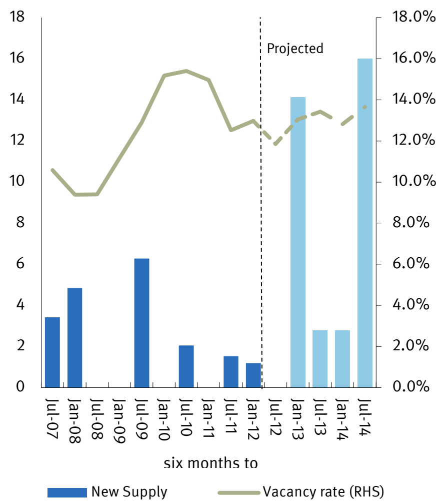
Looking ahead, any effective growth will stem from face growth. Prime effective growth is expected at 5.1% per annum over the next two years with secondary at 4.2% per annum over the same time frame. The trend in incentive stability continues as per North Sydney, tenants are looking to minimise their capital outlay for fit outs. Owners are required to keep these high incentives to minimise any prolonged vacancy.

Development Activity

Development activity across the Crows Nest/St Leonards region has been dominated by the Lindsay Bennelong Development of Gore Hill Technology Park (former ABC studios). The site currently houses an 11,463m² data centre occupied by the Australian Stock Exchange with Building C due for completion in late 2012 which has approximately half of its 14,100m² area committed by Fox Sports. Additional space within the building is rumoured to be under offer by an existing St Leonards tenant. This will have some net effect with A Grade backfill likely to enter the market thereafter, perhaps after some refurbishment. Another three buildings are DA Approved for the site totalling 58,000m². Given the success of Building C, we expect that building D1 of 16,000m² will be speculatively constructed (finance permitting) and given the campus style development this will likely enter the market in the first half of 2014 with the others to follow depending on the success of D1.

In the more traditional Crows Nest/St Leonards location, another major project is 88 Christie Street, where Winten Property Group has DA approval for a 16 storey development of 28,500m² of office space with 2,000m² retail. It is unlikely that this project will proceed until major pre-commitment is secured, hence it will not enter the market until post 2015.

Figure 6
Vacancy Rate vs Gross Supply
Crows Nest/St Leonards (000s m²)



Source: PCA/Knight Frank Research

Due to the likely supply profile, vacancy levels are expected to hover around their current rate. With limited A Grade stock availability in North Sydney some increase in demand for Crows Nest/St Leonards is expected however the dampened employment related demand will hamper a more robust recovery. Total vacancy is expected to reduce for the first half of 2012 in response to over 1,500m² of absorption forecast bringing vacancy to 11.8%. Late 2012 will bring an increase due to the completion of Building C at Gore Hill and possible backfill to 13.0%, peaking the following period at 13.4%.

VACANCY TO REDUCE FOR THE FIRST HALF 2012...

Sales and Investment Activity

Sales activity for Crows Nest/St Leonards has been subdued for the past three years with limited institutional Grade transactions occurring.

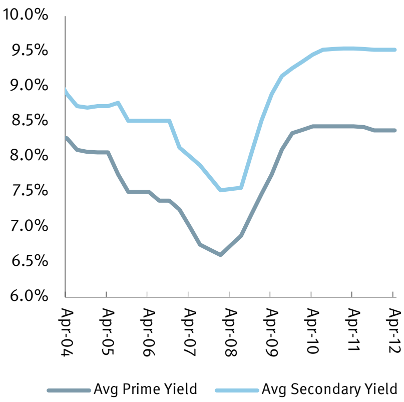
The most recent transaction has been the recently reported sale by Charter Hall Direct Property Fund to Perth based investors Property Bank Australia. The property at 154 Pacific Highway is 6,427m² and sold for $25.5 million on a 10.2% core market yield. The property previously tenanted by Johnson & Johnson now houses Ramsay Health Care who are the major tenant occupying 41% of the property.

Prior to this, Lindsay Bennelong Developments sold both Buildings B1 and C in December 2011. Building B1 is a data centre and sold for $60 million, not a traditional office building; the property was sold with a 15 year lease to the Australian Stock Exchange and achieved a yield of 7.60% demonstrating the strength in demand for assets with a long term secure income stream. Building C which is due for completion in late 2012, sold to Growthpoint Properties Australia for $82.70 million. While only half committed to Fox Sports, the sale included a five year rental guarantee on the vacant component resulting in a WALE of 7.4 years. This prime asset achieved a core market yield of 8.10%; reflective of the average prime range for the Crows Nest/St Leonards area of between 8.00% and 8.75%.

Figure 7

Average Core Market Yields

Crows Nest/St Leonards



Source: Knight Frank Research

Secondary yields currently range between 9.00% and 9.75% with the average rate 9.50%, this representing a 200 basis point increase from the peak in the market of early 2008. Prime yields have also grown during this time however by 180 basis points, whereas the divergence between prime and secondary widening by 50 basis points over the same period.

Yields are projected to remain relatively steady for secondary assets however some compression is likely for prime assets reflecting a further divide between the quality grades. Investment enquiry for secondary assets has been heightened by opportunistic private investors in the sub $30 million price range.

OPPORTUNISTIC PRIVATE INVESTORS ENQUIRING IN THE SUB $30 MILLION PRICE RANGE.

Table 4

Recent Leasing Activity Crows Nest/St Leonards

Address	Region	Area (m²)	Face Rental ($/m²)	Term (yrs)	Lease Type	Tenant	Start Date
Bldg C, 219-247 Pacific Highway	Artarmon	5,924	430n	10	Pre lease	Fox Sports	Dec-12
170 Pacific Highway	St Leonards	1,100	270n	5	New	Mainbrace	Jul-12
29 Christie Street	St Leonards	2,100	420n	5	New	TCI	Jul-12
203 Pacific Highway	St Leonards	4,000	460n	7	New	Cardno	Jan-12

Table 5

Recent Sales Activity Crows Nest/St Leonards

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
154 Pacific Highway	25.50	10.20	6,427	3,968	2.0	Charter Hall Direct Property Fund	Property Bank Australia & Security Capital Corp	May-12
Bldg C, Gore Hill Business Park 219-247 Pacific Highway	82.70	8.10	14,136	5,850	7.4	Lindsay Bennelong Developments	Growthpoint Properties Australia Ltd	Dec-11
Bldg B1, Gore Hill Business Park 219-247 Pacific Highway^	60.00	7.60	11,463	5,234	12.0*	Lindsay Bennelong Developments	Securus Guernsey 2 Ltd	Dec-11

Source: Knight Frank n refers net ^ data centre * reflects break clause at end of year 12.

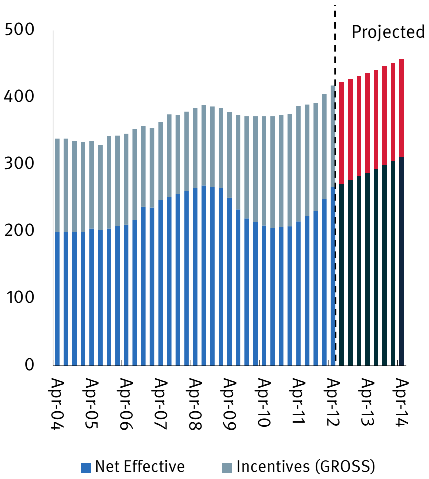
CHATSWOOD

Leasing Market and Rents

Chatswood has gone through a tumultuous ten years with vacancy levels mostly in double digits and absorption negative despite a decline in total stock levels. Over the past 18 months there has been an improvement in demand for this location, with three consecutive periods of positive take up (totalling 8,577m²) resulting in vacancies being at a three year low of 10.7%.

Also improving are average leasing rates, showing little growth prospects in the last four years, increased activity in the last 12 months has resulted in face rental growth rates for both prime and secondary space. A Grade vacancy for January 2012 was recorded at 11.5% which has halved from 2011 results; spurring prime Net Face growth of 8.0% over the last 12 months. This brings the average prime rate to $418/m², this correction in rents is expected to continue at a more subdued rate over the next two years growing at around 4% per annum. Effective rates have also been given a bolster with average prime incentives reducing from 35% a year ago to their current 29% rate, driving growth of 24% over the past year. Chatswood is likely to remain a good affordable alternative location to North Sydney due to the availability of contiguous floor plates which will put pressure on incentives to reduce by a further 2.5% over the next year.

Figure 8
A-Grade Net Rents and Incentives
Chatswood ($/m²)



Source: Knight Frank Research

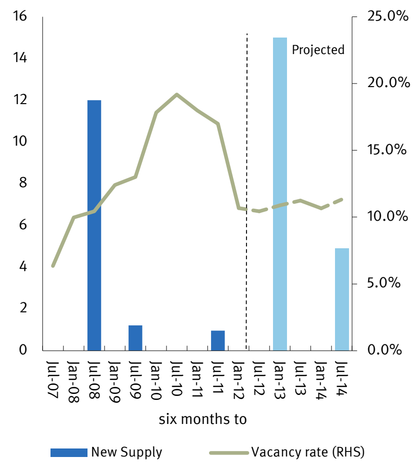
Secondary rents have also shown favourable improvement with current average Net Face rents achieving $350/m² a 6.1% increase over the past 12 months. Incentives have also reduced over the last year to average 32.5% resulting in secondary effective rents of $205/m² up 13.3%. This continued growth is unlikely to be sustained, with the latest increases more of a correction to earlier depressed market conditions.

Development Activity

Historically development activity has been somewhat subdued across Chatswood. Prolonged high vacancy has resulted in the total stock size of Chatswood reducing over the past ten years by 7.05% to 266,417 m². However, with signs of improvement for Chatswood there is some supply additions anticipated.

FKP Property Group has presented 14,412m² into the Chatswood market via the refurbished 465 Victoria Street. This prime space is close to 50% committed by VHA and their subsidiaries with the balance of space reportedly under offer and likely to be occupied by its re-entry into the market in the second half of 2012.

Figure 9
Vacancy Rate vs Gross Supply
Chatswood (000s m²)



Source: PCA/Knight Frank Research

Table 6
Recent Leasing Activity Chatswood

Address	Region	Area (m²)	Face Rental ($/m²)	Term (yrs)	Lease Type	Tenant	Start Date
799 Pacific Highway	Chatswood	3,222	390-395n	7	New	Coffey International	Aug-12
12 Help Street	Chatswood	2,400	380n	10	New	iNova	Jun-12
465 Victoria Avenue	Chatswood	6,000	U/D	U/D	New	VHA	Jun-12
821 Pacific Highway	Chatswood	561	510n	3	Renewal	Gemalto	Feb-12
799 Pacific Highway	Chatswood	2,209	380n	5	Renewal*	Leighton Contractors	Dec-11
67 Albert Avenue	Chatswood	2,400	U/D	5	Renewal	Sage Micropay	Dec-11
821 Pacific Highway	Chatswood	948	480n	7	New^	Fletcher Building Australia	Sep-11
9 Help Street	Chatswood	774.5	370n	3	New	Abigroup	Sep-11

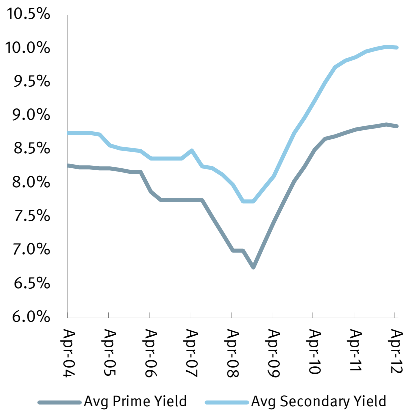
Source: Knight Frank n refers net * includes expansion space ^includes extension of existing lease to ensure coterminus lease expiry

The only other projected supply is Mirvac's "ERA" residential development which includes 4,900m² of commercial space due for completion in early 2014. Despite these additions, vacancy levels are expected improve for the prime market while backfill will stifle improvement for the secondary market. Across the total market however, vacancies are expected to remain steady, averaging 10.7% over the next 12 months.

Sales and Investment Activity

No major transactions have occurred across Chatswood; however the 50% stake in A Grade The Zenith is currently on the market and is likely to set a new benchmark. Prime average yields range 8.50% to 9.25% with 9.50% to 10.25% for secondary. These ranges reflect no change over the last six months.

Figure 10
Average Core Market Yields
Chatswood



Source: Knight Frank Research

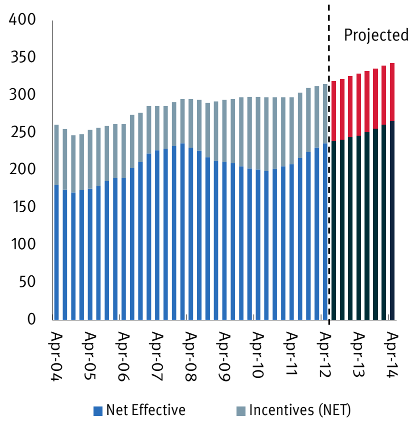
MACQUARIE PARK/ NORTH RYDE

Leasing Market and Rents

Demand has been robust across Macquarie Park/North Ryde in the six months to January 2012 with net absorption recorded at 12,863m². After a sluggish 2011, vacancy levels have reduced to their current rate of 8.2% with A Grade vacancies showing the greatest decline from 8.4% in July 2011 to just 5.4% for the current period. With only 29,660m² of A Grade stock available to the market, conditions are conducive to rental growth. Prime Net Face rents have grown 5.9% in the last 12 months to $315/m² with net incentives now 25% reducing from 30% over the year. This has resulted in net effective rental growth of 13.5% over the 12 month period to $236/m². This rate is representative of existing stock, while economic rents for new property would currently average $350/m² net face.

Secondary face rents have not grown to the same level, with vacancy for B and C Grade stock 12.3% and 38.8% respectively. The current average Net Face rent is $273/m², representing just a 2.8% increase over the year, while net incentives have been under some downward pressure now 30% down from the April 2011 result of 35%. This has aided in the secondary net effective rental market with growth for the year at 10.7% or $191/m².

Figure 11
A-Grade Net Rents and Incentives
North Ryde/Macquarie Park ($/m²)



Source: Knight Frank Research

Development Activity

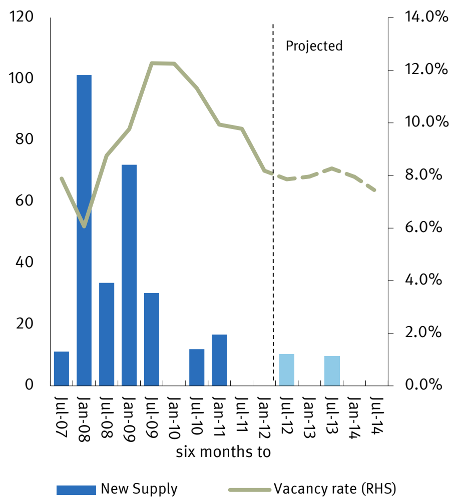
Despite tight leasing conditions for A Grade space, no speculative development is likely to occur across Macquarie Park/North Ryde. Currently under construction and due for completion this month is the Department of Innovation, Industry, Science and Research building at 105 Delhi Road, providing 10,270m². Also under construction is a 9,700m² extension to the Optus campus at 22

Table 7
Recent Leasing Activity North Ryde/Macquarie Park

Address	Region	Area (m²)	Face Rental ($/m²)	Term (yrs)	Lease Type	Tenant	Start Date
105 Delhi Road	North Ryde	10,270	U/D	20	Pre lease	Department of Innovation, Industry, Science and Research	Jul-12
5 Eden Park Drive	Macquarie Park	1,140	305n	4	New	Praxa	Nov-11
1 Rivett Road	North Ryde	8,080	305n	10	New	3M Australia	Sep-11
16 Giffnock Avenue	Macquarie Park	1,951	260n	7	New	Apotex	Aug-11
22 Giffnock Avenue	Macquarie Park	3,552	260n	5	New	Optus	May-11

Giffnock Avenue due for completion the second quarter of 2013. With these two projects being the only new supply on the horizon for the next few years vacancy is expected to continue to reduce despite total employment demand projected to wane during 2013. Vacancy is expected to tighten to 7.9% in July 2012 before some minor increases, resulting in the following two years projected to average sub 8% vacancy.

Figure 12
Annual Gross Supply vs Vacancy Rate
North Ryde/Macquarie Park (000s m²)



Source: Knight Frank Research/Property Council Australia

While there are six projects with DA approval in the supply pipeline they are unlikely to proceed until pre commitment is secured. These include DEXUS' holdings at 144 Wicks Road (27,340m²) and 112 Talavera Road (12,000m²); Goodman's 27-37 Delhi Road of 32,000m² and Stockland project at 39 Delhi Road which can provide up to 30,000m².

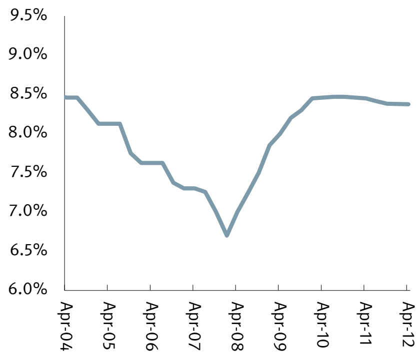
Sales and Investment Activity

Over the past three years, there has been limited transactions occur across Macquarie Park/North Ryde. The only major transaction which has occurred this year was the $40.50 million sale of 75 Talavera Road. Sold by Challenger Diversified Property Trust (60%) and Challenger Life Company (40%), the leasehold of the property was sold to Macquarie University on a core market yield of 8.80%. The property is 72% occupied with a WALE of 4.3 years.

The average yield for Macquarie Park/North Ryde has remained relatively constant over the past three years. Currently prime assets with strong leasing profiles are ranging 8.00% to 8.75%, while secondary assets range between 9.00% and 10.00%.

INVESTMENT ACTIVITY HAS BEEN SUBDUED...

Figure 13
Average Core Market A-Grade Yields
North Ryde/Macquarie Park



Source: Knight Frank Research

75 Talavera Road, Macquarie Park
Challenger Diversified Property Trust & Challenger Life Company sale to Macquarie University for $40.5 million

Table 8
Recent Sales Activity North Ryde/Macquarie Park

Address	Price ($ mil)	Core Market Yield (%)	NLA (m²)	$/m² NLA	WALE (Years)	Vendor	Purchaser	Sale Date
75 Talavera Road*	40.50	8.80	13,429	3,016	4.3	Challenger Diversified Property Group	Macquarie University	Apr-12

Source: Knight Frank n refers net * leasehold

OUTLOOK

The North Shore office market has shown great strength in the past 12 months. Vacancy compression across most markets has been the strongest since pre GFC and has resulted in good levels of Net Face rental growth after a stable or declining three years.

North Sydney has been the stand out performer with vacancy levels well down particularly for the A Grade market. With only 1.9% vacant, North Sydney has had an outstanding rate of Net Face rental growth with some minor reductions in incentive levels. This trend is likely to continue given the supply pipeline; despite approvals in place, with financing continuing to be an issue. New development will not occur unless commitment is sourced resulting in a minimum two plus year lead time in completion of new stock. While this should translate into greater rental growth and an erosion of incentives, we foresee incentives only reducing slightly as tenants also are experiencing funding constraints and are prepared to pay increased face rent to finance their need for fit out. While there has been good growth in face rents over the past year, we don't expect this high level to continue.

THERE HAS BEEN SIGNIFICANT GROWTH IN FACE RENTS... WE DON'T EXPECT THIS HIGH LEVEL TO CONTINUE.

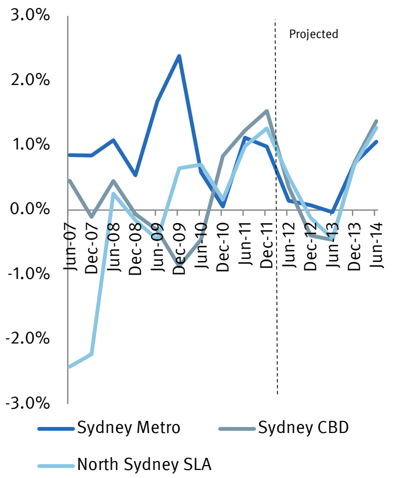
A flight to quality has been clear in North Sydney and given the limited options more tenants will be seeking A Grade stock in neighbouring North Shore markets. This is likely to keep vacancy levels in check across neighbouring markets such as Crows Nest/St Leonards and Chatswood. This will also put further pressure on the divide among prime and secondary assets which we have started to see in Chatswood. Tenants have upgraded from secondary assets assisting in keeping prime vacancy low however poorer quality backfill will hamper recovery in the secondary market.

White collar employment forecasts for Sydney and North Sydney do show some softening in demand during the next 18 months. This will dampen larger space requirements for expansion or relocation during the short term with recovery in demand unlikely before 2014.

Figure 14

White Collar Employment

% growth



Source: Deloitte Access Economics/Knight Frank Research

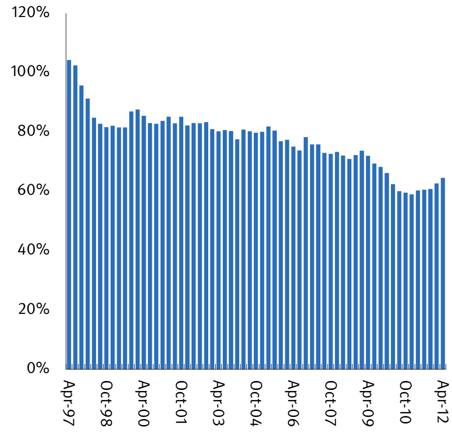
Hampering a more robust recovery is the anticipated dampening in demand during much of 2012 and 2013. White Collar employment is projected to be negative across Sydney CBD and North Sydney SLA and minimal across the broader Sydney metropolitan area. After mid 2013 growth is expected to improve across all Sydney geographies growing at approximately 1.1% in June 2014. North Sydney SLA will lag growth with a five year annual growth profile of just 1.2% compared to overall Sydney metropolitan area of 1.6%.

Chatswood offers the greatest affordability for a traditional office product and currently offer large contiguous floor plates, the current net effective rents representing 64.5% of North Sydney rents. This has increased in the last year off the back of strong gains in average rents, having fallen as low as 59.5% 18 months ago. This is a historic low as the relative attractiveness and size of this market has diminished since 1997 when rental rates were on par with North Sydney.

Figure 15

Prime Net Effective Rent Relativity

North Sydney v Chatswood



Source: Knight Frank Research

Crows Nest/St Leonards while affordable is representative of 72.6% of North Sydney net effective rent for A Grade accommodation. This rate has been on a continued decline given low rental growth and sustained high incentives.

North Ryde offering campus style accommodation is now the most affordable of the "Golden Arc" with net effective rents just 52.3% of North Sydney rents. This proportion has fallen from close to 70% during 2003 at the height of construction and attractiveness of this location.

Looking ahead, given the increased construction and funding costs, any new developments which obtain commitment are likely to attract new highs in economic rents; compared to those prime rates currently achieved for existing prime stock across all North Shore regions including Macquarie Park/North Ryde.

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